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Investigating usage and barriers to access of financial services in Kenya & Tanzania

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Outline

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 - Definitions: Use of Finance
 - Categories of users
 - Barriers
2. Objectives of the research
 - Analysis of the types of financial services used,
 - Barriers to access
 - Types of users
3. Results
 - Kenya, Tanzania
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 - Significant Results for Kenya
4. Conclusions



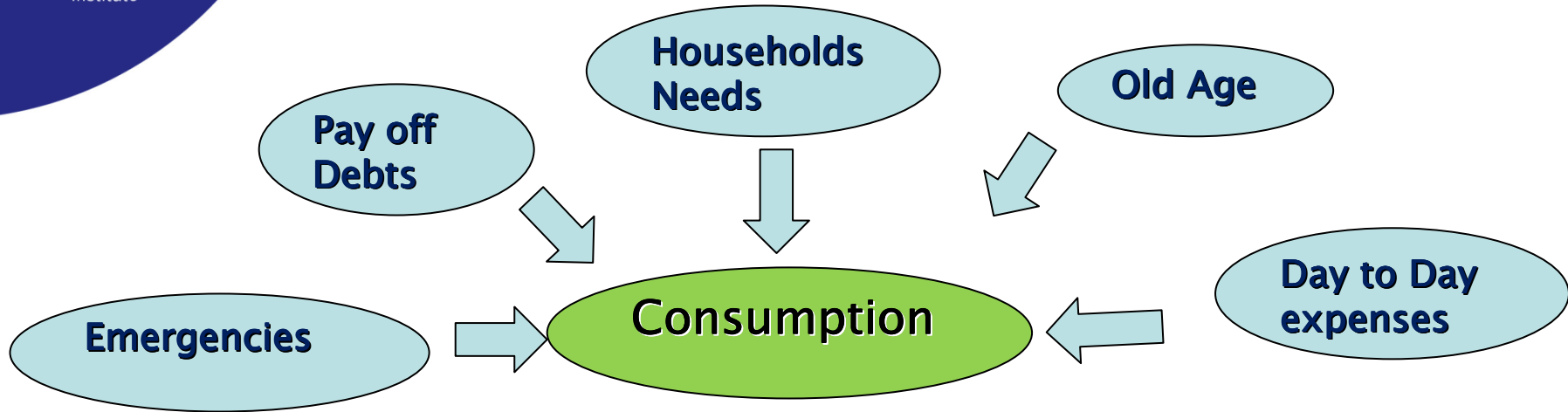
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1. Introduction to the research methodology and definitions used

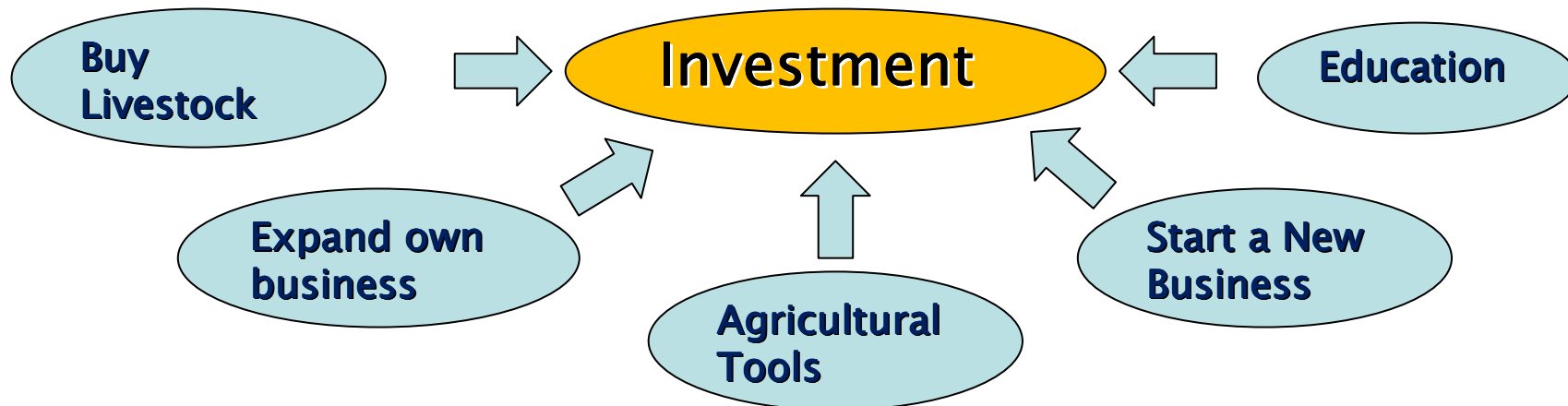
1. a) FinScope Survey

- Survey undertaken in 2006 across a number of countries in sub-Saharan Africa.
- Randomised survey weighted according to population (rural/urban), 5000 respondents per country
- Key survey questions used in each survey within country:
 1. What financial services are being used?
 2. What are they being used for?
 3. What are the barriers to the use of financial services?
- Multiple choice answers
- Comparison between Kenya and Tanzania possible because similar questions were asked in each country.

1. b) Definitions



Identifying investment & consumption choices



1. c) Categories of Users: How do people consume or invest?

- Through saving or borrowing from financial service providers such as:
 - MFIs
 - Banks
 - SACCOs, ASCAs, ROSCAs
 - Friends or Family
 - Government Loans
 - Etc....

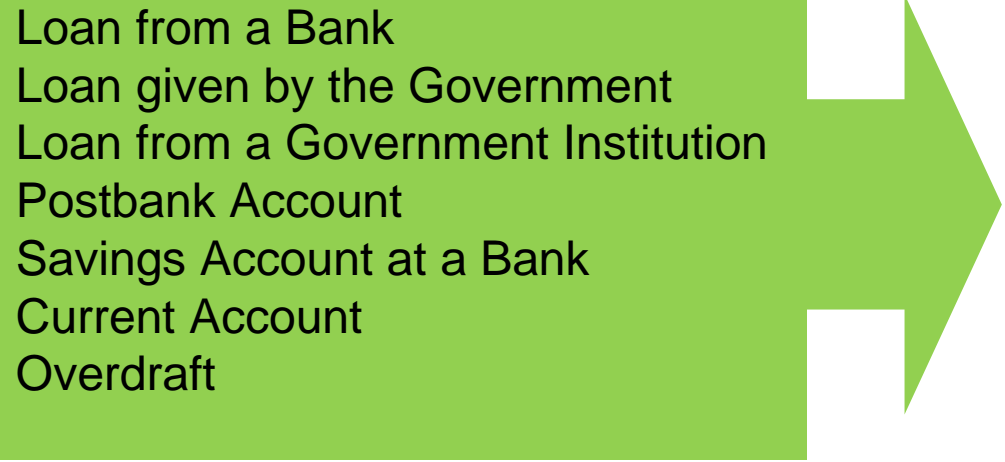
Formal & Informal Financial Services

Formal: Services offered by institutions recognised as fully operational banking structures (or equivalent).

Informal: Services offered by institutions operating on a banking framework or offering select banking services but not recognised as official banks as well as services offered at a completely ad hoc level with no formal government regulation.

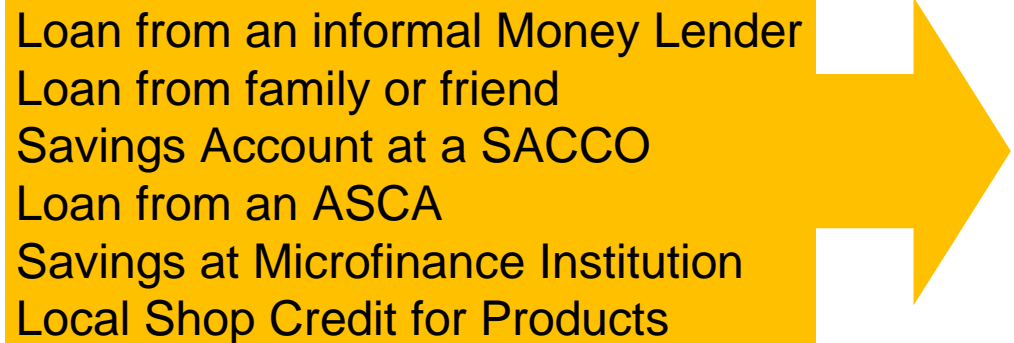
1. c) Cont...

Formal & Informal Financial Services



- Loan from a Bank
- Loan given by the Government
- Loan from a Government Institution
- Postbank Account
- Savings Account at a Bank
- Current Account
- Overdraft

Formal Service



- Loan from an informal Money Lender
- Loan from family or friend
- Savings Account at a SACCO
- Loan from an ASCA
- Savings at Microfinance Institution
- Local Shop Credit for Products

Informal Service

1. d) What are the barriers to accessing finance?

Some of the major barriers to access financial services cited by respondents who said they had never saved or borrowed (who were allowed to choose from multiple options) were:

- Not earning enough money to qualify for a loan
- High charges
- Not having the initial lump sum required to save
- No guarantor or collateral
- Never having needed a loan



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2. Objectives of the research

2. a) Objectives

Analysis of:

- What types of financial services are being used and for what reasons
- The impact of barriers to access on savings and loans, especially for investment purposes

Why?

- To understand if access to finance would lead to productivity enhancing investments
- To understand what stops people from accessing financial services



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3. Results

Key Results for Kenya

1. Services used:

- Savers or borrowers to invest are more likely to use formal financial services than those who save or borrow to consume

2. Purpose:

- 44% of respondents save to invest, 22% borrow to invest
- 28% save for education
- 12% save to purchase livestock
- 10% save to start a business

3. Barriers:

- 47% of people who do not borrow cited not earning enough money to borrow
- 30% said they never needed a loan
- 75% of people who never saved cited not having enough money to save
- 12% said the charges were too high

Key results for Tanzania

1. Services Used:

- Savers to invest or consume are more likely to use informal services, borrowers tend to use formal services nearly as much as informal.

2. Purpose:

- 29% have saved to invest, 40% have borrowed to invest
- 10% borrowed to start their own business
- 11% borrowed to invest in education
- 12% saved to expand their own business

3. Barriers:

- 35% of people who never borrowed said it was due to not earning a high enough wage
- 20% of non borrowers cited never needing a loan
- 57% of people who were not saving said they did not have enough money to save
- 13% of non savers blame the high initial lump sums needed



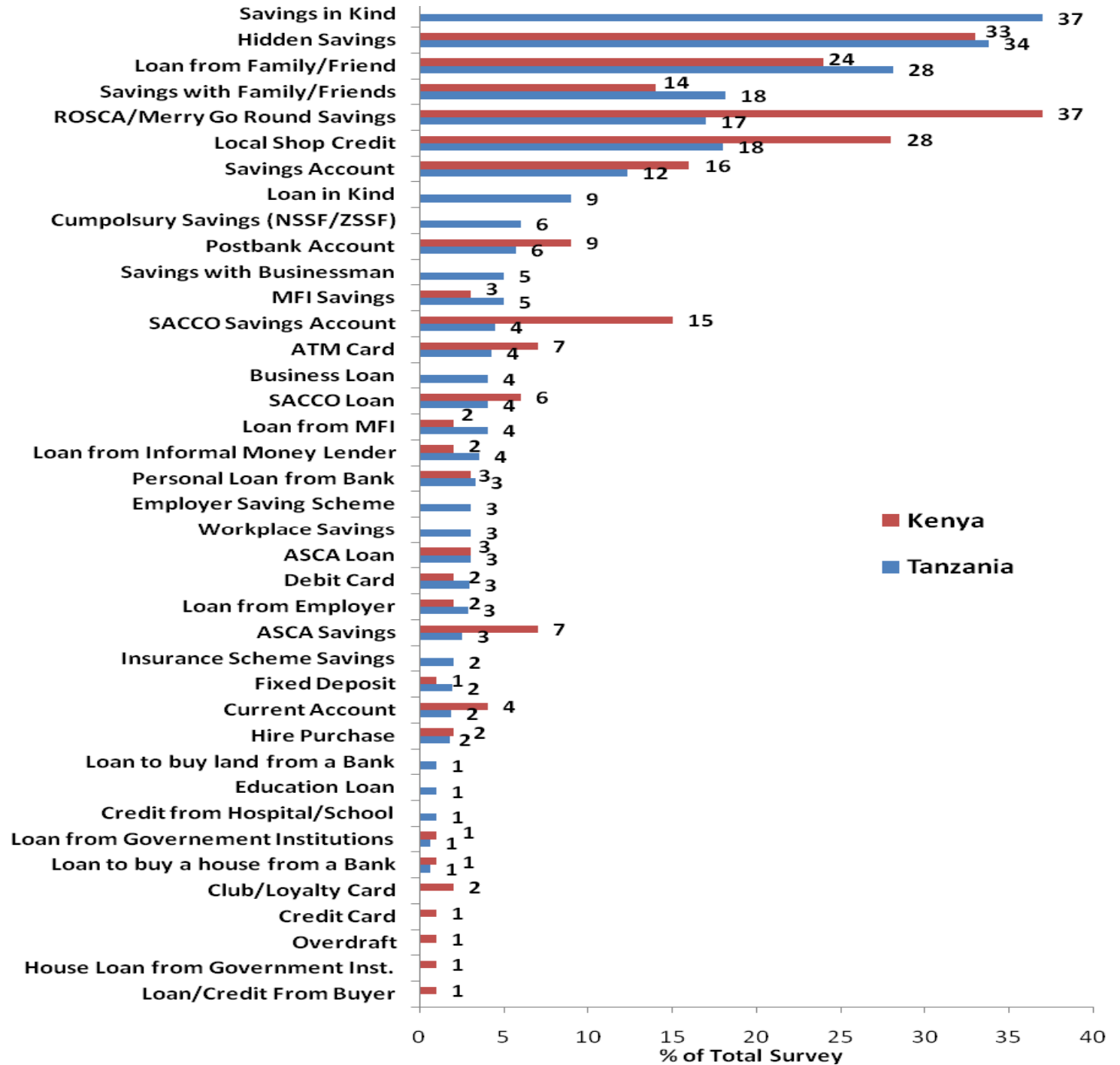
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Comparing Kenya and Tanzania



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Types of financial services used

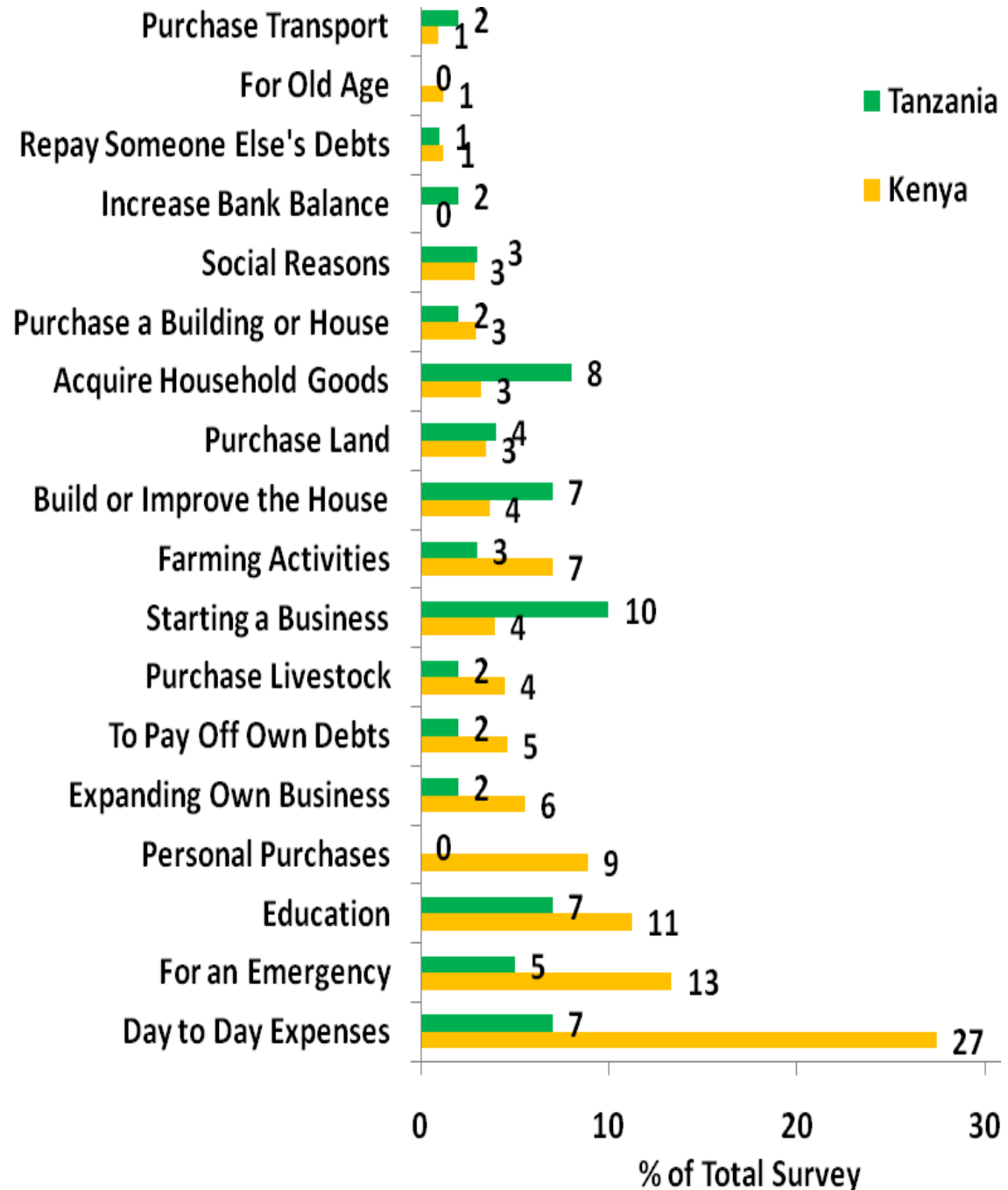




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Borrowing Reasons:

Tanzanians more likely to borrow to start a business than Kenyans, but Kenyans in general more likely to borrow for other purposes.

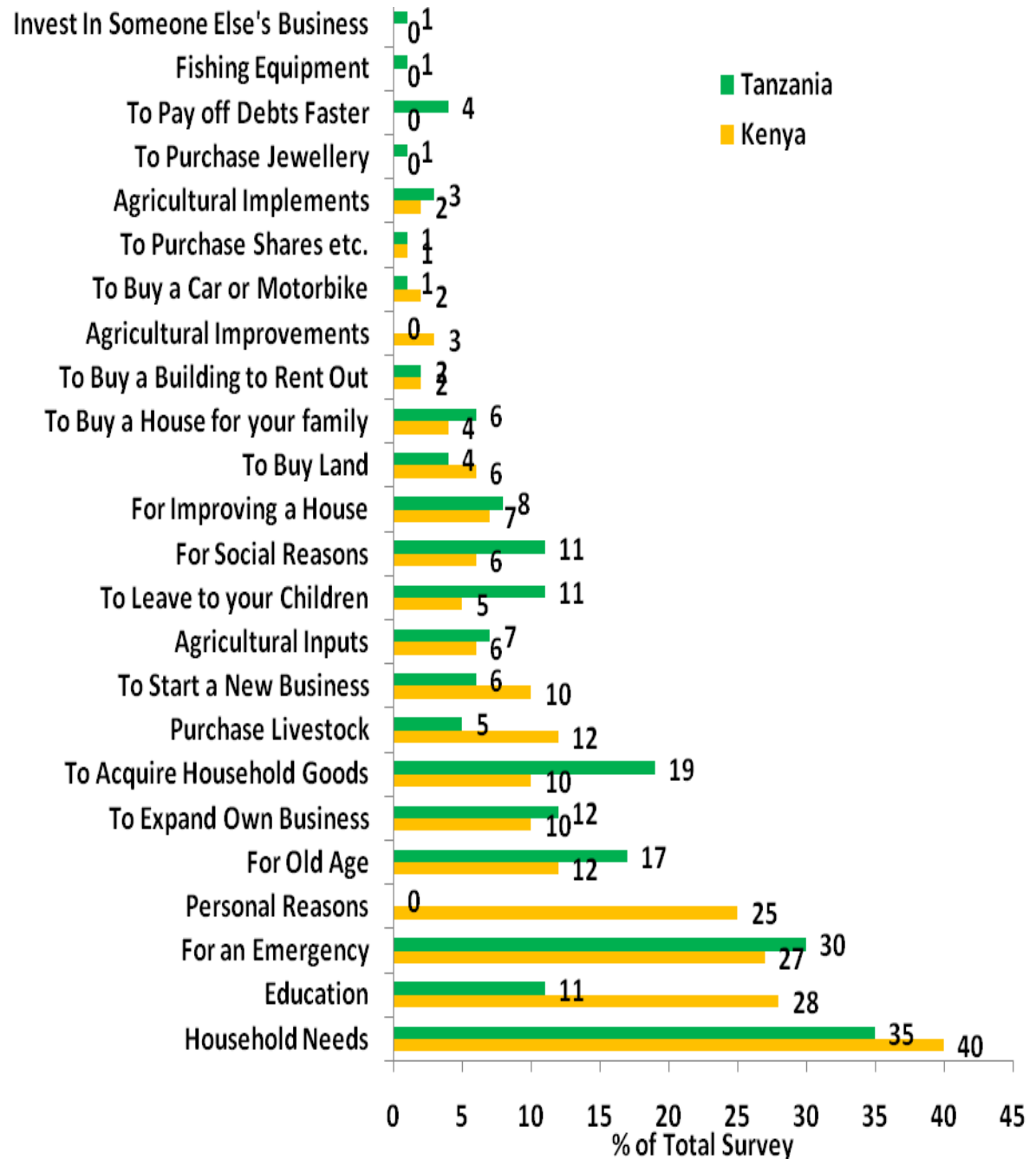




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Saving Reasons:

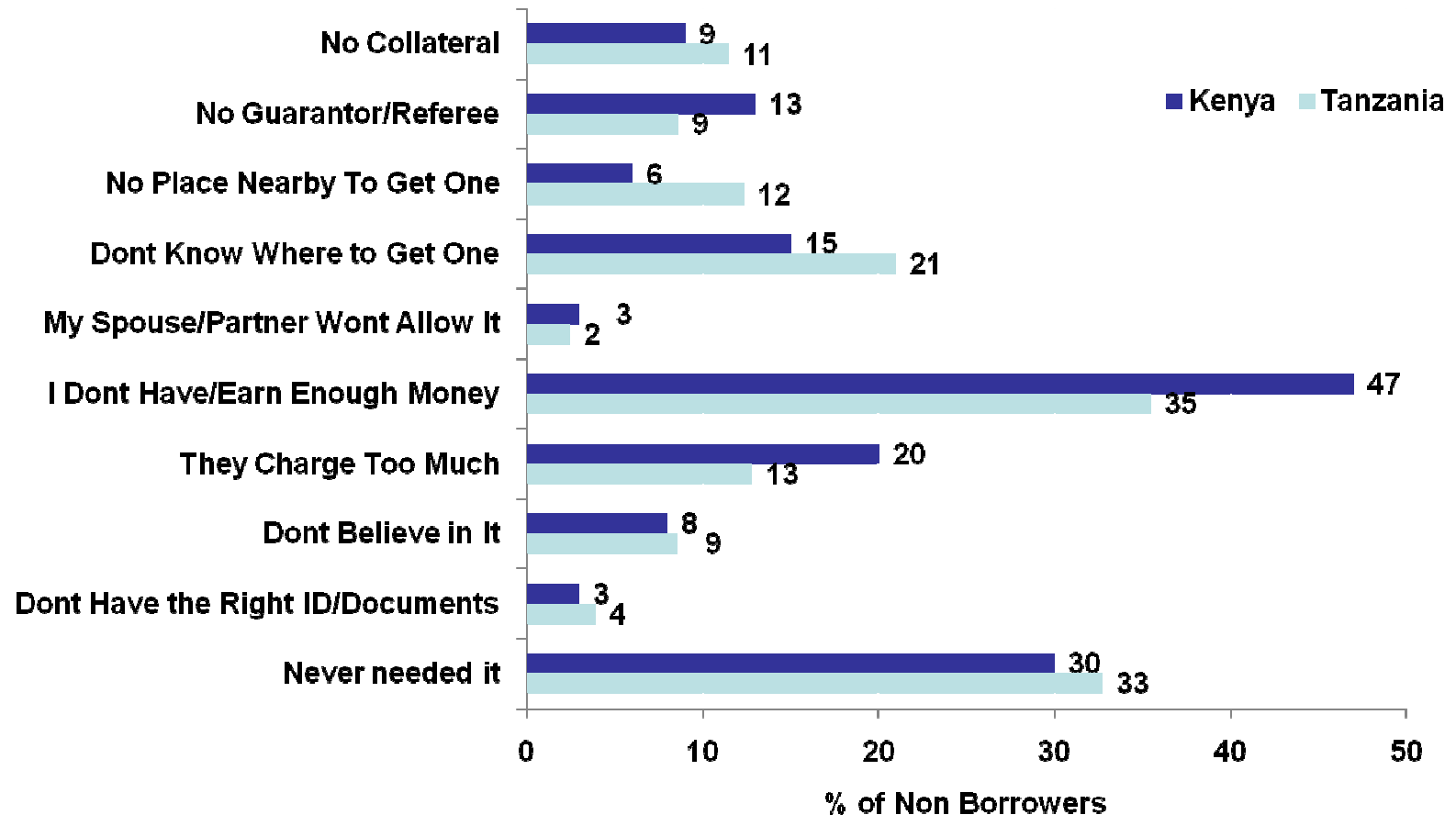
Kenyans have a greater predominance to save to invest than Tanzanians, however in both countries savings are mostly used both consumption purposes, barring education in Kenya





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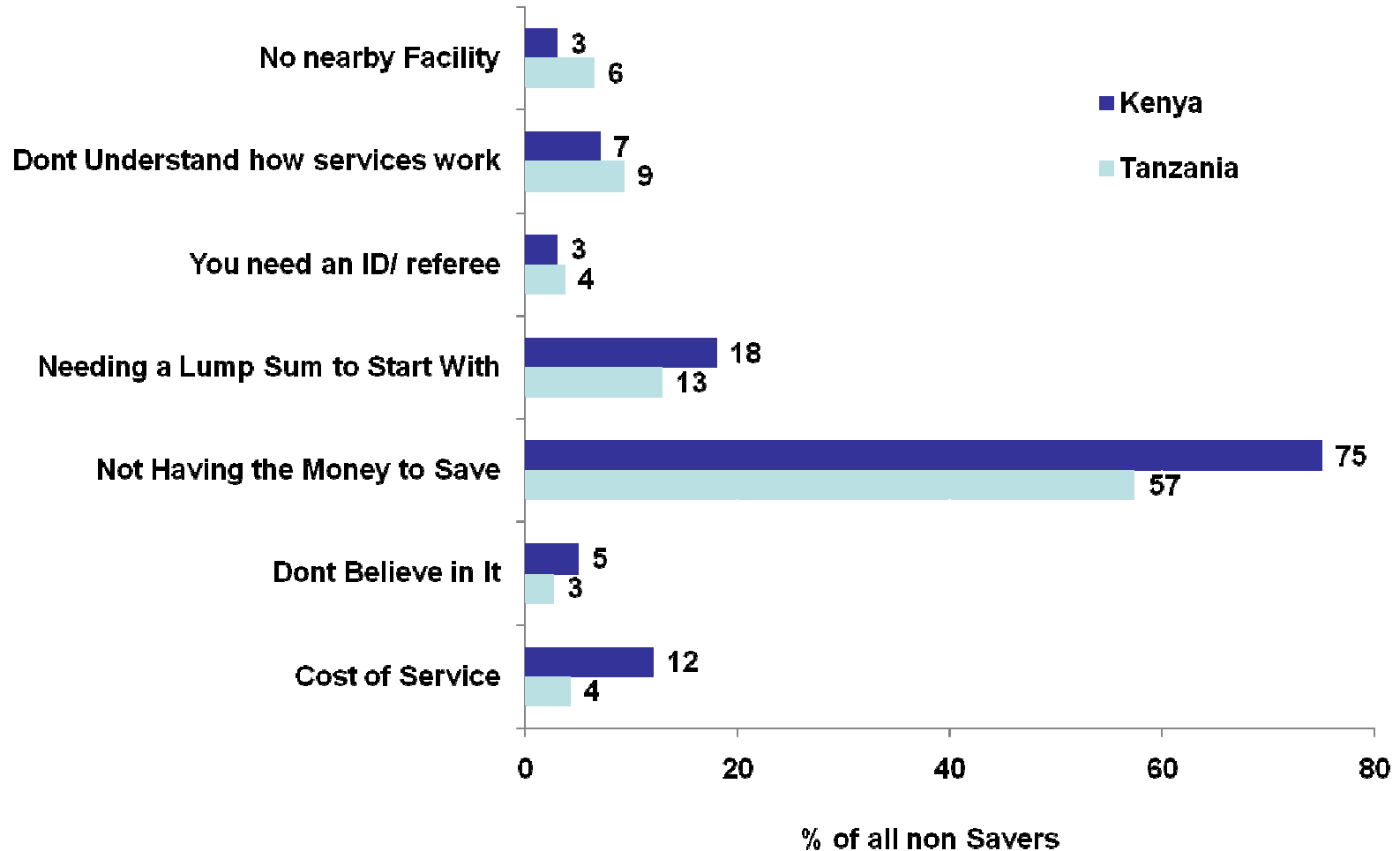
Barriers to borrowing in Kenya & Tanzania





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Barriers to saving in Kenya & Tanzania





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Significant Results for Kenya

Result 1: Investors use formal services more than informal

- People who borrow to invest are 16% more likely to use formal services than people who borrow to consume.
- People who save to invest are 9% more likely to use formal services than people who save to consume.

Result 2: Access barriers have significant impact on investment

- Access barriers reduce the probability that an individual saves to invest by 8% to 10%.
- Access barriers reduce the probability that an individual borrows to invest by 2% to 3%.

Conclusions

- Informal providers have an important role to play in financial intermediation.
- But results suggest, on the whole, that people who use formal financial services tend to do so more for productivity investment purposes.
- So interventions aimed at tackling barriers to formal provision may increase investment (and hence growth) more than interventions aimed at semi-formal provision.