Kenya Country Assessment for Youth Development Accounts

By Rainier Masa

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)
Two significant pro-poor financial institutions, which are also promising potential partners, emerged from Kenya’s microfinance sector: Equity Bank and K-Rep Bank. Both banks have been cited as examples of financial institutions that sustain growth while reducing poverty by providing financial services to the poor. 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.

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. Safaricom 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).

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.

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).


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


### Appendix A: Youth savings products

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<tr>
<th>Financial Institution</th>
<th>YDA Product Name</th>
<th>Notable Features</th>
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<tbody>
<tr>
<td>Barclays Bank Kenya</td>
<td>Junior Eagle Account</td>
<td>No minimum operating balance</td>
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<tr>
<td>Kenya Commercial</td>
<td>Cub Account</td>
<td>Free banker’s check for every school term</td>
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<tr>
<td>Standard Chartered</td>
<td>Safar Jnr</td>
<td>Free banker’s check for every quarter</td>
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<tr>
<td>Co-operative Bank</td>
<td>Jumbo Junior Account</td>
<td>Discounted bank checks for payment of school fees</td>
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### Appendix B: Research conducted by potential research partners

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