



# Annual Report 2020

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**fsd**  
Kenya

Creating value  
through inclusive finance



**The Financial Sector Deepening Kenya (FSD Kenya) is an independent trust dedicated to the achievement of an inclusive financial system that supports Kenya's long-term development goals.**

We work closely with government, the financial services industry, and other partners to develop financial solutions that better address real world challenges faced by low-income households, enterprises and underserved groups such as women and youth.



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# 2020

## Annual Report

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## Letter from the CEO



**It is hard to believe it has been more than a year since the first COVID-19 case was confirmed in Kenya, forcing us to make many unanticipated adjustments about the way we worked.**

Most significantly, we had to shift to remote working. One year down the line I am immensely proud of our team for staying the course so far and maintaining our momentum despite the disruption of COVID-19.

Like many other organisations, we found our work greatly influenced by the pandemic. We have worked closely with partners and stakeholders over this last year to navigate the challenges of COVID-19 and generate research and data that could be shared with decision-makers to support their efforts towards inclusive economic recovery.

One of the first things we did was to conduct the 'Kenya COVID-19 Diaries,' a series of blogs and other outputs to help understand the impact of the pandemic on low-income Kenyans. We encountered numerous stories of heartbreak to say the least. The pandemic has decimated many micro, small and medium enterprises (MSMEs); many casual labourers no longer have work; education has faced interruptions; and tourism livelihoods have all but disappeared. Households shared stories of using their savings to store up food and supplies to help them deal with the risk but also how the economic slowdown and loss of local remittances was hurting their ability to manage day to day. Although some were able to access credit, many informal options like shopkeeper credit dried up. And although we knew that the pandemic would be hard on women, we did not anticipate just how gendered the impact would be.

To complement this more qualitative look at the pandemic, we also analysed market data to highlight the diverse impacts on the financial sector and broader economy. This data is contained in the 'COVID-19 Econ Data portal', which is accessible from our website. Another early initiative was to undertake a scenario-mapping process, not to predict, but to develop plausible scenarios of economic consequences of COVID-19. This was a helpful frame for considering the differentiated impacts of the pandemic, including on gender and the potentially growing digital divide. And in an effort to understand how Kenya is faring in comparison to other countries on the continent, we participated in a comparative 'COVID-19 tracker survey' across Kenya, Nigeria, Rwanda, South Africa and Uganda.

In Northern Kenya, our building livelihoods' project in Marsabit found ways to pivot the programme to serve the participants but also found that the project had already helped prepare the families to be more resilient in the face of the pandemic. Building on FSD Kenya's long support for social safety nets in Kenya, we worked with public and private sector players to encourage cash transfer programmes to support households across the country during the pandemic,



including a small pilot to deliver cash grants to parents of needy children and to youth micro-entrepreneurs. One experience that stands out to me was my August visit with the Gede Financial Service Association (FSA), which has struggled to restructure their one branch, their engagement with customers and the digitisation of their savings and loan collections. Their members have been very hard hit by the drop in tourism at the Coast and were only beginning to recover their businesses.

As we look back on this difficult year, we face the current reality and future with sobriety. As we focus on building back better, it is also important to build in ways that prepare for the next crisis and to apply approaches that ensure inclusiveness and resilience that are adaptable to future shocks when they do occur. There is also growing concern about how this pandemic could further exacerbate the divergence between the haves and the have-nots, leaving many struggling to survive, much less thrive. We must find ways to ensure that the most vulnerable – children, the elderly, people with disabilities, and women – do not fall through the cracks. Although the first vaccines have now arrived in Kenya, we are still a long way off from national coverage.

We believe that inclusive finance—which to us means having a financial system that delivers useful, affordable, and trustworthy financial solutions to low-income households and MSMEs in ways that help them manage day to day, deal with risk and invest in the future—will play a crucial role in the country’s inclusive economic recovery.

At FSD Kenya, we are committed to running this marathon alongside others, building on lessons from the past year to seek ways for inclusive finance to be part of the solution to help see Kenya through this pandemic as well as future and longer-term crises such as climate change.

**Tamara Cook**

Chief executive officer



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# FSD Kenya's approach and strategy

**The Financial Sector Deepening Kenya (FSD Kenya) is an independent Trust dedicated to the achievement of an inclusive financial system that supports Kenya's long-term development goals.**

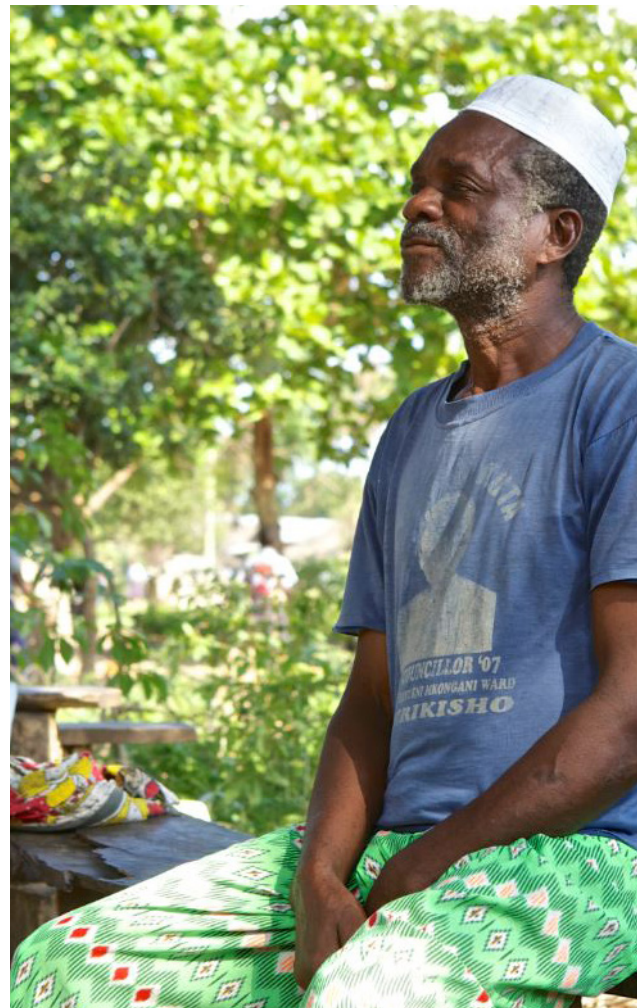
While significant progress has been made in increasing access to finance in Kenya, there is still much to be done to unlock the promise of a truly inclusive financial system and develop financial solutions that better address the real world challenges faced by low-income households, enterprises and underserved groups such as women and youth. We recognise that low earners already participate in the economy. However, they are often constrained by inadequate access to useful, affordable and trustworthy financial services. Finance only matters if it helps Kenyans grow, keeps families from going hungry, protects our world, and gives people tools to improve their lives. Towards this end, we seek financial solutions that address real world financial problems. We aim to unlock barriers in areas such as agriculture, health, education, and trade, as well as emerging priorities like affordable housing and climate change. We also aim to leverage the emerging opportunities in the growing digital economy while also mitigating the inherent risks.

We continuously seek to unlock opportunity by understanding the constraining issues and partnering with relevant market players to find solutions that best address the needs of individuals, households, and small-scale enterprises. We work closely with Government, the financial services industry and other partners across key economic and social sectors. These partnerships vary significantly depending on the need at hand. They may involve FSD Kenya offering technical assistance, commissioning relevant research, financing substantial programmes of activities, providing policy advice, or simply collaborating where we find shared interests in our quest for an inclusive financial market that helps Kenyan achieve better livelihoods, as well as increased value from finance as an enabler of prosperity.

FSD Kenya is in the process of creating its next strategy for a facilitative market development programme in inclusive finance for the period 2022 - 2026. FSD intends to build on work previously done making financial market systems more inclusive and responsive to the needs of Kenyans by making finance really matter. COVID-19 has eroded gains previously made by the programme and this strategy will aim to redress this. The 2022 - 2026 strategy will set the agenda for the programme

to intervene in impactful financial market system areas in the wake of efforts to recover and rebuild from COVID-19, even as we face continuing uncertainty, growing inequality and a dynamic political economy.

FSD Kenya was established in 2001 to support the development of inclusive finance as a means to stimulate wealth creation and reduce poverty. In 2005, FSD Kenya was constituted as an independent Trust. We operate under the supervision of professional trustees, KPMG Kenya, with policy guidance from a programme investment committee (PIC). Our core development partners are the UK's Foreign, Commonwealth & Development Office (FCDO), the Swedish International Development and Cooperation Agency (Sida), and the Bill & Melinda Gates Foundation.





## 2020 in review

### Financial resilience in the context of the COVID-19 pandemic

**2020 was defined by the COVID-19 pandemic and the related health and economic fallout.**

The economic impact of COVID-19 had diverse and specific effects on demographic groups and sectors. On one hand macroeconomically, Kenya demonstrated resilience compared to peer economies seen in relatively low inflation rates and a less pronounced economic contraction. However, the sectoral impact of COVID-19 was pronounced particularly hitting tourism, accommodation, and food services; education; wholesale and retail trade; and manufacturing. The bulk of these sectors are labour intensive with the manufacturing sector being an important source of formal employment. This led to income divergence and economic dualism with short-term resilience at the middle- and upper-income layers, juxtaposed with an increasingly vulnerable swathe at the bottom of the income pyramid. Low-income Kenyans faced

heightened social and economic insecurity including food insecurity for the poorest and most vulnerable populations.

A key silver lining was the exceptional performance of diaspora remittance inflows which were strong in 2020 despite the devastation of COVID-19 in the source countries. Remittances rose to a record high of US\$3,094 million in 2020, from US\$2,796 million in 2019, an increase of 10.7%; the value of remittances from North America was exceptionally strong. However, this did not seem to feed into broad financial resilience because of the selectivity of recipients of international remittances. According to FinAccess 2019, only 4% of adults (1 million adults) receive international remittances, compared with 87% (21 million) who rely on domestic sources. This means that international remittances did not translate into a stimulus or safety net for low-income households.

### Gendered economic impact of COVID

**As 2020 progressed, the gendered impact of COVID-19 became evident with women and girls disproportionately hit.**

This is due to several reasons such as the fact that women are highly informal in their economic activity which locks them into lower paying and lower productivity activities. Further, most workers in the informal sector are not protected through labour laws and social benefits. Interestingly, because of the relative flexibility of the informal economy, women were able to keep earning through the COVID-19 crisis though still at lower levels to men. Women’s pressure to earn left a gap in household care, with implications for childcare, the elderly, and invalids. Despite the pressures to earn, women saw increases in unpaid care and domestic responsibilities due to extended school closure and cultural norms that consider children to be the responsibility of women.

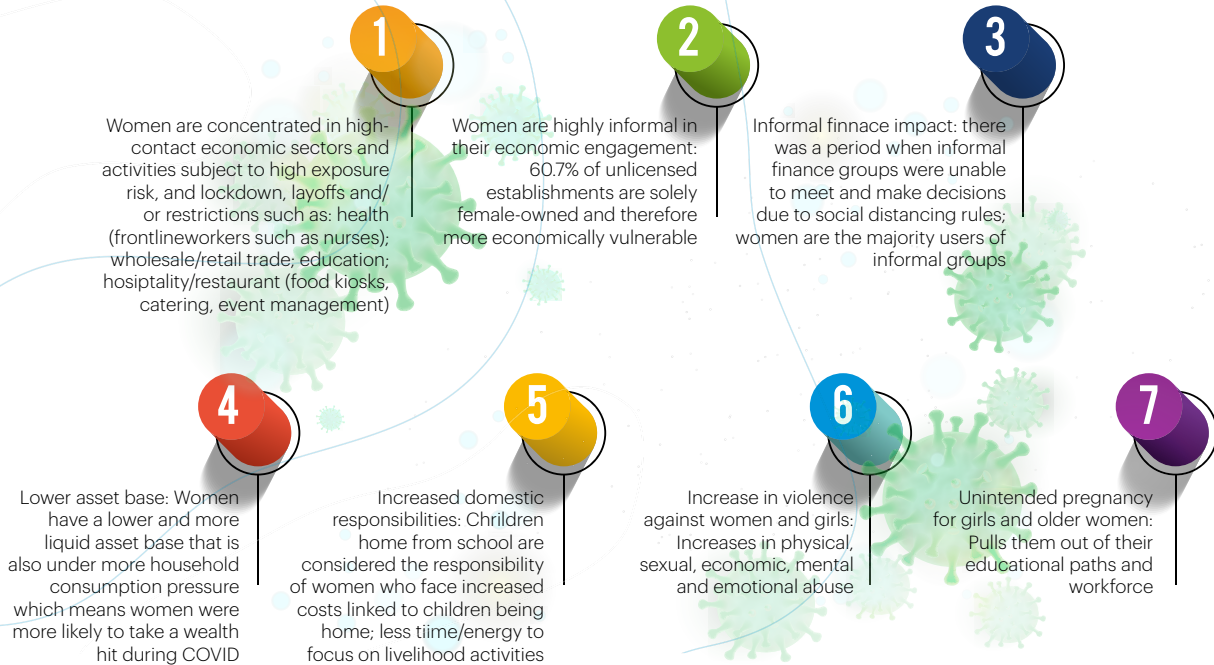
women and girls including domestic violence, sexual violence, femicide, sex trafficking, sexual harassment, coercion by landlords to vacate the houses, denial of access to Gender Based Violence and reproductive health services, stigma, and attacks on health care workers. Sadly, access to justice for women who were victims of abuse and violence during the pandemic was a serious challenge as the court system was not operating fully.

For girls, the closure of schools meant extended periods of stay at home and for those in abusive domestic spaces, limited freedom of movement meant long-term exposure to physical abusers and sexual predators. Sadly, girls were also unable to report cases of child abuse as these reporting services are often domiciled in school. This explains the increase in cases of child pregnancies reported during the COVID-19 period. Additionally, school closure meant girls from low-income homes did not have access to school meal programmes or the provision of sanitary products through schools. The table below summarises the gendered impact of COVID-19:

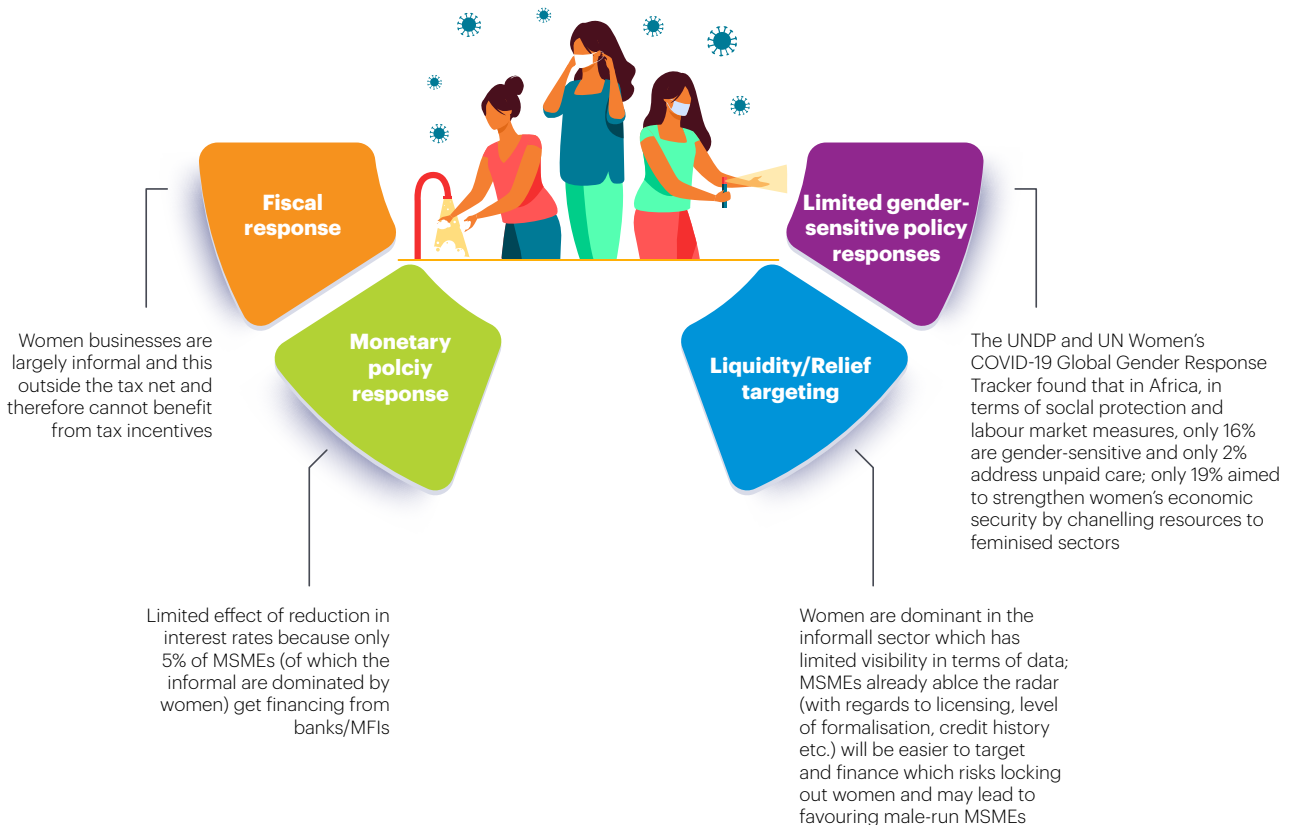
A 2020 study by the Presidential Policy and Strategy Unit (PASU) revealed that girls spent more time on chores including cooking, cleaning, collecting water or firewood, or washing clothes compared to boys. UN Women also reported an increase in violence against



# Covid-19 Impact on Women



# Limitations of COVID-19 Policy Reach to Women





# Impact of Covid-19 on Households, and Micro and Small Enterprises

**The promise of digitisation in the context of COVID-19 was clearly demonstrated and leveraged in 2020 due to 3 mains reasons:**

1) Social distancing protocols, government policies and remote-working norms, have translated to many turning to digital channels for work, purchases, and leisure; 2) Due to these factors the Information and Communications Technology (ICT) sector had positive prospects for continuity and recovery; and 3) The ICT sector has and will continue to play a critical role in Kenya’s response to the pandemic. For example, in 2020 there was a significant increase of mobile money usage particularly over the period when the Central Bank of Kenya (CBK) instituted emergency measures for mobile money. Monthly volumes of person-to-person transactions increased by 87% between February and October 2020; the volume of transactions below Kshs1,000 increased by 114%; and while 2.8 million additional customers were using mobile money. Business-related transactions also recorded significant growth over the same period. Between April and September, the number of accounts increased by more than 6% or 3.6 million new accounts.

This was likely informed by a combination of: 1) Individuals and firms pivoting away from cash to mobile money due to COVID-19; 2) Tariff reductions on p2p transfers increasing liquidity in the ecosystem; 3) Signs of slight economic recovery from Q2; and 4) People cashing out any savings they had built up in digital wallets.

However, 2020 also led to digital divergence in the context of COVID-19 with internet usage strongly correlated with income level. There were significant increases in internet usage reported in higher income groups, but lower income groups (monthly household income below KShs 15,000) were more likely to reduce usage due to economic constraints. Therefore, it is important that as digitisation continues to be leveraged as a key response to COVID-19 that strategies are cognisant of: 1) The levels of access to digital tools at firm, household and individual levels; 2) financial inequality which informs digital participation; and 3) levels of digital skills. These three factors will inform income and economic inequality and the accrual of benefits along a spectrum of digital access, capabilities, and financial bandwidth.

## How have households and firms weathered COVID-19<sup>1</sup>?

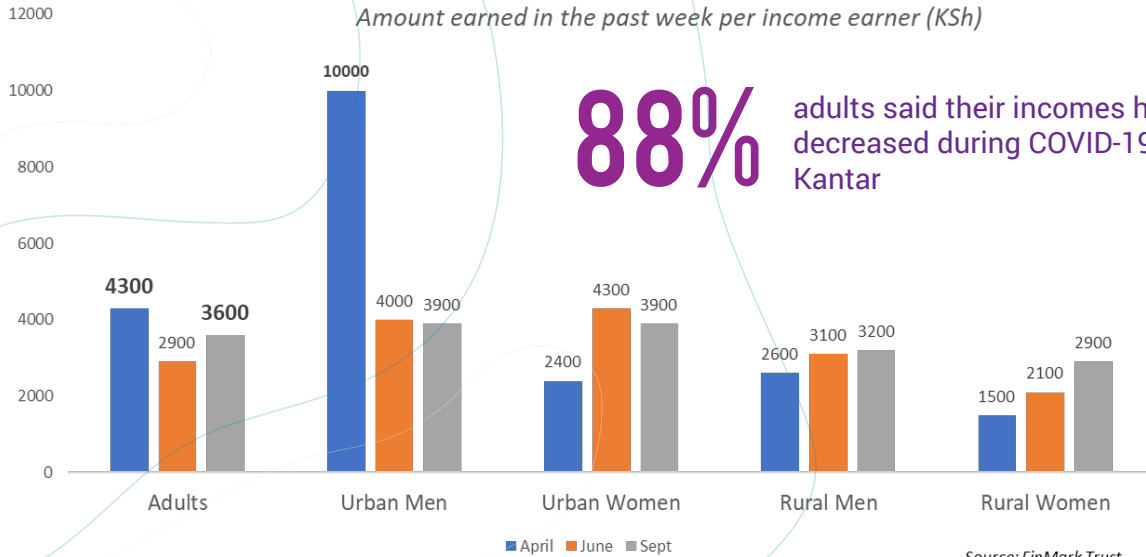
**As events unfolded in 2020, there was a growing divide between those who were able to rely on assets, social networks and livelihoods to remain afloat- or even profit from new investment opportunities; and those who spiraled into deeper poverty<sup>2</sup>.**



<sup>1</sup> 'Weathering the COVID storm' FSD Blogs 2020  
<sup>2</sup> World Bank 2021 ([COVID19econdatakenya: Covid19tracker.africa](https://www.worldbank.org/en/news/press-release/2021/01/27/covid-19-recovery-africa))



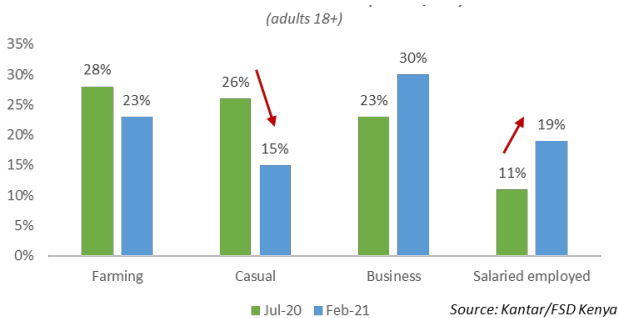
### Trends in weekly income (2020)



**88%** adults said their incomes had decreased during COVID-19. FSD/Kantar

- As the year progressed, more working adults were competing for a smaller slice of the pie, indicating a **'race to the bottom'** in labour markets;
- Lower-paid **women wage earners were out-competing men**, taking on more responsibility for earning household income along side their unpaid household work
- Pressure on jobs was particularly acute in Nairobi; **urban men were especially hard hit**
- There was a 19% increase in those depending on farming for a living, corroborating data from COVID-19 Diaries which found that agriculture provides a cornerstone of resilience for both rural and urban households in times of stress

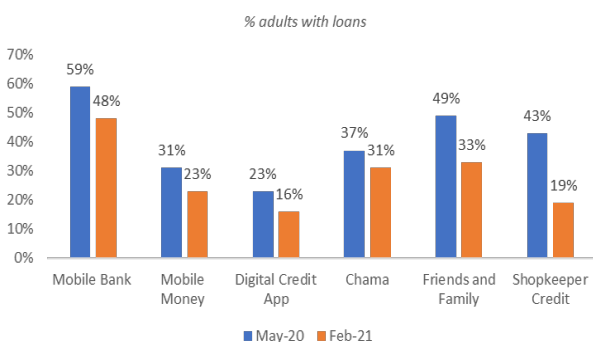
### Urban income sources (2020/21)



By the beginning of 2021 changes in income sources showed a **dual pattern of recovery especially in urban areas:**

- Salaried employment was 'bouncing back'** providing jobs for higher income earners; but opportunities in **casual work** (a key source of income for lower-income households) **had substantially reduced**
- Reduced opportunities in labour markets **pushed more people into self employment** putting pressure on a sector which has already been hit by low customer demand; **those with capital and connections are likely to succeed but many others will go under**
- Over the course of 2020 there was little change in the percentage of the population with loans (72%); however, people were borrowing from fewer sources
- There were substantial reductions in shopkeeper credit and loans from friends and family, emphasising the hit to the informal economy
- Mobile banking loans remained the most prevalent, testimony to the importance of digital technology in providing access to credit

### Changes in top sources of credit 2020-21



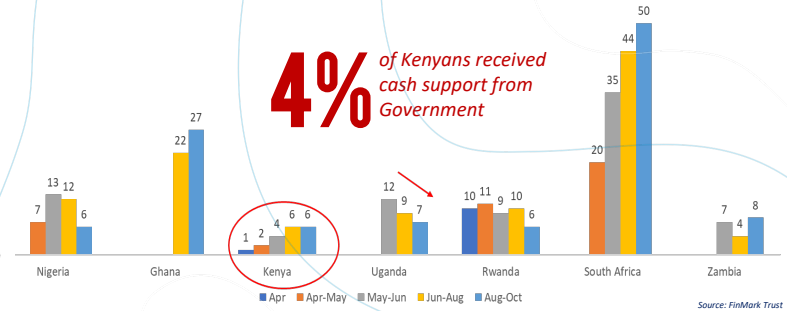


## Remittances and sources of support

Trends in weekly income (2020)



% Adults reporting that household received government support in past 30 days



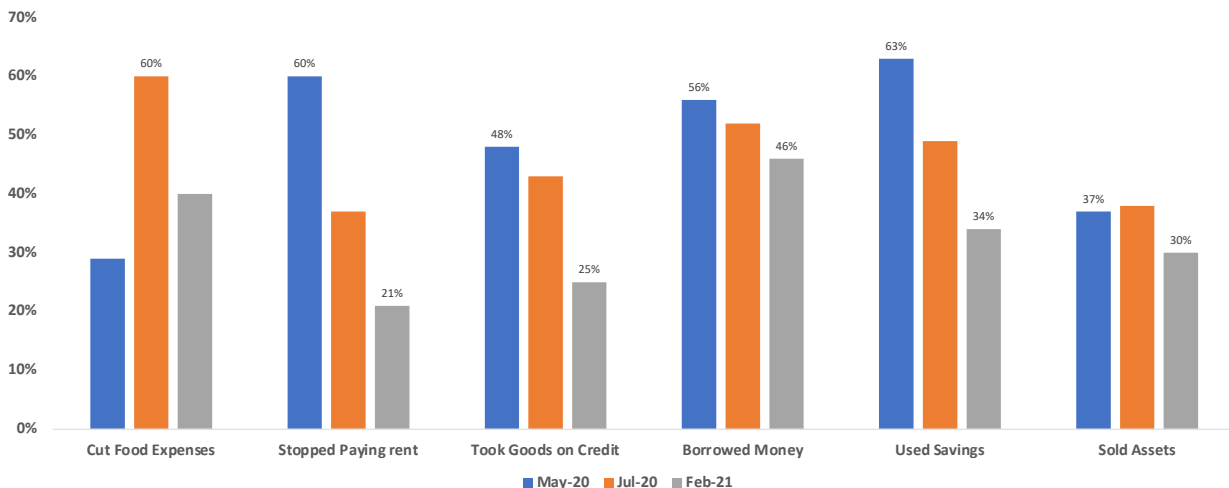
**4%** of Kenyans received cash support from Government

In the absence of support from government and private sector, **Kenyans relied primarily on social and mutual finance to support them through COVID-19.**

- **4% of Kenyans received cash support from Government, lower than many other African countries**
- With everyone in the social network under stress, **remittances received declined by 40% between April and September 2020.**

- This put tremendous pressure on the middle layers of the economy, especially **landlords and shopkeepers who were bore the brunt** of these deficits through accumulated rent arrears and goods given on credit.

## Coping Strategies



Source: FSD/Kantar

**Changes in coping strategies indicate an overall decline in household resilience:**

- Between May 2020 and Feb 2021, the reliance on household savings as well as on shopkeepers and landlords (goods on credit/rent arrears) declined substantially, likely because these **traditional coping strategies were no longer available**
- Households continued to rely on a spread of formal and informal loans, demonstrating the resilience of

borrowing as a coping mechanism. However, in the context of reduced incomes, **accumulated debt (along with continued asset sales) is testimony to an overall decline in household resilience**

- Cutting food expenses peaked during the 2020 lockdown but reduced again by the beginning of 2021, a possible indication of some recovery in income sources



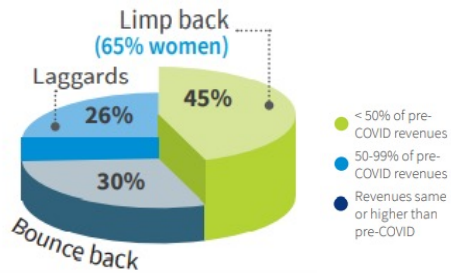
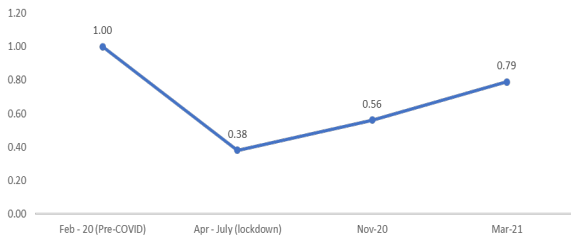
# How has COVID-19 impacted on small firms?

## Results from FinAccess MSE COVID-19 Tracker Survey

Small firms provide employment for 17.5 Million adults aged 18+ and contribute 24% to GDP<sup>1</sup>. Small firms were especially hard hit by COVID-19. The economic restrictions imposed from March as a consequence of the pandemic curtailed business operations and reduced customer demand. At the same time, measures

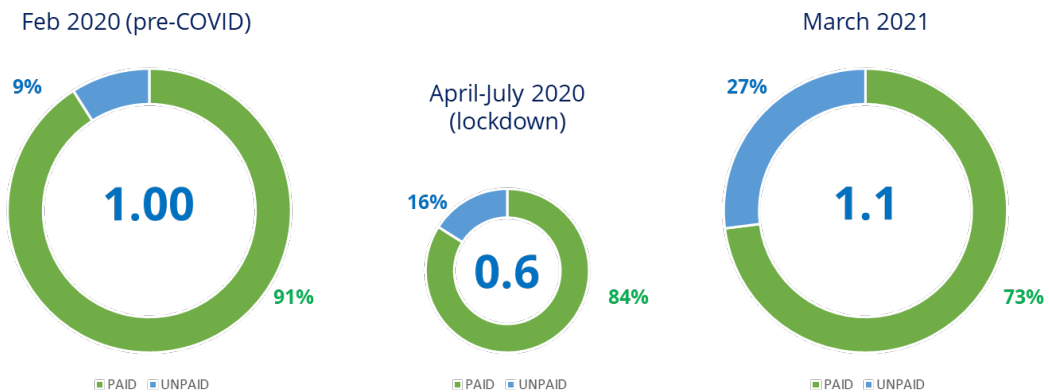
put in place to protect firms did not reach those at the micro and informal end of the economy. By the end of 2020, despite more people returning to the workforce, lower wages, depleted safety nets and ongoing liabilities meant that demand was still low, with small firms bearing the brunt of the economic slowdown.

### The hit business revenues during COVID-19



- **Business revenues took a substantial hit during the 2020 lockdown** (April- July)
- **30% of businesses had recovered fully by March 2021**, earning the same revenue or a higher than they did in February 2020
- However, **45% were operating at less than half of their pre-COVID-19 revenues**, evidence of increasing levels of bifurcation in the small business sector
- **The biggest challenge facing businesses continues to be reduced customer demand**
- There was a **40% drop in staff employed** by businesses during the lockdown
- **By March 2021, staff employment had recovered to pre-COVID levels**
- But a larger share of employment in March was unpaid, indicating a **reduction in the quality of jobs**

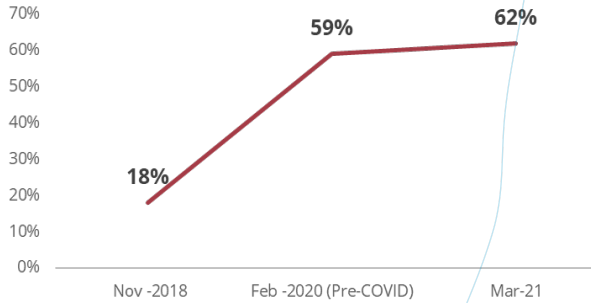
### Staff Employment index





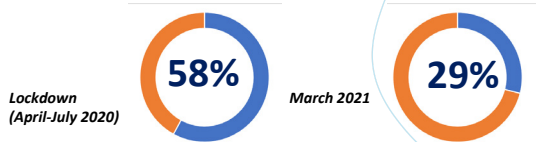
### Digitisation of Business Payments

% businesses using mobile money for business transactions

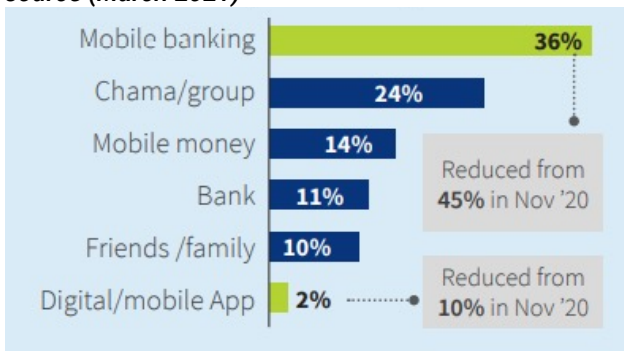


- **The shift to use of digital payments for business transactions happened pre-COVID-19** increasing from 18% at the end of 2019 to 62% by March 2021
- **During lockdown (2020) there was a surge in customers paying digitally** compared with pre-COVID levels, but this had subsided by 2021
- There was a 34% increase in use of SMS & phone calls to reach customers in the 2020 lockdown, but very little increase in the use of online platforms or social media

### Increase in Customers Paying Digitally Compared With Pre-card



### Percentage of MSE borrowers by Loan source (March 2021)



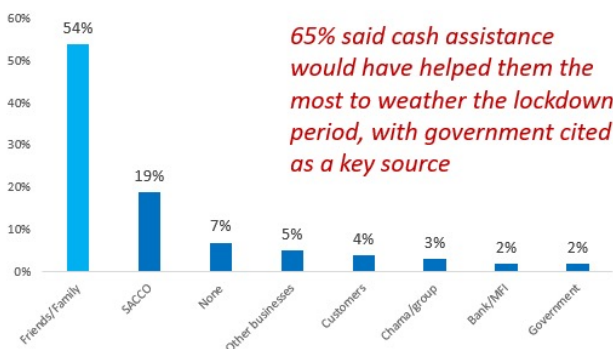
**43%** of MSE had loans in March 2021, dropping slightly from 45% in 2020.

There was a significant drop in digital borrowing between November 2020 and March 2021, except for digital overdraft facilities e.g Fuliza.

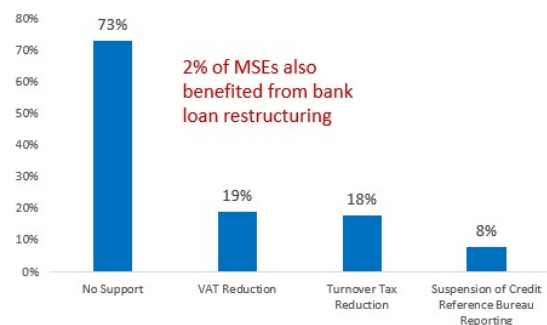
## How has COVID-19 impacted on small firms?

### Results from FinAccess MSE COVID-19 Tracker Survey

#### Main source of support during 2020 lockdown



#### Government measures cited by MSEs as benefiting their business during lockdown

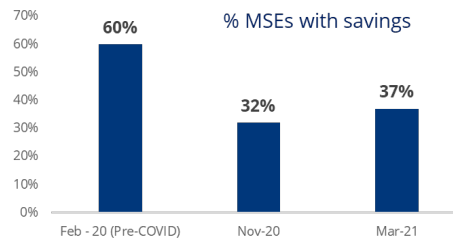
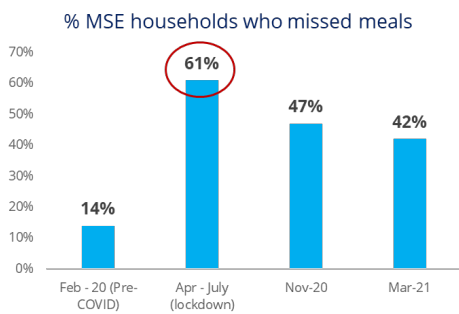




**In the absence of external support, businesses continued to rely on social networks during the 2020 lockdown**

- The biggest source of support being friends and family.
- SACCOs, a key source of finance for MSEs, were also cited as a major support

- Nearly a fifth of businesses said they benefited from government measures to reduce the impact of lockdown (e.g. VAT and TOR reductions).
- However, **the vast majority (73%) said they received no support from government**



% of business closures



**MSE Resilience remains a key concern**

- **Food insecurity quadrupled during COVID**, and remains substantially higher than pre-COVID levels across all MSE households
- **The percentage of MSEs with savings halved during the 2020 lockdown.** Despite indications

of recovery since then, the percentage with savings has only increased marginally, indicating that resilience of MSEs is still a key concern

- **20% of businesses active in Feb '20 had closed by March 2021.** Of these, 11% had closed during the 2020 lockdown and 9% (who survived lockdown) closed between November and March

**The squeeze on businesses**

**40%** of businesses cited increased cost of supplies as their biggest challenge with suppliers



**63%** of businesses did NOT increase their prices for customers; in addition they shouldered a 15% increase in credit outstanding to customers

**MSEs have borne the brunt of COVID-19: squeezed between suppliers and cash-starved customers....**

- 40% of businesses cited increased cost of supplies as a key challenge
- 63% of businesses did NOT increase their prices for customers
- **There was a 15% increase in the value of credit outstanding to customers during 2020**



**MSEs are a critical component of Kenya's economy and an important engine of inclusive growth and development.**

With 19% of the population deriving their livelihood through small scale business, MSEs contribute significantly to household income and national productivity as well as improving access to goods and services through their role in local economies. Shopkeepers for example, provide a last mile distribution point for hard-to-reach markets, selling goods on flexible terms (including offering goods on credit), to low-income households with precarious incomes. Partly due to their informality, however, MSEs continue to face numerous challenges not least of which is their invisibility and neglect by public and private sector. With limited investment in infrastructure, capacity and skills to support their operations, the productivity<sup>1</sup> and value of MSEs for households and the broader economy is weakened. Recent policy initiatives reflect growing interest in MSEs, recognizing that MSE growth and resilience is a key priority.

To better understand how public and private sector can improve productivity and conditions for MSEs, the SME Advisory at the Office of the President and FSD conducted a [deepdive into small businesses in the Nairobi CBD](#). The study found that Nairobi's MSEs are highly diverse and make extensive use of both formal and informal relationships. A key insight from the study is that formality is multidimensional. An MSE may, for example, operate without a county permit or business registration, but may have a formal bank account and be a paid member of a business association. Similarly, an MSE may have a business registration but may conduct many of their operations through informal arrangements

with customers and suppliers. Indeed, the most valued relationships for the MSEs we interviewed tended to be more informal, based on mutual interest, trust, long-term interactions and mutual support. Top among these were customers and suppliers, with MSEs often accessing trade credit from suppliers which is crucial to business operations. Conversely, relationships with government tended to be seen as purely extractive, based on fees and revenue payments with little benefit in return. Among the recommendations from the study was that greater transparency and streamlining of fees, licenses and revenues as well as investments by government in better market infrastructure and services would demonstrate a mutual value proposition and encourage businesses to formalize. In turn, formalization would create more visibility which would also help to target investment in businesses through better data on their operations, and a better understanding of business value and the challenges businesses face.

Similarly, the study found that formal finance could add substantial value for businesses, for instance through digitization of business payments, which improve record keeping and enable businesses to develop an information trail that can be leveraged to access credit. At the same time, informal financial relationships have more flexibility and understanding of the challenges faced by businesses as well as less onerous terms and conditions. The study concluded that understanding the value proposition of both formal and informal relationships was important in helping public and private sector to innovate and develop better policies and solutions to support MSEs, and their contribution to welfare and growth.



<sup>1</sup> According to the State Department for Industrialisation, MSEs contribute 24% of GDP



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## Mitigating the Locust Losses

**Kenya, and her neighbouring countries like Somali and Ethiopia have in last few years continued to suffer considerable locust invasions, leading to losses of vegetation cover (crops and pastures).**

Locusts, the most dangerous migratory pests in the world, were last significantly experienced in Kenya 70 years ago. Locust invasions can devastate national food security, disrupt livelihoods for the majority of households that primarily rely on agriculture, as well as undermine national economic growth for agrarian economies like Kenya. The government and development partners have rolled out programmes like early warning mechanisms, scouting, and ground and air chemical spraying. The government through the Ministry of Agriculture, Livestock, Fisheries and Cooperatives announced KShs 3 billion to fight a possible second locust wave through locust control and livelihoods support. The expected magnitude of losses is hard to ascertain since instruments for predicating locust movement are limited and can sometimes make inaccurate projections.

National programmes like spraying or social safety nets such as access to inputs like seeds and fertiliser can mitigate locust impact on households and responses can be efficient through robust loss assessment to aid equitable distribution. Farmers accessing agricultural credit or using self-finance to fund agricultural operations might lack the incentive to invest. Similarly, investors like credit providers have low risk appetite to invest in farmers due to such risk. Insurance is a potential risk mitigation strategy that can spread the risk through insurers and reinsurers. However, lack of experience in underwriting locust risk and the covariant nature (can happen at large scale and at the same time) of locust risks, disincentivises the underwriters from taking the risk.

In Kenya, some insurers and reinsurers agreed to take on locust risk but capped the cover at 30% of the locust loss per farm. FSD Kenya supported Pula Advisors, a Pan African specialised insurance agency, to develop a locust risk assessment methodology as well as start to develop evidence that can inform how a stop loss insurance can be developed to incentivise higher risk taking for covariant risks like locusts. Pula extended locust cover for selected farmers insured under the Area Yield Index Insurance (AYII) implemented under the National Agriculture Insurance Scheme which is



supported by the Kenyan government. The scheme subsidises insurance premiums.

Following the first experiment in the 2020 short rains, the use of sampling methodology under AYII led to inaccurate capture of locust risk that matured in several farms, particularly in the Upper Eastern zone. Unlike weather risks that can occur on a large homogenous area, locust risk can be very localised to individual farms. This necessitates a rethink of loss assessment models from the current sampling methodology. Pula is testing an enhanced risk assessment model with a self-reporting component to complement the current sampling framework. The verified self-reported farms will be included in crop-cut experiments for sample determination.

One of the efficient ways that public participation is harnessed for covariant risks is through stop loss insurance covers. This is common for areas prone to major risks like earthquakes, floods, fires and even droughts or excess rainfall. These treaties cover losses once they exceed set thresholds. Public engagement could be through payment of reinsurance premiums or budgetary allocation to cover such losses. Such mechanisms have not been ratified in Kenya. However, for several years, the government has insured pastoralists to cushion livelihoods of selected vulnerable households in several arid and semi-arid counties. It is viewed as an efficient means of responding to drought as opposed to mechanisms like fodder issuance. Comparable mechanisms have been developed by the government to respond to hunger through cash transfers as opposed to food rations. For locust stop loss mechanisms, insured farmers would receive insurance payments to respond to locust losses. The mechanism would incentivise insurers to increase the level of coverage from the current 30%.



5

## Transforming retail and agricultural value chains through technology

**In the past couple of years, Kenya's retail sector has been going through a rough patch that has seen the collapse of big retail outlets such as Tuskys, Nakumatt and Uchumi, as well as smaller lesser-known outlets.**

This has largely been attributed to issues such as lack of/expensive working capital, delayed payments to suppliers and workers, mismanagement, corporate governance issues, etc.

Moreover, notwithstanding the enormous opportunities that lie in Kenya and that agriculture contributes to or is part of, dependency on traditional analogue value chain systems alone is no longer viable. Under the Government of Kenya Agricultural Sector Transformation and Growth Strategy (AST&GS) 2019-2029, Kenya has embarked on an ambitious decade-long agricultural transformation plan. The plan involves modernisation of production into on-farm market led production and shifting towards formal value-based actors engagement, the attainment of which has digitisation at the core as an enabler to value chains productivity, efficiency, and employment creation in the sector.

To help address some of the above issues, the Trade Facilitation Public Private Partnership (PPDP) Project funded by the Embassy of Sweden in Kenya through Financial Sector Deepening Kenya (FSDK) has been working together with [RetailPay Ltd](#), a homegrown Kenyan technology solution provider, through its web-based portal which allows end-to-end product visibility from the supply/production point to the point of sale.

The platform has two elements: (i) addressing the supply-chain issues faced by retail stores (dubbed RetailPay) and (ii) addressing the digital integration of farmers and upper-level value chain actors and intermediaries into value-chains to enhance market linkages (dubbed Cultiv8 – and simply referred to in the field as “cultivate” for easy pronunciation by farmers).

So far, 370 smaller scale retailers have been connected directly to 81 suppliers who provide them access to working capital financing by issuing them with goods on a consignment sales basis. The suppliers then receive

[real-time settlements](#) once their products are sold at the partner retail outlet eliminating the risk of late payment and non-payment.

To extend the platforms' benefits to the informal smallholder farmers and intermediary agricultural value chain actors, so that they too can harness the power of technology and data; in the coming year we shall leverage the same core technology for the agricultural value chain element/module (Cultiv8), by reorienting the relevant technology components to fit the requirements of the agricultural value chains. The core investment in implementation during the year is intended to support the full digitisation of all the critical actors in the selected value chains, without whose involvement success will not be possible.

The market already addressed can be prospectively expanded beyond the domestic to reach export markets by leveraging this domestic trading platform. Kenya Export Promotion Agency (KEPROBA) - the government PPDP partner - has the mandate from government to promote export and will, in the coming year be working on an exporter e-portal that will link Kenyan SMEs to the wider export market. If a viable trade platform and associated finance system can be created, these two platforms could be linked, opening the potential for greater inclusion.

Kenya National Chamber of Commerce and Industry (KNCCI), another of the PPDP partners, has a national network with presence in all counties giving extensive reach for the selection and integration of value chains from select counties into the successfully implemented platforms.

For sustainability, we ensure the trade system in the selected value chains evolve in a way that it only allocates value to actors in line with the value they have added within the system; and by breaking down information asymmetries since with a fairer allocation of value, actors will be more likely to have sustainable enterprises able to contribute to productivity, competitiveness, and inclusive growth.



6

# Social protection: Inua Jamii

## FSD Kenya has been engaged in supporting the digitisation of government payments over the last ten years.

The key driving factors for this engagement being the direct impact on the government’s effectiveness in delivering its core services, whether paying out or receiving payments for taxes or services. The government is the largest single user of payment services in the economy. This matters because it gives the government an instrument to help move towards a digital payments economy and universal financial access. Both of these are explicit government policy objectives directly related to financial inclusion.

Perhaps nowhere is this more important than in the delivery of social protection payments which target the poorest. During the past decade, transformative change has been achieved in Social Protection through innovative payment solutions under the Inua Jamii programme. Among the innovative solutions launched are:

- i. Choice** – In the early phase of the programme, beneficiaries were allocated payment service providers based on the programme under which they were registered, and in many cases had to travel long distances to collect their benefits. Through the choice model, beneficiaries are now able to choose from the four contracted Payment Service Providers (PSPs). This has dramatically reduced the cost of travel, enhanced competition, and improved liquidity. It has also led to improved customer service as the PSPs are aware that the beneficiaries have the option to switch. Although the programme provided for the opportunity to switch PSP, the same was not fully operationalised under the current contract and has been incorporated into the next phase of Inua Jamii.
- ii. Differentiated pricing** – Through zoning of the country into urban, rural, and remote areas, the Inua Jamii programme was able to introduce a differentiated pricing model to incentive PSPs to provide financial services to the remotest parts of Kenya. This ensures that social protection benefits could also be enjoyed in across the country and not just in the urban centres where it was profitable for the PSPs. By introducing competition in each of these zones, the government was able to exert downward pressure on the prices in each zone.

**iii. Biometric authentication** - The deployment of digital technology through a two-factor biometric authentication model has allowed the delivery of social benefits to the targeted recipients in a secure way. This has greatly reduced leakages that had been prevalent in previous programmes.

**iv. Proof of life** – The deployment of a proof life module has enabled the government to quickly determine the aliveness of beneficiaries and ensure further transfers are curtailed and rerouted to other deserving households.

The Inua Jamii model proved invaluable during the COVID-19 crisis as the government was able to leverage the platform to rapidly and securely disburse funds to needy households. The social register under Inua Jamii also proved critical in supporting development partners who provided additional support during the crisis.

It is reassuring that the government has committed to expanding the Inua Jamii programme as well as extending it for the next three years and beyond.

In the next phase FSD Kenya is working on an exclusion study focused on the last mile. The outcomes of this study will be used to explore the feasibility of innovative models that can serve the remotest locations of Kenya and provide useful pointers as to how policy and incentives can be leveraged to extend financial services to excluded populations, including effective responses to the challenges faced by vulnerable segments in urban areas as well as those in the remotest parts of the country which the COVID-19 pandemic has helped to expose.





# 7 Tackling affordable housing

**A shelter is a basic human requirement, housing forms a central feature of the real economy.**

Currently, most of the housing stock in Kenya is contained in sub-optimal conditions (either overcrowding, lack of access to water and sanitation, or very poor construction materials). In Nairobi alone, 60% of the population is housed in informal settlements, due to the ‘affordable’ rents in such structures, and proximity to work. Indeed, a 2005 UN report concluded that in emerging countries around the world, “adequate housing is unaffordable and affordable housing is inadequate.”

Housing contributes greatly to the Kenyan financial system, as rents or mortgage payments constitute one of the most significant expenses of a household. Housing serves as a private asset (enabling social, economic, and financial outcomes for households) and a national asset, promoting economic growth and job creation, financial intermediation and sustainable human settlements. If done correctly, housing can contribute positively to at least 14 of the Sustainable Development Goals (SDGs). While the Kenyan housing landscape is a leader in the region (with a priority national programme launched by the government in 2017, availability of land, building

materials and developer experience, deep capital markets and an innovation and technological hub), the potential for scale is not being realised. And without scale, affordability cannot be achieved.

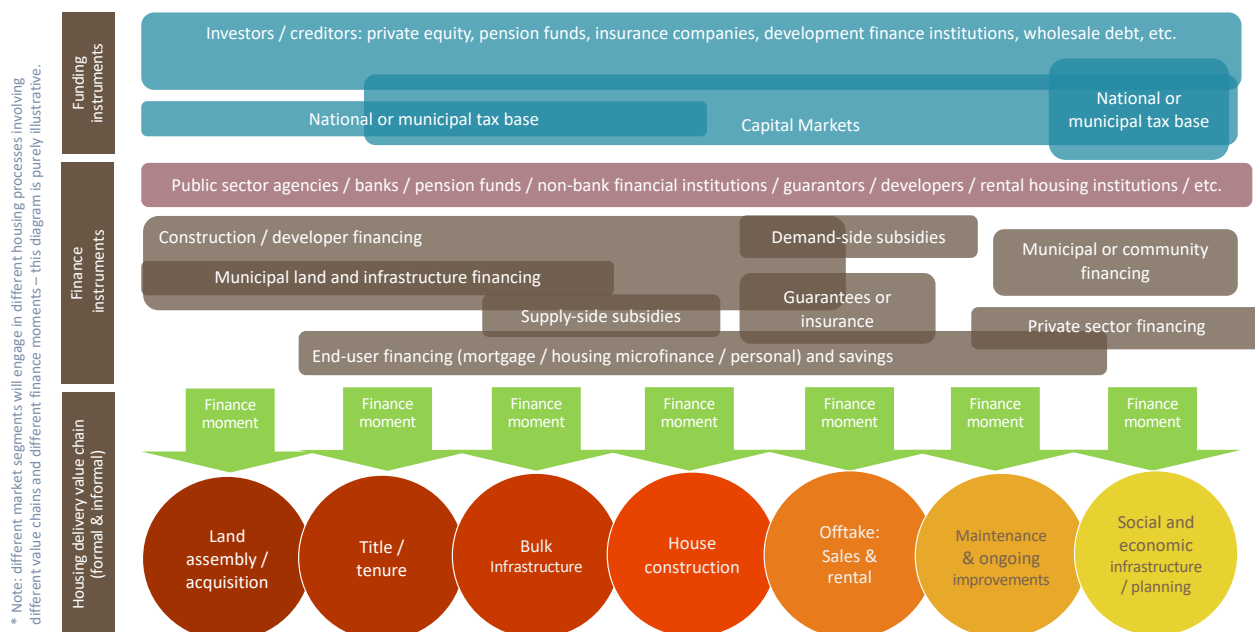
The FSD Network Affordable housing strategy was developed in conjunction with the Centre of Affordable Housing Finance in Africa (CAHF), and built around the Housing Value Chain framework, which is very long and complex. Affordable housing can only be delivered if each component, from land assembly, clear tenure rights, infrastructure, construction, and long-term management are aligned with the appropriate target market, financing instruments and conducive regulatory frameworks.

Lessons from existing housing interventions by government, development finance institutions and private sector players show that the success of the ‘housing unit delivery’ approach is often less than expected. Further, while finance is required, it is often not the key limiting factor, and the forms in which finance is provided are misaligned to market realities of what is required.

## Housing value chain is long and complex

### Therefore requires

- Appropriate regulatory support and finance at each step
- Shift in focus away from delivering units, to supporting the transformation of the ecosystem





# What are the overall constraints within Kenya's affordable housing market?

Complex value chain constraints are expressed differently in different sub-markets



The scale of the housing deficit is staggering: The FSD Network strategy estimated that Kenya requires 9 million housing units over the next 20 years, requiring an investment of KShs 4.5 – 9 billion (using modest delivery costs of KShs 0.5 million to 1 million per housing unit), which is clearly beyond the capacity of any single player or group of players.

The FSD Network has therefore agreed on three principles for its Affordable Housing Strategy:

1. To use our investment as an opportunity for action in learning and share our findings to leverage our collective capacity.
2. To promote an open-source culture which promotes information sharing so that stakeholders leverage their existing resources with the experiences of others, and;
3. To work across the spectrum of housing sub-markets, and explicitly promote both homeownership and rental tenures and hybrid rent to own structures.

The key interventions underway by FSD Kenya are to:

- a. Promote the digitisation of land information management systems, in partnership with Laikipia and Makueni Counties. Digital land information systems can transform housing markets from providing means to collateralise land assets, enabling efficient collection (and hence re-investment) of land-related revenues

by counties to be reinvested into infrastructure provision, and reducing the cost and time of land related processes.

- b. Promote climate smart solutions for housing working with a wide range of stakeholders including Kenya Green Building Council.
- c. Design financial products to promote affordability and better housing conditions particularly by small landlords.
- d. Launch an Affordable Housing Working group, together with CAHF, as a way to use the combined power of all stakeholders' experiences and resources to overcome the value chain failures.

There are still significant challenges to delivering affordable housing and finance solutions that support affordable housing. These include very high taxation and regulatory costs, and lack of coordination between all the public institutions required to be involved in the delivery. However, using investments as action learning, and bringing together other players to do the same, will enable obtaining accurate data which can be used to inform better policy and investment decisions.

The goal is to demonstrate the feasibility of investing in different housing solutions with deep regulatory, market development and investment support, to then crowd in greater patient, blended finance products and particularly enable local capital investment into housing.



# 8 Low-cost private schools finance

**According to the FinAccess surveys, education is a highly valued investment across all income categories but much more so by low-income households.**

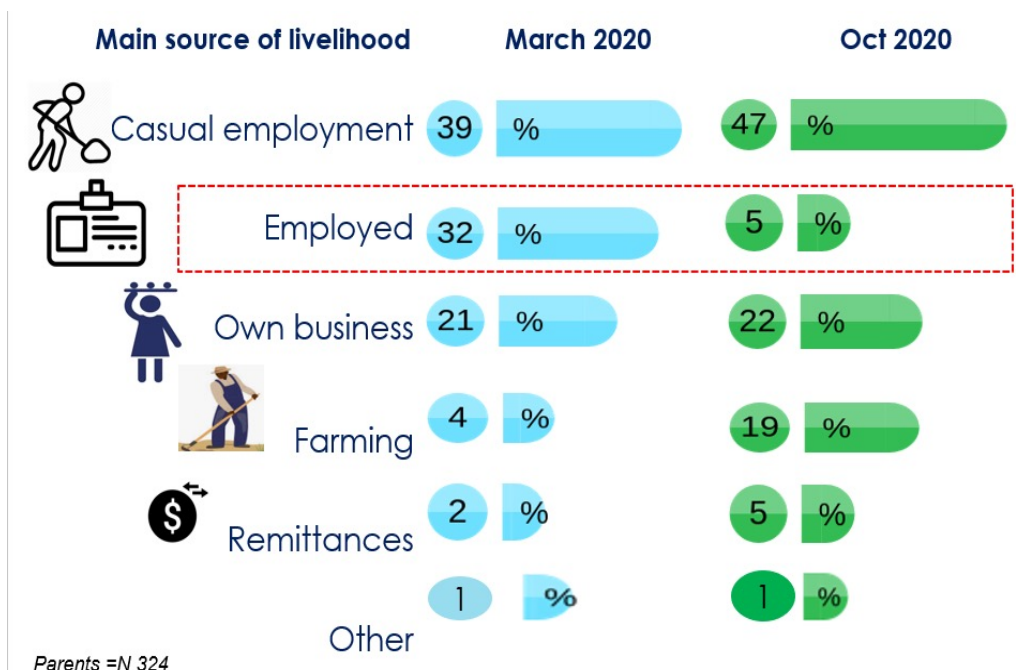
To such households, education is the path out of poverty. Access to education means anticipation of income in the future and a better life, although this is not guaranteed. Low-income households make many sacrifices to educate their children and thus give them the best chance in life.

There is a tendency to take children to low-cost private schools because there are no public schools in the vicinity or the private schools are perceived to deliver a higher quality of education than the public ones. The private school education sector has been one of the fastest growing in Kenya since the introduction of universal primary education, with an estimated 30,000 and 50,000 schools.

Normally, low-income households struggle to pay schools fees for their children and often pay it in instalments. Some of the low-cost private schools usually borrow from the formal lenders to keep the schools running as they await payment of fees, but mainly for infrastructural developments. The school owners rely on fees to repay these loans.

In Kenya, like much of the world, low-income households have been particularly adversely affected by COVID-19 and thus their ability to pay schools fees for their children. In late 2020, FSD Kenya commissioned a survey to understand the impact of COVID-19 on the low-cost private schools. Based on the survey, households' incomes have notably dwindled. For instance, a third of the 324 households interviewed reported that they relied on employment before the onset of COVID-19 in mid-March 2020. This proportion had reduced to a paltry 5% by the end of November 2020. By November 2020, three-quarters of the households interviewed that were earning at most KShs 10,000 per month, had used up most of their savings, and were over-indebted – 83% had more debt than before. 42% estimated that they would take more than six months to recover to pre-COVID-19 levels once financial “normalcy” resumes.

Given the value that is attached to education, parents want to keep their children in school and are willing to borrow although they cannot afford to repay these loans due to the pandemic. In 2021, informed by this survey, FSD Kenya will identify and partner with suitable financial service providers to design and pilot finance solutions that will help households to save and remit the school fees in small amounts and the schools to manage the fees. It will also explore use of appropriate risk mitigation instruments to support lending to these low-cost private schools.





# COVID-19 scenarios work

**In Q2 of 2020, just after the onset of COVID-19 in Kenya, FSD Kenya, in partnership with BFA Global and the FSD Network, engaged in a three-week agile scenario development process to determine the plausible paths and impacts of COVID.**

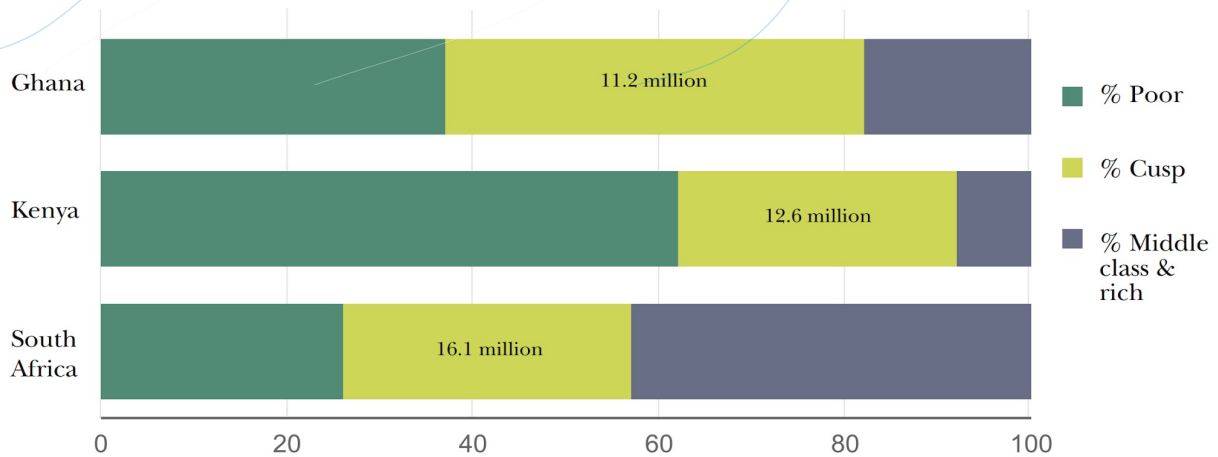
These scenarios were designed as conceivable stories, not forecasts or predictions with the aim of creating different worlds in which to consider the robustness of different actions in response to COVID. In the fast-moving

crisis caused by COVID, we developed scenarios to build a shared language around which to develop new approaches, decide which indicators to watch, and stress test actions under different outcomes.

The focus of our scenarios work centred on cuspers, who are a demographic segment of working Kenyans that depend substantially on income from informal livelihoods. They make up as much as 66% of the adult population of Kenya.

Figure 5: Distribution of the population in cusp households in focus countries<sup>xx</sup>

### Distribution of Cuspers on Income (%) by Country



(Source: FSD Africa (2015), Credit on the cusp report)

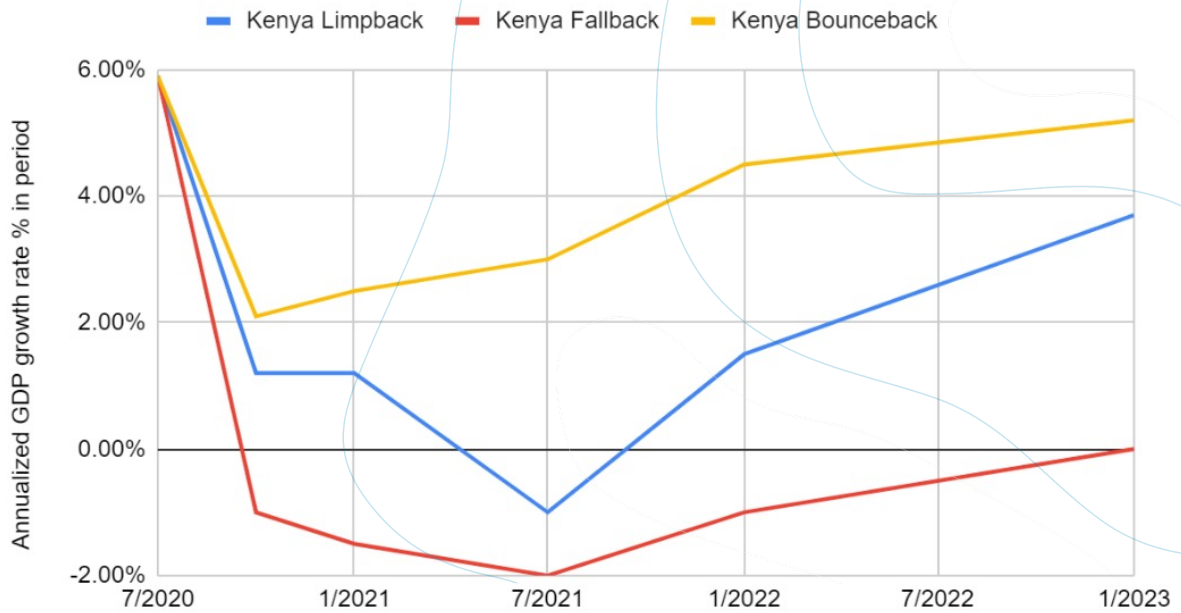
The focus on cuspers was also due the fact that because their incomes are predominantly from informal sources and they are not in formal employment or receive social transfers, they are generally more vulnerable to the crisis. Further, their informality means that they are not in easy sight of state welfare or even formal sector finance solutions. Secondly, even by the time we started the scenario process, cuspers were already in distress. A BFA online survey (April 2020) found that 79- 81% of low- and moderate-income Kenyans reported income somewhat or significantly reduced because of COVID-19. Additionally, conventional coping strategies to survive shocks such as increasing income through casual work and receiving remittances from friends and family have been reduced. Finally, cuspers are the engine room of

an inclusive economic recovery because they are of working age, support dependents and without their livelihood strategies, the poverty gap could grow and inequality increase.

From this foundation, we developed [3 macroeconomic trajectories](#) for Kenya: 1) A short V-shaped bounceback in which growth resumes in late 2020 with reasonable growth levels by mid- 2021; 2) A longer and more debilitating U-shaped limpback in which recovery is slower, with 2019 growth rates likely only reached by 2023; and 3) A fundamental fallback in which there is long-lasting harm to the economic structure, any upticks are not sustained and a new lower level of economic activity endures beyond 2023.



### Kenya Real GDP growth scenarios



This scenario development process not only informed our own thinking with regards to the type of research, analysis and interventions developed and deployed in response to COVID, it also demonstrated our thought leadership and increased appetite for our work by government, private sector and development actors.





# Supporting Kenya's green finance ambitions

**FSD Kenya's Green finance project is in response to Kenya's pressing environmental degradation and climate change challenges, and therefore the need to mobilise adequate, predictable, sustainable, as well as new and additional green finance to address the same.**

It complements and builds on the country's recent green finance initiatives such as the commitment by the Kenyan financial sector regulators to support the implementation of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the listing of the first green bond on the Nairobi Security Exchange on 13th January 2020, offering investors the chance to put their money into an environmentally friendly fixed income security for the first time in the country's history. A few days later, President Uhuru Kenyatta rang the bell to kick off the trading of Kenya's first green bond at the London Stock Exchange (LSE), marking the first time a Kenyan shilling bond was listed at the London bourse.

Our primary objective is to stimulate interest and action—by the private sector in general, and the financial sector in particular—in financing green (investing in inclusive green initiatives) and greening finance (mainstreaming of climate and environment factors as a financial and strategic imperative in the financial sector). FSD Kenya's unique proposition is to enable meaningful engagement by the financial sector in the green agenda. This is an area we are well-suited for, given our front row knowledge of Kenya's financial sector over the past 15 years.

The financial sector's role in green growth has largely been overlooked despite its massive potential. FSD Kenya's green finance project is designed to respond to the challenges that climate change and environmental degradation present to Kenya's economic growth and development. At least 70% of Kenyans directly depend on natural resources. In fact, 40% of the country's gross domestic product (GDP) and 70% of overall employment is derived from natural resource-related sectors such as agriculture, mining, forestry, fishing, tourism, water supply and energy. Conversely, the total value of assets held by Kenyan banks, pension funds, insurers, and credit cooperatives total up to 108% of GDP. A purposeful rechannelling of this fiscal trail can create the transformational change that would shift Kenya's growth from a brown oriented one to the desired green

trajectory. Enabling such a transformation is our aim in this new area of work.

It is quite clear that responding to climate change and the environmental challenges posed by this heavy dependence on natural resources and setting Kenya onto a green growth trajectory requires huge financial investment. As a developing country whose first and overriding priorities are economic growth, social development, and poverty eradication, Kenya faces a significant challenge in financing its green growth agenda using its public resources. To deliver on the core objective of enabling the financial sector's engagement in green, we organised our work around the following four thematic areas:

- a. Policy and regulation** to support the development of an enabling environment for the financial sector to meaningfully participate in green finance. Our aim is to link the existing green growth normative frameworks (in the form of the Climate Change Act, 2016; the National Climate Action Plan 2018-2022; and various other existing sectoral green growth strategies and plans such as the Kenya Climate Smart Agriculture Strategy (2017-2026) with the financial sector, and to create a truly enabling policy and regulatory environment.
- b. Market-driven engagement** to incentivise and build demand-side and supply-side market activity in the 'financing green' and 'greening finance' segments. Our motivation in this regard is to support the financial sector to develop green financial products and services that take advantage of the conducive policy environment for green growth.
- c. Data and information** are crucial elements in linking a capacitated and informed market operating in an enabling environment for green growth with investment opportunities, particularly at the grassroots (in the counties). This is what our work under this third thematic area will drive – the generation and testing of climate data that informs green investments.
- d. Collaboration** is a key plank in the endeavour to catalyse green finance. FSD Kenya takes note of the importance of partnerships in delivering the project's core objective. This will enable pooling resources to scale up initiatives and limiting the duplication of efforts by various stakeholders.



The Kenyan government has already provided leadership by supporting a joint green finance initiative, bringing together banks and financial sector regulators. Incentives such as the exemption of green investors from paying withholding taxes on their interest earnings have further encouraged the issuance of green bonds to help fight the impact of climate change. In following the government's lead, FSD Kenya has similarly reached out to several partners in the quest to attain a critical mass for this important effort. These include financial

sector regulators, financial sector industry associations, financial service providers (FSPs), the National Treasury, the Climate Change Directorate (CCD) under the Ministry of Environment and Forestry, the Council of Governors (and select county governments), and the FSD Network. This wide range of partners, in synergy with the government's commitment, creates a firm foundation for potential success in this new and exciting work area.





11

## Innovating health finance solutions



### **H**health shocks have debilitating impacts especially on low-income households.

Such households often lack access to appropriate finance solutions such as insurance to cushion themselves against the related non-routine income expenditures. According to the FinAccess national survey, only 30% of adult Kenyans had access to health insurance in 2019, with the National Health Insurance Fund (NHIF) contributing 26% to this. The majority (70%) of these NHIF users were employed and in the two highest wealth quintiles. Only 3% of adult Kenyans had access to private health insurance and these tended to be those who already had NHIF cover.

While national and county governments efforts towards the provision of universal healthcare have born some fruit, public healthcare remains insufficient and normally has to be supplemented by private sector services. Most low-income households thus pay for their healthcare “out of pocket” and often defer or forego care because they cannot afford it. The situation has been exacerbated by the COVID-19 pandemic which has diminished household incomes.

Recent outreach through NHIF has made a difference but there remain significant gaps in access. Low-income households, which derive their incomes from the informal sector, are particularly disadvantaged. Access to NHIF is out of reach given the lumpsum and scheduled nature of the premium payment. This does not align well

their daily income and expenditure pattern. The 50% penalties levied on late premium payments are hefty and an extra deterrence to use of NHIF. Furthermore, low-income households have a myriad of competing priorities each day despite their dismal income. Health events are typically unpredictable unlike other needs such as food or sending children to school. As a result, healthcare tends to be relegated to the bottom of the priority list. To such households, the available healthcare finance products are unaffordable.

FSD Kenya has partnered with Insurance for All, Access Afya and PharmAccess to innovatively create healthcare finance solutions to address this need. A key insight from the research and other work that has been undertaken is that a pure health finance solution would have little attraction to this population segment. Value adding health finance solutions need to be both affordable and trustworthy. They would also have to cater to other household needs, such as cushioning them against potential income losses as they deal with the health events. Several finance solutions have been developed and are under pilot. These include credit at the point of care, bundled micro-insurance targeted at informal micro and small entrepreneurs and gig workers, NHIF insurance premium financing, and a health membership plan. FSD Kenya recognises the critical role that access to healthcare plays in the resilience of households and will be sharing the lessons and insights from these pilots to inform scale.



12

## Supporting the development of Kenya's digital finance policy

**Kenya is a global leader in expanding financial inclusion.** The country has made extraordinary progress using digital technologies, with significant shifts in how financial services are delivered to and used by both individuals and enterprises. Innovations leveraging digital technologies have changed the product landscape resulting to structural shifts in the financial sector. The extraordinary gains made over the last fifteen years have demonstrated the power of digital technology to transform finance. From serving a minority of largely urban people and businesses, digital technology has enabled the expansion of the reach of financial services to a majority of people and enterprises. However, while these developments have placed Kenya on the global map, they are yet to have a truly transformational impact on Kenya's economy.

The COVID-19 crisis has both magnified the urgency of change and the opportunity to do so. The pandemic has accelerated the adoption of digital technologies to maintain economic activities while reducing social contact. This has led to the transformation of many existing sectors while entirely new ones have been and continue to be created. The increasing interaction between technology and the economy has created new demands on the financial sector while technology is simultaneously transforming finance itself. At the same time, new technologies are challenging the adequacy of the current policy and regulatory frameworks.

The Government recognises the potential of digital finance to catalyse Kenya's development and long-term national objectives. Vision 2030, Kenya's long-term development blueprint, establishes the need for "a vibrant and globally competitive financial sector driving a high level of savings to finance Kenya's investment needs". The Government's third Medium-term Plan for the Financial Services Sector (MTP-FSS) under Vision 2030 seeks to harness the potential of digital technology to drive the achievement of this goal. It calls for the development of a strategy and policy framework to set out the Government's approach and identify a credible strategy towards the achievement of this goal.

In 2019, FSD Kenya embarked on a process to support the National Treasury to develop Kenya's policy framework for digital finance. The starting point was to first review the current opportunities, market gaps

and prospective constraints to future developments, examining both the demand and supply sides. This also included a review of the relevant infrastructure that has propelled the development of digital finance and the relevant policy, legal and regulatory environment. This review provided a clear analysis of the current drivers of change and the opportunities for technology to transform Kenya's financial sector. This then formed the foundation for proposing the policy initiatives required for the achievement the next level of digital finance in Kenya. The proposals not only respond to the current dynamics but also draw from global experiences relevant to Kenya's aspirations for digital finance. These proposals were synthesised into a draft policy paper that was subjected to a consultative review process and submitted to the National Treasury. The vision of the policy framework is:

*'An open digitized financial system powering a digitally driven and inclusive economy.'*

The draft policy paper acknowledges that the achievement of the next generation digital finance in Kenya will not be accomplished overnight. To the contrary, this will require a long-term, carefully sequenced change process in which the Government plays a critical role alongside other stakeholders. The policy paper only outlines the direction of travel for the core policy, legal and regulatory issues necessary to make the Government's aspirations a success. Beyond this, it is essential to identify a credible implementation strategy which realistically engages with the current context, longer-term motivations, and capacities of all stakeholders.

The draft policy does not stand alone but is part of on-going work aimed at facilitating and stimulating the development of Kenya's future digital economy. Notably, the Government developed the Digital Economy Blueprint that outlines the Government's wider digital



transformation initiative. The draft policy paper has referenced the blueprint, looking at how the financial system can meet the needs of the future digital economy. The Blueprint has provided the basis of a strategy which is at an advanced stage of development. The Central Bank of Kenya is leading the process of developing a comprehensive strategy for developing the national payments system in Kenya which represents a critical infrastructure for Kenya's future digital economy. A new regulatory framework for data privacy and protection

is in place, comprising a Data Protection Act and draft regulations. Data privacy and protection is an important element in a digital economy and the new framework will be useful in facilitating various innovations such as open finance and data sharing. All the initiatives listed, by no means exhaustive, are aimed at harnessing the digital drivers of change to deliver on Kenya's development goals.





13

## FSD Kenya's 2020 Annual lecture

Topic: Living on little – Navigating financial scarcity in modern Kenya



**The sixth edition of the FSD Kenya's public annual lecture on inclusive finance took place on Thursday 19th November 2020 at the University of Nairobi.**

The lecture, titled "Living on little – Navigating financial scarcity in modern Kenya," was delivered by Researcher Julie Zollmann. Co-hosted with the University of Nairobi Institute for Development Studies (IDS), the lecture was the sixth edition of the FSD Kenya lecture series, launched in 2015 to highlight new thinking and raise cutting edge issues in the field of inclusive finance. With the COVID-19 pandemic raging, the lecture was webcast live via YouTube due to the impossibility of having a live audience. Thousands followed the lecture live and participated in the discussions via Twitter.

The 2020 lecture speaker, Julie Zollmann, is a researcher who uses the tools of economics and anthropology to understand how ordinary people use finance and technology to navigate their economic lives. She has particular expertise in sub-Saharan Africa, over the years

building competence in translating research into real-life solutions. In Kenya, Julie has had a long relationship with FSD Kenya, leading the acclaimed Kenya Financial Diaries project, and later in 2020 the Kenya COVID-19 Diaries in partnership with BFA Global, which tracked the economic impact of COVID-19 on low-income households and small enterprises in the country.

In her lecture, Julie drew on the insights she had gained during her four years of systematic research with nearly 300 low-income families in Kenya under the FSD Kenya Financial Diaries project and the subsequent Kenya COVID-19 diaries. She shared rare, close insights she had gained from the lives of these ordinary Kenyans, showcasing their optimistic and ambitious pursuit of development as well as how their aspirations are often thwarted by structural barriers and inequalities. Julie demonstrated the many deep and overlooked ways in which financial scarcity shapes the lives of lower income Kenyans and offered food for thought on how the financial markets can be more responsive to the needs of this disadvantaged population segment, which



incidentally constitutes the majority of the Kenyan population.

One big question that permeated Julie’s lecture was: how can private sector finance—and private enterprise more broadly—reimagine their roles in building a truly inclusive economy for all?

This question formed the core of a vibrant discussion featuring some of Kenya’s preeminent financial, industry and policy giants, who participated in the follow-up panel discussion moderated by FSD Kenya Senior Economist Anzette Were. They included Dr. James Mwangi, Group Managing Director and CEO of Equity Group Holdings Plc and Executive Chairman Equity Group; Mr. Isaac Awuondo Chairman of NCBA Bank Kenya; Ms. Debra Mallowah, Chief Business Development Officer of Safaricom; and Dr. Wangari Ng’ang’a, Universal Health Coverage (UHC) Technical Adviser at the Executive Office of the President of Kenya.

As the lecture drew to a close, Dr. Radha Upadhyaya from the IDS led the panellists in formally launching Julie’s new book, eponymously titled Living on little: Navigating financial scarcity in modern Kenya and based on FSD Kenya’s Financial Diaries project.



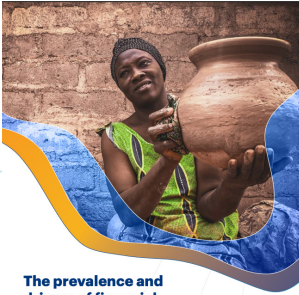
# Living on Little





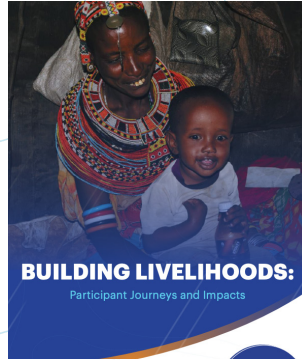


# 14 Key Publications and blogs



**The prevalence and drivers of financial resilience among adults: Evidence from the Global Findex**

**Title:** The prevalence and drivers of financial resilience among adults: Evidence from the Global Findex  
**Type:** Paper  
**Author:** Paul Gubbins  
**Published:** December 2020



**Title:** Building livelihoods: Participant journeys and impacts  
**Type:** Report  
**Author:** Jody Delichte  
**Published:** December 2020



**Promoting A11Y Financial Services within the Kenya Banking Industry**

PWD Pilot Project Official Report  
Version 2020



**Title:** Promoting A11Y Financial Services within the Kenya Banking Industry  
**Type:** Report  
**Authors:** FSD Kenya, Kenya Bankers' Association & Inable  
**Published:** December 2020

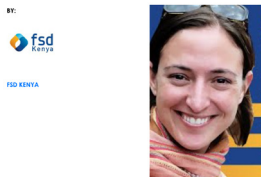


BY: JULIE ZOLLMANN



**Julie's reflections: From the financial diaries to tracking the impact of the Covid-19 impact**

**Title:** Julie's reflections - From the financial diaries to tracking the impact of Covid-19  
**Type:** Video blog  
**Author:** Julie Zollmann  
**Published:** November 2020



**6th FSD Kenya Public annual lecture 2020 - Living on Little: Navigating Financial Scarcity in Modern Kenya**

**Title:** Living on Little: Navigating financial scarcity in modern Kenya  
**Type:** Book  
**Author:** Julie Zollman  
**Published:** August 2020



**Title:** Becoming businesspeople  
**Type:** Report  
**Author:** Jody Delichte  
**Published:** June 2020



**Financially underserved Kenyans and their market potential: A segmentation study**

**Title:** Kenya market segmentation study  
**Type:** Web repository  
**Author:** FSD Kenya & CGAP  
**Published:** April 2020



**Title:** Kenya COVID diaries  
**Type:** Web repository  
**Author:** FSD Kenya  
**Published:** April 2020



**Title:** Understanding the unmet financial needs and opportunities of key segments in Kenya: An overview  
**Type:** Study brief  
**Authors:** FSD Kenya & CGAP  
**Published:** January 2020





# Blogs

Title	Type
1. <a href="#">Julie's reflections: From the financial diaries to tracking the impact of Covid-19</a> Julie Zollmann, December 2020	Video blog
2. <a href="#">Kenya launches the Year of Climate Action (#YoCaKenya)</a> Tamara Cook, November 2020	Blog
3. <a href="#">For maximum value, financial innovation must address real world problems</a> Duncan Oyaro, November 2020	Blog
4. <a href="#">"Maybe someone is out there fighting for you."</a> Nekesa Wekesa, November 2020	Blog
5. <a href="#">A bridge too far? Paying for school in an economic crisis</a> Julie Zollmann, November 2020	Blog
6. <a href="#">The opportunity for financial inclusion in health insurance coverage</a> Duncan Oyaro, November 2020	Blog
7. <a href="#">A glimpse into how scarcity shapes life in Kenya</a> Philip Emase, November 2020	Blog
8. <a href="#">How are things now? Summary of September/October COVID diaries findings</a> By Julie Zollmann, November 2020	Blog
9. <a href="#">Investors and Indigents: Divergent trajectories of Kenyans in the COVID era</a> Julie Zollmann, November 2020	Blog
10. <a href="#">Finance bends: will it break?</a> Julie Zollmann, November 2020	Blog
11. <a href="#">From financial inclusion to inclusive finance: The power of frameworks to catalyse change</a> Amrik Heyer, October 2020	Blog
12. <a href="#">Money to the grassroots: Rethinking agricultural finance models</a> Michael Mbaka, October 2020	Blog
13. <a href="#">Set sights on informal sector recovery</a> Bitange Ndemo, September 2020	Blog / Op-ed
14. <a href="#">Njoroge's story: How Kenya's informal economy is struggling in the shadow of COVID-19 and graft</a> Rebeka Etuku, September 2020	Blog
15. <a href="#">The cost of an extra parking space</a> Seeta Shah, September 2020	Blog
16. <a href="#">Combining new and traditional mechanisms in Northern Kenya to cope during COVID-19</a> Wanza Mbole Namboya et al., September 2020	Blog
17. <a href="#">Debts in distress: how ordinary people are finding the liquidity they need to survive COVID</a> Julie Zollmann and Amrik Heyer, September 2020	Blog
18. <a href="#">COVID-19 impact-recovery pathways for the economy: Features and implications</a> Anzette Were, September 2020	Blog
19. <a href="#">Kenya enhances its cash transfer programmes in response to the Covid-19 pandemic</a> Plounne Oyunge and Milkah Chebii, August 2020	Blog
20. <a href="#">COVID-19 and digitisation: Will digitisation drive inclusion or inequality?</a> Anzette Were, August 2020	Blog
21. <a href="#">Understanding drivers of resilience in Northern Kenya in the time of COVID-19: Part 1</a> Jody Delichte, Amrik Heyer, et al, August 2020	Blog
22. <a href="#">Can platforms and technology accelerate the African Green Revolution?</a> Michael Mbaka, July 2020	Blog
23. <a href="#">FSD Kenya and BFA webinar on the impact of COVID-19 on low-income Kenyans</a> Philip Emase, June 2020	Blog
24. <a href="#">Corona case studies: 'Running out of options'</a> Julie Zollmann et al., June 2020	Case study
25. <a href="#">Corona case studies: 'Waiting for nothing'</a> Julie Zollmann et al., June 2020	Case study
26. <a href="#">Becoming businesspeople: What we can learn about development initiatives from Northern Kenya</a> Jody Delichte, June 12th 2020	Blog
27. <a href="#">Back to an empty market</a> Julie Zollmann et al., June 2020	Blog
28. <a href="#">Hustlers: Entrepreneurs whose success we can bank on!</a>	Blog



Ashirul Amin	June 2020	
29. <a href="#">Economic prospects for Kenya in the context of the COVID-19 crisis</a>		Blog
Anzette Were et al.,	May 2020	
30. <a href="#">How COVID-19 has affected digital payments to merchants in Kenya</a>		Blog
Juliet Mburu,	May 2020	
31. <a href="#">The future of government-to-person (G2P) Payments: Innovating for customer choice in Kenya</a>		Case study
Claudia McKay et al.,	May 2020	
32. <a href="#">The buck stops with women</a>		Blog
Anne Gachoka,	April 2020	
33. <a href="#">Will COVID-19 make or break community-based finance?</a>		Blog
Wanza Mbole	April 2020	
34. <a href="#">Opportunities beyond Covid-19: It's time for Kenya to nurture a fully digital economy</a>		Blog
Duncan Oyaro	April 2020	
35. <a href="#">If the coronavirus doesn't kill you...</a>		Blog
Julie Zollmann et al.,	April 2020	
36. <a href="#">"Our love has grown more"</a>		Blog
Julie Zollmann et al.,	April 2020	
37. <a href="#">Lost without church</a>		Case study
Julie Zollmann & Nekesa Wekesa,	April 2020	
38. <a href="#">Corona Case Studies: Kibarua crunch</a>		Case study
Julie Zollmann & Nekesa Wekesa,	April 2020	
39. <a href="#">Corona Case Studies: Should I stay, or should I go?</a>		Case study
Julie Zollmann & Anne Gachoka,	April 2020	
40. <a href="#">Shamba bora (fertile farmland), Shamba la mawe (rocky farmland)</a>		Blog
Julie Zollmann et al.,	April 2020	
41. <a href="#">Corona Case Studies: Mountains Beyond Mountains</a>		Case study
Julie Zollmann & Catherine Wanjala	April 2020	
42. <a href="#">Dilemmas of distancing</a>		Blog
Julie Zollmann et al.,	April 2020	
43. <a href="#">The costs of coping with Coronavirus</a>		Blog
Julie Zollmann et al.,	April 2020	
44. <a href="#">The ultimate stress test for financial resilience</a>		Blog
Julie Zollmann et al.,	April 2020	
45. <a href="#">Corona Case Studies: "If I had food, I would close the shop"</a>		Case study
Julie Zollmann & Catherine Wanjala,	April 2020	
46. <a href="#">Corona Case Studies: Loss of Income, Loss of Pride</a>		Case study
Julie Zollmann & Catherine Wanjala,	April 2020	
47. <a href="#">When hustling fails: The impact of coronavirus mitigation efforts on ordinary people's livelihoods</a>		Blog
Julie Zollmann et al.,	April 2020	
48. <a href="#">Weathering the COVID-19 storm: How will Kenyans cope?</a>		Blog
Paul Gubbins,	March 2020	
49. <a href="#">Predicting the propensity to succeed among Kenyan "Hustlers"</a>		Blog
Ashirul Amin,	March 2020	
50. <a href="#">The art of cultivating youth skills and employment</a>		Blog
Anne Gachoka,	March 2020	
51. <a href="#">For maximum value, financial innovation must address real world problems</a>		Blog
Duncan Oyaro,	March 2020	
52. <a href="#">How can inclusive finance help in a pandemic?</a>		Blog
Tamara Cook	March 2020	
53. <a href="#">What we learned from providing unsecured trade credit to small rural pharmacies</a>		Blog
Jessica Vernon	March 2020	
54. <a href="#">Reflections from Sierra Leone: Investment in social protection provides an inclusive pathway to development</a>		Blog
Milkah Chebii	January 2020	
55. <a href="#">Harnessing the market potential of financially underserved Kenyans</a>		Blog
Philip Emase	January 2020	
56. <a href="#">FSD Kenya's new horizons for more inclusive finance</a>		Blog
Tamara Cook	January 2020	



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## Key financial results

FSD Kenya's accumulated surplus increased by **KShs 146m** from a carried forward balance surplus of **KShs 850 million** to close the year with an accumulated surplus of **KShs 996 million**. Total programme expenditure for the year was **KShs 717 million** with operational expenditure being **KShs 144 million**.

### Financial Sector Deepening Trust Kenya Income Statement - Unaudited For the year ended 31st December 2020

	2020	2019
	KShs Millions**	KShs Millions**
<b>INCOME</b>		
Grants	878	634
Other Income	-	-
Finance income <sup>1</sup>	21	22
Unrealised foreign exchange gain	108	6
<b>Total Income</b>	<b>1,007</b>	<b>662</b>
<b>EXPENDITURE</b>		
<b>PROJECT EXPENSES</b>		
Core Projects <sup>2</sup>	541	424
Designated Projects <sup>3</sup>	176	144
	717	568
<b>ADMINISTRATIVE EXPENDITURE</b>	144	161
<b>TOTAL EXPENDITURE</b>	<b>861</b>	<b>729</b>
Unrealised foreign exchange losses	-	-
<b>TOTAL COSTS</b>	<b>861</b>	<b>729</b>
<b>SURPLUS FOR THE YEAR</b>	<b>146</b>	<b>(67)</b>
<b>Notes</b>		
** Columns do not add up due to rounding		



**Financial Sector Deepening Trust Kenya  
Balance Sheet-Unaudited  
As at 31st December 2020**

	2020	2019
<b>ASSETS</b>	KShs Millions**	KShs Millions **
<b>Non-current assets</b>		
Property and Equipment	12	15
Intangible assets work in progress	4	4
Long term loan		-
<b>Total non-current assets</b>	<b>16</b>	<b>19</b>
<b>Current assets</b>		
Receivables	12	18
Short term deposit	33	549
Prepayments		6
Bank and cash balances	1,589	898
<b>Total current assets</b>	<b>1,634</b>	<b>1,471</b>
<b>Total Assets</b>	<b>1,650</b>	<b>1,490</b>
<b>RESERVES AND LIABILITIES</b>		
<b>Reserves</b>		
Accumulated Fund	996	850
<b>Current liabilities</b>		
Unexpended projects fund	549	539
Accruals	29	26
Tax liability <sup>1</sup>	76	75
<b>Total current liabilities</b>	<b>654</b>	<b>640</b>
<b>Total reserves and liabilities</b>	<b>1,650</b>	<b>1,490</b>
**Columns do not add up due to rounding		



# 17 The Team



**Amrik Heyer**  
Senior research advisor



**Anzetse Were**  
Senior economist



**Boniface Mbithi**  
Procurement specialist



**Duncan Oyaro**  
Innovations specialist



**Eva Adongo**  
Finance specialist



**Fausto Njeru**  
Finance and risk controller



**Francis Gwer**  
Policy specialist



**James Kashangaki**  
Chief programme officer



**Juliet Mburu**  
Senior digital payments specialist



**Lukania Makunda**  
Research specialist



**Lydiah Shiru Kamande**  
Office assistant/ housekeeper



**Lydiah Kioko Njuguna**  
Operations manager



**Martin Kimunya**  
Office assistant/driver



**Michael Mbaka**  
Senior innovations specialist



**Michael Njeru**  
Project manager



**Milkah Chebii**  
Senior social protection payments specialist



**Nancy Atello**  
Project manager



**Oscar Njuguna**  
Senior policy advisor



**Ouma Olum**  
Green finance specialist



**Philip Emase**  
Communications manager



**Plounne Oyunge**  
Project manager





**Rebeka Etuku**  
Senior office assistant



**Seeta Shah**  
Senior affordable housing specialist



**Tamara Cook**  
Chief executive officer



**Ulla Balle**  
Chief operating officer



**Valerie Mukuna**  
Senior measurement and results specialist



**Victor Malu**  
Senior future systems advisor



**Wanza Mbole Namboya**  
Senior economic inclusion advisor



**Winnie Mokaya**  
Programme officer





**FSD Kenya**

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