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.

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

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Every effort has been made to verify the accuracy of the information contained in this report. All information was believed to be correct as of March 2024. Nevertheless, FSD Kenya cannot accept responsibility for the consequences of its use for other purposes or in other contexts.
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Reflecting on 2023 points to both exciting developments and significant challenges impacting inclusive and green financial sector development in Kenya. As we think about how to steer the future of the sector to maximise its value for all Kenyans, I want to take this opportunity to share some key messages from three events I participated in during the year.

The Central Bank of Kenya convened CEOs from the financial sector to consider insights from FinAccess and the launch the Micro and small enterprise tracker survey. I began my presentation at the event by exploring surprising paradoxes in Kenya’s financial sector such as:

- Despite impressive gains in financial inclusion, why has financial health declined rapidly?
- Although formal use of savings and credit has grown, why has there been a decline in the use of formal products to meet people’s needs?
- Why is it that consumer protection attributes are ranked high for choice, safety, and fairness, but they are ranked much lower for suitability, meeting purpose, and customer voice?
- Even though women borrowers in the formal sector are less likely than men to default, why do fewer women than men have access to formal loans?
- Although climate-related risks are growing for farmers, why is it that only a few have been able to invest in resilience?

I closed my remarks with a deep-dive into the power of the FinAccess county report and disaggregated data. Financial access varies widely across counties from 58% in West Pokot to 95% in Nairobi County. Digging deeper into the data points to unique characteristics within counties such as the four counties whose gender gap is in favour of women (Taita Taveta, Kirinyaga, Laikipia and Vihiga). One country comparison statistics that shocked the audience is that there are more people in Nairobi with a smartphone than there are people in any other county.

The second event I would like to highlight took place during the visit of Her Royal Highness Queen Máxima, United Nations Secretary General’s Special Advocate for Inclusive Finance for Development which FSD Kenya helped facilitate. With the National Treasury Cabinet Secretary, Professor Njuguna Ndung’u, she co-hosted a roundtable headlined Open Finance: The potential of New Approaches to Data Sharing to Increase the Breadth and Depth of Financial Inclusion and Support Broad-Based Financial Resilience. The roundtable pulled together a high-level group of leaders across the public and private sectors to consider both the barriers and opportunities to making this a reality in Kenya. At the start, the Special Advocate encouraged the group to consider how open finance could increase competition, decrease risks and contribute to stronger financial health. The CS challenged the group to leverage Kenya’s history of being an innovator in finance and not lose ground on financial inclusion and digital finance.

While moderating the discussion, I started with the regulators to consider how competition policy, data and consumer protection and the National Payments Strategy could contribute to the principles of open finance. With the banks, we focused on the values of customer centric solutions and expanding choices available. With the mobile money operators, we discussed what could be learned from their interoperability journey and unlocking innovation. With the fintechs, we learned about how being able to connect with multiple financial service providers enables them to deliver unique value to targeted customer segments such as micro and small enterprises. Finally, the industry associations emphasised the value of collaborations across and within industries to ensure that customers are protected, given more opportunities and grow the economic pie for all. We remain hopeful that FSD Kenya can continue to support Kenya’s journey towards open finance.

The last event that I would like to highlight is the Sustainable Finance Catalyst Awards, now in its seventh year of incentivising the banking sector to take economic, social and environmental sustainability seriously. My overall encouragement and challenge was linked to the saying that “Tough times never last – tough people do.” We have seen that when financial sector players have the courage to reach out to the more “difficult” segments such as micro and small enterprises, farmers impacted by climate change and women, what they learn makes their overall business more resilient in difficult seasons and gives them a competitive edge to last beyond these tough times.

Tamara Cook
Chief Executive Officer
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:

a. Agriculture and processing
b. Trade value chains
c. Health finance
d. Affordable housing finance

As FSD Kenya engages at the intersection of the real economy and 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 proposed Digital Finance Policy, the National Payments Strategy and Medium-term plans leading to Vision 2030.

Open financial market infrastructure: Although Kenya has made 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 financial 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.

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.

Figure 1: Why finance matters
2023 in review

Economic performance

Growth: Economic growth in Africa is expected to fall for the second year in a row to 3.3% in 2023 from 4% in 2022. The region is expected to rebound in 2024, with growth increasing to 4%, picking up in four-fifths of the sub-Saharan Africa’s countries. In Kenya, Q3 2023 Gross Domestic Product (GDP) grew by 5.9% compared to 4.3% Q3 2022. Growth was supported by a rebound in agricultural activities (6.7%) which had contracted in 2022 (-1.3%), as well as financial and insurance (14.7%), ICT (7.3%), and accommodation and food service (26%) activities. Drags on growth included electricity supply (1.9%), the manufacturing sector (2.6%), and transportation and storage (2.8%). Economic growth for 2024 is estimated to be between 5.2 and 6%.

Q3 GDP growth rates (%), 2019-2023

(source: KNBS Q3 GDP Report, 2023)

Inflation: In 2023, the average inflation rate in the country was 7.7%, a marginal increase from the average inflation rate of 7.6% in 2022. Notably, overall inflation eased to 7.3% in July 2023, falling within the Central Bank of Kenya’s (CBK) target range of 2.5% and 7.5% for the first time in 14 months and remained within target range for the rest of 2023. The CBK notes the upward pressure that exchange rate depreciation in particular places on domestic prices, contributing about 3.0 percentage points of the overall inflation of 6.8% in November 2023—and expects exchange rate depreciation to keep inflation rates elevated.
Interest rates: The CBK Monetary Policy Committee increased the Central Bank Rate (CBR) to 12.5% in its December 2023 sitting, mainly informed by local currency depreciation. The 12.5% CBR is the highest since September 2012, and a tight monetary policy stance is expected as the CBK monitors the performance of the local currency and the country’s inflation rate.

Exchange rate: The Kenya Shilling (KShs) depreciated by 26.8% against the United States Dollar (USD) to close at KShs 156.5 in 2023, compared to KShs 123.4 at the end of 2022, a 9% increase from 2022. The depreciation was partly driven by increases in the US Federal interest rates by 100 bps in 2023 from a range of 4.25%-4.50% in December 2022 to a range of 5.25%-5.50% in July 2023. In 2024, the Kenyan Shilling will be supported by: i) Diaspora remittances; ii) Dollar inflows from both commercial and concessional financing; iii) Depreciation-focused monetary policy action. Depreciation pressure will emerge from: i) The current account deficit estimated at 3.5% of GDP in Q3’2023; ii) Low CBK forex reserves of USD 6.7b in December 2023 (equivalent to 3.6 months of import cover, below the mandated 4-month cover); iii) Elevated risk of increase in global crude oil prices because of supply chain constraints following the rising geopolitical tension in the Middle East; iv) Increased debt servicing costs particularly the 2014 Eurobond coupons maturing in June 2024.

Diaspora remittances: Remittance inflows reached an all-time high of USD 4,190m in 2023 compared to USD 4,028m in 2022, a 4% increase. The US remains the largest source of remittances into Kenya, accounting for 56%. Overall however, annual diaspora remittances growth has been relatively flat since May 2022.
Financial sector development

Domestic credit: Growth in private sector remained relatively stable at 12.5% in October 2023 and 12.2% in September 2023. Strong credit growth was observed in manufacturing (18.4%), transport and communication (16.2%), trade (9.9%), and consumer durables (10.8%).

NPLs: The ratio of gross non-performing loans (NPLs) to gross loans stood at 15.3% in October 2023 compared to 15.0% in August 2023. Increases in NPLs were noted in the manufacturing, trade, personal and household, building and construction, and transport and communication sectors. Banks have continued to make adequate provisions for the NPLs.

Mobile money: CBK reported that the cash agent transactions in the 11 months leading up to November 2023 amounted to KShs 7165t, a 0.5% decrease from the KShs 721t recorded during the corresponding period in 2022. This decline needs to be further explored.

Data from the Communications Authority of Kenya (CAK) indicates that mobile money subscriptions stood at 38.1m, translating to a penetration rate of 75.2%.
The status of MSE finance in Kenya: An update with demand-side data
The Government of Kenya’s emphasis of the ‘hustler economy’ has focused attention on micro and small enterprises (MSEs) as a building block for ‘bottom up’ growth. This is resonating across the financial sector, with providers like banks and SACCOs paying more attention to MSE markets. Digitisation is also opening up access to finance for MSEs. Despite advances in MSE financing, however, MSEs face growing challenges and declining opportunities. Recent data from the FinAccess MSE Tracker survey reveals the latest trends in MSE financing:

### Digitisation and payments

Uptake of digital finance for business transactions has grown exponentially. Alongside this, businesses are becoming more formalised, increasing their visibility to financiers and other market actors. However, the Kenya Small Firm Diaries reveals that majority of transactions by value are still cash-based, indicating that there is still far to go if digitisation is to be a game changer for the majority of MSEs. Qualitative research finds that barriers to digitisation include cost and price transparency; increased exposure and cost of compliance; lack of open data protocols; and systems to support customer ownership and control over data.

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1 This analysis is based on comparisons with FinAccess Household survey data and FinAccess MSE tracker data. The FinAccess Household surveys are nationally representative of individuals aged 16+ in Kenya, and include a sub-sample of those who state that they earn income from business (MSEs). The tracker surveys are further sampled from the FinAccess household survey MSE segment, who are still in business at the time of the tracker, and are willing and available to be reinterviewed. These surveys are therefore not strictly comparable, but they are indicative of trends and developments in MSE financing as we await FinAccess 2024.
Access to finance

Use of digital payments has reduced information asymmetries, opening up access to traditional bank finance and larger ticket longer-term loans and savings. However, bank finance is still more available to men and more organised firms with employees (dubbed ‘small firms’ from the Kenya Small Firm Diaries), women and micro firms still rely on informal finance including chamas (groups), begging the question of why banks are not designing for these segments. Meanwhile, the government’s Hustler Fund, launched in October 2022 has rapidly become the most widely used source of credit for MSEs. However, MSEs who have borrowed from the Hustler Fund state that they mainly use Hustler Fund loans for household rather than business purposes. Nearly half (48%) of Hustler Fund borrowers stated that they had defaulted on their loans, and overall debt stress (reported loan defaults) rose substantially between October 2022 and June 2023.
... but banks are more accessible to men and larger firms; women and micro-firms mostly save in chamas
Since Oct 2022, the Hustler Fund has expanded access to credit for MSE households; loan defaults have also risen in this period.

**Use of Hustler Fund loans (% MSE Hustler Fund Borrowers)**

- Household (67%)
- Business (18%)
- Both (13%)

**% MSE borrowers who had recently defaulted or paid late**

- 2022: 43%
- 2023: 61%

**48% of Hustler Fund borrowers stated that they had defaulted on their loans**

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**Working capital**

The Kenya Small Firm Diaries finds that businesses mainly need finance for working capital rather than investment. Businesses state that key sources of finance for liquidity are savings and social networks, with 30% also stating that they cross finance their businesses through other sources of income such as farming. Both the Small Firm Diaries and the FinAccess MSE Tracker surveys find that supply-chain finance (goods on credit from suppliers and goods on credit given to customers) is widely used to support business operations. Leveraging Kenya’s existing financial infrastructure (e.g. moveable collateral registries, credit bureaus, digital transaction and business data, warehouse receipts etc.) to reduce information asymmetries and risk would also open up opportunities for finance, including supply-chain finance.

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**MSEs mainly rely on income from business and other sources to meet their working capital needs**

<table>
<thead>
<tr>
<th>Main source of working capital (% MSE’s 18+)</th>
<th>% MSE’s depending on other sources of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business revenue reinvested</td>
<td>49%</td>
</tr>
<tr>
<td>Saving in mobile wallet</td>
<td>11%</td>
</tr>
<tr>
<td>Social network assistance</td>
<td>7%</td>
</tr>
<tr>
<td>Savings in secret place</td>
<td>5%</td>
</tr>
<tr>
<td>Saving at group/chahma</td>
<td>5%</td>
</tr>
</tbody>
</table>

**42% of MSEs said they depended on income sources other than their main business especially farming**

**71% of these (30% of ALL MSEs) use this income to subsidise their main business**
Supply chain finance is important for MSEs but mostly informal, costly and not always reliable

Challenges facing MSEs

Despite the considerable advances in MSE financing, the underlying picture for MSEs is bleak. Increasing pressure from macro-economic and global shocks including inflation and Covid-19, result in increased cost of supplies and weakened demand which dampens revenues and profits for MSEs, while increased pressures relating to compliance and fees combined with weak market infrastructure further compromise MSE resilience.

MSEs bear the brunt of macro-economic shocks and a hostile business environment

Source: FinAccess MSE Tracker survey, 2023
This strain is evident in the decreasing proportion of the adult population able to earn an income from business since 2016, and a 20% decrease in MSE incomes during the Covid-19 period (FinAccess 2021).

**Declines in MSE livelihoods and income**

<table>
<thead>
<tr>
<th>% adults (16+) earning income from business</th>
<th>Median monthly income (MSEs 18+ (Ksh))</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%</td>
<td>10,000</td>
</tr>
<tr>
<td>16%</td>
<td>10,000</td>
</tr>
<tr>
<td>13%</td>
<td>8,000</td>
</tr>
</tbody>
</table>


Source: FinAccess Household surveys 2016-2021

Better financing is only one piece of the puzzle to set MSEs on a stronger pathway, and enable them to fulfil their role in driving inclusive growth. In addition to leveraging existing financial infrastructure and innovating to develop more tailored financial solutions, MSEs need proactive policies to strengthen demand (for instance through universal social protection): reduce cost of supplies (e.g. investment in local value chains and supply-chains); strengthen market infrastructure and streamline the cost of compliance to align more closely with business revenue and firm financial health.

Finally, research and information play a significant role in supporting policy and business development for MSE financing. In this regard, the government’s investment in FinAccess MSE Tracker surveys is laudable. Added to this, if the government were to finance a long-overdue update of the 2016 KNBS MSME survey, this would be a significant boon for Kenya’s hustler economy.
Highlights of FSD Kenya’s work from 2023
Medium term plan for Kenya’s financial services sector

The financial services sector is recognised under the Government of Kenya’s Vision 2030 long-term national development framework as a priority sector under the economic pillar.

Under the Kenya Vision 2030, medium-term planning is set out in a series of five-year plans with sector ministries responsible for detailed Medium-Term Plans (MTPs) for each sector which are consolidated into a single national MTP. As the Ministry responsible for financial sector policy, The National Treasury and Economic Planning is responsible for the development of the MTPs for the financial services sector.

From 2022 to 2023, FSD Kenya provided technical assistance to The National Treasury and Economic Planning for the development of the fourth Medium Term Plan for the financial services sector. The plan, that covers the five-year period from 2023 to 2027, is the fourth in a series of MTPs with the predecessor plan covering the period 2018-2022. The 2023 to 2027 Medium-Term Plan establishes a clear strategy for the development of Kenya’s financial sector and identifies a series of key sector-wide transformational projects and programmes for implementation over the period. Its development was informed by the aspirations set in the Kenya Vision 2030, the Bottom-Up Economic Transformation Agenda and global and regional development commitments including the UN 2030 Agenda for sustainable development.

From an inclusive finance perspective, the plan lays a strong foundation for achieving sustainable impact and provides the basis for far-reaching change in the sector. Seven of the plan’s flagship projects have a direct impact on inclusive and sustainable finance. The digital finance project is aimed at leveraging the technological gains made in Kenya’s financial sector to lay the foundational infrastructure for Kenya’s new digital economy. This includes efforts led by the Central Bank of Kenya to implement the payments systems interoperability project aimed at establishing an inclusive, competitive, efficient and interoperable retail payments system in Kenya.

The Kenya credit guarantee scheme project aims to enhance access to credit to Micro, Small and Medium Enterprises that remain an underserved yet significant segment of Kenya’s economy. At the retail level, the financial inclusion fund (hustler fund) seeks to leverage Kenya’s financial system to facilitate the disbursement of credit to households and MSMEs. Given the importance of the agriculture sector in Kenya’s economy, the agriculture and rural finance project aims to enhance access to finance to Kenya’s agricultural sector and support the Government’s agricultural transformation and inclusive growth agenda. This is complemented by the rural Kenya financial inclusion facility aimed at contributing to income growth and improved livelihoods in rural areas. Lastly, given the increased vulnerabilities due to climate-related risks, the green finance project is aimed at creating the enabling environment for attracting green finance and investments needed to transition to a low-carbon, climate resilient and green economy.

The plan provides an impetus for real change. There are multiple ways through which FSD Kenya continues to support the Government of Kenya’s development aims including the successful implementation of the plan. These include undertaking research to build the case for change; facilitating broad-based consultations and coordination; providing direct technical inputs; complementing capacity to support implementation; and many more.

However, the starting point is premised on building trust with policymakers and wider stakeholders and the extent to which FSD Kenya is recognised to be genuinely offering value and motivated by a shared agenda. Over the years, FSD Kenya has clearly established its credentials in the inclusive finance agenda to most of the players in Kenya’s financial sector including policymakers. This provides a strong foundation from which to work with the Government of Kenya towards the successful implementation of the plan.
Agent interoperability: Steps towards an interoperable agent network

In 2010, the Central Bank of Kenya (CBK) permitted financial institutions to contract third parties to provide certain banking services on their behalf.

The aim was to hasten financial penetration in Kenya, which was identified as key in implementing Kenya Vision 2030 flagship projects. Since then, there has been a significant increase in agents in Kenya with the current numbers being just over 320,000 agents in December 2023 (CBK website). Following this, Kenya's early adoption of agent non-exclusivity in 2014 was crucial to crowding-in competition in agent services offering.

Agents have played a key role in driving access to financial services, despite the challenges that customers, agents, and financial institutions face as well as the increasing adoption of digital payments. Numerous studies still indicate that in the short and medium term, the use of agents to provide a cash-to-digital interface is essential.

On request of some financial industry players, FSD Kenya, with the support of MicroSave Consulting (MSC) conducted a study to design an interoperable and shared agent network framework and strategy. The aim of the study was to develop a strategy and roadmap to guide the industry on the implementation of a sustainable interoperable and shared agent network based on qualitative evidence from various stakeholders such as customers, agents, and financial service providers.

The study highlighted several key challenges for each of the stakeholders. For customers, the key challenge with agent services was the accessibility of agents especially in rural and some peri-urban areas, the higher cost of the transactions as compared to other channels, as well as the lack of relevant services beyond cash-in-cash-out services. For agents, the key challenges were shrinking agent commissions due to the crowding of agents, inefficient float management mechanisms due to the maintenance of several float accounts to serve customers from various financial service providers and cumbersome onboarding processes. Lastly, for financial service providers, the key challenges were operational inefficiencies due to duplication of the establishment of agent networks by the various financial service providers, expensive requirements for point-of-sale devices that provide physical printed receipts and lack of a business case for the financial service providers in expanding to rural areas leading to agents being clustered around urban and peri-urban financial service points.

The study recommended that the implementation of agent interoperability could aid in addressing most of the barriers identified and went on to propose various models that could be considered for implementation in Kenya.

Agent interoperability would enable customers to be served by any agent regardless of their financial service provider. It would also enable agents to better manage their float as it would not be tied to a provider. The study also highlighted various considerations that would need to be made around governance, use cases, operational and business models, user journey and the technical platform.
FSD Kenya’s green finance work focuses on contributing to the development of a greener real economy that is low carbon, resilient to climatic and other environmental shocks; resource efficient and generates green investment; employment, and income generation opportunities for low-income Kenyans; grounded in partnerships with Kenyan and African players.

Work on green market development in 2023 was centred on the county green finance assessment activity.

Noting that climate change and natural disasters have disrupted the socio-economic development of counties, assessment of the potential for 10 counties to access and apply to green finance markets was conducted.

The ten counties are: Embu, Kirinyaga, Kisumu, Laikipia, Nairobi, Makueni, Nandi, Taita-Taveta, Vihiga, and Wajir.

FSD Kenya’s assessment focused on the following factors:

- Economic and fiscal assessment: County fiscal performance, strengths, challenges, and ability to take on (additional) debt including the consideration of potential revenue generation sources.

- Credit risk assessment: Estimate a county government’s relative likelihood of defaulting on its obligations from the listing.

- Green asset and activity assessment: Availability of green investment opportunities and assets in the selected counties.

- Green finance capability assessment: County government skills and ability to manage green financial instruments (with a focus on green bonds) and related projects.

This work gained significant support and traction from the market and The National Treasury and Economic Planning and was the point of focus of the side-events FSD Kenya co-hosted with The National Treasury and Economic Planning at both the Africa Climate Summit and CoP 28.

In 2024 and beyond, FSD Kenya will continue to be a key resource on green finance policy development and implementation at both national and county level, while advancing its green market development and transaction focused activities.
Understanding the role of Farmer Service Centres

Farmer Service Centres act as a crucial link between public and private sector partners and smallholders and can be a rural entrepreneur, farmer group, or an aggregator.

The Farmer Service Centre model was first introduced to Kenya in 2019 by the Farm to Market Alliance (FtMA) to bridge the first mile (inputs and services) and last mile (commodity) gaps for smallholder farmers in the rural areas. FtMA has since built a network of over 900 Farmer Service Centres in 13 counties which has served over 207,000 smallholder farmers.

Farmer Service Centres earn by providing productivity enhancing services to farmers either through commissions on the sales generated or revenue earned through direct sales, charges for extension and consultancy services, margins on sales after aggregation and revenue from mechanisation.

FSD Kenya jointly with FSD Africa and FtMA commissioned a deep dive study on Farmer Service Centres to better understand the Farmer Service Centre business model, its viability, and sustainability across different segments, with a specific focus on those owned by females including aspects related to their organisation (including formality/informality). The study intended to explore opportunities to improve the Farmer Service Centres’ access to finance, identify ways to leverage their services for delivering finance to the smallholder farmers they serve, and further assess the role of digitisation in facilitating access to finance for both Farmer Service Centres and smallholder farmers.

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2 The Farm to Market Alliance (FtMA) aims to enhance smallholder farmers’ transition to commercial agriculture by providing support, information, and investment from seed to market.

3 Nakuru, Meru and Narok have the highest concentration of Farmer Service Centres (33% combined, 11% respectively). Meru has the highest concentration of female-led Farmer Service Centres (16%), followed by Nakuru, Nyandarua and Busia (10% respectively), while Narok has the highest concentration of male-led Farmer Service Centres (16%), followed by Nakuru (13%) and Home Bay (9%).
Findings from this study have since revealed useful insights on Farmer Service Centres’ main activities, tiering, levels of digitisation, financial access, and credit usage, as well as gender dynamics. Of the 819 active Farmer Service Centres in 2022, (out a total of 918), 42% are women led. Although the number of services offered by Farmer Service Centres does not differ by gender, there are differences in the types of services offered by male and female led Farmer Service Centres.

From the data analysed, it is evident that female-led Farmer Service Centres were more likely to sell inputs and post-harvest equipment, whereas male-led Farmer Service Centres were likely to offer spraying services, mechanisation services, harvesting and logistic transport services (Figure 1).

Consequently, the number of income streams for Farmer Service Centres ranged from an average of two to four with input marketing, agricultural produce marketing (aggregation) and post-harvest handling linkages emerging as key Farmer Service Centre activities. In fact, in 2023, over the period January to July, earnings from input linkages (sale of inputs) and produce marketing linkages (aggregation services) contributed to 85% of total commission income by all Farmer Service Centres.

The data collected also reveal a variation in the number of farmers served based on gender of the Farmer Service Centres. Female led Farmer Service Centres on average served 78 farmers compared to 97 farmers for male led Farmer Service Centres.

In terms of access to finance, it was observed that almost half of all Farmer Service Centres per segment had a bank account, with a personal account being the most common. Also, regardless of gender, older Farmer Service Centres were more likely to have been advanced credit previously compared to younger Farmer Service Centres. Access to finance was also demonstrated by the financing agreements in place with financial service providers by the Farmer Service Centres. Most of the finance agreements were related to stock financing (275 agreements, 87%). From the data analysed, male-led Farmer Service Centres were slightly more likely to receive asset financing relative to female-led Farmer Service Centres who were likely to go for stock finance solutions.

Additionally, Farmer Service Centres used digital tools for specific service offerings. For instance, out of a sample size of 627 Farmer Service Centres, 41% use a digital tool or app e.g., Yara Connect / Yara Bodega, We Source from True Tade or WhatsApp to support the sale of inputs.

Linked to organisation (levels of formality/informality), less than 20% of Farmer Service Centres registered their business. Registration of businesses was less common among the female-led Farmer Service Centres as compared to male-led Farmer Service Centres. Farmer Service Centres who registered their business opted for the simplest form of registration (Figure 2) save for male led Farmer Service Centres who were most likely to register their businesses as limited companies, ‘self-help groups’ and ‘community-based organisations’.

<table>
<thead>
<tr>
<th>Total (n = 819)</th>
<th>Female (n = 352)</th>
<th>Male (n = 467)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of inputs</td>
<td>77%</td>
<td>82%</td>
</tr>
<tr>
<td>Conservation agricultural training</td>
<td>63%</td>
<td>66%</td>
</tr>
<tr>
<td>Aggregation</td>
<td>59%</td>
<td>60%</td>
</tr>
<tr>
<td>Spray services</td>
<td>45%</td>
<td>36%</td>
</tr>
<tr>
<td>Sales of post-harvest equipment</td>
<td>42%</td>
<td>47%</td>
</tr>
<tr>
<td>Mechanisation services</td>
<td>41%</td>
<td>35%</td>
</tr>
<tr>
<td>Soil testing services</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>Harvesting services</td>
<td>22%</td>
<td>18%</td>
</tr>
<tr>
<td>Logistic transport services</td>
<td>20%</td>
<td>16%</td>
</tr>
<tr>
<td>Threshing shelling services</td>
<td>18%</td>
<td>17%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
<td>4%</td>
</tr>
</tbody>
</table>
Lastly, FSC 2023 tiering data which classifies the FSC’s as advanced, middle level, starter and not classified for male – non youth; female – non youth; male youth; female youth; revealed that male and female non-youth Farmer Service Centres are more likely to be advanced or mid-level Farmer Service Centres compared to male and female youth Farmer Service Centres.

Figure 2: Type of business registration by Farmer Service Centres: FSC validation tool (2022)

<table>
<thead>
<tr>
<th>Business Name</th>
<th>Total (n=156)</th>
<th>Female (n=60)</th>
<th>Male (n=96)</th>
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<tbody>
<tr>
<td>Business Name</td>
<td>62%</td>
<td>77%</td>
<td>52%</td>
</tr>
<tr>
<td>Limited company</td>
<td>17%</td>
<td>13%</td>
<td>20%</td>
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<tr>
<td>Partnership</td>
<td>2%</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Self help group</td>
<td>10%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Community Based Organization</td>
<td>6%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Cooperative</td>
<td>4%</td>
<td>0%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Figure 3: Segmentation of Farmer Service Centres based on 2023 tiering data.

Advanced FSC 225 38% female
Mid Level FSC 602 47% female
Starter FSC 101 45% female
Doesn’t provide service 87 373
Not ranked 11 12

4 985 Farmer Service Centres were active in 2023.
This study offers better insights on gender mechanisms of Farmer Service Centres backed by 2022/3 FSC validation data, the avenues for integration of women focused financial services, how to better target digitisation to address women led FSC’s needs and the new opportunities available for female led and male led Farmer Service Centres within the agri-food system that foster financial inclusion and gender equity.

Development partners will be able to use insights from this work to identify opportunities to dedicate resources with a view of finding solutions for rural women. There’s value proposition for delivery of services and finance through group-based models for farmers. Data generated from this work reveal that the best performing revenue segments for FSC’s are aggregator based i.e., input marketing, agricultural produce marketing (aggregation) and post-harvest handling linkage services.

Policy makers and government of Kenya will find this research useful as regards policy implications therein – reasons for the informalisation effect, and the incentives (or lack thereof) and further raise awareness about variations that exist when working with smallholders. This also includes resource allocation and delivery of services.

Fintechs and Agtechs should be in a position to leverage this data in developing digital solutions that work for Farmer Service Centres and in digitising the FtMA if value adding. Based on this data as well, financial institutions should be able to design gender inclusive/focused finance solutions that better serve the segments discussed above.
Makueni Land Information Management System

FSD Kenya supported the county government of Makueni to enhance its Land Information Management System (LIMS).

A robust LIMS promotes more effective citizen service delivery through enhanced own source revenue collection, as it enables transparent and accurate land records data management, spatial planning, resource mapping and property valuation by the county.

Makueni began to move from manual to digital processes from 2018 by creating an electronic development application management system (e-DAMS) and developing an online database to capture its 2019 valuation roll. The enhancement supported by FSD included converting this database to a geodatabase and developing web based and mobile applications which were integrated with the geodatabase to create a more powerful electronic LIMS (e-LIMS).

Two technical teams supported this work, including Powerbase which was commissioned by the County, and Oakar who were commissioned by FSD Kenya. Two staff trainings and one year post implementation support were provided by Oakar. A gender field was also introduced into the e-LIMS. While this data needs to be verified, it is significant that it will allow the county to evaluate and understand the land ownership patterns by gender.

The centralised geodatabase, spatial visualisation, streamlined processes and staff training has resulted in reduction of redundant data and enhanced data analysis and management. The direct impact is a reduction in processing time for land searches and transfers from 21 days to 7 days. Annual revenue collection increased from KShs 6 million to KShs 22 million (from year ending June 2022 to year ending June 2023). Additional revenue increases are expected when the county enables digital invoicing via bulk SMS and real time visualisation to follow up on payments.

The County Executive Committee Member (minister) responsible for lands, planning, and environmental matters in 2023 highlighted two key factors in the success of the e-LIMS project. Strong collaboration with other county departments (including ICT, finance, and communications) and significant investment in public awareness regarding the new system and property tax requirements. Additionally, the county placed a staff member within the national Land Control Board, which is a national function, to ensure all subdivisions require rates compliance certificates at the county level.
The project faced challenges as it started during the Covid-19 period when travel was limited. Converting the database to a geodatabase required converting single points for land parcels to accurate GIS boundary coordinates, which was a laborious exercise requiring significant data collection, validation and clean up. The county hired data clerks to support this data collection, and these clerks also collected key information on landowners including their National ID numbers, phone numbers (to allow bulk SMS to be sent) and physical addresses. Parcel data in five towns was previously supported by an aerial mapping survey commissioned by FSD Kenya and undertaken by Ramani Geosystems. This showed the importance of developing a system that is flexible and adaptable, and able to provide regular updates to integrate new technologies.

A comprehensive set of security measures were implemented to ensure data privacy. These include robust security of the database, web tokens to authenticate users for access, secure end points in the application programming interface (API), encrypting data during transit and the physical security around the server location.

The value of building strong relationships between key partners at the beginning of the project is critical as it drives the trust to provide access to sensitive data and APIs and ensure project coordination in a timely manner.

Given FSD Kenya’s investment in the enhancement of the e-LIMS was approximately KShs 10 million and the previous aerial mapping was KShs 9 million, this demonstrates a well-designed project in collaboration with the county with strong returns on the investment.

In the near term, the focus of the work will involve continuously refining the e-LIMS by addressing user feedback and uploading data from more towns (the system currently captures data of approximately 30,000 parcels in 3 towns only). The county is also working internally to promote integration with other digital processes in the county (for example, license approvals and fees and water charges).

In the longer term, the vision is for the Makueni e-LIMS to be connected to the National Land Information Management System (NLIMS) christened Ardhi Sasa, as the latter is still limited to Nairobi and is yet to cover Makueni. It is the expectation that both systems can be interoperable through the development of an API that would facilitate the required linkage.

Emerging trends in the e-LIMS landscape include the use of advanced analytics for more effective decision making and blockchain for securing the data but come with inherent risks of cybersecurity threats and data protocols. Continuous monitoring and evaluation of data quality and system performance and managing the inherent risks are pertinent for the e-LIMS to remain dynamic and resilient and to support Makueni’s economic growth.

Makueni County is open to sharing information about their e-LIMS with other counties. FSD Kenya is grateful to Habitat for Humanity Kenya for their support particularly in introducing the opportunity and supporting stakeholder discussions.
For additional details, visit the official Makueni e-LIMS and e-DAMs sites at their official websites https://lims.makueni.go.ke and https://edams.makueni.go.ke/

Figure 2: Showing Mobile App visualisations of the statistics and parcels’ attribute information pages

Click here to access more stories, blogs and publications related to FSD Kenya’s affordable housing finance work.
Value-based care pilot explores solution for improving access to health finance for low-income women and households

Universal health coverage is core to Kenya’s Vision 2030 and the current administration’s Bottom-up Economic Transformation Agenda (BETA). Envisioned is the need to provide the highest quality of care to all Kenyans.

FSD Kenya’s health finance work is designed with the aim of facilitating and advocating for value adding finance that enables improved health and financial resilience to health shocks for women and households.

Typically, health financing assumes a fee-for-service approach where providers are paid for the services they provide rather than for health outcomes. FSD Kenya has partnered with Britam Holdings Limited and the FSD Network Gender Collaborative Programme to design and pilot a maternal and neonatal healthcare value-based care programme.

To Britam, a value-based care approach could help improve the viability of their products for the lower-income market segment by reducing the claims ratio. An earlier analysis of their AfyaTele product’s maternal and neonatal healthcare claims data implied that most of those covered were not attending the required four antenatal care visits.

In 2023, a maternal and neonatal healthcare user journeys study among the AfyaTele product customers was undertaken to inform the design of the programme. Based on the study findings, all those interviewed had attended the minimum four recommended antenatal care visits. However, these visits did not necessarily take place at the healthcare facilities in their health insurance cover panel. This is because factors such as proximity to their residences or workplaces matter much more than the cost of the visits. Consequently, some mothers end up paying out of pocket.

The findings and insights from the study have been applied in the design of the antenatal care value-based care pilot programme whose implementation will start early 2024. Crucial in the design was defining a package of care which caters to most of the needs presented during the journey and pricing it at a level that is affordable to the women and sustainable to the healthcare providers.

Besides investing in a system that can aptly monitor the quality of care, the pilot will entail orientating the healthcare providers to this new approach and providing the right nudges and incentives to drive the desired behaviour.

The method is relatively new in emerging economies like Kenya. While this is not the first value-based care pilot in the country, Britam’s is the only known private sector oriented one and will thus make a significant contribution to the discourse on this approach. The pilot will be undertaken in Nairobi and its environs.

The value-based care approach could potentially enhance the quality of healthcare delivered to patients if adopted. It could also improve the sustainability of health insurance solutions which is normally hampered by moral hazards out of provision of services which are not necessarily required under the cover.
The Kenya Small Firm Diaries: A new perspective on small firms in Kenya

In May 2023, FSD Kenya together with the Financial Access Initiative (FAI) at New York University (NYU) launched the The Kenya Small Firm Diaries.

The Kenya Small Firm Diaries was part of a global study across seven countries - Kenya, Ethiopia, Nigeria, Uganda, Colombia, Fiji and Indonesia.

The study was conducted to understand the role of small firms - defined firms with between 1-20 employees - in poverty reduction, and the barriers and challenges they face. Fieldwork for the study took place between October 2021 and November 2022, involving weekly visits to 155 small firms, across three counties- Nairobi, Kwale and Kisumu.

According to FinAccess, small firms make up nearly a third of MSEs, and are thus a significant segment. The diaries highlighted 4 key insights for policy and innovation:

**Small Firms are a distinct segment**

Small firms represent an ‘invisible middle’, different from microenterprises and larger more professional firms. They straddle the line between formal and informal. They are banked, and use digital services, but the majority of their transactions are still in cash. They face a great deal of volatility across the year and are neither on a strong upward or downward growth trajectory.

**Small Firms value stability as much as growth**

Literature on small firms focuses on a distinction between ‘growth’ and ‘survivalist’ firms. But the Small Firm Diaries reveals that these profiles miss a large and important group of firms - those that aspire to grow, but with stability. The study dubs these firms ‘Stability Entrepreneurs’. They cannot take on the level of risk that is necessary to achieve rapid growth, given the volatile conditions in which they operate. Instead, ‘stability entrepreneurs’ want step by step growth that helps to reduce volatility and risk.
Small Firms need working capital more than investment capital

Finance for MSEs has often focused on providing loans to finance investment. But the study found that small firms need working capital even more than investment capital to survive and grow. In the absence of appropriate working capital, small firms try to closely match revenue and expenditure, forgoing opportunities for growth. They rely on (largely informal) supply-chain finance. The study suggests that better solutions for working capital would strengthen the possibilities for small firms to meet their aspirations to ‘grow with stability’.

Small Firms are a key source of employment but the jobs they create are precarious

Workers are often not consistently employed, and the income they get varies substantially. Two thirds of workers in small firms said they lacked money to meet their basic food needs at some point in the past twelve months. The precarity of workers reflects the precarity of the firms themselves.

At the inception of the study in 2021, FSD Kenya set up an advisory group of policy and industry representatives to advise on implementation, help to shape the key findings from the study and enhance the relevance of the study for policy and business development.

At the time of the launch in May 2023, the recent government transition created some challenges in leveraging the findings for policy.

However, the ambition going forward is to consolidate findings from the Small Firm Diaries and other MSE research that FSD Kenya has been leading (FinAccess MSE Tracker surveys and qualitative research) and develop a communications strategy to maximise impacts of the research on policy and the development of improved solutions for MSE finance.
<table>
<thead>
<tr>
<th>Title</th>
<th>Author(s)</th>
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<tr>
<td>Balancing economic recovery and fiscal survival: Policy options for African governments in 2023</td>
<td>Anzetse Were</td>
<td>9th February</td>
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<td>Governor’s meeting with financial sector Chief Executive Officers on financial inclusion</td>
<td>Amrik Heyer, Lukania Makunda and Tamara Cook</td>
<td>10th March</td>
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<td>Credit: where it is due: Kenya’s credit information sharing journey</td>
<td>Francis Gwer</td>
<td>21st March</td>
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<td>Floors and ladders - Is social security the missing ingredient for ‘bottom up’ growth?</td>
<td>Amrik Heyer</td>
<td>5th April</td>
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<tr>
<td>The impacts of climate change on fiscal and monetary policy in Africa</td>
<td>Anzetse Were</td>
<td>12th April</td>
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<tr>
<td>Creating an enabling environment for a voluntary carbon market in Kenya</td>
<td>Anzetse Were</td>
<td>12th April</td>
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<tr>
<td>Kenya launches QR code standard to improve digital payments</td>
<td>Juliet Mburu</td>
<td>8th May</td>
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<td>A new perspective on small firms in Kenya - Key findings from the Kenya Small Firm Diaries study</td>
<td>Amrik Heyer</td>
<td>23rd May</td>
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<td>2022 FSD Kenya annual report</td>
<td>Multiple authors</td>
<td>24th May</td>
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<td>Communications</td>
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<td>Research: Evidence-based decision making for the financial sector in Kenya</td>
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<td>Kenya’s credit reforms: How movable collateral reforms are contributing to better access to credit</td>
<td>Francis Gwer</td>
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<td>The National Payments Strategy 2022-2025</td>
<td>Juliet Mburu</td>
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<td>Transforming climate finance</td>
<td>Ouma Olum</td>
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<td>Innovative lending product improves access to water and sanitation in Nairobi’s Mukuru informal settlement</td>
<td>Seeta Shah</td>
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<tr>
<td>Financing affordable and climate resilient feeds for dairy farmers in Kenya</td>
<td>Jared Ochieng and Duncan Oyaro</td>
<td>26th May</td>
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<tr>
<td>Low health insurance uptake in Kenya leaves women and low-income households vulnerable to health shocks, health finance solution offers hope</td>
<td>Wanza Mbole Namboya and Nancy Atello</td>
<td>26th May</td>
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<tr>
<td>How climate finance can address the layered economic impacts of climate change in Africa</td>
<td>Anzetse Were</td>
<td>6th June</td>
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<tr>
<td>Understanding the housing conditions of Kenyans from FinAccess data.</td>
<td>Seeta Shah, Lucy Owano, Lukania Makunda, Kecia Rust, Jessica Breier</td>
<td>6th June</td>
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<td>Evolution of finance to address real economy constraints: A case of FSD Kenya’s partnership with the Agricultural Finance Corporation (AFC)</td>
<td>Jared Ochieng, Duncan Oyaro</td>
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<td>Savings landscape, financial literacy in Kenya according to FinAccess</td>
<td>Lukania Makunda</td>
<td>12th June</td>
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<td>Unlocking the potential of small firms: Overcoming challenges to drive 'bottom-up' growth in Kenya's MSME sector</td>
<td>Amrik Heyer</td>
<td>14th June</td>
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<td>What does Climate Risk really mean for African economies?</td>
<td>Anzetse Were</td>
<td>20th July</td>
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<td>Informal remittance is still common in East Africa and is moving with the times</td>
<td>Juliet Mburu, Lukania Geraldine Makunda, Sarah Hugo and Judyth Engels</td>
<td>14th August</td>
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<td>Private sector priorities for climate action through climate finance</td>
<td>Anzetse Were</td>
<td>21st August</td>
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<tr>
<td>Empowering local communities to utilise climate data for effective adaptation: Reflections from Makueni and Wajir counties in Kenya</td>
<td>Milkah Chebii</td>
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<td>FSD Kenya at the Africa Climate Summit/Africa Climate Week</td>
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<td>How is finance supporting Kenyan businesses? Results from the 2023 FinAccess MSE Tracker Survey</td>
<td>Amrik Heyer and Lukania Geraldine Makunda</td>
<td>5th September</td>
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<tr>
<td>Supporting Kenya's affordable housing program. Introducing new tools and research to deepen the sector</td>
<td>Seeta Shah and Lucy Owano</td>
<td>21st September</td>
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<tr>
<td>Women in the business and finance landscape</td>
<td>Anzetse Were</td>
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<td>How are financial services improving the financial health of Kenyan adults?</td>
<td>Amrik Heyer and Paul Gubbins</td>
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<td>Promoting the uptake of solar irrigation through innovative carbon financing</td>
<td>Jared Ochieng, Duncan Oyaro and Tanguy Boussard</td>
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<td>Developing a Financial Consumer Protection Outcome Index for Kenya</td>
<td>Christine Hougaard, Amrik Heyer and Carol Matiko</td>
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<tr>
<td>Measuring Kenya's financial inclusion journey</td>
<td>Amrik Heyer And Mariangela Pensa</td>
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<td>FinAccess 2021 livelihoods segments: Focus on farmers</td>
<td>Amrik Heyer and Lukania Geraldine Makunda</td>
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<td>Creating efficient markets for consumers</td>
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<td>FSD Kenya at COP28</td>
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</tbody>
</table>
Financials

FSD Kenya’s accumulated surplus increased by KShs 201 million from a carried forward balance surplus of KShs 782 million to close the year with an accumulated surplus of KShs 983 million.

Total programme expenditure for the year was KShs 861 million with operational expenditure being KShs 139 million.

Financial Sector Deepening Trust Kenya
Income Statement - Unaudited
For the year ended 31st December 2023

<table>
<thead>
<tr>
<th></th>
<th>2023</th>
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<tbody>
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<td><strong>KShs Millions</strong></td>
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<td>Grants</td>
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<td>Other Income</td>
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<td>Unrealised forex gains</td>
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<td>Core Projects</td>
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<td><strong>Total expenditure</strong></td>
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<tr>
<td>Unrealised foreign exchange losses</td>
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<td><strong>Total costs</strong></td>
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<td>798</td>
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<tr>
<td><strong>Surplus for the year</strong></td>
<td>201</td>
<td>48</td>
</tr>
</tbody>
</table>

1. Finance income includes interest earned on FSD funds.
2. Core/non-designated projects are funded by donors through unrestricted funds. Unrestricted funds have no conditions regarding the projects they can be used on.
3. Designated projects are funded through restricted funds. Restricted funds can only be used on the projects specified by donors.
FSD Kenya team

Amrik Heyer
Senior research advisor

Anzetse Were
Senior economist

Boniface Mbithi
Procurement specialist

Brian Cheruiyot
IT officer

Collins Baswony
Communications lead

Duncan Oyaro
Project manager

Esther Muriithi
Finance and grant manager

Esther Murugi
Communications officer

Fausto Njeru
Finance and risk controller