

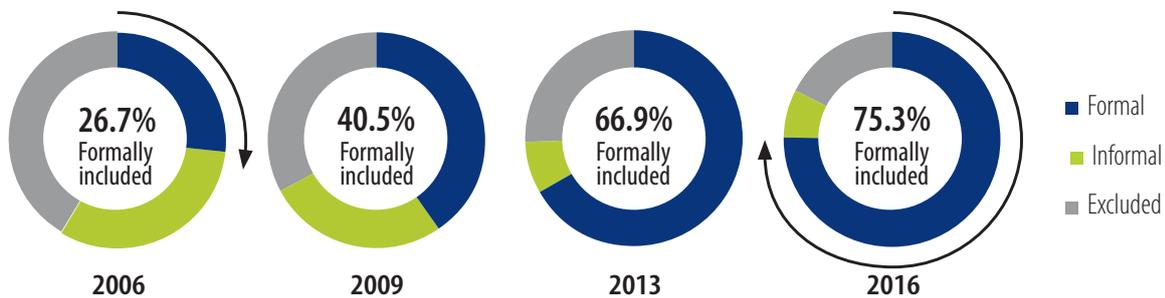
Creating value through financial inclusion

OUR HISTORY

FSD Kenya was established by the UK's Department for International Development (DFID) in 2005 to support the development of inclusive financial markets in Kenya. We are currently funded by the Swedish International Development Agency (SIDA) and the Bill & Melinda Gates Foundation.

The financial landscape in Kenya has evolved in ways far beyond the vision of FSD at our inception over 10 years ago. Formal inclusion almost tripled from 27% to 75% in 10 years and financial exclusion, which is now down to 17.4%, has more than halved since 2006. With the achievement of basic universal financial access now within grasp in Kenya, our focus has shifted to how finance can create real value for people and businesses.

Figure 1: Financial inclusion: where are we?



OUR APPROACH

FSD works with a wide range of partners in Kenya to address systemic constraints that hinder financial markets from benefiting poor people. Our stakeholders include policymakers and regulators, notably the National Treasury and Central Bank of Kenya, key industry associations such as the Kenya Bankers' Association, to small and large innovators in the financial sector. We try to stimulate change in a variety of ways – through policy

advice, technical assistance, applied research, co-funding, risk-sharing and very occasionally early stage investment. Ultimately, whatever approach we take is driven less by the particular instruments we have available and more by what is needed to address a particular market development problem or opportunity.

Figure 2: Who are the market players?



OUR STRATEGY

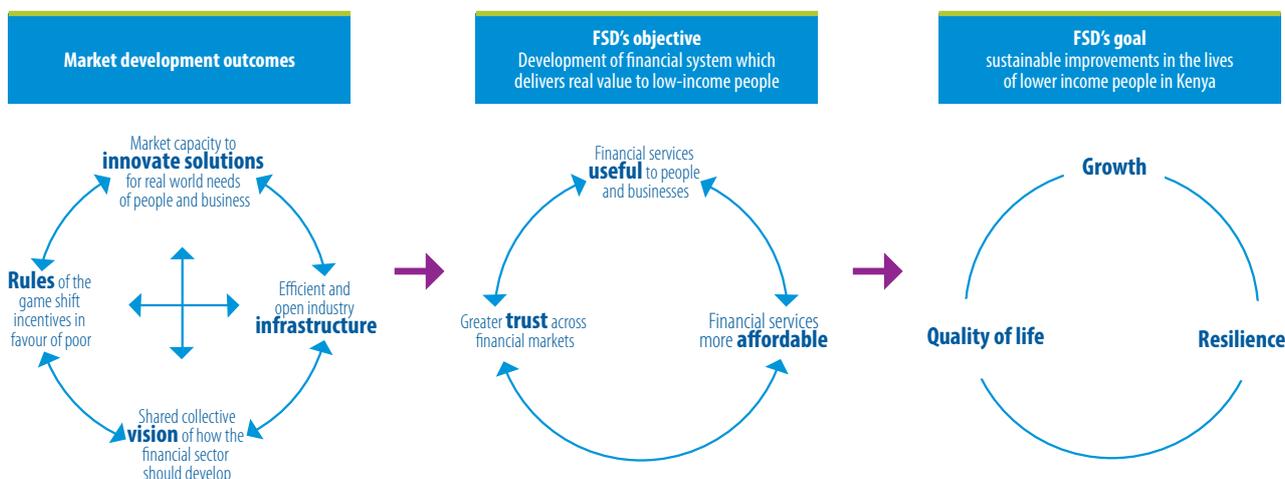
Kenya's national development objectives as articulated in Vision 2030, the Government of Kenya's long-term plan, is to "create a globally competitive and prosperous nation with a high quality of life by 2030". Vision 2030 emphasises that all Kenyans should enjoy a high quality of life. The link between financial market development and poverty reduction is the sole rationale for the FSD programme.

Our strategy focusses on the three core elements through which value is created by financial inclusion: use, cost and trust. There has long been an implicit assumption that the only important constraint is cost. This certainly remains a significant factor but it is unlikely to be sufficient. Reiterating our approach to market development, we believe that realizing the promise of inclusion depends on developing financial solutions which address real world

problems. In other words, we need financial services which do useful things for people and businesses. Low levels of utilisation of many services often reflect that the current services are not especially useful. They also need to be underpinned by a stronger degree of trust. We believe addressing these three

elements is the key to developing a financial system which delivers real value to low-income people. The result should be sustainable improvement in their lives through facilitating growth, improving resilience and allowing people to make more choices which directly improve their quality of life.

Figure 3: FSD's theory of change



OUR PORTFOLIO

FSD Kenya's work to support the development of a financial system which delivers real value to low-income people by addressing the barriers of usefulness, affordability and trust is organised into four focal areas of work. It starts with creating a clear, shared, long-term vision in Kenya for the financial services sector and its developmental role. This will help shape the specific

rules of the game for the market – laws and regulation – and the evolution of financial sector infrastructure. The ability of market players to deliver real value will be determined by the incentives and opportunities created by the rules and infrastructure. But it also depends on improving the market capacity to create better financial solutions to real world problems.

AREA	Long-term policy and research	Regulation	Industry infrastructure	Innovations
MARKET DEVELOPMENT OUTCOMES	 <p>Shared vision across stakeholder groups of how the financial system should develop to support national development objectives and specifically the reduction of poverty.</p>	 <p>Supportive policy and regulatory environment in which the formal rules that govern the financial system shift incentives in favour of low-income consumers and smaller-scale enterprises.</p>	 <p>Efficient and open finance industry infrastructure supporting increased competition, expanded services and lower costs.</p>	 <p>Market capacity and incentive to innovate financial solutions for real world problems of poor households and economies of the poor.</p>

FSD Kenya is committed to becoming a thought leader in understanding the opportunities and constraints in Kenya's financial sector and working with stakeholders to help define a vision of how it can and should develop. Today, the

idea of a fully inclusive financial system, while still some way from being achieved, no longer seems fanciful. The potential for finance to become a more effective tool for stimulating development and poverty reduction is stronger than it has ever been.



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