

HUSTLER  
FUND  
CREDIT & SAVINGS  
PRODUCT



# The Hustler

Kenya Kwanza's vision of a hustler, the intended beneficiary of the fund, is a grocery vendor who is doing everything they can to feed his family and has the potential and drive to grow. The hustler contributes to economic growth, pays his taxes and has a vision of where he wants to be in the next decade or two.

Name:	Michael Njeru Nyaga
Age:	26
Profession:	Grocery Vendor
Household Income:	KShs. 20,000/-
Status:	Married
Children:	2



## About

Michael is a grocery vendor in Kangemi where he was brought up and currently lives. He has two stalls where he sells vegetables sourced at fair prices from Wakulima Market commonly known as Marikiti. Every day, he wakes up early to get fresh stock to sell by 6 a.m.

His wife is a hair dresser and has a stall at the same market. She belongs to a chama and a 'merry-go-round'. They used earnings and savings from the two groups to acquire the second grocery stall and to buy two blow dryers for his wife's salon. He also supports his aging mother who is ill and lives with them.

At the height of Covid-19 when there was a lockdown, Andrew got requests from some of his regulars and the nearby Kianda School and Nairobi School to deliver fresh vegetables and fruits.

He is also a member of Kangemi Groceries Vendors self-help group and Kiambu Unity Sacco. The self-help group has spruced up the market. They are in talks with other groups in the area to have the whole market refurbished, new stalls built and proper drainage and sanitation installed in the market.

## Goals

- Horizontal expansion of his business through the acquisition of more stalls.
- To buy a second-hand car to aid with sourcing groceries from Marikiti and for deliveries to customers including private enterprises.
- To buy better salon equipment for his wife such as a dryer and move her from the wooden stall where she only plaits hair to a spacious building with water that will allow her to offer more services.
- He would like to buy a piece of land to build a family home and farm some of the things he sells.
- Educate his children through high school and beyond

## Frustrations

- The location of one of his stalls at the market is causing him to lose customers as well as money.
- The pace of saving at the Sacco cannot afford him the size of loan he wants for his projects
- Recently, there was a fire at the market that razed his wife's stall and set him back as he had to buy her equipment again and she lost income as she waited for the stall to be rebuilt.

## Defining traits

- Trustworthy
- Hardworking
- Responsible
- Patient

# Background

In the runup to the last general elections in Kenya, the Kenya Kwanza Alliance featuring President William Ruto made a commitment to boost access to finance for the Micro, Small and Medium Enterprises (MSME) economic sector. The commitment was founded on a credit access vehicle that was popularly branded as the Hustler Fund.

The Kenya Kwanza Alliance outlined their access to finance solution by committing Ksh 50 billion a year to provide MSMEs with 100% access to affordable finance through SACCOs, and venture capital, equity funds and long term debt for startups and growth oriented SMEs.

This promise is now on actualization phase with the launch of a Financial Inclusion Fund (Hustler Fund) now set for 1st December 2022. It is envisaged that the objectives and purpose of the Fund shall be to innovate, develop and deploy bottom of the pyramid financial services and products that are affordable, accessible and appropriate for the unserved and underserved persons, including credit, saving, insurance and investment products.

The Government expects that the Fund to be domiciled under the Ministry Of Co-Operatives and Micro, Small And Medium Enterprises (MSME) Development and led by Cabinet Secretary Simon Chelugui, shall ensure that its products and services are commercially viable. The fund is also expected to be rapidly scalable at reasonable cost and low operational risk without distorting the market. The Fund shall leverage on existing commercial infrastructure, including mobile payments platforms and financial institutions, including agency, co-financing and on-lending partnerships: Provided that such partnerships are not exclusive or preferential, are technology neutral and do not confer market advantage to any partners over competitors.

The government is utilising the bottom-up economic model as an approach to solve the country's economic problems, and the establishment of the fund is one of the key promises made by the President when he was campaigning, as a way to alleviate youth unemployment.

It targets 'hustlers' like Michael Njeru who want to expand their businesses and meet life's exigencies but have no way to get a sufficient amount of credit or repay it on affordable and comfortable terms.

'Hustler' is a local term promoted by President Ruto and is used to refer to a burgeoning demographic of the young and unemployed or those who earn a minimum or below minimum wage by running small enterprises or working odd or casual jobs. In particular, the president is targeting the likes of those who would benefit from affordable credit schemes but are locked out due to lack of collateral or the general and often wrong perception of being a risk to lend to. Mr. Njeru is representative of that bracket.

Key government officials charged with the responsibility of implementing the presidential directive to establish the Hustler Fund alongside Cabinet Secretary Chelugui include the Cabinet Secretary, Treasury and Planning, Prof. Njuguna Ndung'u, the Council of Economic Affairs chairperson, Dr David Ndii, Energy and Petroleum Cabinet Secretary Davis Chirchir and ICT Cabinet Secretary Eliud Owalo. The President has categorically stated in speeches that Mr Owalo and Prof. Ndung'u are tasked with the foundational structuring of the Hustler Fund.

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## Specifically the Hustler Fund objectives are:

- promote financial inclusion through expanding access to credit by persons, proprietors, micro, small and medium enterprises, chamas, table banking groups, other groups, Sacco societies, associations and start-ups for economic growth and job creation;
- address the qualitative dimension of financial inclusion, in particular responsible lending and borrowing, ethical practices, consumer rights and financial literacy;
- strengthen the financial and operational capacity of informal sector membership based financial institutions including SACCO societies, Chamas and table banking groups;
- promote market interventions to improve supply of affordable credit to micro, small and medium sized enterprises (MSMEs) including creditworthiness-based lending, risk pricing, business and financial management skills, and cost of doing business;
- address the low participation of the non-formal wage workforce, namely informal sector entrepreneurs and workers, smallholder farmers, pastoralists, fisherfolk and other self-employed in health insurance and retirement benefit schemes, for the purpose of achieving universal health coverage (UHC) and universal social security; and
- Provide for Government counterpart funding for the savings for borrowers of the Fund.

As a prelude to the launch set for 1st December, the National Treasury has already embarked on the establishment process of the Financial Inclusion Fund. The statutory instruments such as the proposed Public Finance Management (Financial Inclusion Fund) Regulations, 2022 have been formulated to provide a regulatory framework that facilitates the establishment of the Fund. The Regulations have accorded Government an opportunity to facilitate achievement of the economic and social rights guaranteed in Article 43 of the constitution by addressing the low participation of the non-formal wage workforce, namely informal sector entrepreneurs and workers, smallholder farmers, pastoralists, fisherfolk and other self-employed in health insurance and retirement benefit schemes, for the purpose of achieving universal health coverage (UHC) and universal social security. The Regulations have also guarded against market distortions by ensuring that envisaged partnerships by the Fund, are not exclusive or preferential, are technology neutral and do not confer market advantage to any partners over competitors.

To further aid in the appropriation of the Fund's Kshs. 50 billion seed capital by the government, a Financial Inclusion Fund bill is expected to be introduced in the National Assembly and passed ahead of the launch date.

## Access to Credit in Kenya

Credit access in Kenya can either be sourced formally or informally through one's networks. Digital sources of credit have grown over the last decade as we shall see later on. However, the lower economic strata of society rarely have access to quick and affordable credit. This credit rationing is the problem that the Hustler Fund seeks to solve. Despite the establishment of various funds by governments, Public-Private Partnerships (PPP) products, and products existing in the private sector, access to affordable credit particularly to those in the informal sector is not as pervasive as it could be.

Digital credit services have been in the country for over a decade and according to a 2019 report by FSD Kenya, digital loans are the most commonly accessed forms of credit albeit low in value. A comparison of the following two infographics of loans disbursed by value and volume by different lenders shows that commercial banks lead in terms of disbursing by value but mobile banks/apps lead by volume. This disparity is at the heart of the problem that the Hustler Fund intends to tackle.

Total yearly volume of loans disbursed by lender



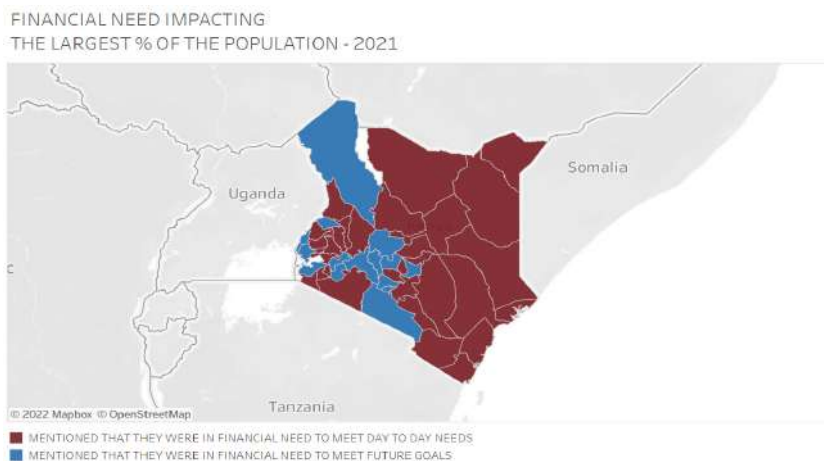
Source: FSD Kenya report 2019

Total yearly value of loans disbursed by lender



## Reasons for Credit Access

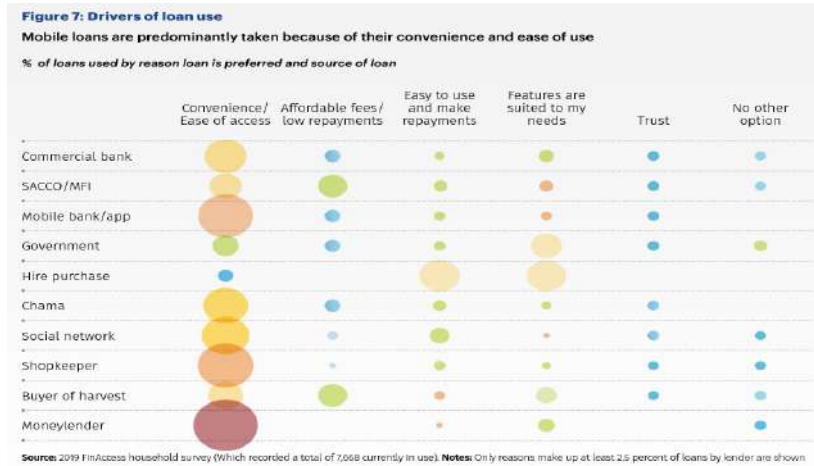
According to the 2021 FinAccess Survey, Kenyans need credit access both to meet their daily needs and also to meet future goals.



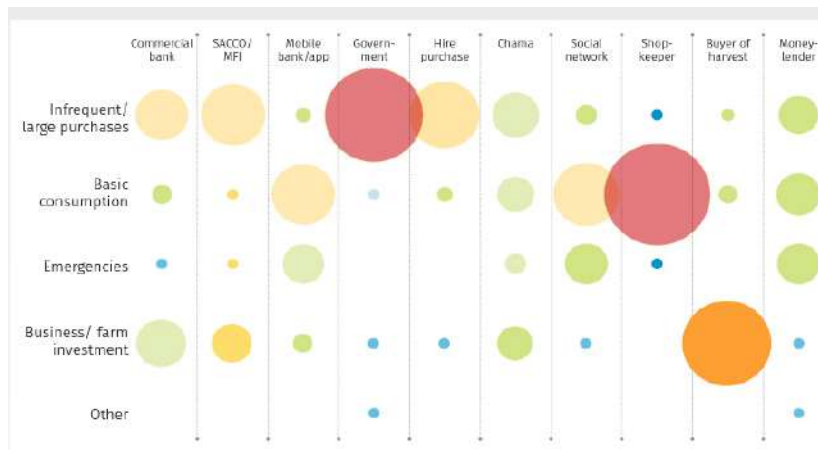
Source: 2021 FinAccess Survey

The FinAccess 2019 survey established that most loans are borrowed according to ease of access and to meet basic needs, buy infrequent or large purchases or for investment purposes.

**% of loans used by reason loan is preferred and source of loan**



**% of recent loans by use-case loan is used and lender (%)**



Source: 2019 FinAccess household survey

**Use of Loans**

From the same survey, mobile loans are predominantly used for household purchases and emergencies. Since mobile loans are more accessible whereas government or commercial bank or Sacco loans may not be so accessible, the Hustler Fund can be tailored to fill in this gap.

Having tackled the problem of accessibility to credit, we will now look at the problem of affordability.

## Existing Government Credit Funds

The Hustler Fund is so far perceived as an instrument to unlock markets in the economy and provide the wherewithal to trade. But there already exists three similar funds run by the government that are meant to provide affordable loans and grants, namely:

- Youth Enterprise Development Fund (YEDF)
- Women Enterprise Fund (WEF)
- The Uwezo Fund

These establishments disburse their funds to the youth, women and people with disabilities using various products and on different terms. They also have their specific areas of focus even though those tend to overlap so much so that there was a push in 2021 to merge the three funds into one – the Biashara Kenya Fund – which was declined by the National Assembly.

The third Medium Term Plan (MTP III) of Vision 2030 which comes to an end this year, under social pillar 4 targeted to have the:

- Uwezo Fund scaled up by KShs. 2.5 billion to cover an additional 500,000 beneficiaries by 2022.
- Women Enterprise Fund loan disbursement increased from a cumulative KShs. 10.4 billion to KShs. 25.7 billion targeting 2,157,653 beneficiaries by 2022
- Youth Enterprise Development Fund to disburse KShs. 20.7 billion and cover 454,000 youths by 2022.

So far the cumulative performance of these funds is as captured in the table below:

	Cumulative Disbursement	Women Groups	Youth Groups	PWD Groups	Women	Men	Total	Date of information
Uwezo Fund	7.1 billion	50,794	26,401	2,021	786,181	338,040	1,124,221	October 2022 information retrieved from the Uwezo Fund website
Women's Enterprise Fund	2.16 billion	120,624					1,883,252	2022 Auditor-General's report
Youth Enterprise Development Fund	6.91 billion	47,420	25,264	1,900				2022 Auditor-General's report

Source: 2022 Auditor-General Reports on the Funds and UWEZO Fund website

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## The Youth Enterprise Development Fund (YEDF)

This is the earliest of the funds established first as an initiative and then as a government institution in 2007 to alleviate youth unemployment. At the onset, the Fund was given an annual allocation of KShs. 1 billion which was then almost halved in the following year. The Youth Enterprise Development Fund faces serious issues in the management of its fund with the Auditor-General giving it an adverse opinion of its 2021 accounts presented to Parliament. The Auditor-General also complained that KShs. 1 billion went into staff remuneration and the Fund continued to accrue deficits for four years. Since the Fund is revolving by nature, its sustainability was called into question.

There have been changes to the board that could result in the proper administration of the Fund in future.

## Women Enterprise Fund

The Women Enterprise Fund followed shortly after the Youth Enterprise Development Fund and was founded in 2007 as a vehicle to cater mainly to women groups. Men can benefit from the Fund but only through predominantly women-owned or women-led institutions. The Fund has 3 main products; the CWES (Constituency Women Enterprise Scheme) loans, LPO (Local Purchase Order) financing product and lending to Saccos.

CWES loans worth over KShs. 3 billion were disbursed to about 11,000 self-help groups in 2021. The repayment rate on these loans stands at 98% and surpasses the annual target of the Fund. KShs. 11 million was disbursed to 11 clients and again the repayment rate is excellent and above target. KShs. 55 million was disbursed to six Saccos.

The Fund also engaged in capacity building and entrepreneurship training across the country and also supported activities in market access and linkages in addition to supporting an internship and training programme with various private sector players.

## The Uwezo Fund

The Uwezo Fund is a revolving fund launched in 2013 and has so far managed to cumulatively disburse about KShs. 7 billion. It caters to youth, women and people with disabilities in constituencies and is a flagship project of Vision 2030 with an annual government allocation of KShs. 5 billion.

According to the 2022 Auditor-General's report, since its inception, the Fund has disbursed loans to over one million beneficiaries on a women to men percentage ratio of 69:31. It has a 39% repayment rate since inception.

From the annual allocation given to the fund, a small percentage for administrative overheads and training funds is usually deducted and the balance is shared out to constituencies using a formula where 75% is equally distributed to constituencies and the remainder is disbursed using the poverty index for equalization.



The Uwezo loan has two main loan products:

Wezesha Loan for first-time borrowers		Endeleza Loan for repeat borrowers	
Loan amount	50,000/- to 100,000	Loan amount	150 to 200% of the initial loan but not more KShs. 500,000.
Eligibility	For youth groups- 70% youth (18-35 years), and leadership, 100% youth.  Women groups- 70% women, and leadership, 100% women  PWDs- 70% PWDs, and leadership, 100% PWDs.		Same as Wezesha
Repayment period	Within a period of 12 months upon the expiry of a six-month grace period.		Loan repayment commences after a 30-day grace period from the date of disbursement.  Repayment will be made in twelve (12), Eighteen (18) and twenty-four (24) equal instalments proportionate to the amounts lent.
Repayment terms	Monthly instalments		Monthly instalments

What is common amongst these funds is:

- They rely on commercial banks to disburse loans.
- Loans mainly target groups and enterprises.
- Auditor-General reports on the funds have highlighted issues of mismanagement. In May 2022, the Auditor-General gave a qualified opinion for both the Women Enterprise Fund and the Uwezo Fund, and an adverse opinion for the Youth Enterprise Development Fund for not complying with the requirements of the Public Finance and Management Act. This points to the need to have good internal controls in place to ensure funds are diverted as required.
- There is an appetite for these loans amongst the youth, women and persons with disabilities.
- Capacity Building and Training is an important aspect of the funds so that the borrowers have a modicum of financial management skills and other entrepreneurship skills.
- Repayment levels in some cases are very good depending on the controls put in place as in the case of the Women Enterprise Fund while in other cases can be very poor as shown by the Uwezo Fund.
- In some cases, some of the products may be grants.

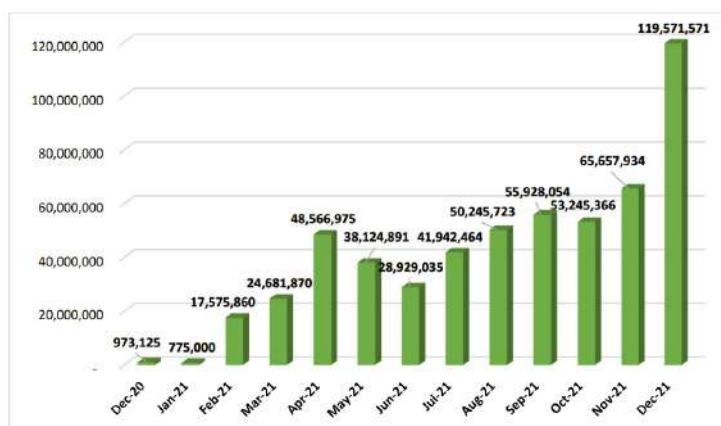
## Other Government Credit Facilities

In addition to catering to individuals and groups, the government has other schemes to give credit to MSMEs (Micro, Small and Medium-sized Enterprises) and SMEs (Small and Medium-sized Enterprises) in the manufacturing sector.

### Credit Guarantee Scheme (CGS)

The Credit Guarantee Scheme (CGS) was established in 2020 to enable MSMEs, which would otherwise be unable to raise the collateral for loans, to access credit from formal institutions. The scheme works with seven commercial banks in the country. By the end of 2021, 1,291 credit facilities amounting to KShs. 2.11 billion were advanced to MSMEs. Some 52% of the CGS beneficiaries were small enterprises; medium enterprises accounted for 25% of the beneficiaries; and marginalised groups including women, youth and persons living with disabilities accounted for 23% of the beneficiaries.

### CGS utilization by value (in KShs)



Source: National Treasury and Planning

In the FY 2022/2023 budget, the government made a KShs. 1 billion allocation to the CGS and another allocation of KShs. 626 million to the Kenya Industrial Estates for SMEs in manufacturing to access credit.

While there is an attempt to give affordable loans to vulnerable groups in society as well as MSMEs and SMEs in the country, it is clear that the reach is far from sufficient and continues to be limited to the confines of safety nets that ensure repayment. This locks out a huge number of deserving individuals who may not have the wherewithal to belong to groups and are unable to access the loans in an individual capacity.

# Credit by the Private Sector

## Commercial Banks

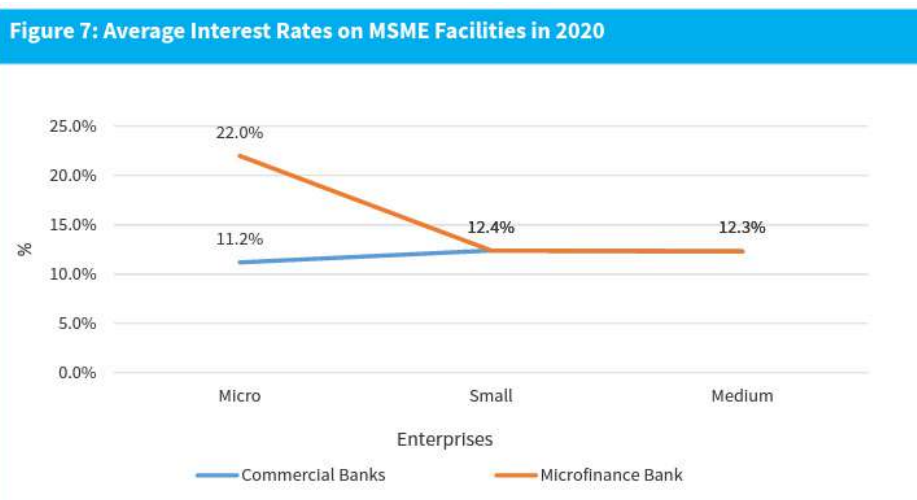
Due to inflation interest and a weakening shilling, interest rates by commercial banks are set to go up in the coming days after the Central Bank of Kenya increased its base lending rate from 7.0% percent to 8.25% in September 2022.

**Table 3: Interest rate (%)**

Month/Year	Average Yield Rates 91 – Days Treasury Bills	Central Bank Rate	Rates for Commercial Banks Loans and Advances (Weighted Average)	Overdraft Rates	Average Inter – Bank Deposit Rate	Bank Rates	Savings (Commercial Banks Rates)
<b>2021</b>							
January	6.92	7.00	12.00	11.43	6.31	5.12	2.73
February	6.90	7.00	12.02	11.52	6.46	4.49	3.35
March	7.03	7.00	12.05	11.61	6.46	5.23	3.48
April	7.10	7.00	12.08	11.65	6.30	5.12	2.66
May	7.15	7.00	12.06	11.57	6.30	4.62	2.55
June	7.03	7.00	12.02	11.18	6.37	4.63	2.55
July	6.64	7.00	12.09	11.44	6.34	4.17	2.51
August	6.57	7.00	12.12	11.38	6.30	3.10	2.64
September	6.83	7.00	12.10	11.34	6.34	4.73	2.57
October	6.95	7.00	12.12	11.33	6.39	5.30	2.58
November	7.10	7.00	12.15	11.41	6.43	4.97	2.60
December	7.26	7.00	12.16	11.45	6.50	5.02	2.55
<b>2022</b>							
January	7.32	7.00	12.12	11.57	6.53	4.36	2.55
February	7.28	7.00	12.17	11.63	6.61	4.73	2.56
March	7.25	7.00	12.15	11.50	6.50	4.72	2.48
April	7.39	7.00	12.20	11.69	6.58	4.67	2.56
May	7.65	7.50	12.22	11.76	6.59	4.60	2.52
June	7.90	7.50	12.27	11.86	6.62	5.06	2.50

Source: Central Bank of Kenya

A survey of MSMEs in 2020 by the Central Bank showed the interest rates at which MSMEs are availed credit by Bank and Microfinance institutions. From Figure 7 it can be seen that firms were accessing loans at around 12% in 2020 and that trend appears to have continued since, from the data on leading indicators.



Source: MSME Survey Data, 2020

Source: Central Bank, MSME Survey 2020

An analysis done by Cytonn this year shows the following interest rates across various banks in the country. The APR is a calculation introduced by the Kenya Bankers Association (KBA) in 2014 to allow one to calculate the cost of a loan and include all other associated costs of the loan. This allows users to compare the cost of credit across banks.

Assumptions made in calculating the data are that an individual has taken up a KShs 1 million 3-year personal secured loan or a KShs 1 million 3-year personal unsecured loan under the 'up-to 5 years category'.

## Personal Loans - Secured

	Bank	Annual Interest Rate	Other Charges	Annual Percentage Rate
1.	Middle East Bank	17%	5.9%	22.9%
2.	Guaranty Bank	13%	6.7%	19.7%
3	Kingdom Bank	16.0%	2.6%	18.6%
4	Family Bank	13.0%	4.3%	17.3%
5	Eco Bank	13.6%	3.3%	17.0%
6	Co-operative Bank	15.6%	0.9%	16.5%
6	SBM Bank	13.9%	2.6%	16.5%
8	KCB Bank	13.0%	3.3%	16.3%
9	Bank of Africa	13.5%	2.8%	16.3%
10	Development Bank	13.0%	3.1%	16.1%
11	Equity Bank	13.0%	3.1%	16.1%
12	Stanbic Bank	13.7%	2.2%	15.8%
13	Prime Bank	13.0%	2.7%	15.7%
13	Paramount Bank	13.0%	2.7%	15.7%
14	Diamond Trust Bank	13.0%	2.7%	15.7%
15	Mayfair Bank	13.0%	2.6%	15.6%
Top 5 Most expensive Banks		14.5%	4.6%	19.1%
Top 5 Cheapest Banks		12.3%	0.4%	12.6%
Top 15 Average		13.8%	3.2%	17.0%
*Period up to 1 year				

Source: Cytonn January 2022 Cost of Credit Report



## Personal Loans - Unsecured

	Bank	Annual Interest Rate	Other Charges	Annual Percentage Rate
1	Family Bank	13.0%	18.8%	31.8%
2	Kingdom Bank	13.0%	17.8%	30.8%
3	Middle East Bank	17.0%	5.9%	22.9%
4	Guaranty Trust Bank	13.0%	6.7%	19.7%
5	Sidian Bank*	13.0%	5.8%	18.8%
6	I&M Bank	18.0%	0.0%	18.0%
7	Standard Chartered Bank	14.0%	3.7%	17.7%
8	ABSA Bank	13.0%	4.3%	17.3%
9	Bank of Africa	14.5%	2.8%	17.3%
10	Eco Bank	13.6%	3.3%	17.0%
11	Prime Bank	13.0%	3.7%	16.7%
12	Equity Bank	13.0%	3.6%	16.6%
13	Co-operative Bank	13.0%	3.5%	16.5%
13	SBM Bank	13.9%	2.6%	16.5%
15	KCB Bank	13.0%	3.3%	16.3%
Top 5 Most expensive Banks		13.8%	11.0%	24.8%
Top 5 Cheapest Banks		13.0%	0.6%	13.6%
Top 15 Average		13.9%	5.7%	9.6%
*Period up to 1 year				

Source: Cytonn January 2022 Cost of Credit Report

It is clear from the data above that private sector credit continues to be expensive and given the conditions, one has to meet to get it, it is quite inaccessible to the ordinary mwananchi.

## Digital Credit

Digital credit can either be in the form of digital loans, overdraft facilities or mobile money.

## Digital Loans

Digital lending started early in the last decade with commercial banks working hand in hand with mobile network providers. However, startups started emerging with loan lending apps and have been incredibly successful.

Digital lenders have come under scrutiny after a public outcry, forcing the government to place them under regulation by the Central Bank of Kenya (CBK). Predatory lending habits, the use of excessive force in recovering loans and punitive measures locking people out of lending facilities altogether led to the call for regulation. Digital lenders are now required to comply with the CBK (Digital Credit Providers) Regulations 2022 and register with the regulator. Some 288 applications had been received by March 2022 and by September 2022 only 10 lenders had CBK approval.

Tala, a popular app currently has over 10 million downloads on Google Playstore. These apps are popular because of the ease of borrowing. The loan transfer is instant and only requires an ID.

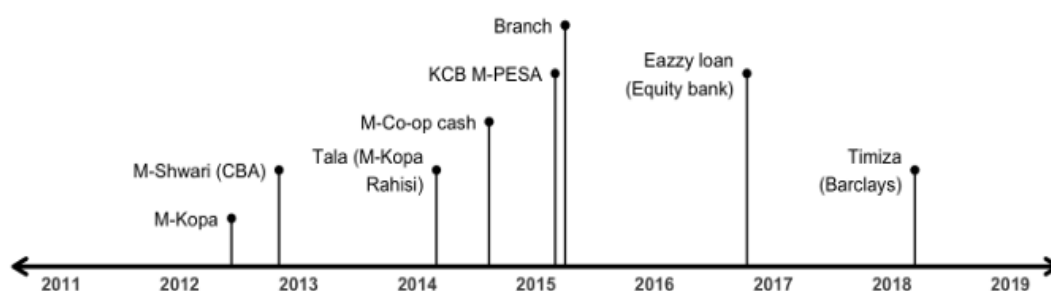
The difference between digital lenders and commercial banks is that digital lenders were not previously regulated by the Central Bank of Kenya and were not subject to an interest cap rate of 4% above the prevailing Central Bank reference rate.

M-Shwari is a product by Safaricom that allows users of M-PESA to borrow loans from KShs. 1,000 up to KShs. 1 million at an interest rate of 9% (1.5% being excise duty) and also save and earn interest of up to 6.3%. Users can also save and earn interest of up to 6.3%. M-Shwari disbursed loans worth KShs. 42 billion in the first half of 2022.

KCB M-PESA is similar to M-Shwari but differs in the interest rate on the loans at 8.64% (with 1.29% being excise duty). Users can also save for a fixed period and earn interest of up to 7% p.a.

## Digital lenders on the rise: a timeline

Fig 1.1: Digital loan products by launch date



Source: FSD Report

## Mobile Money

Mobile money refers to the use of mobile wallets by MNOs (Mobile Network Operators) to make payments, transfer money and even save. A countrywide network of agents has to exist to enable the withdrawal and payment of money. According to a 2021 report by FinAccess, mobile money was the most used financial platform at 81% followed by banking institutions and then informal groups. Mobile money penetration grew from 68% in 2021 to 73.8% by March 2022 according to the Communications Authority of Kenya (CA)

As can be seen in the following data, there is a robust network in Kenya with very good performance in value. Their number of registered mobile money accounts is also quite good pointing to the extensive use of mobile money in Kenya.

## Mobile Payments

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Year	Month	Active Agents	Total Registered Mobile Money Accounts (Millions)	Total Agent Cash in Cash Out (Volume Million)	Total Agent Cash in Cash Out (Value KSh billions)
2022	August	310450	70.06	184.81	677.36
2022	July	309856	71.58	194.77	722.52
2022	June	304693	70.33	186.2	665.09
2022	May	305830	70.03	192.95	692.62
2022	April	295237	68.72	188.24	663.53
2022	March	302837	68.62	195.82	664.31
2022	February	301108	67.94	171.39	568.71
2022	January	299860	68.28	181.85	585.82
2021	December	298272	68.03	189.8	622.14
2021	November	299053	67.15	185.98	600.97

Source: Central Bank of Kenya

M-PESA, Airtel Money and Tcash are money transfer services offered by the three main MNOs: Safaricom, Airtel and Telkom.

The figures for transactions on their platforms according to a report in March this year stand as shown in the following table:

	M-PESA	Airtel Money	Tcash
Value of C2B	1.38 trillion	1.66 billion	86.3 million
Value of B2C	919 billion	396 million	148 million
Value of B2B	2.2 trillion		
Value of G2C	882 million		
Value of C2G	13 billion	14 million	61K
Volume of P2P	1.0 billion	805K	637K
Value of P2P	1.1 trillion	513 million	169 million

Source: Communications Authority of Kenya

## Mobile Money Overdraft Facilities

Fuliza is a product of Safaricom that is akin to an overdraft facility for M-PESA. Clients are charged a 1% access fee, and a daily maintenance fee and have to pay a 20% excise duty. KShs. 288 billion was disbursed on Fuliza from January to June 2022. It is important to note that the facility is underwritten by two commercial banks in Kenya. In September this year, the President signed an agreement with Safaricom to lower the cost of Fuliza loans which brought down the charges to the 1% daily access fee.

## Kenya Kwanza Manifesto

The Kenya Kwanza Alliance Manifesto which was launched on 30th June 2022 makes extensive mention of the Hustler Fund and gives clarity on the initial conception of the Fund. The manifesto has five core pillars; Agriculture; MSME economy; Housing and Settlement; Healthcare; Digital superhighway and creative economy.

During the launch of the manifesto, the President cited a 2016 KNBS report which stated that only 19 million Kenyans are employed currently; out of which three million (15%) are in formal jobs while the other 16 million (85%) work in Micro, Small and Medium-sized Enterprises. In the manifesto, the following mention is made of the Hustler Fund.

Kenya Kwanza Pillars	Sub-categories under which the Hustler Fund is mentioned	Mentions
Agriculture		
Micro, Small and Medium-sized Enterprises (MSME) economy		
Housing and Settlement		
Healthcare	NHIF Enrollment	Leverage on the Hustler Fund and farmer organisation initiatives to set up occupational schemes for trades such as boda boda and market women Saccos;
Digital Superhighway and Creative Economy	Music	Entrepreneurship: To ensure players can turn talents into business, free investment and basic training skills leveraging on the Hustler Fund.
		It also comes in handy in minimising barriers to entry for new financial providers that are critical in downscaling access to the Hustler Fund via a government risk mitigation mechanism through the provision of an Enterprise Resource Planning (ERP) system for all participants.
Other	Infrastructure	E-Mobility: Leverage the financial support that will be provided to the boda boda sector, through the Hustler Fund, to develop the nascent electrical vehicle (EV) and motorcycle assembly industry.
	Electricity	Leverage the financial support that will be provided to the boda boda sector through the Hustler Fund to develop the nascent EV motorcycle assembly industry.
	Service Economy	Leverage Kenya's well-advanced Sacco system to develop a tier three financial system that will facilitate disbursement of affordable credit through the Hustler Fund to cushion those affected by the current predatory lending interest rates e.g. market traders, boda boda.



	Women Agenda	Provide financial and capacity-building support for women through the Hustler Fund for women-led co-operative societies, <i>chamas</i> , merry-go-rounds and table banking initiatives and protect them from predatory interest rates charged by unscrupulous money lenders;
	Social Protection	Ring fence adequate percentage of the Hustler Fund for PWDs.

In addition to the manifesto, the following can be surmised from statements by the President on what the Fund is meant to be and to do. To bridge the gap between high interest rates on loans and accessibility.

## The Hustler Fund

The Hustler Fund distinguishes itself from the other Government Credit Funds in that; it is conceived to be a digital product that enables easy access to credit, in addition to offering savings and pension facilities. It is meant to offer affordable loans at single-digit interest rates. Personal Loans, Micro Loans, SME Loans, and Start Up loans are some of the products that will be offered under the fund.

Known aspects of the Hustler Fund credit and savings product include:

- Credit products will be available to small businesses on digital platforms at affordable rates to individuals and through *chamas*, groups, Saccos and cooperatives.
- All borrowers on this platform will also participate in a short-term savings plan and long-term pension programme. Every saving made by borrowers on this platform will be matched by the Government of Kenya on a 2:1 ratio to a level to be determined by the programme.
- Interest rate is at 8% per annum and will be pro-rated.
- The lowest amount one can borrow is Kshs. 500 and the highest is Kshs 50,000/-
- Fintechs such as Safaricom and other digital lenders will earn commissions to disburse loans from the Fund.
- The President intends to encourage a savings culture amongst Kenyans so that they are not at the mercy of shylocks. The President wants to increase savings from the current 9-10 percent of GDP to 20-25% of GDP.
- It targets youth from 18 - 35 years of age
- The Fund will be functional by 1st December 2022.

Given this information, it is clear that the Hustler Fund will benefit from disbursement by digital platforms.

## Legal and Regulatory Framework for the Fund

On 11th November 2022, the Treasury published the draft The Public Finance Management (Financial Inclusion Fund) Regulations, 2022 which will govern the administration of 'The Hustler Fund' for public comment and participation. According to the regulations, the fund will be known as the Financial Inclusion Fund and 'has been established to innovate, develop and deploy bottom of the pyramid financial services and products that are affordable, accessible and appropriate for the unserved and underserved persons, including credit, saving, insurance and investment products.'

The regulations cover the establishment of the fund, the institutional framework and outlines how it is to be administered.

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## The regulations name the 5 Sources of the fund as follows:

monies appropriated by the National Assembly for the purposes of the Fund; The maximum capital of the Fund to be appropriated by the National Assembly shall be 50 billion shillings.

- income generated from the proceeds of the Fund in form of interest and other charges such as penalties;
- income from investments made by the Fund;
- Grants, donations, bequests or other gifts made to the Fund; and
- monies from any other source approved by the Cabinet Secretary.

## Products and Services

The fund has been established to offer the following products and services:

promote financial inclusion through expanding access to credit by persons, proprietors, micro, small and medium enterprises, chamas, table banking groups, groups, SACCO societies, associations and start-ups for economic growth and job creation;

address the qualitative dimension of financial inclusion, in particular responsible lending and borrowing, ethical practices, consumer rights and financial literacy;

strengthen the financial and operational capacity of informal sector membership based financial institutions including SACCO societies, Chamas, table banking groups, banks and micro-finance institutions;

promote market interventions to improve supply of affordable credit to micro, small and medium sized enterprises (MSMEs) including creditworthiness-based lending, risk pricing, business and financial management skills, and cost of doing business;

address the low participation of the non-formal wage workforce, namely informal sector entrepreneurs and for workers, smallholder farmers, pastoralists, fisherfolk and other self-employed in health insurance and retirement benefit schemes, for the purpose of achieving universal health coverage (UHC) and universal social security; and

provide for government counterpart funding for the savings for borrowers, who shall be natural persons, of the Fund

## Eligibility to receive funds

According to the regulations, applicants who are natural persons have to be:

1. is eighteen years of age and above;
2. be a holder of a Kenyan national identification card; and
3. fulfils any other conditions as maybe determined by the Board.
4. In the case of institutions such as a micro, small and medium enterprise, SACCO societies, chama, group, table banking group or any other association,
5. has all members who are eighteen years of age and above;
6. is registered by the relevant government institution; and
7. meets any other conditions as may be determined by the Board.

Financial intermediaries may apply for a loan from the Fund for on-lending to a business person or micro, small and medium enterprises. They may also enter into a lending agreement with the Fund under regulation 17 to provide matching funds of at least the amount as may be determined by the Board.

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## Delivery of products and services

The Fund shall leverage on existing commercial infrastructure, including mobile payments platforms and financial institutions, including agency, co-financing and on-lending partnerships: Provided that such partnerships are not exclusive or preferential, are technology neutral and do not confer market advantage to any partners over competitors.

## Administration of the Fund

The regulations outline the roles of the cabinet secretary, advisory board, the board and the CEO and the secretariat of the fund. The CEO is designated the administrator of the fund.

They also state how the administration of the fund is to be carried out in terms of administration costs, bank accounts, investment of funds, offences and penalties for misappropriation of the fund etc

In addition to the regulations, the Central Bank of Kenya has published a credit information sharing framework update and requested all CRBs to display prominently on credit reports the Banking (Credit Reference Bureau) Regulations 2020 statement that “a customer’s credit score should not be used as the sole reason by a lender to deny a customer a loan.” The Credit information sharing framework was first published in 2010.

CBK has also said that they are working on a risk-based credit pricing which will encourage banks and other financial institutions to use other factors other than one’s CRB report to make decisions on whether to lend money to a borrower or not.

In addition, a temporary credit repair framework which will run until May 2023 has been rolled out for financial institutions to allow digital borrowers with non-performing loans to improve their CRB standing and credit worthiness so that they can access credit from financial institutions. This measure is an effort to mitigate the effects of Covid 19 pandemic which saw many borrowers unable to pay their loans and could potential affect those who could potentially benefit from the Financial Inclusion Fund.

## Opportunities in Implementing the Hustler Fund

- Formal financial solution providers need to smell the coffee and treat the Hustler Fund as a formidable potential competitor. As proposed, the Fund will most likely occasion churn for the providers, particularly at the MSME level.
- Banks and other digital lenders will have to compete with the government to ensure they remain competitive with the Hustler Fund’s low-interest rates and technology-based delivery channel. They will need to develop “Fighter Brands” to compete with the product and maintain their edge.
- Private sector and other development finance players have an opportunity to partner with the fund in its operations. The fund is structured to leverage existing commercial infrastructure, including mobile payments platforms and financial institutions, including agency, co-financing and on-lending partnerships. The fund will engage in such partnerships provided they are non-exclusive and not preferential, are technology neutral and do not confer market advantage to any partners over competitors.
- Development of mobile-based Apps to disburse the loans should be considered.
- Development and adoption of eKYC (electronic Know Your Customer) protocols based on Sacco laws should also be considered.

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