

## Real World Financial Services – Financial Services and the Sustainable Development Goals

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Over the last two decades access to finance has been considered a major contributor to key sustainable development goals these include: Goal 1: End poverty in all its forms everywhere; Goal 5: Achieve gender equality and empower women everywhere and Goal 8 Promote sustained inclusive economic growth, full and productive employment, and decent work for all. Access to financial services, it was assumed, would enhance economic development, and open more economic opportunities through microfinance to women. Access to financial services would increase savings, help people manage risks and facilitate investments. Access to financial services would facilitate monetisation of food programmes, delivery of social payments, and a gradual integration of the informal and formal sectors.



The actual outcome to date is much more complex. FSD Kenya recently published a blog<sup>1</sup> which showed despite a record level of financial inclusion at 83%, average wealth had decreased since 2016. So, wealth and financial inclusion are not synonymous even if they are related.

However, it is also wrong to limit the impact of access to finance to economic development, employment, and gender. Access to financial services contributes to the following goals:

<sup>1</sup>Oyaro, Duncan (2020) For maximum value, financial innovation must address real world problems, FSD Kenya, available on <https://bit.ly/2PdCSla>

- Goal 2: End hunger, achieve food security and improved nutrition and support sustainable agriculture
- Goal 3: Ensure healthy lives and ensure well-being for all ages.
- Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning for all.
- Goal 6: Ensure availability and sustainable management of water and sanitation for all.
- Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all.
- Goal 11: Make cities and human settlements inclusive, safe, and resilient and sustainable

**Goal 2 - Food security:** Food security is enhanced through a wide variety of mechanisms. These include asset transfers, social payments, and monetised food aid – most often delivered through mobile money. Food security is enhanced by a vibrant agricultural sector producing surpluses for sale and consumption. McKinsey writes<sup>2</sup> that 60% of Africans are employed in the agricultural sector which accounts for 23% of GDP. The agricultural revolution in Africa is and will be underpinned by agricultural technology, financial technology, and digital finance. Nine months after Centenary Bank in Uganda opened agent banking it retired 75% of its fixed deposits due to raising rural deposits. The need to reimagine rural finance is explored in the First Principles Blog: Reimagining Rural Finance<sup>3</sup>.

**Goal 3 - Healthy lives:** Sufficient finance and food security does much to ensure healthy lives as people can afford healthcare. However, healthy lives imply investing in a healthcare system which can reach poorer people. It means promoting financial services, and health education promoting access to preventative rather than emergency healthcare. More than this it means a financial sector and an alternative finance sector which can respond to health emergencies. It means m-health technology which is linked to financial services.

More than this, the healthy lives goal benefits from improved financial management, access to savings, investments. Healthy lives benefits, from risk management services – such as, but not limited to insurance but also in some cases donation-based crowdfunding. Some of these issues are explored in the First Principles Blog: Seven Principles for Reimagining Financial Services<sup>4</sup> and in the First Principles Blog Crowdfunding in Africa<sup>5</sup>.

**Goal 4 - Ensure inclusive and equitable quality education and promote lifelong learning for all:** Education of children is seen correctly by many poorer families as one of their most important investments for a better future. However, coming up with the funds to pay for school fees, school supplies and the lighting to facilitate evening study is far from easy. The financial sector has developed school fees products – Faulu Kenya had an extremely popular product to finance school fees, but in an earlier product costing conducted by *MicroSave*– it showed that the school fees product was not making money. It cost too much to operate. So, we need to rework how school fees are financed using technology, using algorithms. Schools need finance too. Its further possible to invest in teachers. *MicroSave* research with Mentor SACCO in Murang'a Kenya, noted that teachers had multiple sources of income, teaching, private tutoring and businesses – such as shops or matatus.

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<sup>2</sup> Goedde, Lutz, Amandla Ooko Ombaka and Gillian Pais (2019), “Winning in Africa’s Agricultural Market”, McKinsey, available on <https://mck.co/3rBieZi>

<sup>3</sup> Cracknell David (2020), “Reimagining Rural Finance” First Principles Consulting Blog, Nairobi, available on [www.firstprinciplesinfinance.com](http://www.firstprinciplesinfinance.com)

<sup>4</sup> Cracknell David (2020), “Seven Principles for Reimagining Financial Services”, First Principles Consulting, Nairobi, available on [www.firstprinciplesinfinance.com](http://www.firstprinciplesinfinance.com)

<sup>5</sup> Cracknell David (2021), “Crowdfunding in Africa”, First Principles Consulting, Nairobi. available on [www.firstprinciplesinfinance.com](http://www.firstprinciplesinfinance.com)

**Goal 6 - Water and Sanitation (watsan):** Financing for water and sanitation is a discipline of its own. Research for Water.org, an NGO specialising in watsan showed that carefully designed financial services were required, often focused on asset purchase and installation schemes. A major success factor, however, was the health messaging that accompanied or immediately preceded Watsan campaigns. Too many people in Africa – still use poor quality water and sanitation standards without acknowledging the costs derived from resulting ill health.

**Goal 7 – Energy:** There has been a revolution in clean energy. Not only from large scale solar power or windfarms, but also in home-based solutions, in Pay as you Go (PAYG) household solar, or biogas for cooking, or new stove designs that save energy. New financing mechanisms have been developed – as used by M-Kopa<sup>6</sup>. Moreover M-Kopa has innovated on this mechanism to extend finance to other products and services.

**Goal 11 – Housing:** Housing is by nature complex - it is the largest single investment most people make. This means that low-cost housing such as that popularised by Habitat still must be financed through long term savings, investments, and loan schemes. Across Europe and the USA – there is a newly emerging field – that of PropTech<sup>7</sup> - the financing of property enhanced through financial technology. However, PropTech as designed works well in well-functioning property markets with clear access to title. Africa does not have well-functioning property markets. However, the application of financial technology, blockchain, digitising indigenous titles may all be part of moving the housing market forward. Discussions and research with Housing Finance Uganda showed that inefficiencies and information asymmetries within the housing sector made building quality affordable housing more difficult.

### **Interactions between the development goals**

It is convenient to think of the development goals individually – it provides intellectual clarity. However, progress on development goals interact on other development goals. Improving housing is likely to improve health, and could include water, sanitation, and electricity solutions. Food security plays a major part in health in many low-income populations.

The interactions between the development goals are also reflected in the ecosystems around the development goals and in donor project programming. An efficient and effective digital financial ecosystem around mobile money and agent banking in Kenya for example is stimulating development in health tech, agritech, alternative finance, and PAYG operations. The digital finance ecosystem is explored in the First Principles blog – Enabling Digital Finance Ecosystems.

### **Development projects and finance**

Lastly, it is important to rethink development projects from a finance perspective. Projects in agriculture, education, health, and housing often have a financing component. However, this financing component is often expressed in terms of a bank linkage without the benefit of drawing on huge knowledge on financial systems development, blended finance, alternative finance, and financial ecosystem development.

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<sup>6</sup> See [www.m-kopa](http://www.m-kopa)

<sup>7</sup> Baum Andrew (2020), “PropTech 3.0 the Future of Real Estate”, Oxford University Said Business School, available on <https://bit.ly/31qb8MT>

*This blog is one of a series of blogs, should you wish to sign up to receive additional blogs, please write to David Cracknell at [david@firstprinciples.consulting](mailto:david@firstprinciples.consulting). David Cracknell is the Director of First Principles Consulting Limited, based in Nairobi, Kenya. He advises financial institutions, governments, policy makers and donors on financial services, including digital finance, policy and regulation, and inclusive finance*



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