



Financing for Tools and Working Capital targeting Informal Sector Workers in the Construction and Affordable Housing Sector

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Background

- The informal sector represents a substantial share of the economy, creating employment for millions of Kenyans, production and income generation.
- The Affordable Housing Programme (AHP) in Kenya has included the informal sector to participate in the development of affordable housing units. These include Electrician, Plumbers, Carpenters, Painters, Tilers, Welders, Masons
- The informal sector players in the construction sector organize themselves and participate in the supply of labour and building materials.
- One of the primary challenges faced by informal sector is the limited access to financial services.
- FSD Kenya together with our partners Agricultural Concepts International Limited and Pezesha undertook an intervention to survey the demand for products for the construction sector informal workers, develop a product based on the research outcomes and pilot the product with informal workers in the construction industry. Product was developed in 2023.

Research Outcomes

- The research was conducted in April of 2023 encompassing Nairobi, Kiambu, Kajiado, Machakos, and Nakuru counties.
- A total of 163 respondents were interviewed directly (male - 159 and Female - 4)
- 55 respondents participated in the five Focus Group Discussions.
- 53%, are artisans -welders, steel fixers, painters, plasterers, and bricklayers
- 13% of workers in the construction industry are workshop owners
- Most work individually
- 84% of respondents own a smartphone
- 58% prefer monthly payments
- 72% commute to work



Research Outcomes



Most of the workers have never received financial literacy training



Most workers are neither trained nor certified



Most of the respondents have long experience in their fields (6-10 years)



A significant number of workers rent tools and plan to rent tools in future

40% of respondents rent tools regularly

Out of the research respondents, **34% plan to rent tools in the future** while the remaining 66% do not have plans to rent tools.

Those with no plans mainly want to **acquire theirs to avoid renting**



40% had requested external funding over the last 2 years from various sources

Product Concept and development

- Product development and refinement with Pezesha
- Profile the SMEs and Cooperatives working with the state department of Construction
- 2 products were developed- tools financing and working capital loans.
- 2 groups signed up with Pezesha for the pilot

Product Name	Fundi-Flex Tools Loan
Purpose	Loan for purchase of work tools for various trades in housing construction
Onboarding and credit scoring	a) KYC details <ul style="list-style-type: none"> • Name • Mobile number • National ID card number • Gender • Location a) Mobile money transactional data b) CRB details
Loan size	Minimum amount of Ksh 5,000 Maximum amount Ksh 30,000
Duration/Term	1 – 6 months
Loan processing fee	2% of the loan amount
Interest	2% per month
Penalties	5% per month of defaulted installment
Repayment	Monthly installments
Disbursement	Made directly to prequalified tool vendor(s) Borrower collects tool(s) from vendor(s)

Lending Process Process Flow



Step 1: Pezesha to sign legal contracts with selected vendors and the Association



Step 2: Application from pre-qualified borrowers through the Association



Step 3: Proforma invoice issued by vendor to both Association, and Pezesha



Step 4: Loan Approval and Disbursement preparation



Step 5: Financial Literacy Education for Borrowers Via the Phone



Step 6: Tool collection and confirmation



Step 7: Loan repayment by the Association through borrower deduction

Learnings and next steps

- Any financing product aimed at helping construction workers to get tools and equipment should be affordable and accessible to low-income earners and should consider the preferences of the market, such as sources that are easily accessible and require minimal paperwork.
- The artisans identify the vendors they would like to work with
- **It is easier lending in a group dynamic as opposed to individual lending, particularly due to the unsecured lending nature.**
- Financial literacy is key to supporting the financial growth of the informal sector. Most artisans do not keep records of their business activities.
- Important to build a culture of borrowing vs 'free tools' – main driver would be desire to borrow again.
- Strengthening of positive and negative data shared with CRBs will help develop wider credit market.
- **FSD and Pezesha seeking a suitable group to design and pilot a working capital loan.**



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