Center for Social Development

GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

COUNTRY BRIEF

| AUGUST 2009 | CSD PUBLICATION NO. 09-45 |

Kenya Country Assessment for Youth Development Accounts

By Rainier Masa

CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots.

This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.

Summary

Kenya stands out as a candidate site to include in the worldwide demonstration of Youth Development Accounts (YDAs) in four ways: (1) a well-regulated and innovative banking infrastructure that already delivers youth savings products; (2) active interest in youth development and financial services expansion to the poor; (3) excellent research capability; and (4) huge potential impact of YDAs in the country and region.

Basic Population and Economic Indicators

- Population: 37.53 million (World Bank, 2007)
- Percent of population under age 15: 42 (Population Reference Bureau, 2008)
- Youth ages 10-24 (percent of total population): 35 (Population Reference Bureau, 2009)
- Percent of population below national poverty line (1997): 52 (total), 49 (urban), 53 (rural) (UN Statistics Division, n.d.)
- Median age: 18.7 (CIA, 2009)
- Income level: low-income (World Bank, n.d.)
- GDP per capita (PPP US$) in 2005: 1,240 (UNDP, 2007)
- Percent of population living on $2 a day or less, 1990-2005: 58 (UNDP, 2007)

Washington University in St. Louis

Institutional capacity

Kenya's banking sector has for many years been an example in Africa for its size and diversification (Beck et. al., 2008). Despite the political violence in the beginning of 2008, the industry has remained relatively stable and well-regulated. There are 45 commercial banks, many of which have the capacity to roll out thousands of YDAs through their nationwide infrastructure. Four of the five biggest banks in the country offer youth savings products akin to YDAs (See Appendix A.)

Aside from the four biggest banks, other financial institutions, specifically those focused on low-income individuals and families, notably Equity Bank and K-Rep Bank, offer products similar to YDAs.[1] Many of the current youth savings products, particularly those offered by larger commercial banks, have targeted middle- and upper-income families and have not reached the bulk of the youth population. In a recent survey, 68% of Kenyans under age 25 reported that they do not have access to formal financial services and have the highest exclusion rate among all age groups (FinAccess, 2009). Accordingly, a youth savings initiative for lower-income youth and their families has potential to reach a greater number of Kenyan youth, while providing them with safe and secure access to financial services.[2] In other words, a youth savings initiative has the potential to increase the number of youth with access to financial services.

Aside from mainstream financial institutions, microfinance institutions (MFIs) play a significant role in delivering some form of financial services to more than half of the population who do not have access to formal banking services. Over 100 organizations, including 50 non-governmental organizations (NGOs), practice some form of microfinance, and are important sources of credit and savings products for a large number of low-income households in urban and rural areas.[3] Many NGOs in Kenya practice microfinance alongside social investment activities. One notable example is the Tap and Reposition Youth (TRY) Program, an initiative of the Population Council and K-Rep Bank. TRY developed a microfinance approach to address social and livelihood constraints for adolescent girls at risk for HIV/AIDs by providing credit, savings, business support, and mentoring to participants (Hall, 2006). The project showed that adolescent girls can save and want continuous access to their savings (Erulkar & Chong, 2005).

Two significant pro-poor financial institutions, which are also promising potential partners, emerged from Kenya's microfinance sector: Equity Bank and K-Rep Bank.[4,5] Both banks have been cited as examples of financial institutions that sustain growth while reducing poverty by providing financial services to the poor.[6] The success of K-Rep and Equity banks has provided a platform for legitimizing microfinance and improving public awareness about the immense development opportunities in the industry (Cook, 2004; Nyerere, 2004). Another important player in the MFI sector, particularly in providing savings facilities to the poor, is the Kenya Post Office Savings Bank (KPOSB). KPOSB is a state-owned corporation, and has a mandate to provide facilities for savings accounts and issue other personal savings instruments. KPOSB offers the "Bidii Junior Account" product, which is available to all children below eighteen years of age. In addition, KPOSB reportedly has an image of being a safe, sound, permanent, and government-backed financial institution for the poor.[7]

Technological innovations have also strengthened the institutional capacity of financial institutions in Kenya. The increase in the usage of non-bank financial institutions, which has more than doubled from 7.5% in 2006 to 17.9% in June 2009, has been attributed to the popularity of a new mobile phone banking service called M-Pesa (FinAccess, 2009). M-Pesa is a service offered by Safaricom that allows users to transfer money using a mobile phone. Safraricom users can use M-Pesa to make deposits, transfers, withdrawals, and pay bills. Usage of other technology to access financial products and services has also been increasing in the country. ATM usage is now at 13.4% nationally, up from 7.8% in 2006, and usage of the independent PesaPoint ATM network has also increased from 1.5% in 2006 to 3.5% in 2009 (FinAccess, 2009).[8]

In summary, the combination of extant financial institutions serving the low-income market (such as KPOSB, K-Rep, Equity Bank) and technological innovations in delivering financial products (such as M-Pesa and PesaPoint) makes Kenya a favorable candidate in the demonstration of YDAs in developing countries.

National government interest

The national political interest in expanding financial services to most Kenyans is very promising. In 2007, the Government of Kenya published "Kenya's Vision 2030," a long-term development plan for the country. Vision 2030 puts the provision of financial services at the center of the economic growth path to the year 2030. One of the objectives of the plan is to improve access to financial services and products for a greater number of the Kenyan population (Government of Kenya, 2007). Additionally, the recent approval of the microfinance bill signifies the intention of the government to protect the financial welfare of MFI customers. Kenya's microfinance law aims to ensure that licensed MFIs comply with the requirements of financial sector safety and soundness. It also highlights the government's recognition of microfinance, particularly access to savings and credit services, as an important component to alleviate poverty in the country.

Aside from financial inclusion, political interest in expanding youth-focused development initiatives, including asset-development opportunities to Kenyan youth, has grown in recent years. The Department of Youth Development was created in 2007 as part of the Ministry of Youth Affairs and Sports. The department promotes holistic development of youth, to make them self-reliant, productive, and fully integrated into society. In the same year, the government officially launched the National Youth Development Fund which was conceived to decrease the high rate of youth unemployment. Its objectives include the provision of loans to youth-oriented MFIs; support for youth oriented enterprises; investment in economic opportunities beneficial to youth; and stronger marketing of products and services of youth enterprises.

Research capability and partnerships

Potential research partners include research centers at the University of Nairobi and private research institutions, including Kenya Institute for Public Policy Research and Analysis (KIPPRA) and Institute of Policy Analysis and Research (IPAR).

The Department of Sociology is one of the biggest departments in the University of Nairobi, and a leading academic institution in the social development sector.

Institute for Development Studies (IDS) is a multi-disciplinary institute within the University of Nairobi's College of Humanities and Social Sciences. It focuses on social and economic issues of development in Kenya and in Africa.

Kenya Institute for Public Policy Research and Analysis (KIPPRA), an autonomous public institute, provides public policy advice on national development goals to the government and private sector. KIPPRA has been involved in numerous research projects, including financial and banking sector policies, poverty, health and education, and investment and economic growth.

Institute of Policy Analysis and Research (IPAR) is a non-partisan private organization that conducts research, policy analysis, and training to improve human welfare. IPAR's areas of interest include governance and development, macroeconomics policy, agriculture, and social (education and health) development. Please see Appendix B for an illustrative list of relevant research conducted by potential research partners.

Larger potential impact in the country and region

Although access to financial services in Kenya has been improving both in rural and urban areas, youth, defined as those under 25 years old, still face the highest financial exclusion rate in the country. The potential impact of YDAs in a country that has a very young population (median age is 18.7) is huge and very promising. A great number of the country's low-income and economically active youth can be reached through our efforts, eventually reducing the number of youth without access to formal financial services. Active political support for youth development and financial inclusion, and a broad-reaching and innovative financial infrastructure can facilitate a successful demonstration of YDAs in Kenya that can inform a larger and more inclusive savings and asset-based policy in the country and in Sub-Saharan Africa.

Endnotes

1. Equity Bank offers "Super Junior Investment Account." K-Rep Bank offers a youth account and a CDA called "Msingi Account."
2. The Deposit Protection Fund Board (DPFB) is an important stakeholder in the financial safety-net for savings depositors. DPFB protect depositors, particularly small depositors, against loss of their savings in case of bank failure (Deposit Protection Fund Board, 2008).
3. Major players in the MFI industry include Faulu Kenya, Kenya Women Finance Trust (KWFT), Pride Ltd., Wedco Ltd., Small and Medium Enterprise Program (SMEP), Ecumenical Loans Fund (ECLOF) and Vintage Management (Jitegemee Trust) (Omino, 2005).
4. Equity Bank started as Equity Building Society to serve the financial needs of the low-income population. From a building society, Equity Bank evolved into a microfinance institution and later into a commercial bank. Equity has gained recognition within Kenya and the world for its dramatic growth and professional operations (Cook, 2004). With more than 2.8 million accounts, Equity is home to over 48% of all bank accounts in Kenya, making it one of the largest banks in the region in terms of customer base (Equity Bank, n.d.)
5. K-Rep (Kenya Rural Enterprise Program) Bank started as a USAID project for funds for NGOs working in Kenya. It provides financial services to the poor who do not have access to formal financial institutions. K-Rep is an example of a microfinance bank in Africa that has gone through the transformation from an NGO to a licensed and regulated commercial bank (Nyerere, 2004).
6. In 2003, out of 45,000 active borrowers and 62,000 active savers of K-Rep Bank, approximately 6,000 are very poor; and over 70% of the 48,000 FSA (or financial services associations created by K-Rep Development Agency) shareholders are poor (Nyerere, 2004).
7. A SWOT analysis of KPOSB is discussed in Wright, Koigi, and Kihwele, 2006.
8. PesaPoint ATM is a service offered by PesaPoint Limited that provides all banked Kenyans easy access to their funds while at the same time encouraging more Kenyans to bank by providing relevant and convenient ATM locations. PesaPoint ATM was introduced in the market as a response to the low number of Kenyans who have access to ATM services either because their banks did not offer ATMs or they were only placed in a few locations (PesaPoint, n.d.).

References

Akoten, J. (2007). *Breaking the vicious cycle of poor access to credit by micro and small enterprises in Kenya* (IPAR Discussion Paper No. 95-2007). Nairobi: Institute of Policy Analysis and Research.

Beck, T., Cull, R., Fuchs, M., Getenga, J., Gatere, P., & Randa, J. (2008). *Banking sector stability*. Retrieved August 12, 2009, from http://www.csae.ox.ac.uk/conferences/2009-EdiA/papers/512-Gatere.pdf

CIA (Central Intelligence Agency). *Kenya*. Retrieved August 14, 2009, from https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html

Cook, T. (2004). *Equity building society: A domestic financial institution scales up microfinance* (Case Studies in Scaling Up Poverty Reduction). Washington, DC: International Bank for Reconstruction and Development/the World Bank.

Deposit protection fund board. (2008). Retrieved August 12, 2009, from http://www.ndic-ng.com/pdf/kenyadpfb08.pdf

Equity Bank. (n.d.). *About us: History and background*. Retrieved August 14, 2009, from http://www.equitybank.co.ke/about.php?subcat=7

Erulkar, A., & Chong, E. (2005). *Evaluation of a savings and micro-credit program for vulnerable young women in Nairobi*. New York: Population Council.

FinAccess. (2009). *FinAccess national survey 2009, dynamics of Kenya's changing financial landscape*. Nairobi: FinAccess.

Government of Kenya. (2007). *Kenya's Vision 2030*. Nairobi: Ministry of State for Planning National Development and Vision 2030.

Hall, J. (2006). *Tap and reposition youth (TRY) program, providing social support, savings, and microcredit opportunities to adolescent girls at risk for HIV/AIDS in Kenya* (Microfinance Brief). New York: Population Council.

KIPPRA (Kenya Institute for Public Policy Research and Analysis). (2001). *Legal and other constraints on access to financial services in Kenya: Survey reports* (KIPPRA Special Report No. 1). Nairobi: KIPPRA.

Maclure, R., Gakuru, O., & Sotelo, M. (2006). Social policies and marginalized urban youth: Centrist prescriptions and divergent practices. *Proceedings of the AUCC/IDRC colloquium on North-South collaborative research* (pp. 21-31). Ottawa: International Development Research Centre Press.

Njenga, G., Ngugi, R., & Mwaura, M. (2006). *Development finance institutions in Kenya: Issues and policy options* (KIPPRA Working Paper No. 14). Nairobi: Kenya Institute for Public Policy Research and Analysis.

Nyerere, J. (2004). *The case of K-rep – Nairobi, Kenya* (Case Studies in Scaling Up Poverty Reduction). Washington, DC: International Bank for Reconstruction and Development/the World Bank.

Omino, G. (2005). *Regulation and supervision of microfinance institutions in Kenya* (Essays on Regulation and Supervision No. 1). College Park, MD: University of Maryland, IRIS Center.

PesaPoint. (n.d.). *About Pesapoint*. Retrieved August 13, 2009, from http://www.pesapoint.co.ke/about.asp?cntid=50

Population Reference Bureau. (2008). P*opulation age <15 (%)*. Retrieved June 15, 2009 from http://www.prb.org/Datafinder/Topic/Bar.aspx?sort=v&order=d&variable=31

Population Reference Bureau. (2008). *Youth ages 10-24 (% of total pop.)*. Retrieved June 15, 2009 from http://www.prb.org/Datafinder/Topic/Bar.aspx?sort=v&order=d&variable=55

Rosengard, J., Rai, A., Dondo, A., & Oketch, H. (2000). *Microfinance development in Kenya: K-rep's transition from NGO to diversified holding company and commercial bank* (Development Discussion Paper No. 762). Cambridge, MA: Harvard Institute for International Development.

Shem, A., & Atieno, R. (2001). Financial dualism and financial sector development in low income countries. *Savings and Development*, *25*(4), 413-438.

UNDP (United Nations Development Program). (2007). *Human development report 2007/2008*. New York: United Nations Development Program.

United Nations Statistics Division. (n.d.). *Kenya*. Retrieved August 14, 2009, from http://millenniumindicators.un.org/unsd/mdg/Data.aspx

World Bank. (n.d.). *Country groups by income*. Retrieved August 14, 2009, from http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20421402~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html

World Bank. (2007). *Kenya: Key development statistics*. Retrieved August 14, 2009 from http://ddp-ext.worldbank.org/ext/ddpreports/ViewSharedReport?&CF=1&REPORT_ID=9147&REQUEST_TYPE=VIEWADVANCED&HF=N&WSP=

Wright, G., Koigi, A. N., Kihwele, A. (2006). *Teaching elephants to tango: Working with post banks to realize their full potential*. Nairobi: MicroSave.

Appendix A: Youth savings products

Financial Institution	YDA Product Name	Notable Features
Barclays Bank Kenya	Junior Eagle Account	No minimum operating balance
Kenya Commercial	Cub Account	Free banker’s check for every school term
Standard Chartered	Safar Jnr	Free banker’s check for every quarter
Co-operative Bank	Jumbo Junior Account	Discounted bank checks for payment of school fees

Appendix B: Research conducted by potential research partners

Research Center	Study	Description
Department of Sociology	*Social policies and marginalized urban youth* (Maclure, Gakuru, & Sotelo, 2006)	Comparative inquiry of policy changes designed to influence social services impinging on the welfare of marginalized urban youth
IDS	*Financial dualism and financial sector development in low-income countries* (Shem & Atieno, 2001)	Examines the significance of financial dualism (the coexistence of formal and informal financial sectors) in low-income countries
IPAR	*Access to credit by micro and small enterprises (MSEs) in Kenya* (Akoten, 2007)	Assesses MSEs’ credit constraints and major sources of finances, and proproses strategies to break the vicious cycle of credit inaccessibility
KIPPRA	*Access to financial services* (KIPPRA, 2001)	Examines survey results on legal and other barriers to financial service access in Kenya
KIPPRA	*Development Finance Institutions (DFIs) in Kenya* (Njenga, Ngugi, & Mwaura, 2006)	Examines various constraints that have made DFIs unable to contribute significantly to the development process

Author

Rainier Masa, International Project Manager
rmasa@wustl.edu

Contact Us

Li Zou, International Director
lzou@wustl.edu
(314) 935-3469

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu

Washington University in St. Louis
George Warren Brown School of Social Work

CENTER FOR SOCIAL DEVELOPMENT
George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899