FSD Kenya Creating value through inclusive finance

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Challenges and opportunities for MSEs

Any insights from FinAccess survey for the insurance industry?

8th Eastern and Southern Africa Regional Conference on Inclusive Insurance 25th April 2023

About FSD Kenya

FSD Kenya was established in 2001 to support the development of inclusive finance as a means to stimulate wealth creation and to reduce poverty.

We work closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups such as women and youth face.

Our current focus areas are agricultural food processing, health finance, affordable housing finance and green finance. These are anchored on achieving effective policy, regulation, and vision, having an open financial market infrastructure and ensuring value adding solutions.

Our current funders are FCDO, the Swedish International Development Cooperation Agency (SIDA), and the Bill & Melinda Gates Foundation.

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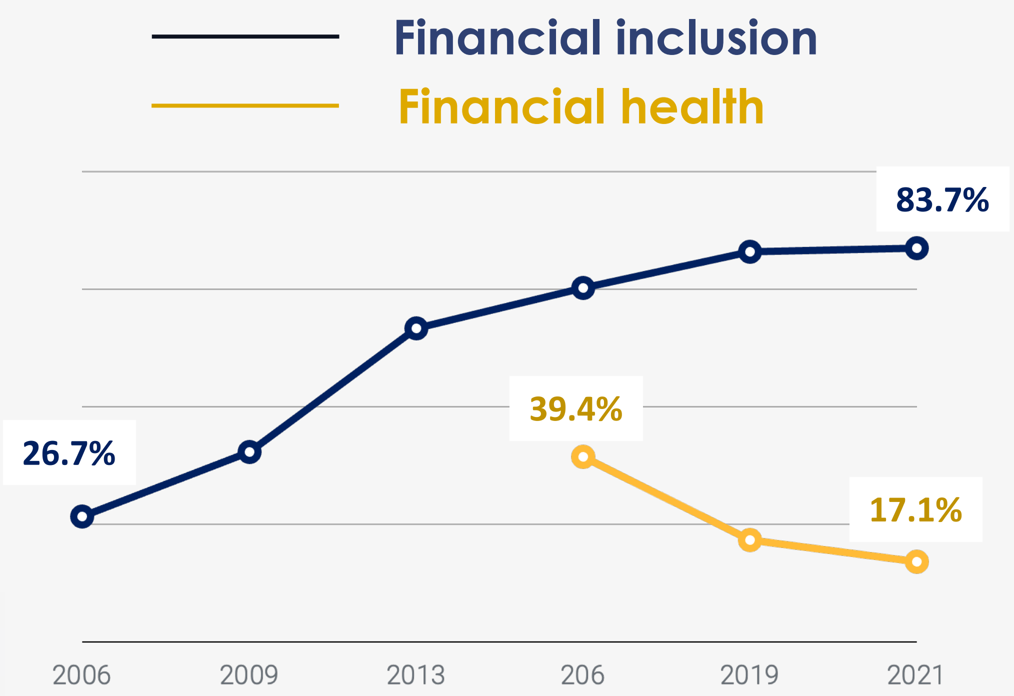
FinAccess

- ✓ Household survey that is nationally representative.
- ✓ Conducted every 2 to 3 years since 2005
- ✓ 6 rounds undertaken this far – 2006, 2009, 2013, 2016, 2019 and 2021
- ✓ It is run by CBK, KNBS and FSD Kenya as a government study with funding support from various market actors
- ✓ It has evolved over the years inline with the changing landscape – FH, needs based, emerging consumer protection concerns etc
- ✓ It is currently done at the county level with year 2021 being the first round - sample of approx. 25k households

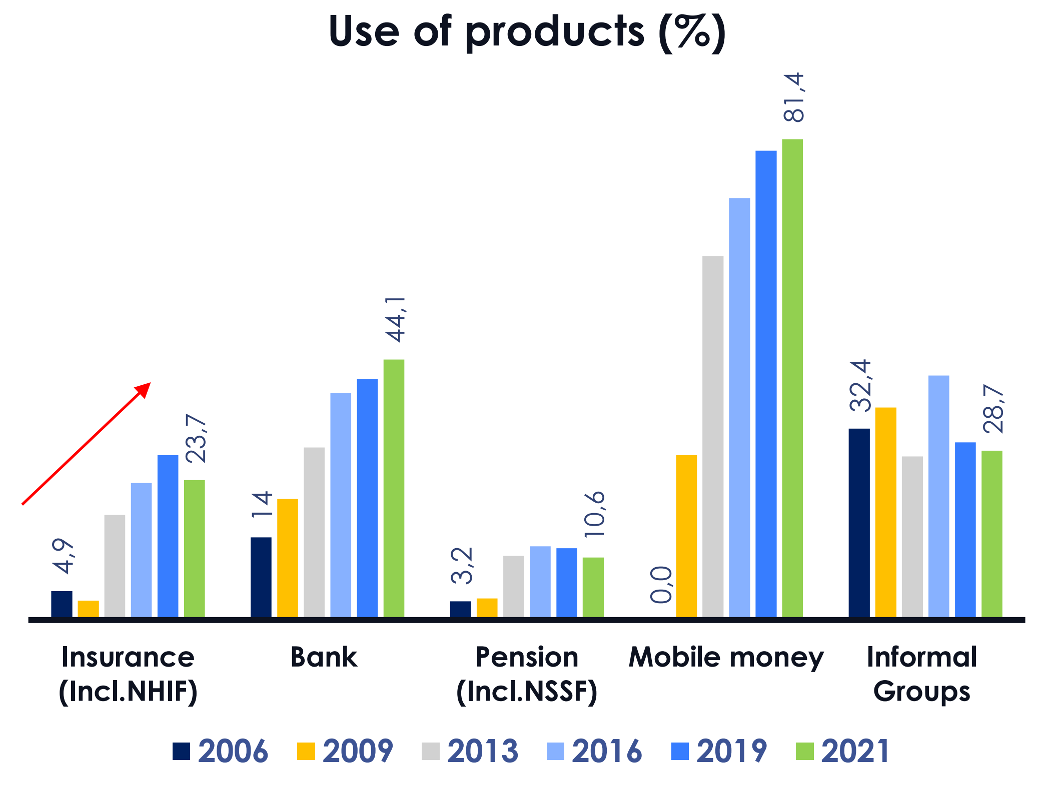
Objectives of the survey:

1. Provide nationally representative data to track progress towards financial inclusion
2. Understand drivers of financial behaviour (formal and informal)
3. Identify challenges and opportunities for deepening financial inclusion
4. Inform evidence-based policy and business development

Rise in formal inclusion; Growth in insurance use, BUT decline in financial health (ability to meet day to day needs, deal with shocks and invest for the future)

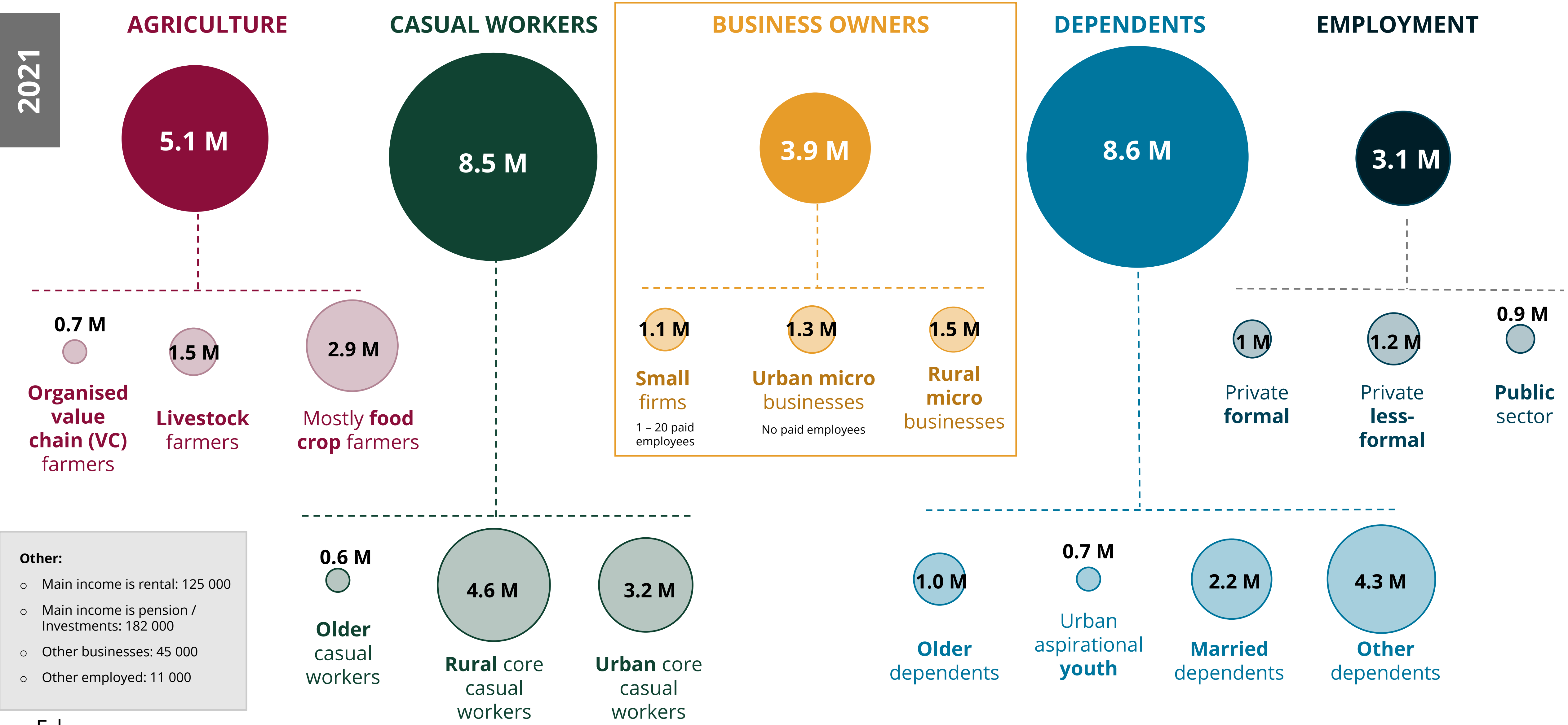


(% adults 18+)



IRA regulated, 2021 - 6.9%
IRA regulated, 2019 – 5.5%
IRA regulated, 2016 – 5.3%
IRA regulated, 2013 - 6.3%

According to FinAccess, there are 3.9 million individuals in Kenya aged 16+ whose main source of income is from own business activity. Together they form a larger livelihood segment than individuals who say they are employed in the public or private sector



Other:

- Main income is rental: 125 000
- Main income is pension / Investments: 182 000
- Other businesses: 45 000
- Other employed: 11 000

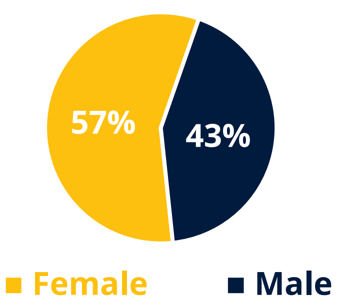
Source: FinAccess 2021, Adults 16+; 29.7 Million adults. Note: Question B3B: You said that these are the ways that you got money in the past 12 months. Which one of these brought you the most money?

Business ownership is skewed towards females (57% to 43% male business owners) and adults between the ages of 26 – 45 years old (60%). Nearly 20% of businesses are owned by youth (16 – 25 years). Most business owners are the head of their households, married or living with a partner and have at least a secondary education (51%)

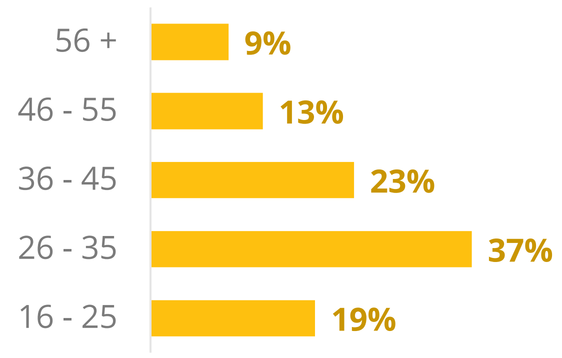
BUSINESS OWNER DEMOGRAPHICS

(4,71 million business owners)

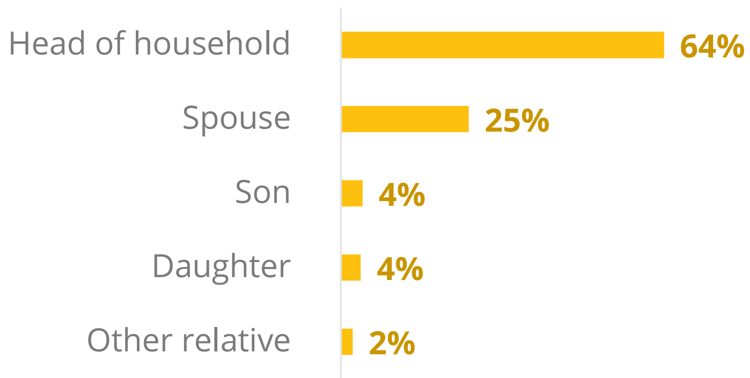
Gender



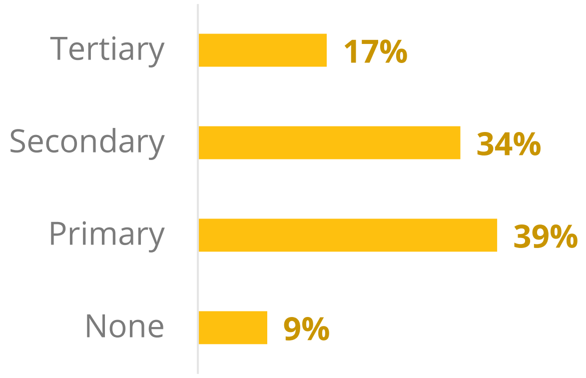
Age group



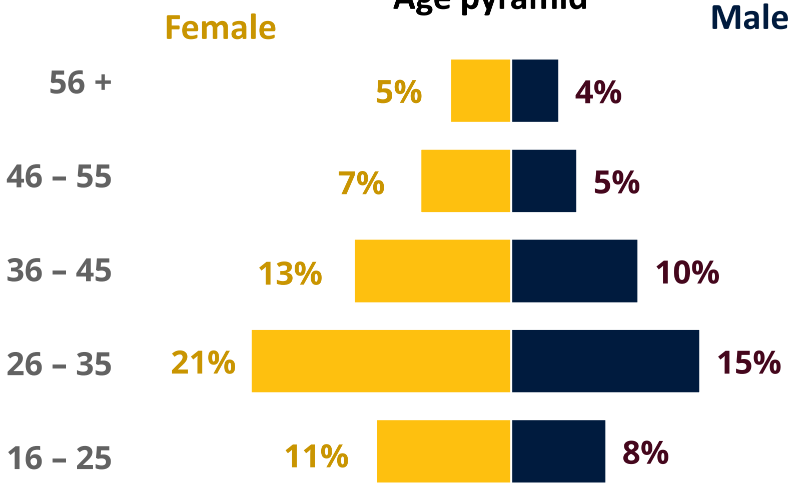
Relation to Household Head



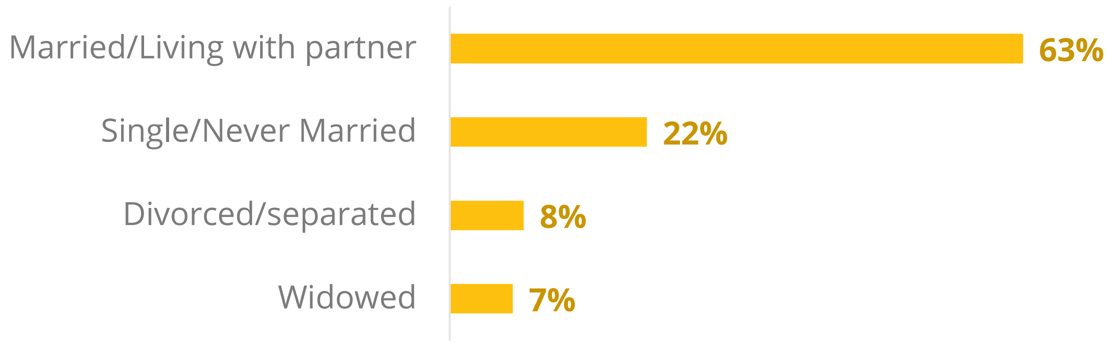
Education Level



Age pyramid



Marital Status



Source: FinAccess 2021

* Education level excluded other as observations below 40 and marital status excluded other

Relatively low incomes

Small firm owners

(Have 1 – 20 paid employees)

- **1.1 Million** adults 16+ | **Mostly urban (61%)**
- **Equal gender split**
- **Spread of age groups** – 52% between 16 – 35 years, 48% older than 35 years
- **Not highly educated, but more so than micro business owners** – 53% have a secondary education or higher
- Majority are **somewhat financially literate** (89% can read a transaction SMS or calculate interest)

Main sector

Top 5 categories

General retail	17%
Agri-produce traders	13%
Wholesale traders	10%
Salon, barber, hairdressers	10%
Food / beverage manufacturing	8%

10 000 Ksh ($74)

Median monthly personal income
(self-reported income before tax)

56 200 Ksh ($415)

Median monthly business revenue*

Urban micro business owners

(Have no paid employees)

- **1.3 Million** adults 16+ | **100% urban**
- **Mostly female** segment (62%)
- **Relatively young segment** – 58% are aged 16 – 35 years old
- **Less than half have completed secondary education or higher (47%)**
- **Lower financial literacy than small firm owners** (84% can read a transaction SMS or calculate interest)

Main sector

Top 5 categories

Agri-produce traders	20%
Clothing traders	16%
General retail	12%
Wholesale traders	12%
Food / beverage manufacturing	9%

9 000 Ksh ($67)

Median monthly personal income
(self-reported income before tax)

45 000 Ksh ($332)

Median monthly business revenue*

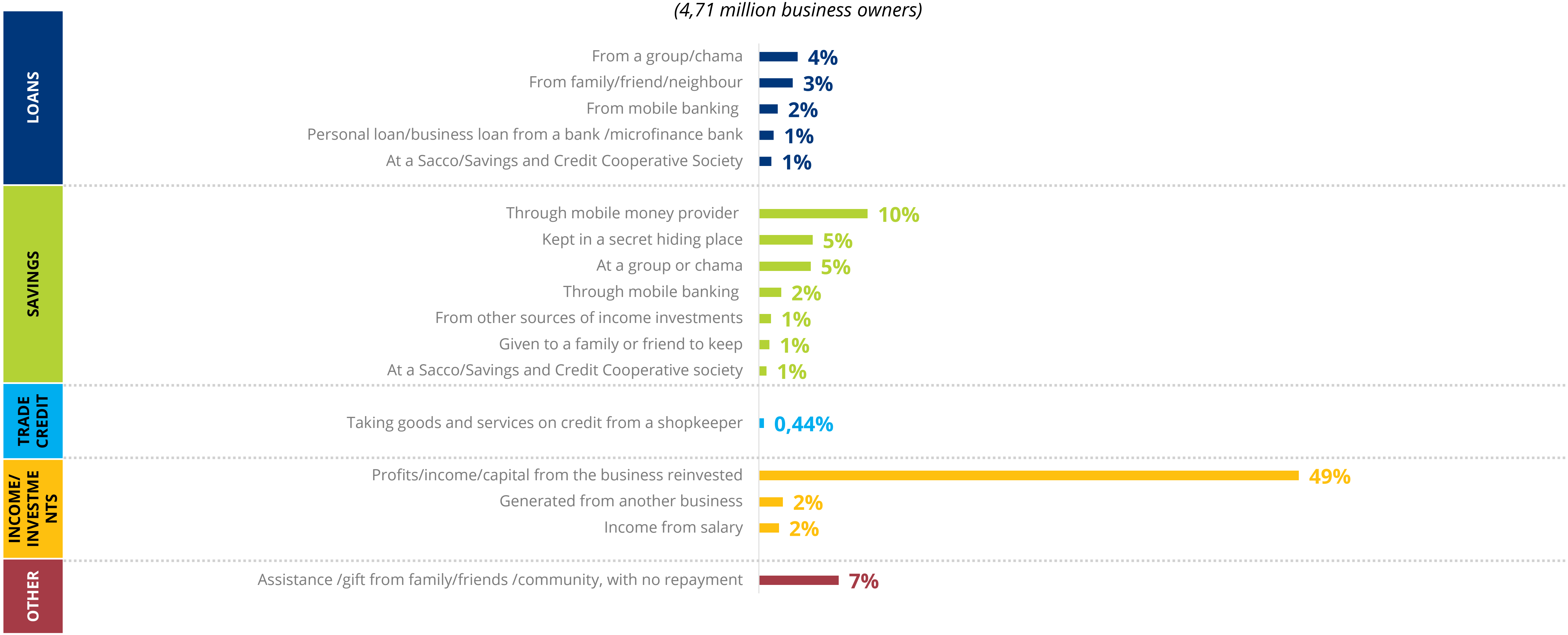
Source: FinAccess 2021 unless otherwise indicated

*Source: MSE Tracker Survey March 2023 (adults 18+), businesses with 1 – 9 employees

Almost half of all business owners use profits, income, or capital from their business as their main source of financing for day-to-day operations.

MAIN SOURCE OF FINANCE FOR DAY-TO-DAY OPERATIONS

(4,71 million business owners)



Source: FinAccess 2021

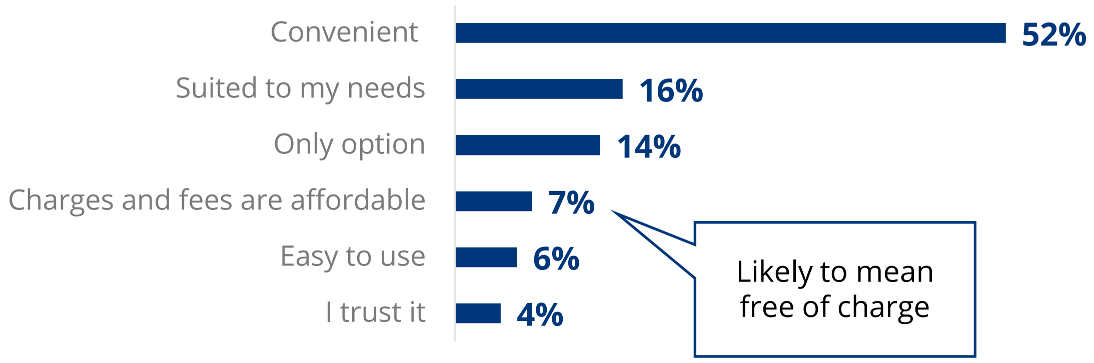
Note: Excluded due to low observations: fundraising from crowdfunding, funds from NGO's, grants and insurance payouts, savings with a group of friends, employer, loan / credit from buyer of your harvest / supplier of agriculture, government institution, shopkeeper, shylocks / loan sharks / money lenders / money merchants, digital loan through phone that you downloaded, microfinance institution and mobile money provider

Business owners clearly opt for financing that is convenient, suits their needs and has charges and fees that are affordable (in some cases, free of charge such as reinvesting profits from the business)

REASON FOR USING MAIN SOURCE OF FINANCE

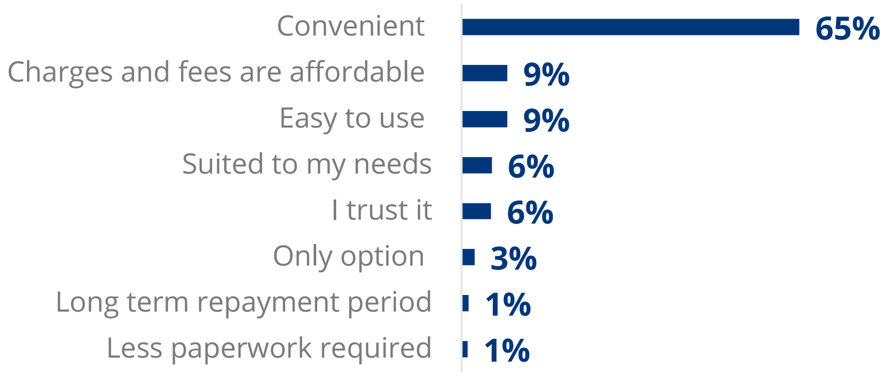
Profits/income/capital from the business reinvested

(49%, 2 302 072 business owners)



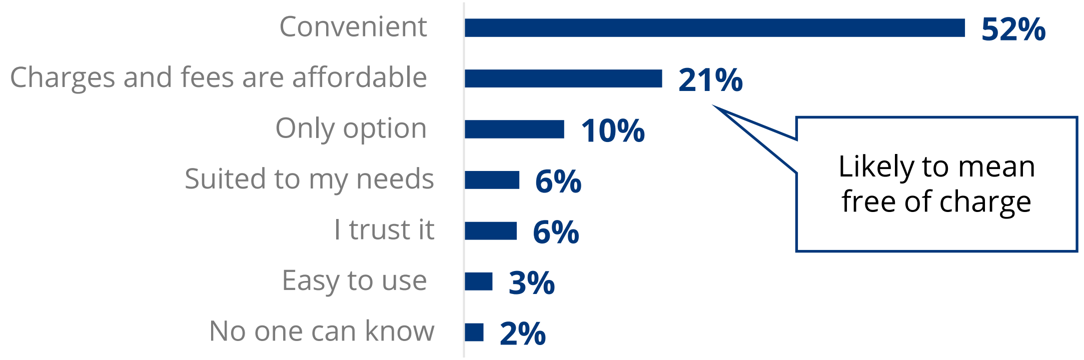
Savings through mobile money provider

(10%, 463 022 million business owners)



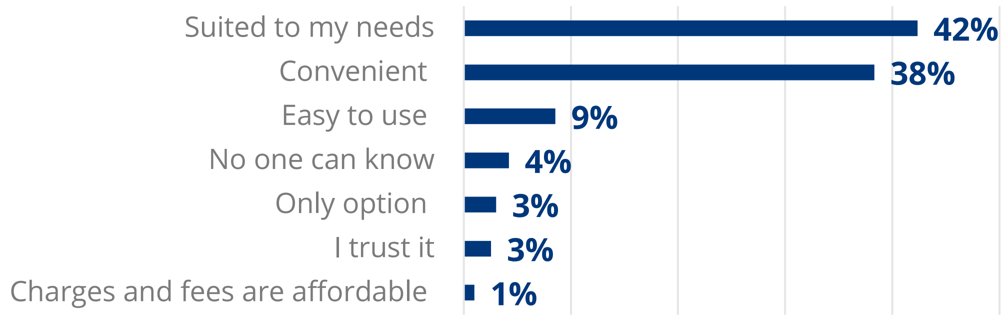
Assistance/gift from family/friends/community

(7%, 339 894 business owners)



Savings you keep in a secret hiding place

(5%, 228 435 business owners)



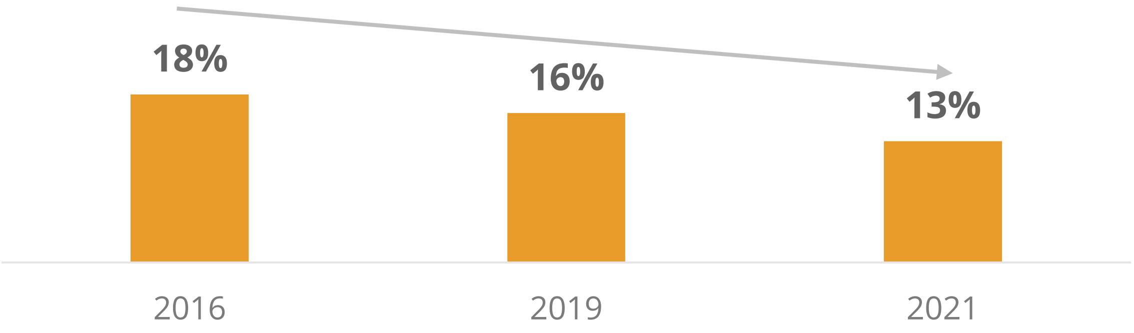
Source: FinAccess 2021

The MSE sector is at risk though…

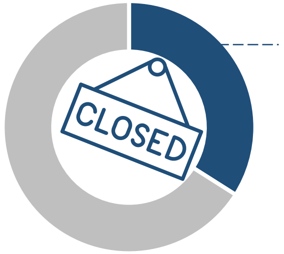
Own business activity as a source of livelihood in Kenya has been **declining since 2016**, pointing to tough business environments and longstanding issues with business resilience…

% of population earning most money from self-employment / own business activity

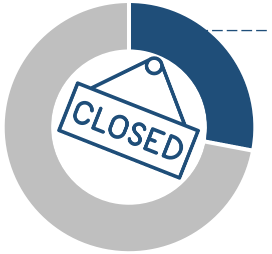
(FinAccess; Individuals 16+)



…the pandemic was a particularly tough time for MSEs in Kenya as evidence by the **high rate of business closures** during this time



34% of business owners who participated in the MSE Covid-19 Tracker were not operating in **July 2021**[1]



28% of business owners who participated in the most recent MSE Tracker survey were no longer operating a business in **Oct / Nov 2022**[2]

[1] Based on a sample of 433 business owners drawn from the FinAccess 2019 sample and who participated in the first and third survey waves. All were operating a business pre-Covid in February 2020 (closed between Feb 2020 and July 2021)
[2] Based on a sample of 2 394 business owners drawn from the FinAccess 2019 and 2021 samples (closed at some point between late 2018 and 2022)

In the absence of any formal safety nets and limited insurance uptake, **the burden of dealing with these expense shocks falls on their family and social networks**. Many also resort to cutting their expenditure to cope

Shocks experienced in past 12 months

(% segment total)

	Small firm owners (1.1 Million adults)	Urban micro business owners (1.3 Million adults)	Population average (29.6 Million adults)
Death in family	27%	21%	15%
Medical-related	26%	22%	23%
Loss of job / income	16%	22%	15%
Loss due to theft / violence	5%	5%	3%
Natural / weather-related	5%	3%	11%

Source: FinAccess 2021

Strategies used to manage shocks

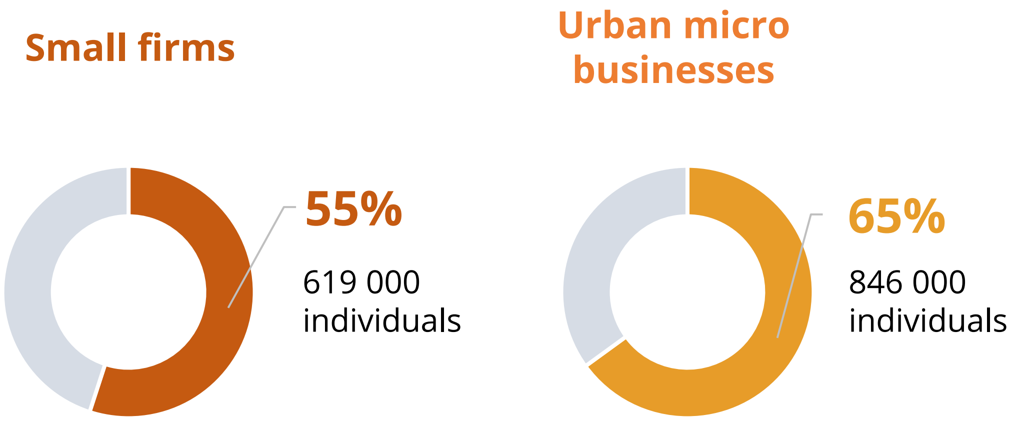
(Multi; % of those who experienced any shock*)

		Small firm owners	Urban micro business owners	Population average
Informal / Social	**Informal/Social** savings or credit	34%	26%	22%
	Support from family/friends	25%	23%	35%
Formal	**Digital** savings or credit	15%	19%	8%
	Traditional savings or credit *(Bank, MFI, Sacco)*	9%	6%	3%
Non-financial	**Cut expenses** / worked more	33%	24%	26%
	Did nothing	13%	17%	12%
	Sold assets / livestock	3%	3%	12%

*Excludes the ‘cost of living’ shock included in FinAccess 2021 for the first time.

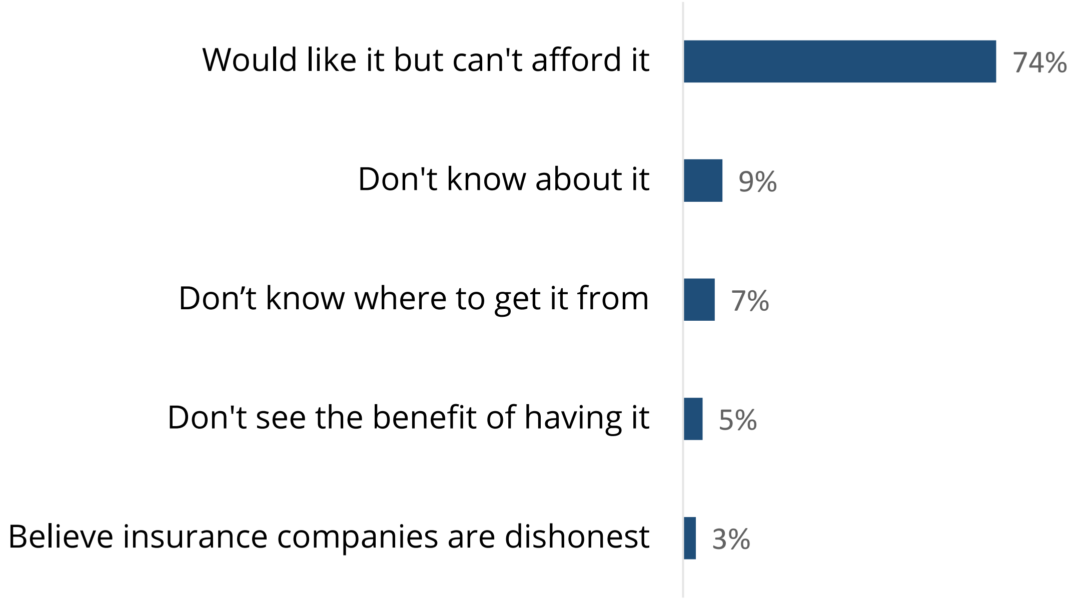
The insurance gap across these two MSE segments can be estimated at **1.4 million individuals** (people who have no personal insurance, including NHIF, and who are not covered under someone else's policy). Most say they cannot afford insurance

Insurance gap



% of segment with no insurance policy and not covered under someone else's

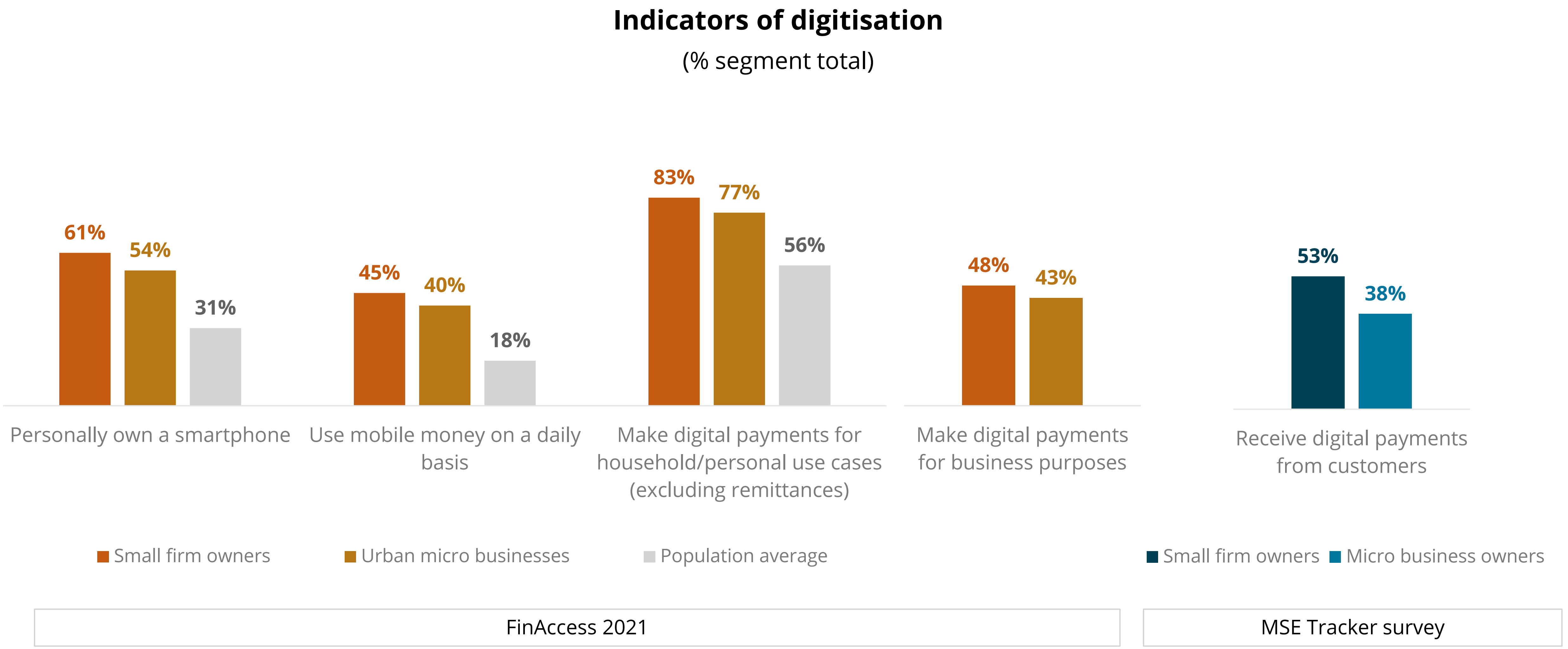
Top 5 reasons for not having any insurance



% of small and urban micro business owners who don't have any insurance and are not covered under someone else's policy (1.4 million individuals 16+)

Source: FinAccess 2021

On the positive, MSEs are increasingly becoming digitised opening up opportunities for financial service providers including insurers to leverage the digital footprints they create to better understand their customers, develop new models to assess risk and to use digital channels to deliver products and services



How can insurance help a wider set of segments not just to survive, but to grow and thrive?

Urban Casual Workers (4.6M)

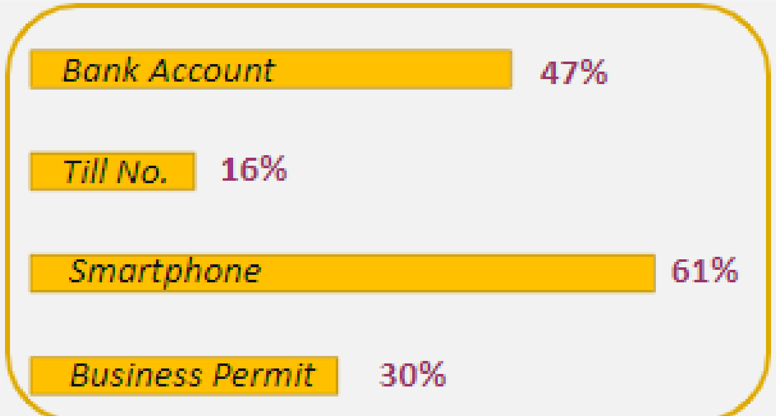
369 Bn KSh

Urban Micro Firms (1.3M)

194 Bn KSh

Small Firms (1.1M)

256 Bn KSh



Private sector employees (1M)

351 Bn KSh

Public sector employees (0.9M)

334 Bn KSh

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How can you close the protection gap for MSEs?