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# FSD News

## EDITORIAL

With about 80% of the Kenyan population relying directly or indirectly on agriculture, agricultural finance remains an important yet challenging area in financial inclusion. This limitation in access is mainly attributable to a lack of effective mitigating measures for risks inherent in agricultural activity. Given the challenges posed by climate change, weather related risks are increasingly becoming a concern. While larger scale farmers are often able to access insurance and alongside it financing, smallholder farmers are perceived as more vulnerable and consequently less attractive to financiers.

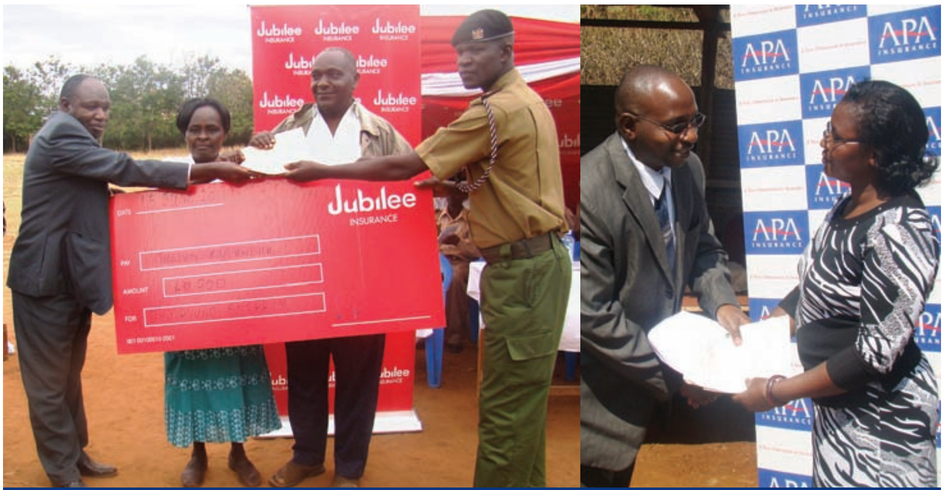
Since 2008, FSD has been supporting an index-based weather insurance (IBWI) project in Kenya in partnership with the UK's Department for International Development, the World Bank and the Rockefeller Foundation. The project supports the development and piloting of insurance products for livestock and crops. It has worked with private and public sector players (mainly insurers, retail financial institutions and the Kenya Meteorological Department-KMD) through technical assistance in research, product design and international risk transfer. Another important aspect of support has been to strengthen KMD's monitoring capacity with automated weather stations in targeted areas.

By its nature, IBWI is less involving administratively and hence can be provided affordably at scale to both large and smallholder farmers. Following the recent drought, insurance companies have compensated farmers for crop losses. The companies are using the compensation to create awareness and build a reputation for the products in the market. The payments are expected to increase demand for the insurance products in subsequent seasons and with it increased financing to farmers. Although its too early to gauge the potential impact of IBWI on market development, there is strong interest in the products by both financial retail providers and insurers. Valuable lessons have been learnt which will inform commercialisation of the products.

FSD's support for this insurance work will be incorporated into the soon to be launched Value Chain Finance Centre. The centre has been established in partnership with USAID's Financial Inclusion for Rural Microenterprise (FIRM) programme.

**Felistus Mbole**
Head, Rural Finance, FSD Kenya

## NEWS AND VIEWS




Left: Kibwezi sorghum farmers Mr and Mrs Julius Kiminduu (centre) receive their crop compensation cheque from Jubilee Insurance Regional Claims Manager Mbugua Gathige (left) on 16th June 2011. With them is the Kambo location DO, Ooko Anyumba. Right: Mr Jimton Magiri, Equity Bank Branch Manager, presents a cheque to their customer Anne Kendi, one of the farmers who received compensation from APA Insurance on 23rd June 2011 for their coffee losses.

### Farmers benefit from insurance payout

The October 2010 and March 2011 rainfall seasons registered depressed rainfall in many regions across Kenya. This affected farm productivity for most farmers leading to capital loss, food insecurity, and inability to re-pay credit among other challenges. Farmers who participated in the index-based weather insurance pilots (supported under the IBWI project - see editorial) recently received insurance payouts. In June, sorghum farmers in Kibwezi were paid by Jubilee Insurance Company for drought related losses. Coffee farmers from Buuri district (larger Meru district) were paid by APA Insurance company following depressed rainfall in their region. This was the third payout of the year after the first payout in Machakos for maize farmers (March 2011), where APA paid for losses incurred during the October 2010 season under Equity Bank's *Kilimo Biashara* initiative. In late July, APA Insurance in partnership with Equity Bank and the Agricultural Finance Corporation paid Narok wheat farmers for losses incurred in the March 2011 season. This is a departure from the March 2010 season where most products did not trigger any payments due to favourable rainfall in the target regions.

### Nairobi hosts regional credit reporting conference

The Central Bank of Kenya and the Kenya Bankers Association hosted a regional credit reporting conference over 7-8 July, drawing over 400 delegates from the five East African countries to Nairobi. The conference was organised by the Kenya Credit Information Sharing Initiative (KCISI), and facilitated by experts from the World Bank, the South African market and the East African Community. Participants shared experiences and learnt from one another's lessons. For more information, visit www.kenyacreditinfo.com.

### Implementation of SACCO regulations

Following the enactment of the SACCO Societies Act in 2008 and the coming into effect of the SACCO regulations in June 2010, deposit-taking SACCOs (those providing front office savings activities – FOSA) had until 17th June 2011 to apply for licenses from the SACCO Societies Regulatory Authority (SASRA). By the deadline, 200 out of the 219 FOSA SACCOs had applied while 13 opted to discontinue their deposit-taking business. The remaining six did not apply and were directed to close their FOSAs. Out of the 200 applicants, 45 met the requirements and were issued with licenses, while another 60 have letters of intent for licensing from SASRA. For most SACCOs, the hard bit now comes - meeting the requirements of prudential regulation which entails strengthening financial performance and regular and stringent reporting. Most SACCOs serve a clientele which is also accessing services from commercial banks and micro-finance institutions (MFIs). The SACCOs will need to strategically position themselves to maintain their market share as commercial banks deepen their reach through agency banking and MFIs expand deposit-taking. FSD is supporting the FOSA sub-sector to strengthen their capacity to meet the new regulatory requirements.

## UNDERSTANDING KENYA'S FINANCIAL LANDSCAPE: THE MISSING SOCIAL DIMENSION


A mobile services poster at Muramati SACCO. Mobile money transfer is now the most used service, followed by informal financial groups such as merry-go-rounds and ASCAs, and then banks.

M-PESA has stormed onto the financial service scene, and its rapid uptake has been a phenomenon that has ignited enthusiasm globally about the potential for financial service delivery based on the platform of mobile phone technology. According to both the FinAccess 2009 survey and recent results from our current research project on *Financial Landscapes*, mobile money transfer is now the most used service, followed by informal financial groups such as merry-go-rounds and ASCAs, and then banks. In this project we are looking at the whole range of financial services that people use and trying to explain their use in relation to a range of factors: not only issues of cost and access but also what their social and cultural reasons may be for using them. In our sample in three rural towns and their hinterlands, we found that 61% reported that they are registered with a mobile money transfer service; 50% have a group that has a financial intermediation function and 35% have a bank account.

So how can M-PESA be explained in a way that fits into a wider understanding of financial service use? How does its popularity relate to that of merry-go-rounds and banks? To date its success has largely been explained through the rapid uptake of mobile phones along with a strong set of migration networks as people leave villages and need to "send money home" and the success of building the operational network of M-PESA shops and trust in their operations.

The anthropologist Parker Shipton when examining the way people in Luo-Nyanza manage their resources and money, observes the extensive networks of inter-personal 'lending' that occur. He describes this type of lending as a form of entrustment of resources which results in obligations that may be returned in a range of ways. For example, the payment of school fees for a near relative might carry "expectations that when the beneficiaries eventually make good they will provide one or more of their junior kin with temporary food and shelter in town or supply school fees and expenses" (Shipton, 2007, p14). This is one among a whole range of ways in which resources (land, labour, assets as well as people themselves!) are transferred and returned in transactions that can even cross generations. These kinds of patterns of transfer are also evident in the ways Kenyans more generally help out and assist not only their relatives but also their friends and colleagues. Anthropologists call this phenomena "generalized reciprocity" and observe it operating in a range of cultures around the world. In terms of saving it can be seen as a means of making funds illiquid while also being able to access them in a crisis by - in turn - calling on the relationships within which they are entrusted.

Seen in this way, M-PESA seamlessly facilitates these entrustments to be made and obligations to be returned. Funds needed for school fees, hospital bills, funeral expenses, emergencies as well as fund raising events or merry-go-round contributions are now easily requested by mobile phone and sent via M-PESA. What used to be done with much more logistical difficulty can now be an almost instant operation. Such funds are sometimes to be returned within a time frame while at others are simply open-ended entrustments which enter a complex web of networks and obligations which may or may not directly return resources to the sender, but may result in social or other forms of support when needed.

By contrast we can see informal groups as characterised by a more "balanced reciprocity". They are mechanisms where entrustment and return is more direct, equivalent and in a more focused time frame. The transfer similarly operates within a set of social relationships and these offer "negotiability" over the resources involved. They are a way of sharing resources with others while also retaining more immediate access to them leading to avenues for both financial and social support with which to manage the vagaries of vulnerable livelihoods.

By contrast banks can be seen to lack these social dimensions. As one woman put it to me some years ago: "If I take my money to the bank then who will help me when I have a problem?" If she puts KShs1000 there, getting KShs2000 out the following week because that is what she needs to solve her problem, is rather difficult. By contrast if she used that KShs1000 to assist a relative last month, they and/or others will assist with the KShs2000 that she needed this month if they have it. Formal financial services lack the dimension of social relationships which allows for this "negotiability" of resources.

So we can see M-PESA as hugely facilitating the wider system of reciprocity which Kenyans practice on a consistent basis. Beyond "sending money home" to people in the village, these relationships are more complex and widespread and extend beyond kin to friends and colleagues in modern Kenya. Informal groups have similar social dimensions although their transactions are more "balanced" than in the wider "generalized" system. On the other hand formal providers lack the social relational element that allows them to respond in a similarly open-ended way. As banks extend their agent networks into the villages they are effectively in competition with these informal mechanisms for savings. To become a place where people might want to put their money, they need to learn what they can from this social dimension. For example, they could seek to replicate this "negotiability" by offering highly flexible but simple to access loans below KShs10,000. M-PESA has further underlined the point that the formal sector needs to understand what the informal sector does so effectively if formal inclusion is to become a reality.


**Dr Susan Johnson,**
Centre for Development Studies, University of Bath, UK


## EVENTS CALENDAR

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| **5-16 September** | **School of African Microfinance (SAM) training,** Mombasa - Kenya. For more information, email: info@samtraining.org Website: www.samtraining.org |
| **19 - 22 September** | **5th African Microfinance Conference,** Addis Ababa - Ethiopia. For more information, visit: www.5th-microfinance.com |
| **4 - 6 October** | **Arusha Savings Groups Summit,** Arusha - Tanzania. For information, email: william.maddocks@unh.edu Website: www.arushasavingsgroupssummit.org |
| **18 - 19 October** | **Investment And Innovation in Microfinance Summit,** Nairobi - Kenya. For more information, email: register@hansonwade.com Website: www.microfinance-africa.com |
| **2 - 3 November** | **AITEC East Africa ICT Summit,** Nairobi - Kenya. For more information, email: info@aitecafrica.com Website: www.aitecafrica.com |