2022 public **annual report**

Creating value through inclusive finance

www.fsdkenya.org

fsd Kenya

April 2023

Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises (MSEs).

FSD Kenya works closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups such as women and youth face.

FSD Kenya is a member of the FSD Network, a family of Financial Sector Deepening programmes seeking to build diverse and inclusive financial systems across Africa.

Current FSD Kenya funders are UK International Development, the Swedish International Development Cooperation Agency (Sida), and the Bill & Melinda Gates Foundation.

BILL & MELINDA GATES foundation
fsd network
Sida
SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
UK International Development
Partnership | Progress | Prosperity

fsd Kenya

Creating value through inclusive finance

2022

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CHAMPS

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Letter from **the CEO**

Recently, when people ask me about FSD Kenya and what we do, I have found myself responding, "We are helping the Kenyan financial sector to behave." Even though we have never used this language formally, I have found it a helpful conversation starter. As a charitable trust, of course we do not have any regulatory or supervisory roles but throughout our history, we have used three key "tools" to help financial markets "behave". In other words, to help them develop in ways that serve low-income households, micro, small and medium enterprises, women, youth and farmers with appropriate, affordable, and value adding financial solutions.

Our first tool is a ***mirror***. Through our research, policy work and engagement with the financial sector, we often find ourselves holding up a proverbial "mirror" to help the financial market see more clearly how they appear to those who demand and need the services they could offer. One example highlighted in this report is our support for Kenya's credit reforms where we used a "mirror" to reflect back to the financial sector how much it costs to collateralise a loan and how this causes a barrier to even those with collateral to secure a loan. This mirror also reflected that men were much more likely to have traditional collateral to secure loans. This mirror may have helped point to paths forward in reducing the cost of collateral and the introduction of the movable collateral registry which further reduces the cost and opens up lending opportunities for women, who are more likely to have movable property.

Our second tool is a ***magnifying glass*** that enables us to see what is happening on the ground as we pull back the blades of grass to uncover the reality, especially for those who are struggling. The FinAccess suite of research has always been an important part of peering into the details. The release of the first FinAccess Household Survey County Perspective in November 2022 is a good example of magnifying the significant differences between counties in terms of formal financial inclusion ranging from 95% for Nairobi to as low as 58% in West Pokot. Even though the national gender gap is -4.3%, the gap ranges from -19% in Kilifi to a positive 12.4% in Taita Taveta, with 4 counties having more women than men formally financially included. The FinAccess Deep Dives presented at the same event examined topics like the impact of finance on economic opportunity, climate resilience, and protecting consumers.

Our third tool is a ***telescope*** that enables us to look into the horizon of the future. If we were standing on a ship, we would be looking out not only for the land but also for the icebergs or other obstacles that could sink us. In 2022, we supported the Central Bank of Kenya and the broader payments sector in staring into the possible futures through the National Payments Strategy launched in February. It not only looks for the right "land" to seek out in the future such as customer centricity and interoperability, but also the significant risks related to issues like cyber security and poor market conduct. Another example of looking out for the "icebergs" or in this case the fact that they are melting, is the urgent need to consider the future implications of climate change and how this points to the potential role of finance behaving in ways that can help communities to mitigate and adapt to new environmental challenges in the future as is being done through the County Climate Change Fund mechanisms described in this report.

FSD Kenya will continue to work with the public sector and the financial sector to apply these three tools for self-examination, understanding the reality on the ground and peering into the future of finance that will deliver the most value to all Kenyans.

Tamara Cook
Chief executive officer

2 FSD Kenya's 2022-2026 strategy

FSD Kenya's 2022 – 2026 strategy sets out to contribute to the development of financial markets offering useful, affordable, and trusted financial solutions for low-income households, women and Micro and Small Enterprises (MSEs).

Building on learnings from both FSD Kenya and the broader family of the FSD Network across the continent, FSD Kenya's work has a "real economy" focus for delivering value-adding finance.

To demonstrate how finance can work for the real economy, FSD Kenya has prioritised several sectors based on a gap analysis for women and MSEs and the potential to demonstrate the power of inclusive finance. These sectors are:

- **Agriculture and processing**
- **Trade value chains**
- **Health finance**
- **Affordable housing finance**
- **Green finance**

As FSD Kenya engages at the intersection of the real economy and the financial sector, the focus will be on shifting key functions of the financial market towards more inclusive finance. These functions of the financial market are:

Effective policy, regulation, and vision: The enabling environment has shifted towards the idea of more inclusive, digital, and greener finance, but FSD Kenya's 2022-2026 strategy intends to walk closely with policymakers and regulators to turn those ideas into reality through the implementation of government initiatives such as the Digital Finance Policy, the National Payments Strategy and Medium-term plans leading to Vision 2030.

Open financial market infrastructure: Although Kenya has made some progress in terms of the reach and effectiveness of financial market information such as digital payments, credit information sharing and digital IDs, FSD Kenya will seek to facilitate greater openness, interoperability, portability, risk mitigation, and improving financial service delivery, especially at the last mile.

Value-adding financial solutions: Given the progress in the enabling environment, financial market infrastructure and financial access, Kenya has a high possibility frontier for demonstrating how to design and deliver useful, affordable, and trusted financial solutions that help users seize economic opportunities and manage risks and shocks. Kenya already has many glimmers of promise and FSD Kenya will partner with the market to better understand when finance delivers value versus when it extracts value and then will work with the market to stimulate the scaling of value-adding solutions.

FSD Kenya's strategic drivers

FSD Kenya's work in the 2022 – 2026 strategy will be guided by four strategic drivers intended to lead to greater impact from more inclusive finance:

- Positioning **gender and women's economic empowerment** at the centre of FSD Kenya's strategy
- Meeting the financial needs of **MSEs** for growth and resilience
- Leveraging the opportunities and mitigating the challenges of a more **digital economy**
- Factoring in **climate risks and green opportunities**

Why finance matters

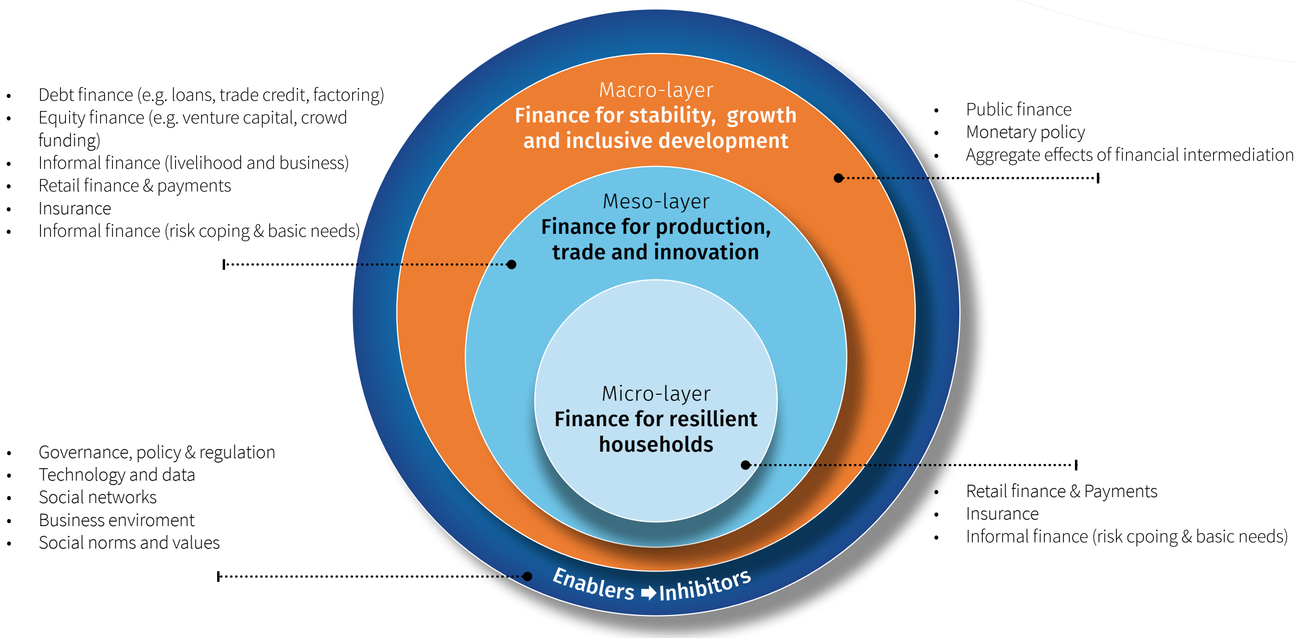
Finance is an integral part of economic life and modern financial systems have enabled solutions to a range of social and economic problems, supporting welfare, growth, and development in the process.

The Government of Kenya acknowledges the role of financial services, which are a key sector in the economic pillar of Vision 2030. National objectives under Vision 2030 aim to create a vibrant and competitive financial sector driving high levels of savings and financing the country's investment needs.

The United Nations Sustainable Development Goals recognise that access to affordable, effective, and safe financial services (savings, insurance, payments, credit, and more) can play a transformative role by fostering equitable growth and furthering vital development goals such as poverty reduction, job creation, gender equality, and food security.

In understanding the role of finance, it is helpful to consider three nested layers of the economy: micro, meso and macro in the figure below.

Figure 1: Why finance matters



Source: FSD Kenya

The micro layer encompasses the individual firms and households that make up the 'atomic' units of the economy. The meso level encompasses the associations of these atomic units into more complex forms of organisation, such as firms linked together loosely in markets or sectors of production, or more tightly in value-chains; and the voluntary associations that individuals and households form such as community savings, investment, or welfare groups. Lastly, the macro layer represents economy-wide reservoirs and flows of spending power and capital residing collectively in households, government and firms and used for different ends: private consumption, government spending, investment, and international trade.

The financial system operates through each of these layers, with its effects spilling across their boundaries. At the broadest layer, finance influences how large pools of money move through the economy, and at the most granular layer, finance influences how firms and households manage money and risk and raise funds for large purchases or investments.

Why FSD Kenya's work matters

The financial market in Kenya has developed considerably over the years leading to gains in financial inclusion. Eight out of ten Kenyans (83.7%) have access to formal financial services and products, up from three out of ten Kenyans (26.7%) in 2006.

Despite this development and growth, many Kenyans and Kenyan enterprises are being left behind. Financial health has fallen since 2016 across all demographics, with seven out of ten (74%) Kenyans reporting that their financial lives had worsened in the previous one year.

Kenyans and Kenyan enterprises are being left behind by the finance market because of various constraints besetting the finance market system. The work FSD Kenya will execute in the 2022 – 2026 strategy will contribute towards overcoming these finance market system challenges.

Source: Freepik.com

3 2022 in review: **Navigating economic tensions**

Kenya's recent economic performance

Growth

Africa is projected to have grown by 3.3% in 2022 according to the World Bank and 3.6% according to the International Monetary Fund (IMF), down from the 4.1% and 4.7% growth in 2021 according to the World Bank and the IMF respectively. The African Development Bank (AfDB) projects Gross Domestic Product (GDP) growth to average 4% in 2023 and 2024, higher than the projected world averages of 2.7% and 3.2%, respectively.

In Kenya, the economy recorded an average growth of 5.6% in the period between January to September 2022, with Q3 2022 GDP at 4.7%, adding to the 5.2% and 6.8% growth recorded in Q2 and Q1 2022, respectively. Q3 growth was driven by continued recovery in the services sector, particularly wholesale and retail trade, and accommodation and food services. However, performance in agriculture continued to be subdued due to unfavourable weather conditions.

Growth in 2022 was broader across sectors, however the agriculture sector is in severe decline, mainly due to dry weather conditions and drought in parts of the country, as well as the pronounced effects of the Russia-Ukraine crisis on the sector. Other factors that resulted in slowing growth in 2022 included suppressed economic activity due to the general elections, high inflation, currency depreciation, increased cost of living and persistently high poverty levels. Positive growth drivers in 2022 included a peaceful transition after the election, employment recovery to pre-Covid-19 levels, robust diaspora remittances, some recovery in consumption and robust investment into the start-up sector.

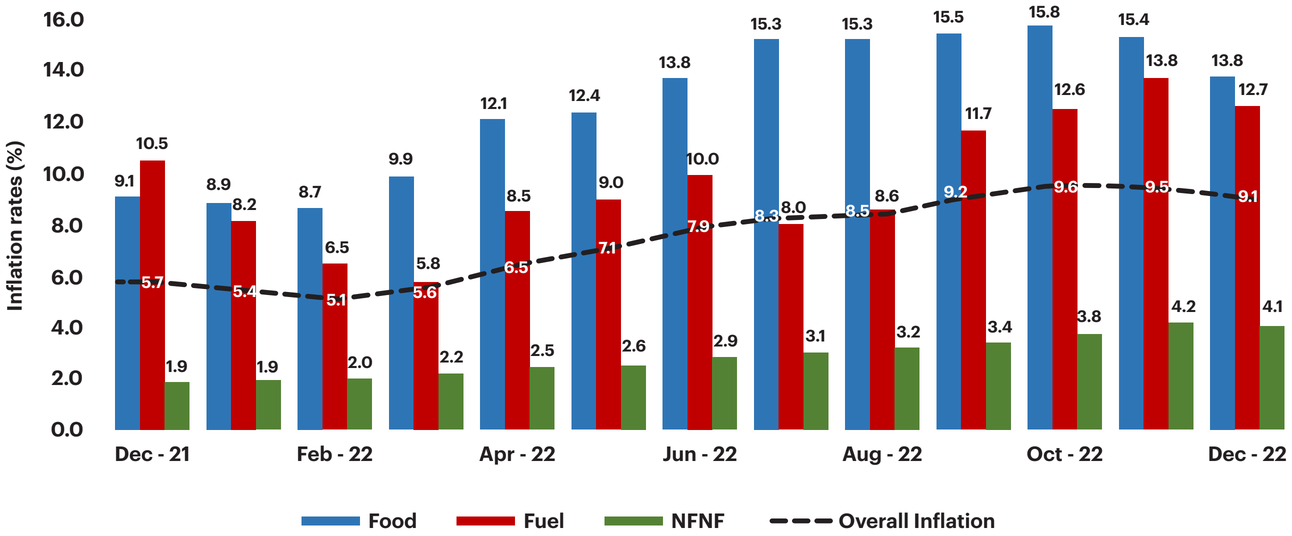
The World Bank projects growth at 5.2% average in 2023–24 driven by private investments, consumption growth, recovery in employment in the services sector (especially in tourism), and robust diaspora remittances. Downward pressure on growth will emerge from drought conditions and below average agricultural harvests, continued currency depreciation, tighter monetary policy, limited government spending informed by debt servicing obligations, and persistently higher poverty levels than pre-Covid-19.

Inflation

The inflation rate in 2022 averaged 7.6%, 1.5% points higher than average inflation rate of 6.1% recorded in 2021. Notably on a month to month basis, Kenya's inflation rate declined by 0.4% points to 9.1% in December 2022, from 9.5% recorded in November 2022, still well above the government's target range of 2.5% - 7.5%. High inflation over the year was informed by price increases of major food products, high fuel prices, increases in transport costs, erratic weather, and drought conditions in parts of the country, and increases in electricity prices.

The projections on inflation in 2023 are divergent with the Central Bank of Kenya (CBK) projecting lower inflation while the IMF expects higher inflation on average in 2023 than 2022. Upward pressure on inflation in 2023 will emerge from high global fuel prices, elevated food prices due to erratic weather and subpar rainfall, effects of shilling depreciation, and second round supply shocks (informed by the war in Ukraine). Inflation pressure will be mitigated by rains in several parts in December, the fertiliser subsidy program introduced by the current administration, and monetary policy tightening.

Inflation rate (2021– 2022)

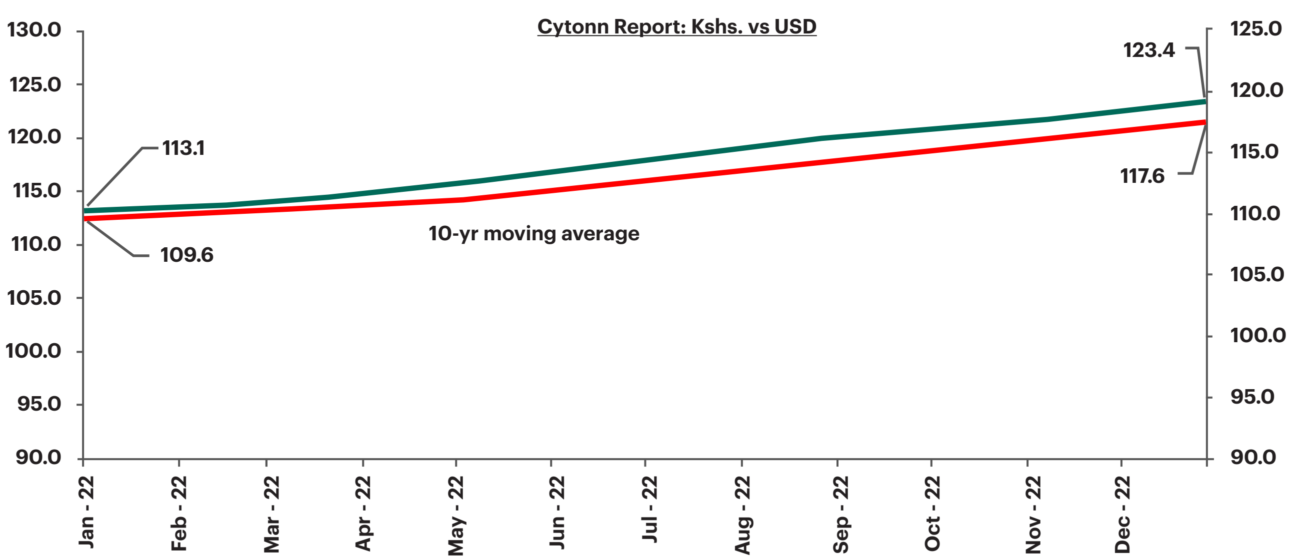


Source: CBK

Interest rates: 2022 was an active year for the Monetary Policy Committee (MPC) which met 6 times and raised the Central Bank Rate (CBR) by 50.0 and 75.0 basis points (bps) to 7.50% and 8.25% in May 2022 and September 2022, then by an additional 50.0 bps to 8.75% in November 2022. These efforts were focused on managing inflation which was well above the government's target range of 2.5% - 7.5% for most of 2022. The MPC is expected to continue raising the CBR rates in a bid to stabilise inflation as required, as well as manage KES deprecation in 2023.

Exchange rate: The Kenya Shilling depreciated by 9% against the US Dollar to close at KShs 123.4 in 2022, compared to KShs 113.1 at the end of 2021.

Exchange rate

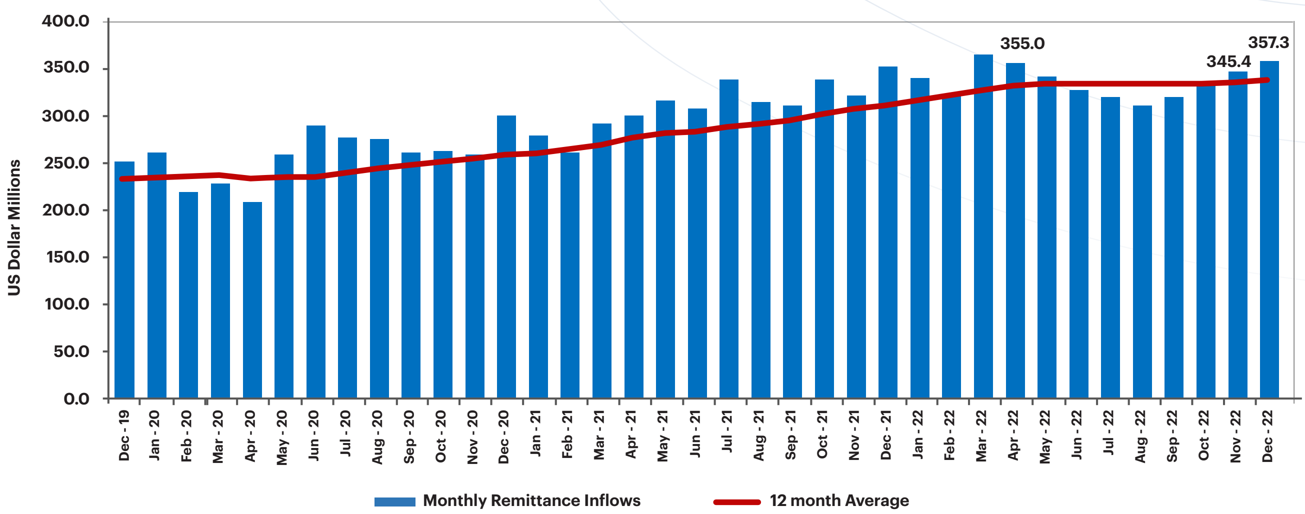


Source: Cytonn

Shilling depreciation in 2022 was driven by high global crude oil prices; increased dollar demand by importers especially in the oil and energy sector; the persistent current account deficit; government external debt servicing; and continued increases in US Fed interest rates in 2022 to a range of 4.25%-4.50% in December 2022 which has strengthened the dollar against other currencies. The shilling was supported by sufficient forex reserves closing the year at USD 7.4b (equivalent to 4.2 months of import cover); USD injections of USD 750m World Bank (March 2022), and IMF (USD 235.6m, USD 447.4 and USD 14.6m); and CBK's supportive activities in the money market, such as repurchase agreements and selling of dollars.

Remittances: Remittances are still dominated by the US and remained robust in 2022 standing at a cumulative USD 4.0b as of November 2022, representing a 9.7% year on year increase. However, the rate of growth has slowed since June 2022 likely informed by inflation and price increases in source countries; a withdrawal of stimulus measures particularly in the US and Europe; a general dip in spending power and tightening of credit markets in key source markets such as the US.

Value of remittances (USD million)



Source: CBK

Poverty levels: Initially the World Bank anticipated extreme poverty in Kenya to fall below pre-Covid-19 levels to 25.8% in 2022 and further to 25.1% in 2023. However, the Bank now acknowledges that a more widespread drought, as well as the global fuel and food price shocks brought on by the Russia-Ukraine war will likely increase poverty levels particularly in populations that rely on the agricultural sector for their livelihoods.

Public finance highlights

FY'2022/2023 National budget: The National Treasury presented Kenya's FY'2022/2023 national budget two months earlier than the usual June date to provide parliament with ample time to debate and approve the budget, before it abrogated ahead of the August 9th elections. The 22/23 budget focuses mainly on economic recovery from the effects of the Covid-19 pandemic, increasing revenues and reducing the fiscal deficit. Total expenditure is set to increase by 10.3% to KShs 3.3 tn (equivalent to 23.9% of GDP). Increased expenditure is expected to be supported by a 20% increase in revenue to KShs 2.4 tn. The total public debt is set to reduce by 7.2% to KShs 862.4b but debt servicing costs are set to rise by 17.7% to KShs 659.2b in FY'2022/23. The budget deficit is projected to decline to 6.2% of GDP from the projected 8.1% of GDP in the FY'21/22.

Public debt: As a proportion of GDP, debt has grown from 43% in 2011 to about 70% in 2022. As of September 2022, public debt stood at KShs 8.749tn, and between FY 2011/12 and June 2022, Kenya's public debt stock grew by 428% to reach KShs 8.61t. Public debt is 50.1% external debt and 49.9% domestic debt. Debt service expenses have increased from KShs 850b in FY2011/22 to KShs 1.3tn in the 2022/23. It is projected that this will increase to KShs 1.8tn FY 2024/25.

Eurobond yields: Yields on all Kenyan Eurobonds increased in 2022 informed by increased concerns on the elevated inflationary pressures and currency depreciation. As a result, investors attached higher premiums to the country's Eurobonds. According to the CBK, the yields on the 10-Year Eurobond issued in 2014, set to mature in 2024, increased the most by 8.5% points to 12.9%, going up by 4.4% recorded at the end of 2021.

Credit ratings: In 2022, Fitch Ratings, revised Kenya's Long-Term Foreign-Currency Issuer Default Rating (IDR) downwards to 'B' from 'B+', but with a stable outlook. Standard & Poor's maintained Kenya's long and short-term foreign and local currency sovereign credit ratings at 'B' with a Stable Outlook in August 2022.

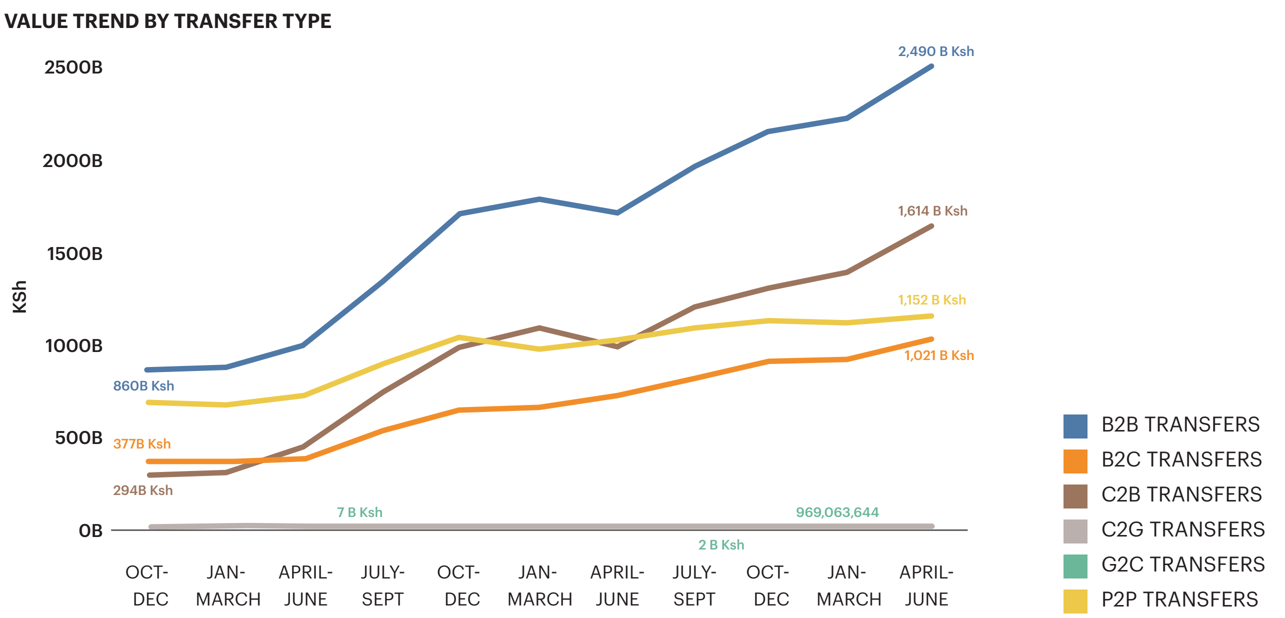
Financial sector development

Domestic credit: Growth in private sector credit increased to 13.3% in October from 12.5% in August 2022. Strong credit growth was observed in manufacturing (17.5%), trade (15.3%), business services (13.2%), and consumer durables (14%). Credit growth in 2023 will be positively informed by continued economic recovery relative to the peak of the Covid-19 pandemic. Credit growth will be constrained by upward adjustments in the CBR due to inflation and continued aggressive borrowing by government with elevated interest rates which effectively locks out the proportion of private sector that can take on credit at such high rates.

NPLs: The ratio of gross non-performing loans (NPLs) to gross loans stood at 13.8% in October 2022, compared to 14.2% in August. Repayments and recoveries were noted in the building and construction, personal and household, and tourism, restaurant and hotels sectors.

Mobile money: Since 2020 growth in mobile money transfers has been driven by transfers between mobile wallets and banks, for which fees were waived at the start of the pandemic. The value moved between business wallets and bank accounts increased by 150% and accounts for 40% of the total value moving through mobile money networks as of June 2022. The value transferred between individual mobile wallets and bank accounts has increased at an even greater rate 262% over the same period. Transfers to between individuals has been rising steadily but at a much slower rate of 59% over the same period. These free transactions will lapse at the end of 2022.

Number and value of mobile money transactions



Source: CBK

Mobile payments: In the year ending May 2022, mobile payments passing through Safaricom's Lipa na M-Pesa platform totalled over KShs 1.4tn. To put this in context, the total value of currency outside of banks in May 2022 was KShs 248b. These payments values increased by almost 50% between May 2021 and May 2022 and have more than doubled since May 2020 (the beginning of the Covid-19 pandemic). The volume of transactions has grown even quicker with the number of payments almost doubling between May 2021 and May 2022 and having increased more than threefold since May 2020. This indicates that not only is more money flowing through digital payments but also that it is being used more regularly to pay for lower value goods.

Macroeconomic tensions that defined 2022

On one hand, the economy is recovering from the worst of the impact of COVID-19 and there are several bright spots to celebrate. The election process ushered in a peaceful transition, employment has recovered to pre-COVID levels, diaspora remittances remain robust, and financial inclusion has strengthened. The Digital Economy remains a bright spot with significant growth in mobile money and digital payments. Kenya secured record amounts of VC funding in tech in the first half of 2022, and e-commerce is surging.

On the other hand, agriculture is in severe decline, high inflation and the impacts of the war in Ukraine have increased the cost of living, yet incomes have stagnated. As a result, food insecurity is increasing; one in three adults and almost one in four children have recently gone without food for an entire day. Poverty levels are still well above pre-COVID levels, financial health has deteriorated as has labour force participation (since 2016). Mobile and online betting is growing rapidly, and digital inequality is segregating access to opportunities in the digital economy.

Key Macroeconomic tensions in 2022

Macroeconomic Resilience Versus Increased Inequalities: It will be important to leverage the momentum of bright spots in the economy while ensuring that significant attention, strategy and resources are directed at addressing the rising costs of living, the impact of the drought, and the lingering 'austerity' effect COVID has left on households and the real economy.

Fiscal Recovery Versus Economic Recovery: Fiscal consolidation policies should be deliberately managed with economic recovery polices in mind to ensure an optimal balance between the two.

The 'Informalisation Effect' Of Covid-19 Versus The Push For Formality: Larger, more formal firms closed at a faster rate than informal micro firms during COVID-19. The 'informalisation effect' of COVID-19 is at tension with government plans to 'formalise' the informal sector and bring more into the national government tax net.

The Cost Of Spending More Versus The Cost Of Limiting Spending: There is a cost to spending more and providing deeper support to the real economy, but there is also a cost to limiting spending in the form of raised poverty levels, lower productivity and reductions in firm and household welfare.

Increased Financing Requirements Versus Debt Stress: Elevated financing is required to recover from COVID, cushion households from rising costs of living, and address the effects of the drought. Yet high debt and debt servicing costs limit government space to increase expenditure and borrowing.

Increased Borrowing Versus Muted Revenue Generation Prospects: Given elevated spending needs, pressure for government spend and borrow is high, yet revenue generation prospects remain muted due to legacy issues in revenue generation, the impacts of the Ukraine crisis, drought, and sluggish private sector recovery.

4 How inclusive is **Kenya's financial landscape?**

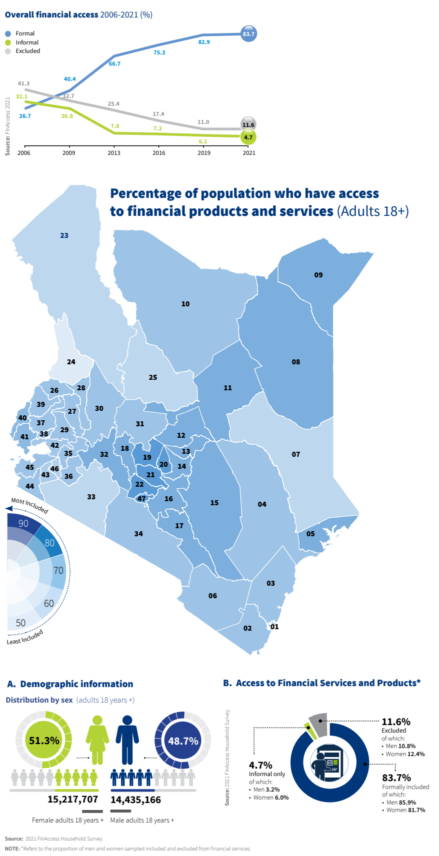
Highlights from the FinAccess Household Survey Report: County Perspective report

FinAccess 2021, which for the first time was done at the county level, provided useful insights for various stakeholders over the year.

The FinAccess county report, which was launched in November 2022 during the "Financial Inclusion Statistics Conference" brought to glare disparities across different counties on different elements of inclusive finance.

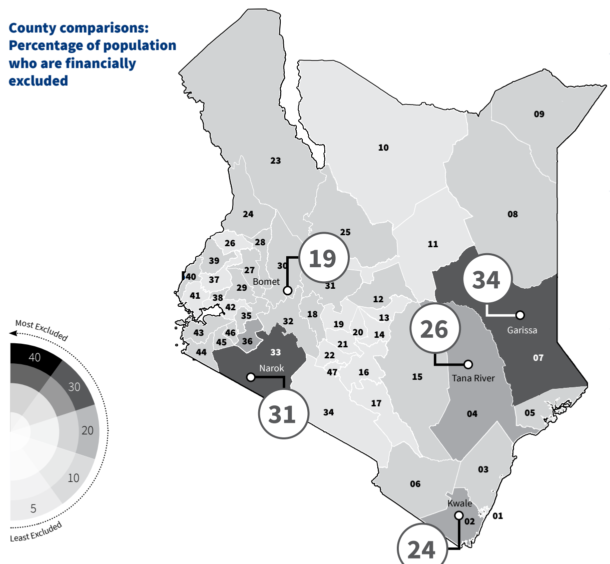
Formal financial inclusion is highest in Nairobi at 95%, a 14-percentage point higher than the national average of 85%, with counties in Northern Kenya having the lowest formal inclusion rates.

FINANCIAL INCLUSION



CODE	COUNTY	%
01	Mombasa	89.8
02	Kwale	72.9
03	Kilifi	74.4
04	Tana River	71.3
05	Lamu	84.2
06	Taita-Taveta	82.0
07	Garissa	60.7
08	Wajir	86.5
09	Mandera	83.8
10	Marsabit	78.4
11	Isiolo	87.8
12	Meru	81.0
13	Tharaka-Nithi	84.5
14	Embu	87.7
15	Kitui	80.4
16	Machakos	89.6
17	Makueni	87.5
18	Nyandarua	81.1
19	Nyeri	93.8
20	Kirinyaga	92.2
21	Murang'a	92.8
22	Kiambu	91.8
23	Turkana	60.3
24	West Pokot	57.7
25	Samburu	68.6
26	Trans Nzoia	89.3
27	Uasin Gishu	87.6
28	Elgeyo-Marakwet	73.8
29	Nandi	79.3
30	Baringo	74.9
31	Laikipia	83.4
32	Nakuru	87.8
33	Narok	64.9
34	Kajiado	88.7
35	Kericho	85.8
36	Bomet	78.6
37	Kakamega	79.5
38	Vihiga	79.0
39	Bungoma	73.9
40	Busia	78.2
41	Siaya	83.8
42	Kisumu	88.2
43	Homabay	81.8
44	Migori	75.5
45	Kisii	81.1
46	Nyamira	76.8
47	Nairobi City	95.0

FINANCIAL EXCLUSION



CODE	COUNTY	%
01	Mombasa	7.9
02	Kwale	24.1
03	Kilifi	18.2
04	Tana River	26.4
05	Lamu	12.2
06	Taita-Taveta	12.2
07	Garissa	34.3
08	Wajir	11.0
09	Mandera	14.5
10	Marsabit	8.5
11	Isiolo	6.2
12	Meru	12.0
13	Tharaka-Nithi	5.9
14	Embu	5.8
15	Kitui	16.0
16	Machakos	6.2

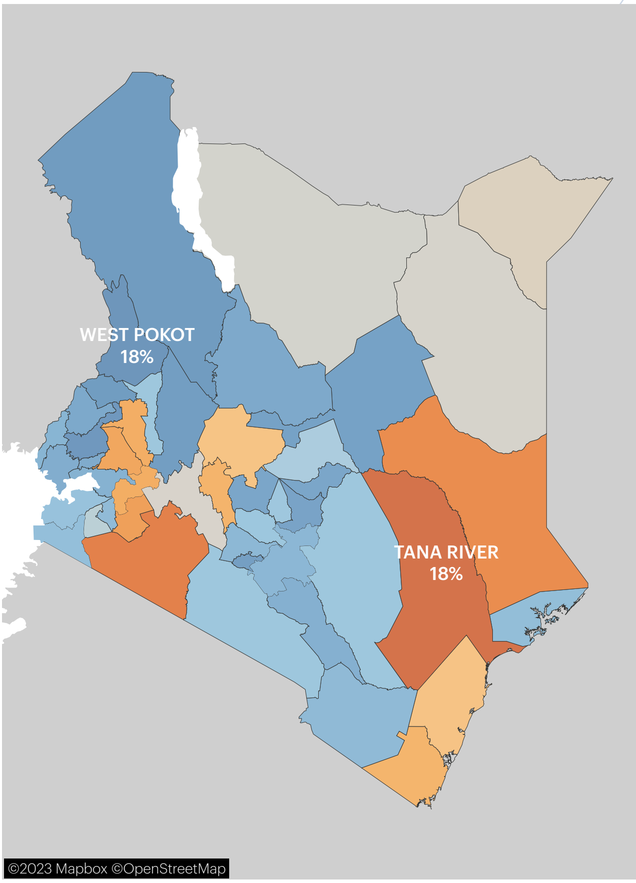
CODE	COUNTY	%
17	Makueni	8.0
18	Nyandarua	16.1
19	Nyeri	4.4
20	Kirinyaga	4.8
21	Murang'a	5.3
22	Kiambu	5.6
23	Turkana	11.4
24	West Pokot	11.3
25	Samburu	15.5
26	Trans Nzoia	7.0
27	Uasin Gishu	11.0
28	Elgeyo-Marakwet	12.8
29	Nandi	16.4
30	Baringo	10.6
31	Laikipia	14.3
32	Nakuru	10.1

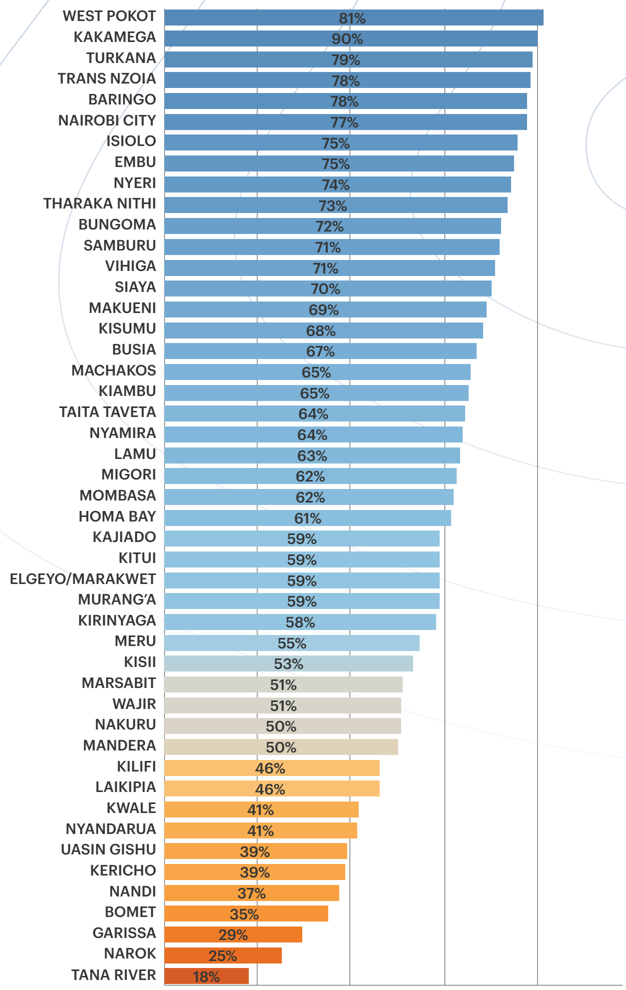
CODE	COUNTY	%
33	Narok	31.2
34	Kajiado	7.5
35	Kericho	12.2
36	Bomet	19.2
37	Kakamega	8.5
38	Vihiga	10.4
39	Bungoma	16.8
40	Busia	14.5
41	Siaya	8.9
42	Kisumu	9.6
43	Homabay	14.5
44	Migori	15.3
45	Kisii	16.1
46	Nyamira	14.3
47	Nairobi City	2.8

The overall level of formal inclusion in a particular county does not necessarily imply that the county is not doing well on other measures of inclusive finance. For instance, West Pokot which had the lowest inclusion rates (57.7%) has the highest incidence of use of credit, from both informal and formal sources.

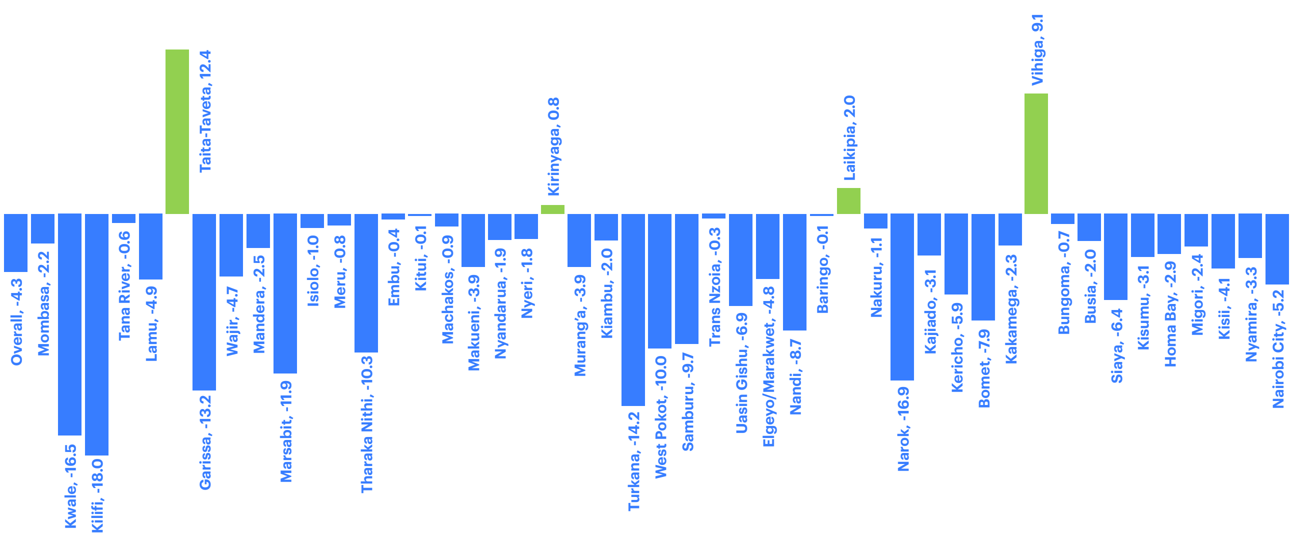
% OF ADULTS USING AT LEAST ONE CREDIT PRODUCT BY COUNTY

2021



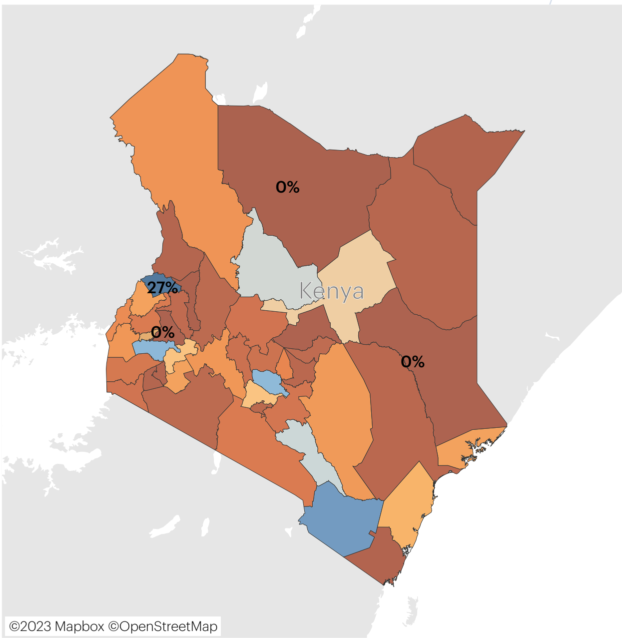


Overall, the gender formal financial inclusion gap to 4.3% has reduced in Kenya with more men more formally included than women. Across counties, the gap varies tremendously with Taita Taveta, Kirinyaga, Laikipia and Vihiga counties having more women than men formally included. The counties where women are more excluded than men are in Kilifi, Kwale and Narok. What can counties do to ensure equity?

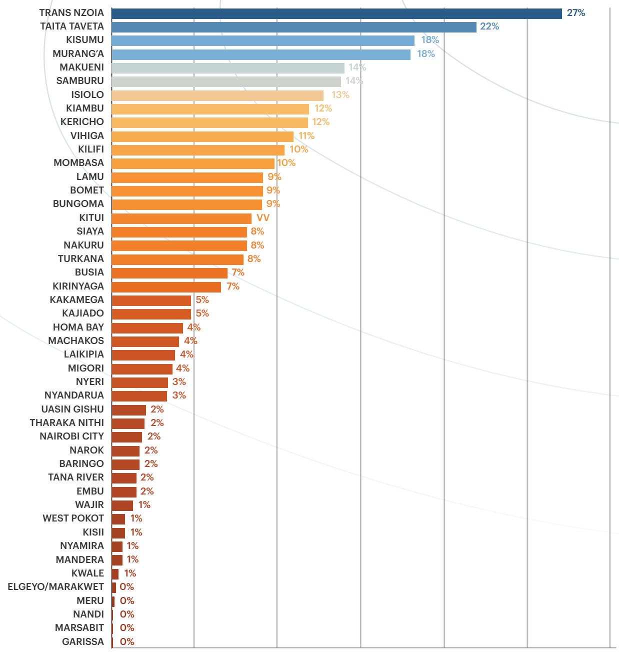


Incidence of use of advanced digital payments for daily expenses is highest in Trans Nzoia county, a key farming region. Looking deeper into other aspects, insights from the report show that 88.2% of the inhabitants of the county have access to mobile money, which plays a major role for their farming activities. However, inadequate capital and markets hinders growth opportunities for farmers in the county.

% OF POPULATION USING PAY BILL/TILL NUMBER FOR DAILY EXPENSES - 2021



% OF POPULATION USING PAY BILL/TILL NUMBER FOR DAILY EXPENSES - 2021



0% 27%

Challenges Faced by Farmers in 2021 (%)

Lack of finance / Capital	**35.1**
Finding customers	**49.9**
Accessing farm inputs (seeds etc.)	**10.6**
Small land sizes	**3.8**
High labor costs	**7.2**
Getting paid for Products sold on credit	**11.6**
Drought	**17.9**
Pests and diseases	**73.3**
Getting products to Market/poor infrastructure	**10.0**
Unscrupulous middlemen	**2.9**
Lack of storage facilities	**11.9**

C. Usage of Financial Services and Products

60.0% Bank usage (Overall)

8.6% SACCO

2.9% Microfinance

40.8% Mobile bank accounts

88.2% Mobile Money

11.5% Pension

31.1% Bank (excluding mobile banking)

21.0% Insurance

2.0% Capital Markets

D. Main Sources of Finance for...

Category	Formal	Informal	Non-financial
Micro and small business	32.3	35.7	31.9
Agriculture	49.1	44.7	6.2
Liquidity distress	26.6	27.4	46.1
Dealing with shocks	26.6	27.4	46.1
Investing in the future	37.0	31.4	31.6

Source: 2021 FinAccess Household survey

More interactive exploration on the county performance can be done by looking at the county dashboards available on the KNBS website.

The published county report can be accessed on FSD Kenya's website.

5 Highlights of FSD Kenya's work from 2022

Kenya's credit reforms: How movable collateral reforms are contributing to better access to credit

Credit is often referred to as the lifeblood of a modern economy, crucial for the growth of enterprises, employment, and the economy.

In credit transactions, lenders often have limited information about a borrower's characteristics that would minimise the repayment risk. The pledging of collateral by the borrower to the lender is a widespread practice used to mitigate this risk.

The ***"Costs of collateral in Kenya: Opportunities for reform (2009)"*** study documented the collateral process in Kenya and the costs associated with the steps involved. The study identified constraints in the collateral process which altogether contributed more than 1% of the cost of credit secured by the collateral at the time. One of the constraints identified was the multiplicity of laws that impacted on the collateral process.

From 2015 to 2017, the Government of Kenya with support from FSD Kenya and World Bank embarked on a reforms process to address some of the constraints identified. This culminated with the enactment of the Movable Property Security Rights (MPSR) Act that unified various legal provisions that governed the use of movable collateral into a single piece of legislation. It also provided for the establishment of an electronic movable collateral registry, managed by The Business Registration Service, replacing the paper-based chattels registry.

These reforms have yielded tangible benefits. As of June 2022, over 600,000 initial notices had been registered through the registry. The number and value of credit facilities granted using the registry has grown steadily over the years.[1] A standout benefit has been the expansion in the types of movable assets that can be used as collateral, from livestock, crops in the field and intellectual property.

Typically, credit providers have had an overreliance on fixed collateral, usually land, thus limiting the credit provision to those who possess it. This has disproportionately impacted women who tend to own less land due to gendered social norms and formal rules. As such, addressing constraints that impede on the use of movable collateral will go a long way in expanding access to currently underserved segments, including women.

Alongside benefits have been challenges and aspirations for improvements. In 2022, FSD Kenya supported the Business Registration Service on a process to further strengthen the legal framework. The objective was to identify the legal provisions that needed to be harmonised or enacted to enhance the effectiveness of the framework. The review further identified new legal provisions required to accommodate market developments that have occurred since the MPSR Act was enacted.

FSD Kenya also supported the Business Registration Service to conduct a technical review of the registry. The objective was to identify the technical upgrades required to improve the registry's functionality and enhance the users' experience. The review identified three priority areas for upgrading:

- the reporting module to facilitate the generation of statistical and visual reports. This will include the capability to generate gender disaggregated data and reports.
- the expansion of the categories of user accounts to provide for individual, institutional and agent accounts
- and integration with other systems outside BRS that hold records of movable assets that are used as collateral

FSD Kenya is already supporting BRS to undertake these upgrades. While Kenya has made great strides in developing its credit market, a lot more needs to be done. Addressing the constraints that impede the efficient functioning of the market is thus a policy priority. Much of FSD Kenya's current and future work will be geared towards supporting these efforts.

[1] From data and reports that are not public, accessed through FSD Kenya's work In the reforms process.

The National Payments Strategy 2022-2025: Paving the way for a secure, fast, efficient, and collaborative payments system supporting financial inclusion and innovation to the benefit of Kenyans

The five core principles of the **National Payments Strategy 2022-2025**

- **Trust**
- **Security**
- **Usefulness**
- **Choice**
- **Innovation**

On 23rd February 2022, the Central Bank of Kenya (CBK) launched the National Payments Strategy 2022 – 2025, marking a major milestone in Kenya's payments journey.

The launch was a culmination of FSD Kenya's support to CBK over a 3-year period that included a payments landscape assessment that informed the strategy development.

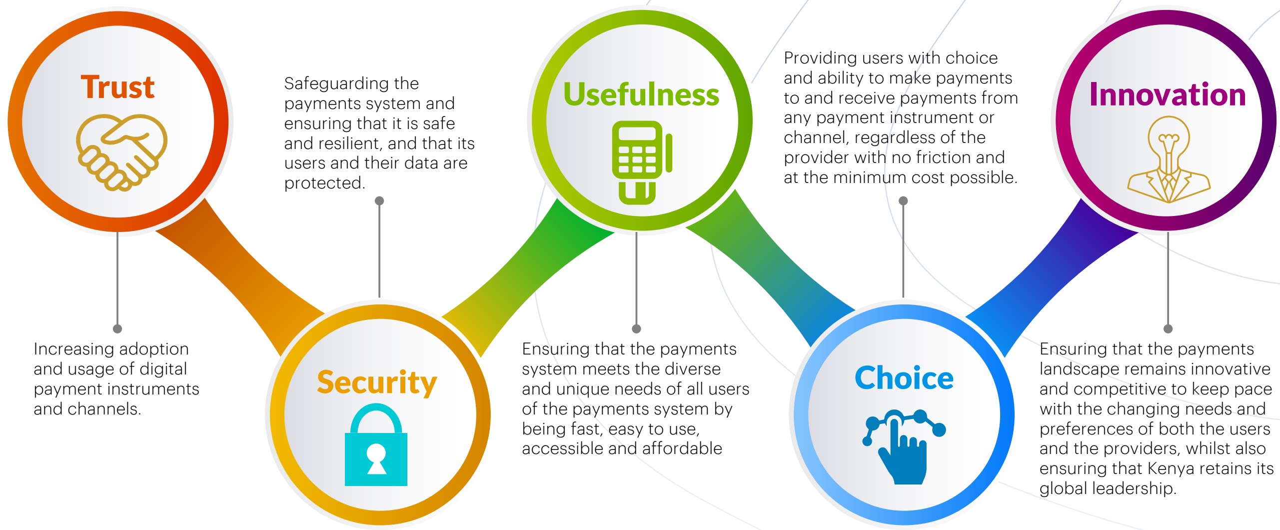
Kenya's payments journey has been marked by significant developments and achievements over the years, making Kenya a world-renowned leader and trailblazer in the digital payments and innovation space.

The launch of the National Payments Strategy 2022 – 2025 signalled that Kenya's payments journey is far from finished and enshrined aspirations to build on the strong foundations already established to take Kenya to the next frontier.

The vision of the strategy is to have "a secure, fast, efficient and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans". The realisation of this ambitious vision will be achieved by pursuing the following strategic objectives under the leadership of the Central Bank of Kenya, working with and through other partners and industry players:

- To support a payments system that meets the diverse needs of customers, especially with respect to financial inclusion and shared prosperity.
- To enhance the safety and security of the payments system through the adoption of relevant industry and global standards.
- To support an ecosystem that is anchored on collaboration, that produces customer-centric and world-leading innovations.
- To create a supportive policy, legal and regulatory framework that is robustly enforced across existing and emerging players in the payments ecosystem.

The strategy is built around five core principles: **trust, security, usefulness, choice, and innovation.**



These principles provide the foundational pillars on which the National Payments Strategy 2022-202 will be implemented. The strategy will be implemented alongside other government-led initiatives aimed at leveraging technology to transform Kenya's economy such as the Digital Finance Policy Framework and the digitisation of government services including payments amongst others.

The National Payments Strategy 2022-202 outlines several initiatives for implementation that respond to the current dynamics of the payments landscape that includes high mobile phone penetration at 132.5%, high growth of smartphone usage at 56.4% and a growing youthful population. FSD Kenya is partnering with the Central Bank of Kenya and other industry players to implement some of the key initiatives outlined in the strategy. These include:

- **Ensuring implementation of full interoperability in the payments industry** – FSD Kenya is working with the industry to develop open and shared agents in the market. This will enable customers of any bank or mobile money provider to get services from any agent thus eliminating the need to seek out their provider's agent. The initiative is industry-led with updates to the Central Bank of Kenya.
- **Reviewing the existing legal and regulatory framework** – FSD Kenya has initiated work to support the Central Bank of Kenya to develop a consumer protection framework for digital payments that will help address consumer risk through regulation.
- **Promoting adoption by the payments industry of best international standards** – In partnership with the Kenya Bankers Association (KBA) and the Integrated Payment Services Limited (IPSL), FSD Kenya supported the industry to increase awareness on the ISO20022 global payments standard in the industry through various workshops. The ISO20022 standard provides rich granular payments data that enables increased efficiency in payments, richer reporting and better security controls. Additionally, FSD Kenya is in the process of supporting the Central bank of Kenya in the development of a standard QR code for the payments industry. This QR code will be used to facilitate merchant payments and will lay the foundations of merchant payment interoperability.

In summary, the National Payments Strategy 2022 – 2025 is ambitious and is well timed and positioned to build on the strengths of the market and maintain Kenya's leadership position.

2022 being the year of the strategy's launch, included initiatives that lay the foundation for future work. With the growth of licensed Payment Service Providers (PSPs) in the market, the trajectory of the payments industry is set to broaden with PSPs providing the necessary competition in the market that will make payments more accessible and affordable for consumers.

Click here for more details about the national payments stratgey and additional resources

Transforming climate finance: How the County Climate Change Fund mechanism is empowering Kenyan communities to adapt to climate change

KShs 636 million

Funding allocated by participating counties for projects with green and/or climate change outcomes in the financial year **2022/23**

In November 2020, FSD Kenya initiated a partnership with the Adaptation Consortium (ADA) on a project to build the capacity of counties in devolved climate finance.

The County Climate Change Fund (CCCF) mechanism, as it is known, supports counties to put in place context-relevant climate finance legislation that informs their implementation of climate change projects and activities.

The two-phase project that built on previous work carried out by the consortium, then led by the UK's International Institute for Environment and Development (IIED), supported Vihiga, Kakamega, Kisumu, Bomet, Kisii, Embu, Kwale, Narok, and Trans Nzoia, among others, to enact climate change legislation, as well as to put in place climate change committees at both the county and ward levels to manage climate change affairs.

In addition to helping mobilise funds from different sources for projects with green and/or climate change outcomes, the County Climate Change Fund (CCCF) mechanism has been lauded for its inclusive, community driven, bottom-up approach to planning. Its implementation structure includes two committees – one at the ward level and the other at the county level. Ward Climate Change Planning Committee (WCCPC) is the central pillar of the mechanism.

The committee members, who are drawn from various locations, social groups, and livelihood systems in a ward, are elected publicly on the basis of their societal standing rather than just educational qualifications, are instrumental in working with community members in designing and prioritising climate change response projects that meet the community's needs. Government technical staff are often co-opted into these committees to provide technical advisory input as necessary, but do not have any decision-making powers. Communities thus play a critical in deciding their priority climate change investments.

It is for reason that ADA was recognised at the 27th Conference of the Parties to the United Nations Convention on Climate Change (UNFCCC COP 27), winning the inaugural Global Centre on Adaptation (GCA)'s Local Adaptation Champions Awards under the financial governance category.

In 2022, FSD Kenya's investment in the CCCF began to yield results, with eleven of the counties it has supported so far – Kakamega, Vihiga, Wajir, Trans Nzoia, Embu, Nandi, Nakuru, Kisii, Laikipia, Narok and Kisumu – allocating a total of KShs 636 million of their own resources towards climate change in the financial year 2022/23.

Click here to access more stories, blogs and publications related to FSD Kenya's green finance work

Innovative lending product improves access to water and sanitation in Nairobi's Mukuru informal settlement

FSD's affordable housing program integrates access to utilities and infrastructure as a key component for better financial inclusion, health and educational outcomes. FSD Kenya identified a unique opportunity to support access to water and sanitation in Mukuru, an informal settlement in Nairobi, in partnership with Akiba Mashinani Trust, the financial arm of Muungano wa Wanavijiji, a social movement of 'slum' residents and urban poor people in Kenya.

Muungano wa Wanavijiji has deep relationships with area residents and public sector bodies and drove the process of creation of a special planning area covering 689 acres in Mukuru since 2017.

The special planning area designation allows the Nairobi City County Government to engage with the area better. This was very fortuitous because at the height of the Covid-19 pandemic, Nairobi City County Government via Nairobi Metropolitan Services (NMS) invested quickly and heavily in laying of roads, large water lines, trunk sewers in the area. NMS also laid some lateral sewers (which connect to the trunk sewer), and some prepaid water dispensers.

During the same time period, Akiba Mashinani Trust, Nairobi City County and Water and Urban Sanitation for the Urban Poor (WSUP), a British NGO, piloted the engineering for an innovative 'simplified sewage system'.

The 'simplified sewage system' has a narrower pipe and lower gradient and can 'spaghetti wrap' around the narrow passages in informal settlements. The testing the system was fully subsidised by Water and Urban Sanitation for the Urban Poor (WSUP) and the Nairobi City Water and Sewerage Company in Kosovo village of Mukuru.

FSD Kenya's intervention was to design and test a lending product to allow more toilets to be built and connected to the sewer. The geographical area for this loan product was defined as the Rurie and Simba Col villages of Mukuru.

A baseline survey conducted by Akiba Mashinani Trust showed that the area had a total of 5,690 occupied residential structures, being served by a total of 183 toilets (comprising pit latrines, franchise toilets and community toilets). This was a ratio of 1 toilet of variable quality serving 31 households or an estimated 93 people.

Engineering designs were drawn to allow connections to be made. FSD Kenya and Akiba Mashinani Trust both contributed to the laying of additional lateral sewer lines and installation of pre-paid water dispensers.

A loan product was designed as follows: a maximum loan amount was set at KShs 50,000 to build the toilet and pay the connection fee of KShs 5,000 to Nairobi City Water and Sewerage Company, at an interest rate of 12% for a term of 1 year. Akiba Mashinani Trust was then tasked to assist borrowers by connecting them to hardware suppliers and trained artisans.

Lending started in January 2023. By February 2023, Akiba Mashinani Trust had disbursed a total of 95 loans with an average loan size of KShs. 17,400. 28% of borrowers were female and several were first time borrowers. Borrowers typically 'owned' the structure they lived in and rented 1 or more rooms to other Mukuru residents, while also running different small enterprises (operating small kiosks, providing a delivery service, providing manual labour etc).

FSD Kenya's contribution to the intervention is KShs 13 million as part returnable and part non-returnable grant capital to Akiba Mashinani Trust to undertake baseline research, complete engineering designs, build 700 metres of lateral sewers to connect to the trunk sewers laid by the Nairobi City County Government, install 8 pre-paid water dispensers and create a revolving loan fund.

FSD Kenya's grant leveraged the deep experience of aligned partners and significant public investment in infrastructure. Anecdotally, it is estimated that Nairobi City County Government through the Nairobi Metropolitan Services invested more than KShs. 250 million in sewage infrastructure alone in Mukuru.

The success of this intervention clearly shows that such innovative lending products can only be successful after proper demonstration of the technical engineering solution and after establishing the willingness to pay by the structure owners.

FSD Kenya also chose not to insist on clean land collateral / proper titles which is a key barrier to engaging in informal settlement improvements and took a view that the special planning area designation of the target area provided a strong legal standing on which to invest in the area.

By having toilets within the shared compound (plot), as opposed to communal toilets, another big advantage of safety is provided, particularly as women and children do not need to walk at night to access toilets.

As of February 2023, Akiba Mashinani Trust had estimated the demand for additional lateral sewer lines, pre-paid water dispensers and loan financing at over KShs 30 million for Kosovo, Diamond, Railway, Feed the Children and Kariobangi villages in Mukuru.

FSD Kenya hopes to attract funding to scale this project from other partners by demonstrating the financial viability of this product.

Click here to access more stories, blogs and publications related to FSD Kenya's affordable housing work

Financing affordable and climate resilient feeds for dairy farmers in Kenya

Dairy farmers need financing to consistently purchase fodder for their cattle. Among the constraints that limit farmers from appropriately feeding their cattle is inadequate cashflow to purchase fodder as and when required. Farmers often opt for lower quality feed alternatives which lead to lower productivity.

FSD Kenya partnered with Performeter Ltd to address fodder quality and availability constraints through a tripartite contract enjoining Family Bank, off taker dairy cooperatives and commercial fodder producers.

The objectives of this pilot were:

a. To test new rations using available forages in local farms with maize silage as the basal fodder.
b. To demonstrate ration-based feeding (RBF) and its impact on dairy profitability and milk productivity.
c. To have in place a forage demo site for training pilot farmers.

The dairy cooperatives were supported to stock quality maize silage and incorporate it into their check-off system-s in addition to other products e.g., farm inputs that they were already selling to their members. The maize silage was also made available at cooperatives' collection centres for their members to conveniently purchase all year round.

Transitioning dairy farmers from unstructured feeding to RBF based on a balanced Total Mixed Ration (TMR) required a well-thought-out feed plan. Therefore, farmers and cooperatives were tasked to come up with feed plans that were adopted and used as a basis for contracting based on member subscription to the RBF programme.

The projected TMR comprised of maize silage as basal fodder, grass hay, napier grass/oats, and minerals. The average weight of cows in the contracted regions was 450 Kg. The assumption in the pilot was the conversion rate of Dry Matter intake (DMI) of 3%-4% to a daily DMI of 13.5Kg which is recommended for lactating cows.

The experiment started by costing the Total Mixed Rations for a balanced ration assuming usage of high-quality fodder with high dry matter for silage and starch of not less than 28%. This is further tabulated below:

Sample ration for a 450 Kg early lactating cow (Daily DMI = 13.5)

Feed Ingredients	Quantity as fed	Actual DMI	Cost/Per Kg	Total Amount (KShs)
Maize silage (30% DM)	21	6.3	15	315
Hay (85% DM)	0.5	0.425	13.33	6.7
Concentrates - High yield dairy meal	6	5.58	35	210
Napier grass/Oats/Vines	12	1.44	2	24
Total	**39.5**	**13.75**		**556**

A ration containing maize silage as the basal forage, supplemented by napier grass or oat, dairy meal, and minerals currently costs KShs. 556 on average. The price graduation for procured fodder that was contracted for the year is as follows:

Price Graduation for maize silage per Kg

Item	Cost/Kg	Percentage of Total
Bunker Price	6.5	48.1%
Baling	2.5	18.5%
Transport (to Yard)	2.0	14.8%
Logistics (loading and offloading)	0.5	3.7%
Margin	2.0	14.8%
Total	**13.5**	**100.0%**

From the price graduation table, logistical costs constituted more than 20% of the total cost of the maize silage. Note that in these experiments, 50 dairy cows were selected and subjected to a balanced feeding regime for 3 weeks and daily data on milk production, feed and water intake recorded.

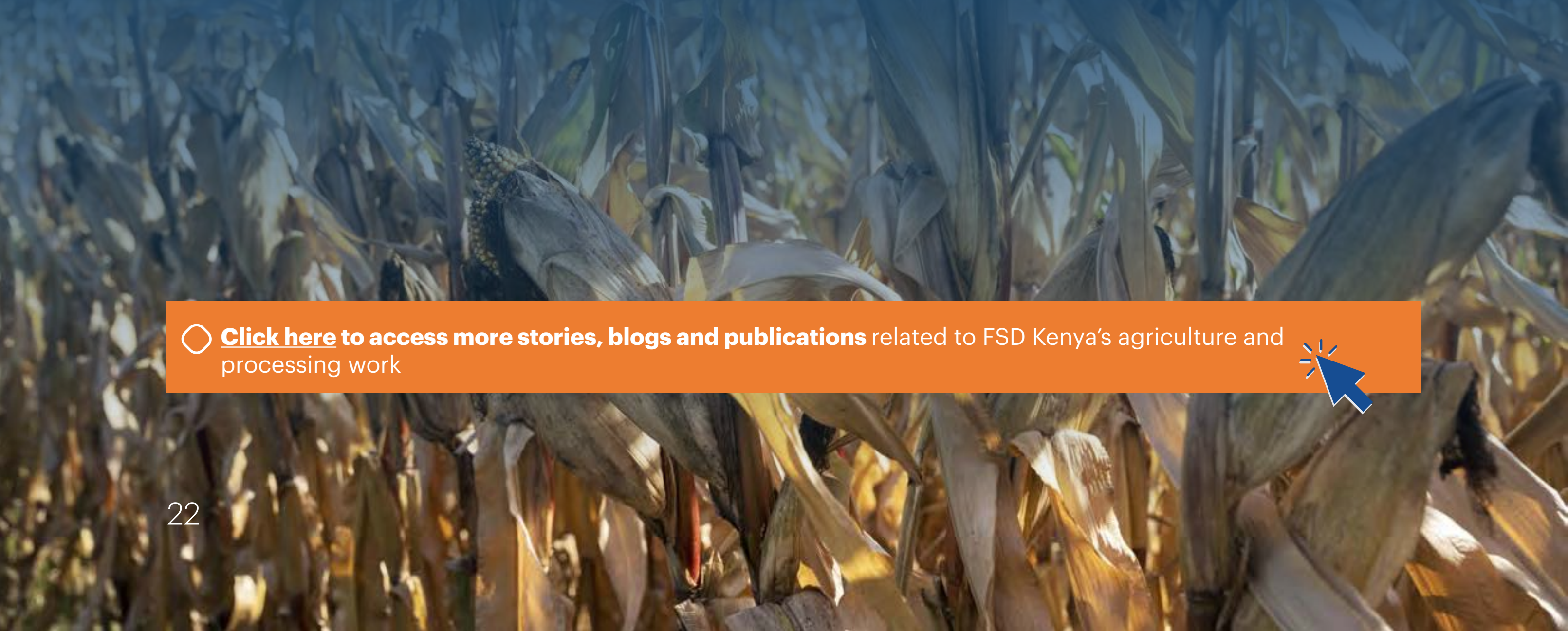
Before the trials, the experiment undertook an analysis of pretrial milk production volumes. From the analysis, the daily average milk production per cow under early lactation was 17.2 litres. The related pretrial costs averaged KShs 25.5 per litre. At an average price of KShs 40 per litre, pretrial revenue was estimated at KShs 688.00, against pre-trial costs of KShs 438.60 per cow. The margin above feed is 36%.

At the end of the experiment, it was evident that on average, the production costs increased by 65% whereas the revenues increased by 46%. The pre-trial average production cost per litre was KShs 25.5 - 28.5 against KShs 32.3 post-trial production cost per litre demonstrating 65% marginal increase. In conclusion, the findings revealed that,

i. There was a 50% increase in average milk production with the highest increase recorded at 150%
ii. RBF with maize silage as the basal fodder increased the cost of feeding, but this was compensated by the increased milk production and corresponding revenues.
iii. The net profit per cow under RBF averaged 17% demonstrating profitability and sustainability.

FSD Kenya intends to intensify this partnership with Performeter in 2023 and hopes to further explore collaboration in the following areas:

i. Scale up on financing affordable and climate resilient TMR with Family and Equity bank-s.
ii. Testing the economics of commercially growing alternative fodder e.g., sugar graze, super napier grass by small holder women farmers.
iii. Financing dairy farmers linked to Equity and Family bank-s nested on SME dairy processors and other processors (processors financing).
iv. Financing bundled extension services with fodder purchase - including dairy catalogue to guide farmers in selecting fodder choices for different cattle growth stages.
v. Testing new improved business and financing models for sustainability and for dissemination through group aggregation/ digital platform by Perfometer Dairy Academy
vi. Piloting village-based aggregation feed centres (village fodder producers, local fodder buyers, youth/women managed/ para-extensionist feed centre manager through palletisation) and subsequent linkage to finance.
vii. Testing of new business and financing models for re-usable fodder packaging materials to reduce cost and negative environmental impact.



Click here to access more stories, blogs and publications related to FSD Kenya's agriculture and processing work

Low health insurance uptake in Kenya leaves women and low-income households vulnerable to health shocks; health finance solution offers hope

AfyaPoa in numbers

2,774	Approx. 12,000	33%	9,800
Number of policies sold by **end of 2022**	**Number of lives** covered by policies	Percentage of policies sold to **women**	Number of people who used **AfyPoa to deal with health events**

Health shocks have debilitating impacts on low-income households and specifically women who lack effective mechanisms for mitigation. The situation has been aggravated by Covid-19 in terms of both the burden on the healthcare sector and the long-lasting economic impacts.

The Constitution of Kenya (2010) and Kenya Vision 2030 (Kenya's long-term development blueprint) articulate the need to provide the highest attainable standard of health care to all Kenyans, with Universal Health Care (UHC) entrenched in both.

The National Health Insurance Fund (NHIF) is envisaged to be a key driver of UHC. The pursuit of UHC is a priority for both the current national administration and the county governments.

According to the 2021 FinAccess national survey and the Kenya Demographic and Health Survey (KDHS 2022), only one out of every four Kenyans has access to health insurance, a 16% drop compared to 2019. This means that about one in every five Kenyans who previously had health cover opted out of insurance due to reduced household incomes at the onset of the Covid-19 pandemic.

Eight out of ten Kenyans (83%) who reported having health insurance, were using NHIF. However, NHIF reports a very low retention rate, with about six out of every ten Kenyans (57%) not renewing their subscriptions in subsequent years. The situation is worse for those in the informal sector where only 14% are renewed.

FSD Kenya aims to facilitate and advocate for value adding finance that enables improved health and financial resilience to health shocks for women and households. While FSD is exploring and will support opportunities in other forms of financial services, most of the work will be in health insurance which would deliver more value for money to women and households given its pooling effect.

Most Kenyans (71%) cite lack of affordability as the reason for low health insurance uptake, followed by lack of knowledge and awareness (about 20%)1. These should be important considerations in designing health insurance solutions.

Appropriate health financial solutions need to be tailored to the needs and financial realities of women and households. While the AfyaPoa solution has shown potential for impact and sustainability, it was designed and targeted at the rider gig-workers market segment which is male dominant. However, the lessons can be applied in design of solutions targeted at women demographics.

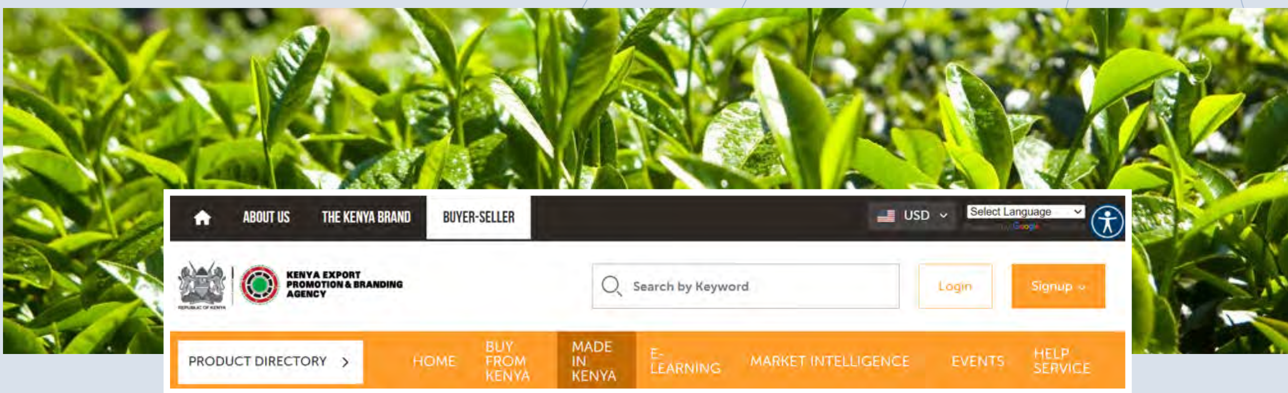
In the past two years FSD Kenya supported Insurance For All (IFA) to research, design and test a health insurance solution dubbed AfyaPoa targeted at gig workers.

The solution, which is currently underwritten by APA Insurance Limited was initially piloted with Sendy riders. The upfront insurance premium payment regulatory requirement necessitated insurance premium financing. The insurance premium would then be checked off from the riders' weekly incomes and remitted to IFA. The solution was later rolled out to other gig work platforms and informal sector workers.

A total of 2,774 policies had been sold by end of 2022 covering about 12,000 lives, a third of these to women. A total of 9,800 people had used the solution to deal with health events. AfyaPoa

Click here to access more stories, blogs and publications related to FSD Kenya's health finance work

Make it Kenya: A transaction link for Kenya's exporters and buyers.



In April 2021, FSD Kenya received a request for support from Kenya Export Promotion and Branding Agency (KEPROBA) to develop a national exporters portal aimed at boosting the export sector leveraging technology to provide market linkages between Kenyan manufacturers and international buyers. The Portal was also earmarked to provide a platform to showcase authentic products and services originating from the country, thereby, serving as a channel to promote Kenyan manufacturers.

KEPROBA, a government agency whose mandate is to advocate, coordinate, harmonise and implement export promotion and nation branding initiatives, with financial support from the Swedish International Development Cooperation Agency (Sida) and working closely with the Kenya National Chamber of Commerce and Industry (KNCCI), has since developed, launched and is implementing this e-portal dubbed Make it Kenya.

The e-portal, whose go live was in October 2022, provides a hub for information to local and international traders where they can easily identify, retrieve and use resources but additionally, a platform where they can showcase their products and get market intelligence and allow government to promote Kenya's exports and the national brand.

Unique selling points of the Make it Kenya e-portal are:

i. It is interactive, professional and serves to build the capacity of exporters and ultimately link them with buyers. As designed, it is programmed to meet the specific needs of traders, including workflow, and therefore, does not require programming or specialised knowledge to maintain, update, edit, and delete content.

ii. It simplifies access to collected and aggregated resources/information.

iii. It is singular, coherent and is integrated with categorised content for various customers and where exporters/sellers can showcase their products to the international market and facilitate their linkage, provide customised market intelligence information to current and potential exporters, and promote Kenya's exports and the nation's brand.

iv. It has incorporated mobile architecture and GIS, thereby, supporting processes, activities and communities to improve the access, processing and sharing of information within and across the markets.

v. It can automate processes through incorporating of roles, workflows, collaboration, content management and business intelligence while deploying adequate security measures to ensure data integrity and at least 99.99% availability/uptime.

Apart from all the key features listed above, participating exhibitors can, at no cost, also take advantage of e-learning, which is embedded in the portal and additionally, participate in virtual exhibitions.

To ensure authenticity of products as mentioned above, there are a few requirements that each enterprise needs to comply with to be listed. These include but are not limited to legal registration of the business and addresses (telephone number and contact person), certification of the products by relevant mandated government regulator e.g., The Kenya Bureau Of Standards (KEBS) and have considerable stock for export - even though there is no set volume for export, it is important that the enterprise looks at its readiness to supply higher quantities of marketed products to the export market. You can interact with this e-portal at http://www.makeitkenya.go.ke/.

Research: Evidence-based decision making for the financial sector in Kenya

FSD Kenya has been facilitating market actors to strengthen information eco-systems to support evidence-based decision making since 2005.

In particular, FSD Kenya has been supporting the development of the FinAccess surveys and related products such as an MSE tracker survey, a framework for financial health and a data dashboard for financial inclusion.

The value of these information goods for the market has prompted FSD Kenya's key research partners in government, the Central Bank of Kenya and the Kenya National Bureau of Statistics, to build their capacity in these areas and take over the bulk of investment1.

However, there is still a gap in the use of data for policy and innovation and its potential to influence action. This centres on deeper analysis and targeted communications -- developing outputs that speak to policy and industry audiences and are tractable in informing change.

In 2022, to improve the value of market information for policy, FSD Kenya commissioned a series of deep dive studies to mine FinAccess data beyond headline numbers, and ask the hard questions:

- What is the impact of financial inclusion on economic opportunity and resilience? and has Kenya's technology revolution improved these outcomes for households and firms?
- Has financial inclusion strengthened, or undermined climate resilience in an era of increasing climate-related pressures? and is there a tension between the focus on individual investment and the need to effectively manage our collective natural resource base to ensure longer term sustainability?
- Is financial inclusion really inclusive? Who is being left behind, and why?
- Do Kenya's mutual and social financial sub-sectors offer important lessons, as we broaden our perspectives to serve a wider range of needs- in particular gendered needs?
- How fair is Kenya's financial sector? Is it protecting consumers, giving them voice and meeting their financial requirements?

The early findings from the commissioned deep dive papers were presented and discussed in four panels at the Kenya Financial Inclusion Statistics Conference, with reflections from high-level industry and government representatives. The Financial Inclusion Statistics Conference, the first of its kind, was held in November 2022 and was organised by the CBK and KNBS with support from FSD Kenya.

Aside from the deep dive panels, the conference included presentations from regulators and students as well as global partners, attracting over 1,500 virtual and in-person participants. The highlight of the conference was the launch of the first FinAccess Household Survey County Report. by the Cabinet Secretary, The National Treasury and Economic Planning, Professor Njuguna Ndung'u.

The level of investment and participation that went into the conference from a wide range of stakeholders, showed impressive commitment to the goal of deriving value from demand-side data, and the potential of data to inform and influence inclusive market development.

The 8th FSD Kenya annual lecture: The role of sustainable finance in strengthening the private sector in Africa

On October 27, 2022, FSD Kenya hosted the 8th FSD Kenya annual lecture titled "The role of sustainable finance in strengthening the private sector in Africa." The virtual event featured Sanda Ojiambo the Assistant Secretary-General and CEO of the United Nations Global Compact as the keynote speaker.

She is an experienced leader in the field of sustainable finance, having held several key roles in this area throughout her career. In her current role she is responsible for leading the world's largest corporate sustainability initiative, building the strategic partnerships needed to drive impact and advocacy at local and global levels, driving initiatives such as Uniting Business, Unstoppable Africa and Good for Business, among others.

In her lecture, the assistance secretary general addressed the role of the business community in sustainable development, and she highlighted some of the specific opportunities and challenges for scaling sustainable finance on the African continent.

She pointed out key opportunity areas, including the potential for impact seeking investors and the public private partnerships for blended finance. She noted that even though private investments to support sustainable development have been insufficient, the African continent is best positioned to be the most important driver of global business and the leader in sustainable finance.

With a $2.5 trillion market opportunity and other factors such as the Africa Continental Free Trade Area Agreement that is poised to accelerate investment opportunities and the vibrant, youthful population who offer a massive consumer, business and investment market, Sanda said that every single sector of Africa's economy should be on a growth trajectory.

She also pointed out that companies can leverage their contribution to the SDGs, to raise financing from impact seeking investors. Impact funding raised could then be used to make further investments in economic and social development locally.

The reduction of foreign direct investment (FDI) during the Covid-19 pandemic, she added, had been a major challenge to scaling sustainable finance; lack of sufficient foreign investment for infrastructure and other sustainable development initiatives could be traced to three risks and concern for foreign investors. They include project, currency and exit risks.

Finally, she discussed the United Nation Global Compact's initiatives aimed at building new private-public partnerships for sustainable finance. She mentioned the subsidised corporate finance and the UN global compact CFO coalition for the sustainable development goals.

Sanda's keynote was then followed by a dynamic and engaging panel discussion moderated by FSD Kenya's senior economist Anzetse were. The panellists were: Eva Warigia (CEO, East Africa Venture Capital Association), Dr. Habil Olaka (CEO, Kenya Bankers Association), and Samir Ibrahim (CEO, SunCulture).

During the panel discussion, the panel deliberated on various issues, including the impact of Covid-19 to businesses, access to financial services for women in business, sustainability requirements for startup financing, the key assets sustainable financiers leverage to deepen their reach in the Kenyan market and in Africa among other topic areas.

Eva Warigia spoke to the issue of women owned enterprises and their struggle to secure financing. She pointed out the fact that women in many communities can't own collateral is an impediment to accessing finance. Addressing of issue of the mushrooming startups in Kenya, she stated that many investors are realising that there are a lot of opportunities for growth and transformation and more importantly they are investing in businesses that people care about.

Samir Ibrahim shared some interesting ideas that can help the private sector attract financing from interested investors. He mentioned that there is a need to showcase the companies that can absorb the type of capital that is ready to be put in the market. Also, there is a need for more conversations among capital providers to come up with solutions that catalyse the market. He also mentioned blended capital, carbon markets and the company as the key assets sustainable financiers can leverage to deepen their reach in the region and in the country.

Dr Olaka asking the "CEO's age-old conundrum" he noted that deliverables in the banking sector, are quite short term, and focus on the immediate gains. He asked how this conversation can change, so that the banking sector moves more to sustainable finance as opposed to the traditional non sustainable alternatives.

The 8th FSD Kenya annual lecture was curated to help profile the need to mobilise green finance for impact in Africa in the lead up to the United Nation Climate Change Conference 2022 (UNFCCC COP 27) in Sharm El-Sheikh, Egypt.

The full lecture video and other related materials are available here.

6 Publications and blogs

Title	Author(s)
State of the Economy: Inclusive finance for economic transformation	Anzetse Were, Amrik Heyer, Lukania Makunda and David Taylor
AfyaPoa: Enhancing uptake of health insurance through informal groups	Wanza Mbole Namboya, Nancy Atello, John Paul Otieno, Luis Kinuthia and Mathews Wakhungu
Ngokamka: A tale of skills, partnerships, and finance in supporting micro and small enterprises to deliver at the big stage	Duncan Oyaro, Michael Mbaka and Kingsley Kipuri
Legal, policy and institutional review of affordable housing sector in Kenya	Seeta Shah and Muriuki Murungi
State of financial health in Kenya	Amrik Heyer, Lukania Makunda and Paul Gubbins
Gendered analyses of Kenya's health sector and health finance market	Nancy Atello, Tamara Cook, Wanza Mbole Namboya
How to develop a green project pipeline in Africa	Anzetse Were
How women stabilise and grow economies in Africa	Anzetse Were
AfyaCredit: Lessons from financing healthcare for Kenyan households in the informal sector	Wanza Mbole Namboya, Nancy Atello, Angela Siteyi, Babette Van Der Kloet and Julia Teerling
The state of financial health in Kenya: Trends, drivers, and implications	Amrik Heyer and Paul Gubbins
Relationships and value chain development: A perspective of FSD Kenya's blue economy pilot with the Lake Region Economic Bloc	Jared Ochieng
Agriculture and processing financing market analysis	Michael Mbaka, Duncan Oyaro, Carla Legros and Marcus Watson
Agriculture and processing landscape report	Michael Mbaka, Duncan Oyaro, Carla Legros and Marcus Watson
Transforming the informal economy: Social protection and inclusive growth	Amrik Heyer
Sustainable finance disclosures for financial sector authorities	Anzetse Were
Environmental risk exposure in the Kenyan banking sector	Ouma Olum
Climate action in Africa: Pathways towards resilient sustainable cities	Milkah Chebii
Drought, digital innovation, and money: How the hunger safety net cash transfer programme has transformed access to financial services in the arid lands of Kenya	Collins Baswony

Title	Author(s)
Climate risk and finance: The banking industry's sensitisation on climate-related risk management	Ouma Olum
Technology and the Future of the Financial Sector in Africa: Centering Ethical Innovation	Anzetse Were
Jenga Green Library: Promoting climate smart housing	Seeta Shah
Understanding agricultural value chains that supply Nairobi	Carol Matiko, Parijat Chakrabarti, Michael Mbaka and Duncan Oyaro
Green finance in Kenya	Ouma Olum, Anzetse Were and Geraldine Lukania
Partial credit guarantee feasibility for affordable housing	Seeta Shah
State of the economy: 2021 year in review	Anzetse Were, Amrik Heyer and David Taylor
AfyaPoa: Lessons and insights on delivering health micro-insurance to gig workers and informal entrepreneurs	Wanza Mbole Namboya, Nancy Atello, John Paul Otieno and Luis Kinuthia
Using Blended Finance to Navigate the Pandemic: How an Innovative Funding Vehicle is Helping SMEs Survive COVID-19 and Advance the SDGs	Margi Goelz and Bridget Bradley
Inclusive Finance for Sustainable Economic Development in Kenya	Anzetse Were, Amrik Heyer, Francis Gwer, James Kashangaki, Tamara Cook, Paul Gubbins and Lukania Makunda
Putting women at the centre of inclusive finance	Wanza Mbole Namboya and Amrik Heyer
A new approach to women's economic empowerment: FSD Kenya's Marsabit pilot	Wanza Mbole Namboya, Amrik Heyer and Nancy Atello
Conducting demand-side surveys – The case of Kenya's FinAccess survey 2021 in the COVID-19 era	Lukania Makunda and Amrik Heyer
Launch of Kenya's national payments strategy: Inclusive, collaborative, efficient payment systems that benefit Kenyans	Juliet Mburu
Conceptualisations and practices of resource exchange and 'saving': A case-study among Kamba in Kitui	Froukje Krijtenburg
Promoting Kenya's exports: a country- and product-specific analysis	FSD Kenya and ODI
Data privacy and protection in Kenya: A regulatory review	Rob Reeve, Francis Gwer, Muriuki Muriungi, Paul Makin
How 2,000 Shillings is changing the narrative for Fisherfolk in Busia County	Eva Adongo
Reflecting on the 2021 FinAccess numbers	Tamara Cook

7 Financials

Income

FSD Kenya's accumulated surplus increased by KShs 89m from a carried forward balance surplus of KShs 708 million to close the year with an accumulated surplus of KShs 798 million.

Total programme expenditure for the year was KShs 796 million with operational expenditure being KShs 115 million

Financial Sector Deepening Trust Kenya

Income Statement -Unaudited

For the year ended 31st December 2022

	2022	**2021 Audited**
	KShs Millions**	KShs Millions**
INCOME		
Grants	742	861
Other Income	45	
Finance income[1]	9	9
Unrealised forex gains	90	30
Total Income	886	899
EXPENDITURE		
PROJECT EXPENSES		
Core Projects [2]	-	585
Designated Projects[3]	682	547
	682	1,132
ADMINISTRATIVE EXPENDITURE	**115**	**131**
TOTAL EXPENDITURE	**796**	**1,263**
Unrealised foreign exchange losses	-	-
TOTAL COSTS	**796**	**1,263**
SURPLUS FOR THE YEAR	**89**	**(364)**

Notes

*** Columns do not add up due to rounding*

4 FSD Kenya's **2022 team**

Amrik Heyer
Senior research advisor

Anzetse Were
Senior economist

Boniface Mbithi
Procurement specialist

Brian Cheruiyot
IT officer

Collins Baswony
Communications lead

Duncan Oyaro
Innovations specialist

Esther Muriithi
Finance and grant manager

Esther Murugi
Communications officer

Fausto Njeru
Finance and risk controller

Francis Gwer
Senior policy specialist

Francis Karugu
Results specialist

Geraldine Makunda
Research specialist

Hildah Gathaiga
Project manager

James Kashangaki
Chief programme officer

Jared Ochieng
Senior trade specialist

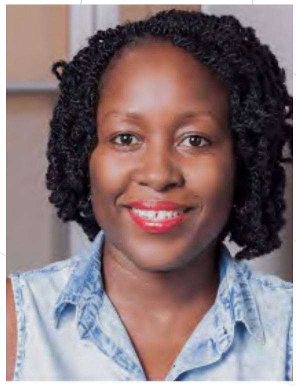
Juliet Mburu
Senior digital financial

Julius Anyega
Chief operations officer

Lucy Owano
Project manager

Lydiah Kamande
Office assistant/housekeeper

Lydiah Kioko Njuguna
Operations manager



Nancy Atello
Project manager

Ouma Olum
Climate finance specialist

Seeta Shah
Senior affordable housing specialist

Sylvia Nyamai
Procurement officer

Tamara Cook
Chief executive officer

Valerie Mukuna
Senior measurement and results specialist

Wanza Mbole Namboya
Senior economic inclusion advisor

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Creating value through
inclusive finance