

MAKING THE CASE

Kenya

Case Studies on Inclusive Economic Development



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1.0

Background



1.1 Tackling Financial Inclusion in Kenya

Kenya is one of the fastest growing economies on the African continent. The country's income per capita has almost doubled since 2006 from \$2,200, reaching \$4,237 in 2019. Despite the impressive growth, Kenya is not immune to Sub-Saharan Africa's high inequality patterns. Kenya has a Gini coefficient of 0.6 and in 2015, the richest 10% of the country's population received 48.7% of the total income share.

The Kenyan government has actively partnered with NGOs and private firms across different sectors to tackle inequality. One successful area has been the country's effort to increase financial inclusion. In 2006, more than 40% of the population was completely excluded from the banking system. By 2021, that figure was less than 11%.

\$4,237

Income per Capita

0.6

Gini coefficient

40%

Of the population excluded from the banking system in 2006

Currently, more than 70% of Kenyans live in remote rural areas. Solving the problem of financial inclusion in Kenya is a complicated yet essential task. Without access to financial services, the economic empowerment of rural communities becomes increasingly challenging. For example, small businesses cannot access credit easily, households save less and individuals become more vulnerable to predatory loan practices. Additionally, low cash circulation within the local economy hampers trade and investments, which causes persistent economic stagnation. To alleviate these issues, rural Kenyans have adopted some new and innovative approaches, such as the [Sarafu Network](#).



1.2 The Safaru Network

The *Sarafu network* was launched in 2010 by an NGO named *Grassroots Economics* with the primary goal to create a sustainable, decentralized and more accessible currency system, the Sarafu, on top of the traditional banking infrastructure and to empower rural communities.

Unlike national currencies, the Sarafu is solely backed by the provision of goods and services between members of a community. The Sarafu network is implemented in a three-step process: first, the expert team audits the resources each community member possesses; next, Sarafu credits (“Sarafus”) are distributed according to individuals’ ownership of goods and services; then, the team incentivizes people to use their Sarafu vouchers to trade with other members in the community.

The Sarafu acts as a store of value or “credit” that is provided to an individual in exchange for the provision of goods or services. That same individual can then exchange his Sarafus for other goods/services at a later date. If enough individuals join the network, the Sarafu becomes a sustainable medium of exchange in the community. It substitutes the national currency for local trade, and protects the rural populations from the risks and disadvantages associated with traditional banking or physical cash.

The Sarafu originally used paper-based vouchers. Today, it utilizes block-chain technologies to be more efficient, secure and transparent for all users. Further, as the service relies on cellular USSD codes, accessibility of the network in rural communities with inadequate internet service is guaranteed.



2.0

Built For All: Applied



2.1 Pillar One: Equitable Access to Resources and Opportunities

Strengths

Financial systems are accessible, safe, and affordable for everyone

In Kenya, an estimated 50-80% of the economy relies on the informal sector. The Sarafu network provides a platform which bridges the demand and supply of goods and services within the informal sector and deviates from the traditional banking model of distributing loans and collecting interests. The Sarafu network allows people who cannot afford banking services to trade amongst themselves, which subsequently stimulates economic and trade activities, and over time reduces the wealth inequality gap. In 2022, a randomized control trial provided Sarafu credits to communities located near Nairobi. The research revealed that a transfer of \$30 in Sarafu credits is associated with a substantial \$93.51 boost in the recipients' wallet balances, a \$23.17 increase in their monthly community currency income, a \$6.31 increase in average trade size and a \$28.43 growth in expenditure on food and water. These findings illustrate the positive impact of the Sarafu on increasing the local economy and in addressing financial inclusion.

The Sarafu network also addresses other outcomes under Pillar 1 of the framework. The program is among the first initiatives that uses cryptocurrency to create an inclusive **digital network that benefits everyone**. Furthermore, Sarafu creates a stable medium of exchange that is tied to local development, which paves the path for **everyone in the community to build individual wealth and to explore economic opportunities**. As community currencies like Sarafu rely on the trust shared among its participants, they play a crucial role in fostering community collaboration and creating social inclusion among individuals. Also, communities are more resilient against economic downturns.

Opportunities

In 2020, Grassroot Economics partnered with the Red Cross to implement the Sarafu network in two regions in Kenya and the number of registered users has grown to over 50,000. More multilateral partnerships with aid organizations or fintech companies, like Mastercard, can help scale up Sarafu operations. Given the Sarafu network's field experience, it can provide local expertise while large companies and international organizations can provide funding necessary for the Sarafu network to expand across the African Market.

2.2 Pillar Two: A Level Playing Field for Work and Competition

Strengths

Labor markets are competitive for workers and employers

Rural communities often lack access to the broader economy, which disincentivizes production and causes an undervaluation of labor. The Sarafu assigns value to all productive capacity, encouraging productivity and equitable compensation for labor.

Capital is circulating throughout the economy and used productively

The Sarafu network charges users a monthly holding fee of 2% of balances, then redistributes this to active users as bonuses, to ensure members are actively trading goods and services. This effectively reduces incentives to hoard wealth, a pervasive problem of fiat currency. The Sarafu's precursory activity of auditing community capacity to assign credits also means that previously under-utilized capital is uncovered and put to productive use.

Businesses of all sizes and stages of maturity compete in a dynamic market ecosystem

Sarafu credits are assigned objectively, allowing local entities to participate in the market ecosystem. The system is built on trust and ideals of continuity, creating an integrated and cooperative market where all community members, from artisans, to farmers, to educators, are engaged. Consequently, large producers become incentivised to trade with other local merchants and laborers rather than in external markets for profits in national currency.

Opportunities

While the Sarafu network allows communities to enter a liquidity pool with other communities to facilitate trade, the scope of trade is further expandable. For example, members could use Sarafus towards skill-development and vocational training programs offered by civic or public partners of *Grassroot Economics*. With training in in-demand skills, members can access a wider range of employment opportunities, not just within their immediate communities, but in neighboring regions and urban centers. This can integrate rural communities in the broader economy through increased labor and economic mobility. Through such a robust implementation approach, the Sarafu network can be leveraged to promote the

Built for All outcomes: everyone has the training necessary for the future of work and marginalized communities do not face barriers to finding and keeping work.

2.3 Pillar Three: Collective Stewardship of Shared Resources for Future Generations

Strengths

All places build wealth across neighborhood residents

The Sarafu network has the potential to foster financial inclusion at the local level for markets that are geographically separated (i.e. rural farms), politically limited (refugee camps), or economically disadvantaged and cannot be integrated into the national or international market. By connecting these marginalized markets through a credit system that bypasses the complex formal banking system, the Sarafu can create an informal economy where wealth can be created within communities and where supply and demand can be matched locally. This mutual “dependency” built into communities allows local members to “envision their future... [and] to develop themselves”. This enables citizens’ ownership of financial resources, fostering sustainable pathways for the growth of community assets and wealth. In the long run, the Sarafu currency can contribute to the wealth of residents by building up community infrastructure, shared resources, and income security for future generations.

Opportunities

The long-term success of the Sarafu network can be bolstered with the support of international donors. Given the unique approach in advancing financial inclusion, there are opportunities for the Sarafu to attract new program donors. While not relying entirely on donor funds, Grassroots Economics uses donor funds to make large investments in public infrastructure projects and bottom-up social investment ventures (i.e. informal cooperatives, or “*chamas*”) to spur local economic activities and to create employment and value-creating activities. These investments can facilitate the circulation of communal infrastructure, including water storage equipment, maize milling, and refrigeration. Through positive externalities, donor funds can assist the Sarafu in improving the quality of life for all community members, promoting shared trust across neighborhood residents, and building stable infrastructure that can be beneficial to future generations within communities.

3.0

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