

John Staley: Keynote Address - Insights on How the Poor Spend Money

Good morning everybody.

It's a real privilege to be here and glad to be talking to you about issues, which are very close to my heart. Just some background on myself, I started off this journey of development in South Africa where I got involved in Micro Credit, back in the late 90's. That was by default but sort of realized that this was quite exciting about how we could actually change people's lives. I come from a family, my father was involved in development work so it was sort of in the blood but I didn't like what was happening in South Africa. We were going through an explosion of consumer credit and the frightening thing is I'm seeing the exact same signs in Kenya right now. We are going through an explosion of consumer credit and with what's happening in the market and I'll cover a little bit of that later, which is frightening. It brought down two banks in South Africa.

I was looking for more sustainable models in the early 2000 and met a person called James Mwangi. I was running an institution in South Africa, which had 120 branches, we were employing over 1,200 people, and we were the biggest unsecured lender in South Africa. James had 14 branches. We, in our naivety, we were both in our 30's said, come and let's do a management buyout of this thing in South Africa, that didn't work. I came and joined James up in Kenya in 2003. When I joined Equity we had 14 branches, about 200,000 customers. We were bank 66 in this market. In the space of, from 2003 till today we've gone from bank 66 to bank one. We've overtaken Barclays, Standard Chartered, Citi, Co-op, and although we are neck a neck with KCB at the moment - I think you might see the latest results coming out, we are now the biggest financial institution in East and Central Africa. We've got in six countries so it's been a fascinating journey, to go from 200,000 customers to over 10 million customers, and that's been on the back of technology.

I think it's worth stepping back because, for all of us involved in this development space, I think sometimes it's just worth having a little step back. We've got certain things happening in this world, which are having a phenomenal effect on poor people. And they are not micro-economic factors, they are macro economic factors. Some of the stuff I will say I know will be controversial but I think it's best to address the issues that are controversial. First, there is a big ugly thing called capitalism. Now what does capitalism do? Capitalism rewards people with capital. What do poor people not have? Capital. There is some interesting reading out there at the moment, it's called [21st Century Capitalism](#), and there is a whole bunch of articles on it. But what is it doing? People with capital want a 25% return. Poor people live in the real economy where they are lucky to get an inflationary increase, so they getting a 5% return. These people are getting 25%, so what happens? These people get less and less and these people get more and more. That is a direct consequence of capitalism. If we have a look at what that's done, [Oxfam](#) published some really interesting numbers. In 2011, there

were 300 people that owned as much as the bottom 50%. Do you know what that is now? Eight people! Eight people in this world own as much as the bottom 50%. That is frightening, that is very frightening. Yeah we had things like quantitative easing. What is quantitative easing doing? America printing money that increases asset prices. What do poor people not have? Assets.

All of those of us who own an asset have a warm fuzzy feeling by having assets worth so much money - you know in Kenya, 80% of the population does not own land. How do they feel? 80% of Kenya's population can't afford a million shilling (KSH) mortgage. What can you buy for a million shillings? I'll ask some of the Kenyans in this room. You don't buy much for a million shillings. So 80% of this population is excluded from buying assets and these are global forces. You've got another frightening one where democracy, this fine thing called democracy, is actually linked to wealth. You have to have a lot of money to win the presidential election, as we have just seen in America, as we're witnessing here, you have to be wealthy. What do the democratically elected people do? They support the system that exists, so it's frightening. When you are looking at it from our point of view as a bank trying to help the poor, as you looking at it from your point of view, trying to help the poor from agriculture, so yeah, those are the global forces. What's happening in Kenya? Well I think we all know what's happening in Kenya. We're going through some interesting times. We've had bank failures, we've had interest rate capping, and we've got an explosion in micro credit as I've said. We've got an explosion in betting. There are now 47 betting companies in Kenya.

Do you know what that does to poor people? The effects are fairly horrendous. So, just moving on then that's the Kenyan situation. Let's have a look at this whole thing of how we've been trying to help the poor, and I will get on to the numbers, Sophie, I promise, and they are available. I'll share all the details with you because there are a lot of numbers available and I'll give you that all at the end because it's readily accessible data. Yeah, I'll give you the details. If we have a look at the journey of financial inclusion because we've all been - a lot of us have said, we know if we're going to change poor people's lives they have to be financially included. We have done various things to get financial inclusion right. [unclear] in credit, micro credits in Bangladesh. We thought that was a solution. We tried rolling out that model globally, it didn't really work anywhere else. There were little glimmers of it. Then, we in the development space, in the financial inclusion space said it's not about credit, it's about finance. It's more about savings as well, so we have the whole micro finance boom and Equity came out of that. We were one of the most successful in that space. But people were saying this is not really moving the needle after much money, we only had 150 million people in micro finance. So we're saying "what next"? And a lot of us were realizing it was about payments.

What happened? We got Safaricom and [M-PESA](#). We were hugely excited about this, payments, we're getting payments right. And there was a lot of emphasis put on payments. Well you know, I know, we all know, M-PESA's only really worked

in Kenya. If you cross the border in Uganda, you cross the border in Rwanda, it hasn't really worked to the same scale. We've been grasping at these straws. Now, if you ask anybody in the financial inclusion space, what country do you want to be like? They all want to be Kenya, because Kenya has got everything. We have got M-PESA, We have got Equity bank, and this is wonderful. We've got all we need, and yes we have. I can send money to anybody in Kenya, you all know that. I can pay anybody in Kenya with M-PESA. Everybody is financially included, but now let's just dig a little bit deeper, is this really what we want? So [Billy Jack and Tavneet Suri](#) who are from Georgetown University and from MIT have just published a great piece of work on what has M-PESA done over the last few years. It's readily available. They have said roughly 189,000 people have moved out of poverty thanks to M-PESA. That's great, 189,000 people. But let's have a look over that same period, how many people have moved backwards in Kenya. Also readily available information, look at World Bank reports, there is a government report on how people live in Kenya. In the same period that 200,000 people have moved out of poverty thanks to financial inclusion, the global forces that are mentioned at the start have pushed five percent of the population back into poverty.

The number of people living in one room in Kenya, this is households living in one room, has gone from 48% to 53% in that same period. The number of people living on under \$100 a day has increased from 44% to 48%. We've got this tide that's pushing people further and further into poverty, while we're thinking financial inclusion is going to help. I'm incredibly disillusioned about financial inclusion, and it is a hygiene factor and the sooner we realize that it is a hygiene factor, to enable people like yourselves to do what you want to do. Sophie needs digital payments to make the [EasyDry] M500 work. Sophie needs credit to make the [EasyDry] M500 work. Sophie needs access to information to train people, to educate people in order to do that stuff. Those are hygiene factors. We've been focusing on them too much as the things that will change people's lives. The whole time that I've been at Equity Bank, and we've banked 10 million people - I was chatting to James the other day and he said, "John I can probably count in my hands and my feet how many people have really been transformed by financial services". We've done more in our foundation in five years than we have done in the bank. The foundation has been around for six years. We've changed more people's lives through education, through agriculture, through health than we have through financial inclusion. I shouldn't be saying this to you, as a banker I should be supporting what we do, but I don't think we have done a great job up until now and I think we need to do a lot more and get these things just to work.

To get on to how have we got to where we have as a bank? We've analyzed data, we have spent a lot of time looking at data. When we started off we worked with a company called Micro-Save and we were going to do focus groups and we have spent millions of dollars, luckily a lot of it from donors doing work on trying to understand how poor people actually work. Some of the interesting stuff and this is what I think Sophie was wanting me to get on to is, I'll just go through

some of the reports we have worked on. So we were very fortunate in 2010 to be elected to work on a project called [GAFIS](#), which was all about how we could use savings to enhance poor peoples lives. We worked with some of the biggest banks in the world, [ICICI](#) in India, [Standard Bank in South Africa](#), [BANSEFI](#) in Mexico, so we were working with some of the biggest banks. Part of that project, we did what was called [financial diaries](#). For those of you who are interested there is a great book called [Portfolios Of The Poor](#) written by Daryl Collins and Stuart Rutherford on financial diaries. To me having worked in this space has probably been some of the most groundbreaking work we've done because it really gets down to the nitty gritty of how poor people live.

The financial diaries, you go and you map every single transaction that a household does. Part of the GAFIS project we did two things; we went and we mapped households' movement of money and we went and mapped businesses movement of money, and we started to get really interesting results. When you have a look at businesses, we are trading in this world where we have got M-PESA and we have got Equity bank, the average transaction size over M-PESA is round about KShs. 2,700. Unfortunately even with *Lipa na M-PESA* and everything it's not going down, it's coming up. Even our financial products, we are transacting bigger amounts over the digital channel – our average is KShs. 4,000. We wanted to understand, it was a cash-lack project, we went with [Financial Sector Deepening Trust](#) here in Kenya, we went to a company called [BFA \(Bankable Frontiers Associates\)](#) and [Digital Divide](#) and we said, let's go and map these businesses. 88% of all transactions that were transacted where the people we wanted to reach, you know, the bottom 70% of this population is KShs. 500. 88% of transactions are less than KShs. 500; we're digitizing from KShs. 3,000 up, poor people are transacting from KShs. 500 down. Are we surprised that in those economies, 98.8% of transactions still happen in cash.

Now this was pre *Lipa na M-PESA* and I'm excited about what we can do with *Lipa na M-PESA*, and I'll share a little bit of that later on when we get on to the future of where this is all going. But that is the harsh realities. We can't ... up until now there's been no way to digitally do transactions less than Kshs500. Now we said, well, let's go and look at households. We selected 300 families from around the country and we went and did these financial diaries and all of this information is available on the FSD Kenya, Financial Sector Deepening Trust Kenya website. If you search [financial diaries](#), you'll get all of the information. The lady who has done most of the research, and she should be probably be talking here rather than me, is a lady called [Julie Zollmann](#) who has, she eats, lives, sleeps this stuff. Go and read Julie's work, it's superb. She spent a lot of time understanding it.

What did we learn about small households? Not surprisingly, 85% of their transactions are less than KShs. 500. Now poor people transact more than you and I, because when a poor person...once a month we go to, and I'm speaking for hopefully quite a few of us, once a month or once a week you go and do your

grocery shopping at Nakumatt. You then might buy bread and milk for the rest of the week. Poor people don't do that. Poor people will buy the starch for their meal, they'll even go as far, people buy capfuls of paraffin to cook their food. We are not talking bottles of paraffin, they buy capfuls. That is the economy these people are trading in. That's the economy we're talking about. They will go and spend three lots for a meal, you and I fill up a car once or as much money as we can, we drive it until it runs out until we fill up again. Poor people pay every time they catch, they want to move everywhere. If you just look at transport, the harsh realities of transport, I like running to work and often I will run through Kibera because I think if you're going to understand the people you're working with, you must live with the people you're trying to reach. I run through Kibera. You know what, come rain, sunshine, I see hundreds of thousands of people walking to work. They woke up in the morning and they made a decision, have I got KShs. 50? Not have I got KShs. 500, have I got KShs. 50? From what I can see a lot of them said "No", and they walked. There was a group who said, "Yes. I've got KShs. 50," but a lot of them still walk to work because they said, "I would prefer to buy my kid a "*mandazi*" for five or ten shillings rather than, they walked. We're talking of an economy where people do not have KShs. 50.

What is the median? The median household expenses, KShs. 7,200. That is how the majority of this population is living. I went out last night for a demo in Karen with business partners, we spent KShs. 15,000 on one meal. Poor families are living for a whole month on KShs. 7,000 and this is not a small section of the population, this is the majority of the population. Do we wonder, how are we going to sell a dryer? That's the last thing on your list. So if we then go and look, well, how do these people actually spend their money? You and I know, it's not complicated. Of the households we dealt with, 48% was spent on food. How is this drought affecting that 48%? They are going to be spending a lot more of that and from the financial diaries point of view, what you'll realize, poor people have less coming in than they have going out. Simple. They won't be poor if they had more coming in than going out. Poor people are continually searching for liquidity. We call it liquidity farming at equity bank, they're running around looking for liquidity and they have a whole scope of liquidity providers. Going from family and friends, we all know that and you can see all the data, I could have bored you with numbers for the end but afterward I can share all of that with you, where you could get it. Family and friends comes top. The shopkeeper comes next. Saccos, [unclear] come next. Banks come way down the line, you heard Sophie say, they don't want to go to banks. You know what, the *Mshwari*'s come even further down the line.

I've mentioned credit a few times. We are sitting on a time bomb. Do you know what the average cost of these loans are? *Mshwari*, Tala, Branch? Just go and speak to your staff who've taken one. They are charging in effect over 100% per annum. Would any of you sitting in this room borrow at 100% per annum? Why are we telling poor people to borrow at 100% per annum? Yes, it might be a short-term cash flow need, we know they have those, but why are we seeing

poor people borrow at 100%? It's just iniquitous.

There are other examples and I can give you all the numbers, we know the data. We're starting to do it as a bank on our Equitel loan. Makes me deeply uncomfortable because I don't think it's right. I don't think it's morally justifiable to charge these amounts. Get back to what they are spending on: 48% on food; and housing is obviously a big one, 8%. The encouraging thing about Kenya is 11% is on education. 4% is on energy and I know you'll hear from *Mkopa* later, they're looking at that whole space, I have some serious reservations there as well because they have high distribution costs therefore the cost of their product is quite high so we need to look at the whole distribution factor. 2% is on communication, so let me just focus on that 2% for a little while because a lot of you sitting in this room were all very excited about smart phones. Smart phones are going to change poor people's lives. Do you know how much poor people spend? That 2% equates to about \$1 - \$1.20, and you know what, they buy it in increments of KShs. 20. Safaricom's biggest selling scratch card a while back was KShs. 20. You know they've got credit products where you can get a loan to buy airtime of 50 bob or 20 bob. People are buying KShs. 20 of airtime, or how much data do you get for KShs. 20? How much data do you get, you know, for a dollar? You don't get much. For those of us who are expecting the smartphones to change people's lives, it's a long way away. It's going to take a long time for the price of 4G, 5G to come down to affordable prices but I will speak about that just now about where this is all going. But that is a false assumption, so I use my gardener as an example. Paul is, hopefully in the top 25% of his market; I try and pay them well. Paul has a very expensive smartphone, smarter than my own as my children tell me all the time. I can only reach Paul on WhatsApp when he is on my compound because that's when he uses Wi-Fi. As soon as he leaves the gate he's back on SMS - and he is on the top 25%. That's been fascinating for us as a bank because we were meant to be the MFI, the Micro Finance Institution that was reaching poor people. We aren't even scratching the surface. When I can't be daily relevant to my customer's life, I'm not even scratching the surface.

Where do I think this whole thing is going, and where do we as a bank think this whole thing is going and what have we done? You all know, drive around Kenya you see a lot of Equity bank agents. It's been a huge success. We're doing over 70% of all of our cash in and cash out transactions at banking agents. Do you know what our average cash in and cash out is at our banking agents? Average withdrawal is about KShs. 6,000. Average deposit is about KShs. 8,000. Do you think we're reaching the poor who are spending KShs. 8,000 in a whole month? We're not - we're tapping the top-end. That money is moving and that's the money we're tapping, we're not getting to the bottom end of the market, and we are doing the best, go and have a look. When we started off, there were only M-PESA agents. Go and have a look ... if you have an M-PESA agent, and our agents are more cash flow positive than M-PESA agents so we need less. So we have done a great job.

We realized it was all about communication, so we roll out an [MVNO](#), it's the fastest growing MVNO in the world. But we're operating in an environment where Safaricom controls 92% of revenue. In most jurisdictions in the world if a Telco gets to 25% there is a problem. Safaricom controls 92% so I better not say anymore than that because I'll get into trouble but we have a problem in this country. Why did a bank have to become a Telco? Because we needed affordable access to a channel. We needed affordable access to USSD, which is the channel that poor people use. In Kenya, we've got banking apps. Most of you sitting in this room will have a banking app from NIC, Equity or somebody. You know what, 90% of all of our transactions still happen on the USSD channel, you know *247* whatever, that's how our transactions happen, because poor people don't have smartphones.

So, that's the doom in gloom, what does the future look like? I think we have been, as I said focusing too much on financial inclusion. I've probably spent more of my last three, four years at Equity Bank working with the Foundation, working on agriculture, working on health, working on education. Why are we moving onto that? Because we've now got payments and the two hygiene factors I think we all need in this room, I think what we need to change Africa, two hygiene factors. One is payments, electronic payments. I've given you the problem. We have to go from KShs. 3,000 to KShs. 100, but let me tell you, there's exciting stuff happening in the payments space. *Lipa na M-PESA* is fantastic. To be able to do a transaction and we hear, rumor has it they are going to move it to KShs. 500 very shortly, that's where the poor people trade. They'll be able to trade for free electronically. That will make a difference.

Visa and MasterCard are rolling out two fantastic products which you'll see hitting the market. I saw it on a billboard for EcoBank, we'll be rolling it out, it's called [mVisa](#) and [MasterPass](#). You know what, they're going to be doing low value transactions at affordable prices. Up until now Visa and MasterCard had a minimum of \$0.05 per transaction. If a person is transacting at \$1 and you paying \$0.05 to transact, 5%, it's not going to work. Please turn down, it's not official yet, they are going to review their pricing because they are serious about getting involved in financial inclusion. I believe payments are sorted. That should make all of you excited because you can now start doing the stuff you've been dreaming about doing. How do we make farmers be able to pay for these things? You can't do it in cash, it has to happen electronically.

The other thing we need is connectivity. Go and look in today's paper, it says, "Facebook takes on the MNO's". They are offering free Wi-Fi, so once you have connectivity and once you have payments, then I think we can start playing and doing the fun stuff, that will really change poor peoples lives. What are we doing? I've spoken about the brief time I was here, value chains. You all know, you're sitting in the agricultural space, what is the wastage in the maize vertical through wet maize, through disease, through contamination? In a lot of the agricultural verticals that I've looked at, you're sitting with 30% plus wastage in an agricultural

vertical. How do we make that work more efficiently? How do we create the Uber's of agriculture? How do we create the SND's? How is Sophie getting her [EasyDry] M500 out to the farm on a *boda boda*? Logistics was a problem in Africa but I honestly believe if we do it properly we can make logistics work. *Boda Boda*'s are great. Drones will come in, they're already using drones but that's maybe for higher value products like distributing blood like they are doing in Rwanda already. Logistics we can sort out because we have got efficiency, so I believe we are going to get huge efficiencies in the verticals. There are great companies starting in this space. Go and have a look at Twiga Foods. They are playing in the banana vertical. We all know, bananas are what keeps a lot of poor people going. Go around and you'll see the wheelbarrows of bananas in Kibera. How do we make that vertical work better? If we got free payments and we got free connectivity- wow!, we can do it better. The example I always use, see me talking about maize, there is a Prof. at Nairobi University that made an application that I can take a picture of a maize leaf and it will tell me with 85% certainty what's wrong with that maize, 90% certainty. But you need a smartphone; you need to pay up some data. Sorry I forgot to tell you, the best businesses, which came out of our study, were agri-distributors and supermarkets. If we got to change the rural community, we have to deal with the agri-distributor and with the supermarkets, so it's agriculture and FMCG's. That's obviously getting the product out, getting the product at the other side. With that maize leaf as an example, I take a picture of the maize, that maize farmer needs to be paid, I mean the professor, that's a micro payment. It's KShs. 50. I'm saying we can do that. He gets the thing back saying, "This is what's wrong with your maize. This is the chemical you need to treat it with." And you know what, we can tell him where he can buy it because we have mapped all the agri-distributors in the area and we know what stock holding they have got. That's simple, we can do that now. So we are looking as a bank at turning every single agri-distributor into a Wi-Fi hotspot. Why? Because we get more money flowing through the system, we can do more loans.

But surely you as the people playing in the agricultural space will be able to use those Wi-Fi hotspots to do education, to distribute the information. He goes to the agri-distributor to collect his drug, he downloads an app, and he downloads a video of what you should have done not to get that disease. He gives a video of what chemical must you give to treat that disease. He's paying nothing. He's downloaded it from a Wi-Fi hotspot. He goes back home a very happy farmer. We've made that side work. We can do the exact same on the demand side.

I'm very bullish. I think we are sitting on the crest of some waves now. We have been working hard in Africa. We have been talking about Africa rising and everything else. We have been working hard on things and I think we are at the cusp. We were talking about how do you pay for Sophie's dryer? The Internet of Things is coming along the way. It's hugely exciting because the Internet of things - we can have a tractor in every village. We can monitor that tractor. I can give a loan on that tractor because we can monitor the tractor because we're

getting information on how much it's been used, that it's not been over revved. The Internet of things will make a huge difference on what we will be able to provide.

You know what I said to Sophie is we need to be able to switch that dryer off somehow, so we're working with [FuturePump](#). FuturePump has got a great pump, it's a solar pump that can irrigate an acre. They have got technology that they can switch it off if the person doesn't pay. That gives us some security, we can start lending on that. I'm very excited. I don't want to be involved in consumer lending, I don't want to be involved in *M-Shwari's* because I have seen the end effect in South Africa. I want to be involved in funding the [EasyDry] M500. I want to be involved in funding tractors without directly productive assets and we can do it now as a banking industry. We are there. So I hope that wasn't all doom and gloom. For all of those of you who are interested, please I can give you all the websites, you can go and get all the information you want and you can spend hours. Actually, you can download the whole database so you can slice and dice it, you can have a look at anything. But yeah, that's what I had to say, I'm more than happy to take any questions.

Question from the Audience:

I didn't exactly get what you said about the demand side. You talked about the supply and the agri-dealers and my concern is, when we look at the markets, the ordinary fresh vegetable and fruit markets, for instance in Nairobi, we don't see any investment in that area. People are buying their produce from the roadside. I would probably prefer to take an avocado instead of a coke but where can I get it? I have to think, while I don't have to think for coke, so anything about investments in markets?

Response from Mr. Staley:

Yeah. Look, I think we all know the challenges in the demand side. If we have a look - I've been looking quite closely at the mango vertical in Kenya. The biggest users of mangoes in this market are the juice providers, people who make juice. They actually want to have just about a rotten mango because then it has the highest sugar content. You know what they do, they block the supply chain. They don't let trucks go to get that fresh mango. This is fact, so they stop people going to collect the mangoes. When they know all the mangoes are falling off the tree and are rotten, they then go to the farmer and they say, "Farmer, your mangoes are falling off the tree. They're rotten". They buy them for next to nothing. You've got people playing in the verticals that are stopping you to get fresh produce. What has Twiga Foods done and you know, you should get Twiga Foods to talk. Brilliant example. It's creating an Uber for bananas. The farmer can take a picture of his bananas. These are the bananas I've got available, that goes into a database. The end user can select the bananas. They then take the bananas

using a *boda boda* through a hold house so that they can handle the middle between distribution center to distribution center and a *boda boda* can come and collect the banana. Now you say how does that all work? There is fantastic technology, there are things called RFID. It's a little chip that gets put on to the bananas. You can follow it through the whole supply chain.

Technology exists now that we can make those supply chains work. Look at the maize vertical, how do we make the maize vertical work? There are a lot of people who don't want the maize vertical to work because they have made a lot of money out of it. We all know it's about storage, it's about building big storage facilities that are working with a company from South Africa called [AFGRI](#). AFGRI is the biggest agricultural company in South Africa, they want to get involved in Africa. They're putting up silos. They're getting a lot of resistance. People don't want them to put up silos. Now how cruel is [unclear]... the maize farmer dries his maize so we know that there is good quality of maize that gets taken to a silo, silo to port, get sold. We can make those verticals work a lot more efficiently. Who would have thought that somebody sitting in a garage could take on the hotel industry? Well they did, it's called Airbnb. Who thought that somebody sitting in a garage could take on the Telco's? It's called WhatsApp. More messages go through WhatsApp, 25 people run WhatsApp and it does more messages than the whole of the telecommunication industry globally. I can go onto examples, look at Uber, also started in the garage, not [unclear] because Google started in a garage, Facebook started in a garage, they all seem to start in garages. But Uber took on the hotel [sic] (transportation) industry. Why can't we take on the cartels that we know exist in the agriculture? It's got nothing to do with making the farm - yes it has. We have to make the farmers more efficient but we have to get the farmers the right price.

Kellogg's takes over 50% out of the maize vertical in the USA. Kellogg's, for their brand. What a value, the farmer makes a few percent. I'm bullish, I honestly believe we need to take on the big issues. The little issues we know we can do it. We've got lots of [unclear] making dryers, we can do it but we have to make the bigger picture work and that's what we did at Equity. When I started they said, "Forget it. You'll never take on the big banks." We were a bankrupt building society, we took on the big bank and we won. So why can't we do the same in agriculture?