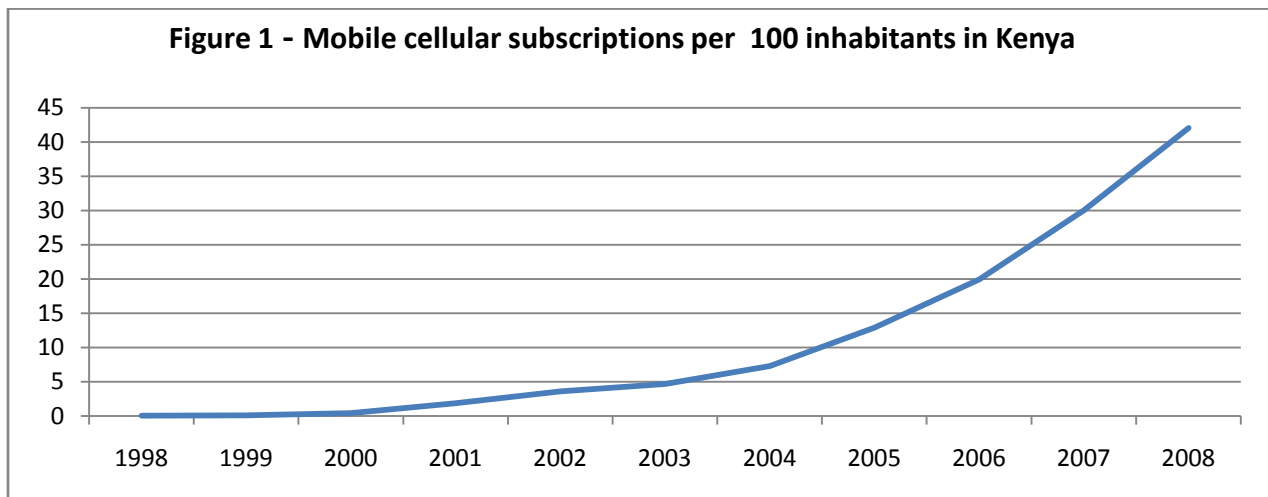


Kenya: Does the *New Kenyan Economy* Generate Shared Growth?

Innovation in information and communications technology (ICT) and the stratospheric growth in access are transforming the Kenyan economy. Cell phone access grew by a factor of 10 between 2003 and 2008, reaching 42 subscriptions per 100 Kenyans (see figure) which translates into a penetration rate of 77 percent for those 15 years and above (see Kenya Economic Update (December 2009)). The country is poised for a similar explosion in Internet usage due to two factors: 1) the recent connection of Kenya through fiber optic cables in the Indian Ocean, which is expected to cause a large decline in access costs, and 2) the decline in the cost of cheap laptops. The growth in mobile usage has been paired with the introduction of M-PESA and Zap, mobile-based money transfer systems. The first of these, M-PESA was introduced in 2007 as a spinoff of an entry in a DFID-sponsored innovation contest. M-PESA is now the largest mobile money transfer service globally with an estimated 9 million subscribers. It is used for transactions ranging from remittances to payment of utility bills.



Source: International Telecommunication Union database

The World Bank Kenya PREM team is undertaking a Kenya Innovation Monitoring Program, which consists of a variety of work to analyze and harness the tools of the New Kenyan Economy. Under the DFSG grant, the team proposes to undertake two specific tasks which part of this broader program. Specifically, the tasks are the following 1) use M-PESA data to profile the New Kenyan Economy, and 2) assess the impact of M-PESA and Zap on financial access for the poor.

1) Using M-PESA Data to Profile the New Kenyan Economy

M-PESA is by far the larger of the two transfer systems. The World Bank will work with Safaricom, the company which operates M-PESA, to analyze transaction data. This data will be used to construct a profile of transactions taking place by location, volume of transaction, and type of transaction. The location data will also be matched to a poverty map produced by the World Bank in collaboration with the Kenya Bureau of National Statistics, using the 2008 national population census. The combination of the poverty map and the M-PESA information will shed light on the extent to which M-PESA serves as a tool in poor areas.

This work will be carried out by World Bank staff in collaboration with two consultants who will undertake the data analysis. The primary output will be a working paper.

2) The Role of M-PESA and Zap in Expanding Access to Finance for the Poor

Although the major role of M-PESA and Zap in the Kenyan economy is evident from their ubiquity and discussions in the media, no hard information on their reach and impact exists. The World Bank conducted detailed surveys on access to finance in 2006 and 2009, which are perfectly timed to capture the changes that have taken place with M-PESA and Zap. These surveys will be used to 1) examine to what extent M-PESA and Zap are used by the poor, and 2) analyze whether M-PESA creates broader access to financial instruments, using a propensity score matching approach to compare M-PESA users with similar non-users. This work will be carried out by World Bank staff in collaboration with a consultant who will undertake the data analysis. The primary output will be a working paper.

Report and Dissemination

High priority will be given to dissemination of the results of the two papers. The findings from the papers will be synthesized into a short, user-friendly report, which will be printed and distributed to government, media, and civil society in Kenya. A media strategy will be developed to ensure that the analysis is disseminated via a public event, media interviews, and Internet.

Below are details related to the DFSG criteria:

1. Consistency with DFSG objectives:

The objective of the proposed work is to understand the New Kenya Economy that has been unleashed by the information and communications technology revolution and in particular its impact on the poor. This fits squarely with the DFSG focus on innovation. The project aims to understand whether the economic impact of the ICT revolution has been shared by the poor. These results will also be of particular interest to other development countries, especially in Africa, where mobile communication, “mobile money” and internet usage are expected to rise exponentially as well.

2. Technical soundness and originality:

The methodology for the M-PESA analysis will use simple descriptive analysis, combined with established poverty mapping techniques. The financial access to the poor analysis will use descriptive analysis combined with established propensity score matching methods. The data used for the two sets of analyses will include the M-PESA data, the access to finance survey data, 2008 census data, and data from the Kenya Integrated Household Budget Survey (KIHBS). The analysis will be essentially micro-based, although new aggregate information will be produced with the M-PESA data. The Bank has received agreement from Safaricom to use M-PESA data.

3. Relevance to country priorities:

Understanding the New Kenyan Economy is a strong interest of the government. Components of the Kenyan Innovation Monitoring Program are described in the draft Country Partnership Strategy which is currently under discussion. The analysis will contribute to the policy discussion with the government on social safety net provision as well as taxation and regulation of the ICT sector.

4. Knowledge sharing, dissemination and capacity building plan:

The poverty mapping work will be conducted jointly with the Kenya National Bureau of Statistics. The other work will be conducted jointly by Bank staff and consultants. Local consultants will be hired if possible. The broader Kenyan Innovation Monitoring Program is under discussion with development partners. The dissemination plan is described above.

5. Client and donor engagement:

The broader Kenyan Innovation Monitoring Program is under discussion with development partners. Likewise, as this work goes forward, it will be discussed with counterparts in government.