FSD Kenya: Twenty years of a market systems approach in the Kenyan financial system

fsd Kenya | 20 Years creating value through inclusive finance

Table of **contents**

List of **tables**

List of **figures**

Acronyms

AAER	Acronym embodying the MSD approach of "Adopt, Adapt, Evolve, Respond"
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CIS	Credit Information Sharing Association of Kenya
DAC	Development Assistance Committee
DCP	Digital Credit Provider, a non-bank lender using digital platforms
DFI	Development Finance Institution
ESG	Environmental, Social and Governance
FCDO	Foreign, Commonwealth and Development Office–UK government ministry into which DFID was merged
FIRE	Financial Innovation for the Real Economy, an FSD Kenya project between 2017-2021
GDP	Gross Domestic Product
GOK	Government of Kenya
GNI	Gross National Income
HSNP	Hunger Safety Net Programme
KSh	Kenya Shillings
MSD	Market systems development
MSME	Micro, Small and Medium Enterprises
ODA	Official Development Assistance
PIC	Programme Investment Committee
RCT	Randomized controlled trial
Sida	Swedish International Development Cooperation Agency
USD	US Dollar
WDI	World Development Indicators, a World Bank curated dataset of indicators

Exchange rate at time of writing: 1 USD = 130 KSh

"The 2016 review" refers to Alan Gibson (2016) FSD Kenya: *Ten years of a market systems approach in the Kenyan Finance* Market available here

Executive **summary**

FSD Kenya was established in 2005 as a pro-poor market facilitator in the Kenyan financial system and has pursued this role over the past twenty years. This report draws on evidence from multiple sources to ask how effective FSD Kenya has been in this role and what can be learned from its experience, especially in the last ten years.

In 2025, the Kenyan financial system is bigger, more profitable, and in parts, more innovative than it was twenty years before. It is also more inclusive, even if poor people have not been the biggest beneficiaries of its growth. These statements echo the findings of a review undertaken at the ten-year milestone.

While this similarity suggests that some things have not changed, in fact, the operating environment for FSD Kenya has, in general, been much less favorable than in its first ten years, despite sustained GDP growth. The country has been disrupted by an ongoing series of shocks, ranging from climate change, greater political volatility, civil unrest, and, of course, the global Covid-19 pandemic of 2020/21. FSD Kenya has had fewer resources to navigate these events, receiving 25 percent less funding on an annual basis between 2016-2024 than in the first ten years. Unlike in the first period, when almost all its funding was core funding, it has also had to manage with increasing funding restrictions. The growing funding uncertainty has had a bearing on the choice of interventions and activities FSD Kenya can undertake.

In that context, during two further strategy cycles since 2016, FSD Kenya has successfully pursued a long-term agenda of creating credible retail financial benchmarks through its landmark FinAccess survey, which it pioneered with the Central Bank of Kenya and the Kenya National Bureau of Statistics in 2006. FinAccess is considered industry-standard and is now largely funded by state bodies. FSD Kenya has also maintained its work in policy and infrastructure, which were a core part of the first ten years, while executing a complex strategy shift to focus more on enhancing how finance creates value in real sectors of the economy, including agriculture, health, and affordable housing. This was in response to growing evidence that financial systems alone have limited impact on livelihoods and financial health, and that finance must engage more directly with the real economic challenges facing households and firms to improve these outcomes. The results of this shift have yet to manifest in observable, significant systems change, raising questions about the risk of spreading limited resources too thinly and the reality that systems change intersecting new sectors will require long-term views and interventions to have an impact.

One way to assess FSD Kenya's impact is to assess the difference in the observed outcomes against counterfactuals for what the financial system would look like by 2025 without any intervention. Assessing the counterfactuals proposed in 2016 reveals a mixed picture: in only one of the four areas, namely research, the outcomes are both clearly better and clearly attributable to FSD Kenya, while in the other areas, some outcomes vary, as does the level of attribution, mainly to FSD Kenya. This assessment raises the question about what realistic expectations of the pace and nature of change are at different stages of market maturity.

In the area of financial inclusion, the rate of advance has inevitably slowed as the nation now exceeds 84% of adults included, more than triple the proportion twenty years ago. This is not only in the area of payments: more people are using more formal savings, credit, and insurance products than ever before. However, several indicators of depth in terms of aggregate savings and credit have hardly budged in ten years. Despite higher levels of financial access and usage, fewer than a fifth of Kenyan adults today are considered financially healthy, a number which has declined since it was first measured by FinAccess in 2016.

In an environment of greater volatility and uncertainty, FSD Kenya has demonstrated its organisational strength and flexibility, most notably when it redirected its attention and resources to supporting the response to the Covid-19 shock in 2020/21. In this pivot and at other times, FSD Kenya has continued to demonstrate that its core assets remain intact. These include the quality of its research, its wide and trusted relationships across the financial system, and the recognised abilities of its people.

Over its lifetime so far, FSD Kenya has received donor funding totalling USD 130m for its core projects. While there are few credible methodologies for measuring, and no consistent benchmarks for comparing, the total social return on this investment in changing the financial system, indicative benchmarks linked to alternative uses and drawing on partial findings from Kenyan randomised control trials suggest that this investment has likely indeed yielded social returns superior to alternative uses in the financial sector and outside it.

Under the market systems approach, a market facilitator like FSD Kenya should always have its own exit in mind, even though its interventions should prove sustainable beyond this point. This report challenges that notion at the organisational level. This is because markets evolve continuously, creating new opportunities for systemic change, and the problem of poverty is far from solved in Kenya. The role of a market facilitator should be to continue to assemble relevant portfolios of discrete project-level interventions from which it is committed to exit on a disciplined basis, either because they are successful and become sustainable or because they fail. There is some evidence from its juggling of its portfolio over the past ten years that FSD Kenya is becoming more adept at doing this. There is a case that it should continue to do so. Its ability to do so will depend on donor appetites in an era of increasing constraint. However, the need for further careful facilitation by a trusted, credible country platform remains strong at a time when digital ecosystems are fast evolving in Kenya and the world at large.

Introduction

2016 was a banner year for financial inclusion in Kenya. In that year, FinAccess, the nationwide survey started by Financial Sector Deepening Kenya (FSD Kenya) ten years earlier, reported that three-quarters of Kenyan adults now had formal financial accounts. This was triple the proportion just ten years earlier, an unprecedented leapfrogging of traditional brick-and-mortar banking led by mobile money solutions. Kenya's M-Pesa mobile payment service had become globally celebrated, not only in development circles but also among digital innovators who were inspired by the potential offered by its payment platform. The progress was not limited to payments alone: millions of Kenyans were already using digital savings and credit products built on top of mobile platforms like M-Shwari.[1] And the progress manifested not only in large numbers of users but also in deeper insights about financial inclusion: the Kenya Financial Diaries, commissioned by FSD Kenya and published in 2015, had sharpened understanding of the precarious financial lives of poor Kenyan households by following a small number closely for more than a year. Bill and Melinda Gates brought this research to global attention in their joint annual Gates Notes letter in 2015.[2] Kenya's experience informed Gates' prediction that by 2030, mobile banking would help the poor radically transform their lives.

1 The Growth of M-Shwari in Kenya–A Market Development Story: Going digital and getting to scale with banking services, November 2016 . Available here.

2 Gates Notes Annual Letter 2015 available here

In the ringing words of Alan Gibson, the reviewer of the first ten years, FSD Kenya had contributed significantly to these impressive outcomes.[3] However, even back then, it was not taken for granted that financial inclusion measured by access and usage of formal accounts would alone generate significant developmental benefits. For that reason, FSD Kenya embarked in 2016 on a bold shift of emphasis in its strategy from a focus on the supply side (that is, on the policy and regulatory environment and on financial service providers) to the demand side. This meant seeking to link finance more closely to the clearly identified needs of low-income households as well as real economy outcomes in a way that, by 2021, had come to mean a focus on a handful of complex sectors, including housing, health, and the green economy.

Ten years after Gibson's review, this review in 2025 repeats the core questions: *How effective has FSD Kenya been as a market systems facilitator in the Kenyan financial system? And what can be learned from that experience for the market systems development approach, of which FSD Kenya has been a leading exponent?* These questions go to the heart of what a market systems development (MSD) approach means in applied local form, and of how relevant it remains, more than twenty years after it was first articulated. Taking a twenty-year view of the experience of FSD Kenya provides a wide-angle lens through which questions like these can be answered, with a particular emphasis on the past ten years to consolidate with the review of the first ten years.

To provide answers, BFA Global conducted a deep dive into the Kenyan context and FSD Kenya's projects. During March and April 2025, we held extensive discussions with FSD Kenya staff and Programmeme Investment Committee (PIC) members and conducted numerous interviews with financial market participants, observers, and researchers.

Before presenting the findings of the review, below is a brief introduction for readers unfamiliar with FSD Kenya or the MSD approach.

Context: FSD Kenya

The Financial Sector Deepening Trust was established in 2005 to advance financial sector deepening in Kenya through the application of a system-wide approach to developing financial markets for the poor.[4]

The independent review of FSD Kenya undertaken by Alan Gibson of Springfield Center at the ten-year point concluded that not only was the Kenyan financial system larger and more inclusive then, but also that FSD Kenya had 'contributed significantly to this change'. Powerful tailwinds of national economic and regulatory reform, encouraged and boosted by FSD Kenya's effective facilitation approach, had combined to create a 'perfect storm' of inclusive outcomes.

> ***"The Kenyan financial system is bigger, more dynamic, more profitable and more innovative than ten years ago. It is also more inclusive, even if poor people have not been the biggest beneficiaries of its growth. Although helped by a generally favorable environment, FSD Kenya has contributed significantly to this change, pushing inclusion more quickly and successfully into the workings of the Kenyan financial sector."***
>
> Alan Gibson, Ten Years of a Market Systems Approach in the Kenyan Finance Market 2016

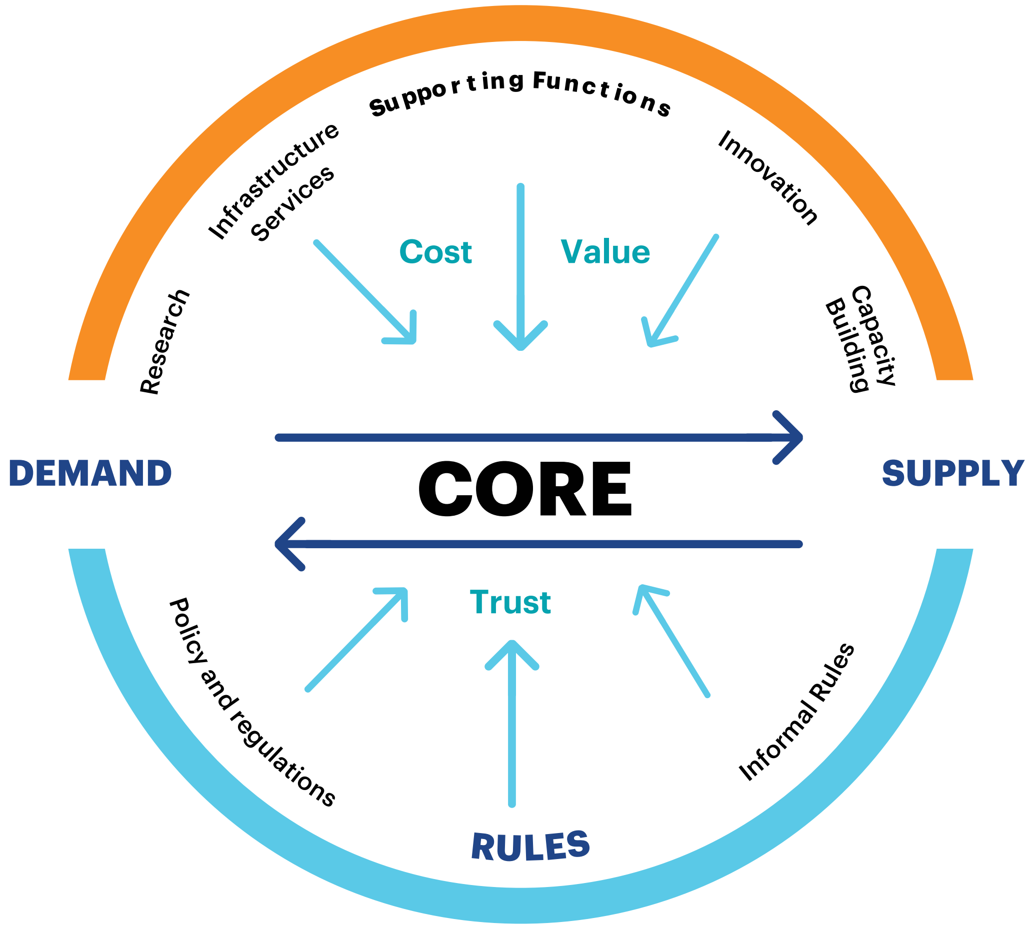
3 Alan Gibson (2016) FSD Kenya: Ten years of a market systems approach in the Kenyan Finance Market available here

4 FSD Kenya Trust Deed (amended and restated at 1 October 2024) states its purpose as "for the promotion and facilitation of inclusive and green financial services to low-income groups in Kenya for the purposes of the alleviation of poverty in Kenya, receiving donations and other contributions for funding and supporting projects aimed at improving the capacity of the financial sector in Kenya to meet the needs of women, micro and small enterprises and rural and urban households."

Since passing the ten-year mark, FSD Kenya has undergone two further strategy cycles: 2016-2021 and 2022-2025[5]. A strategy is FSD Kenya's term for the four or five-year guiding plan that management develops for approval by its governing structure, the Programmeme Investment Committee (PIC), to advance its overall purpose in the next phase. The strategy is used as the basis of mobilising donor funding from a consortium of donors, bilateral and private, to underwrite the costs of execution. Each strategy is then subjected to independent review in order to assess FSD Kenya's performance in terms of efficiency, effectiveness, and value for money.[6]

Context: Market Systems Development (MSD) approach

Figure 1: The Market Systems "do-nut"



Source: FSD Kenya Strategy 2016-2021

5 FSD Kenya's current strategy was initially intended to run through 2026, but the donor funding cycle necessitated the development of a new strategy beginning in 2025.

6 Reviews available here 2016-2021:2022-2025: underway

The essence of the MSD approach has been described effectively and comprehensively elsewhere[7], so here we will provide only a brief overview for readers unfamiliar with it. MSD is a paradigm that evolved from the application of more general complex systems theory to market development. According to the MSD approach, markets are adaptive systems with multiple interconnected elements. The system is more than just the sum of its elements due to feedback loops and interactions among the elements, which means that outcomes do not always follow linearly from inputs or interventions. For those who seek to promote economic development, the logical consequence of this insight is to think carefully about their interventions in order to identify potential leverage points by which the behavior of the system may be changed in ways that will last. Market facilitators like FSD Kenya, which, by definition, do not and should not participate directly in the market, can nevertheless play a key role by supplying supporting services or by influencing the formal or informal rules of the game, as depicted in the classic MSD "do-nut" (Figure 1).

The MSD approach evolved in the early 2000s in part as a reaction to the limits and apparently ineffectiveness of prior approaches donors had taken to private sector development. FSD Kenya was expressly set up as a market facilitator to apply this approach in the Kenyan financial sector and was one of the early movers in what subsequently became a family of FSD-type entities in Africa and Asia.[8] FSD Kenya's story is an expression of the MSD approach in action. In this twenty-year review, we must consider how the financial system in Kenya has, in fact, changed, and then seek evidence of the extent to which the change, good and bad, can be attributed to FSD Kenya. As we do so, it informs how the MSD approach itself needs to evolve.

Contents of this review

This twenty-year review considers the period from FSD Kenya's start in 2005 up to the end of 2024, although it focuses especially on the ten years since the previous review was concluded. The review follows this sequence:

In the first section, we consider the big picture evidence of how the financial system in Kenya has changed, especially since 2015

- This analysis forms the backdrop against which to consider, in Section 2, the extent to which FSD Kenya has contributed to the changes in its second decade, after a first decade in which it was found to have contributed substantially
- We next consider in Section 4 how FSD Kenya has evolved as an organization since 2015 and whether it remains fit for purpose as a market facilitator
- Finally, we consider the implications for the MSD approach from FSD Kenya's experience, focusing especially on whether a market facilitator must have a built-in sunset clause as has previously been proposed
- This leads to a conclusion with some final reflections about the relevance and evolution of the MSD approach in a changing world

7 As the most definitive guide, certainly in the realm of influence on FSD Kenya, see "The Operational Guide for the Making Markets for the Poor Approach", 2014. SDC, DFID, Springfield Centre

8 All FSDs in Africa belong to the FSD Network, a network for learning and collaboration which was formed in 2019 and in April 2025 listed 10 members including FSD Kenya–see here

1

What has changed in Kenya **between 2005 and 2024?**

> ***"We (still) need more emphasis on savings, credit, and insurance solutions... beyond just payments."***
>
> ***--Industry representative 2025***

1.1 The macro picture is mixed...

In 2024, 19 million more people lived in Kenya than in 2005, raising the total population to over 55 million.[9] Of this total number, 19.8 million, or just over a third, were expected to be between the ages of 15 and 34, close to the peak for this cohort as the demographic bulge moved through the population. Substantially more people now live in urban areas, although most of the population (70%) remains rural.

The Kenyan economy was also much larger than it was twenty years ago. In 2023, total GDP was 81% larger in real terms. Even in per capita terms, Gross National Income (GNI) was 45% higher.[10] Sustained economic growth had already led the World Bank in 2014 to recognise Kenya as a lower-middle-income country, the next rung on the economic ladder towards the prized upper-middle-income status. Vision 2030, Kenya's long-term development blueprint first published in 2008, envisaged that, by 2030, Kenya would be a newly industrialising country with a high quality of life for all its citizens.

After more than a decade of macroeconomic growth following the disruptions caused by the contested 2007 national election, the arrival of the Covid-19 pandemic caused the economy to shrink temporarily in 2020. Lockdowns and layoffs reversed some of the developmental progress up to that time. The national poverty rate, which had been declining, reverted in 2021 almost to the level of 2016. However, by some measures, the apparent progress up to that point was shallow: the intensity of poverty, as measured by the poverty gap, had barely budged over twenty years, from 28.9% in 2005 to 28.7% in 2021.[11]

Other indicators of development also remained stuck at a stubbornly high level: for example, the International Labour Organization (ILO) reported that 83% of Kenyan employment was informal, almost unchanged from 82% in 2015.[12]

1.2 ...while digital (financial) inclusion has risen

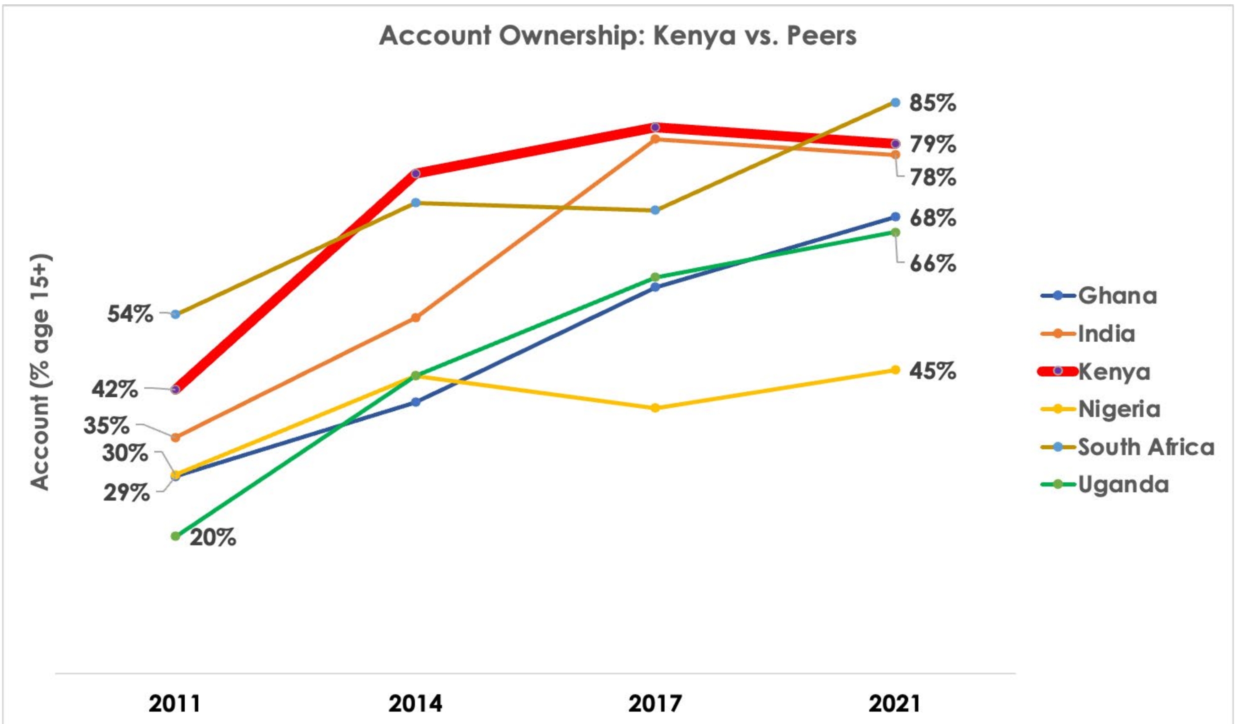
Despite this, Kenyans were certainly far more digitally connected in 2024: almost all (87%) adults owned a mobile phone, up from just over a quarter back in 2005.[13] For just over half (51%) of adults, this was now a smartphone, a significant shift from just under a fifth (19%) in 2016, in the computing power and functionality in the hands of average people.[14]

The dramatic increase in mobile connectivity powered an equally impressive increase in formal financial inclusion. However, the acceleration came in the first ten years: formal inclusion almost tripled from 26.7% in 2006 to 75.3% in 2016.[15] After this point, formal inclusion continued to increase but at a diminishing rate, reaching 84.8% by the most recent measure in 2024.

Compared with other middle-income countries around the world, Kenya's increase in headline financial inclusion over the slightly later period 2011 to 2021, while still impressive (from 42% to 79%), was no longer exceptional (Figure 2).[16] Other countries, including India and Ghana, had steeper trajectories during this ten-year window.

9 World Bank WDI various years.
10 GNI pc was USD 1775 in 2023 using 2015 USD; source WDI
11 The poverty gap quantifies the average shortfall in income or consumption of the poor relative to the poverty line, expressed as a percentage of that line
12 ILO various years
13 FinAccess various years
14 FinAccess various years
15 FinAccess
16 These are World Bank Global FINDEX numbers for % adults who own financial accounts. FINDEX uses a different sampling and questions although the headline results in 2021 are within sampling error ranges: 83.7% FinAccess vs 79% for FINDEX.

Figure 2: Formal inclusion on a cross-country basis



Source: Global Findex, various years

Underlying these headline ownership numbers is remarkable evidence of greater intensity of usage: more than half of all mobile money users used it daily in 2024, double the proportion in 2021 and quadruple the 2019 figure. The nearest competitors were informal groups (mainly weekly active) and bank users (mainly monthly active).[17]

However, despite these ongoing gains, in 2024, almost one in six Kenyan adults remained financially excluded, and almost half of them were rural youth. Affordability remains the main self-reported barrier to accessing most formal financial services other than mobile money, while lack of awareness remains a barrier for less-used categories like insurance, pensions, and securities.

1.3 ...but financial health has fallen...

Recognising that financial access and usage were not sufficient measures of the effects of financial services, FSD Kenya developed a metric of financial health, which it first measured in 2016. Drawing on research done elsewhere in the world, this measure combines the results of three dimensions associated with good financial health: the ability to manage income and expenditure day to day; to cope with unexpected shocks by accessing a buffer of funds; and to invest in livelihoods to grow future income. For a country in which most people were considered financially included, the results were surprising, if not disappointing: less than half (39.4%) of Kenyan adults could be considered financially healthy when first measured in 2016. And this number halved to reach a low of 17.1% in 2021 as the country was emerging from the pandemic. Even three years later in 2024, the measure of financial health had only inched back upwards to 18.3% and remained unchanged for women at 14.7%.

The 2024 FinAccess survey attributed this ongoing slump in financial health to a substantial proportion of people being less able to invest in livelihoods, even though the percentage managing day-to-

17 FinAccess usage of financial providers by frequency, 2024.

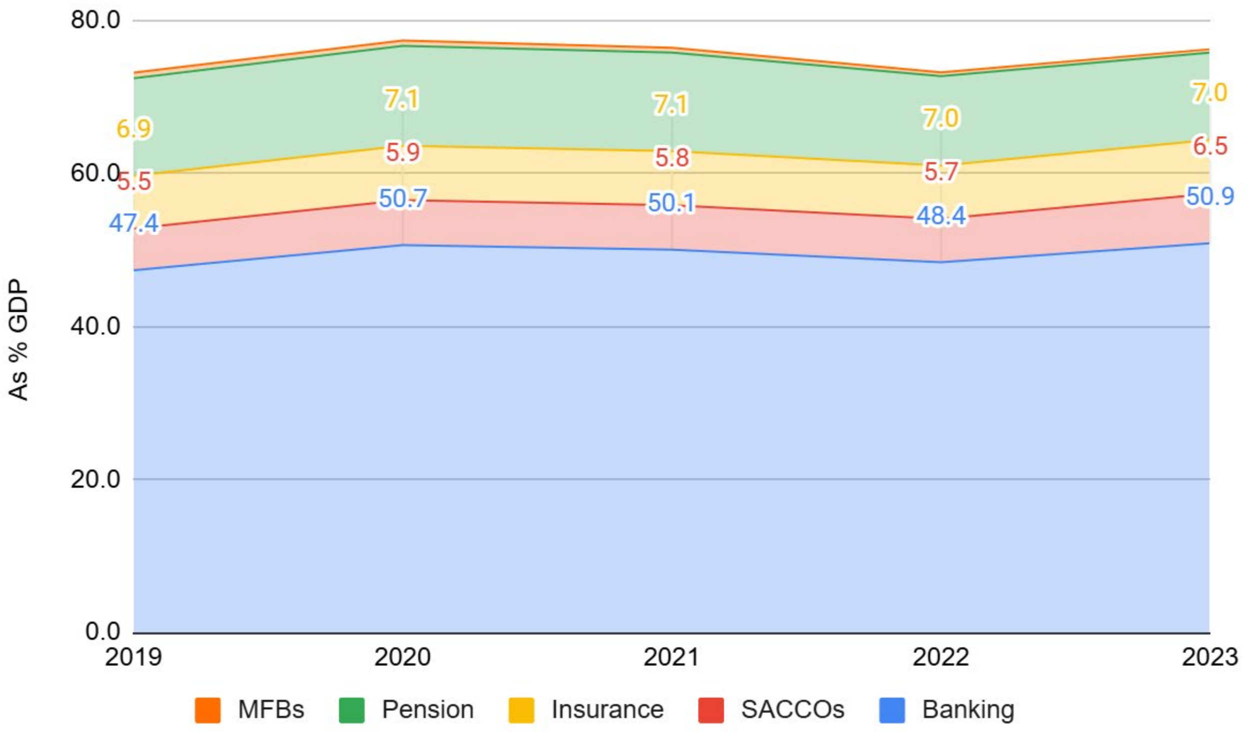
day and coping with shocks had improved from the lowest levels in 2021. The main financial shocks Kenyans faced in 2024 were still health-related (33.7%), climate-related (20.9%), and then death-related (10%).

1.4 ...while the financial system overall is both bigger and more concentrated

In addition to being more inclusive, the Kenyan financial system is also larger, both in absolute size and relative to the size of the economy (76% of GDP in 2023 versus 56% in 2005), an increase of more than a third.[18]

Banks account for two-thirds of all financial assets and have grown this share over time, while insurance, pensions, or microfinance banks have remained more or less level in the past five years (Figure 3). Only the SACCO sector enjoyed an increase in assets similar to that of banks, although it remains just over an eighth of the size of the bankingv sector.

Figure 3: Total assets of different sectors to GDP 2019-2023



Source: CBK Financial Stability Review 2024

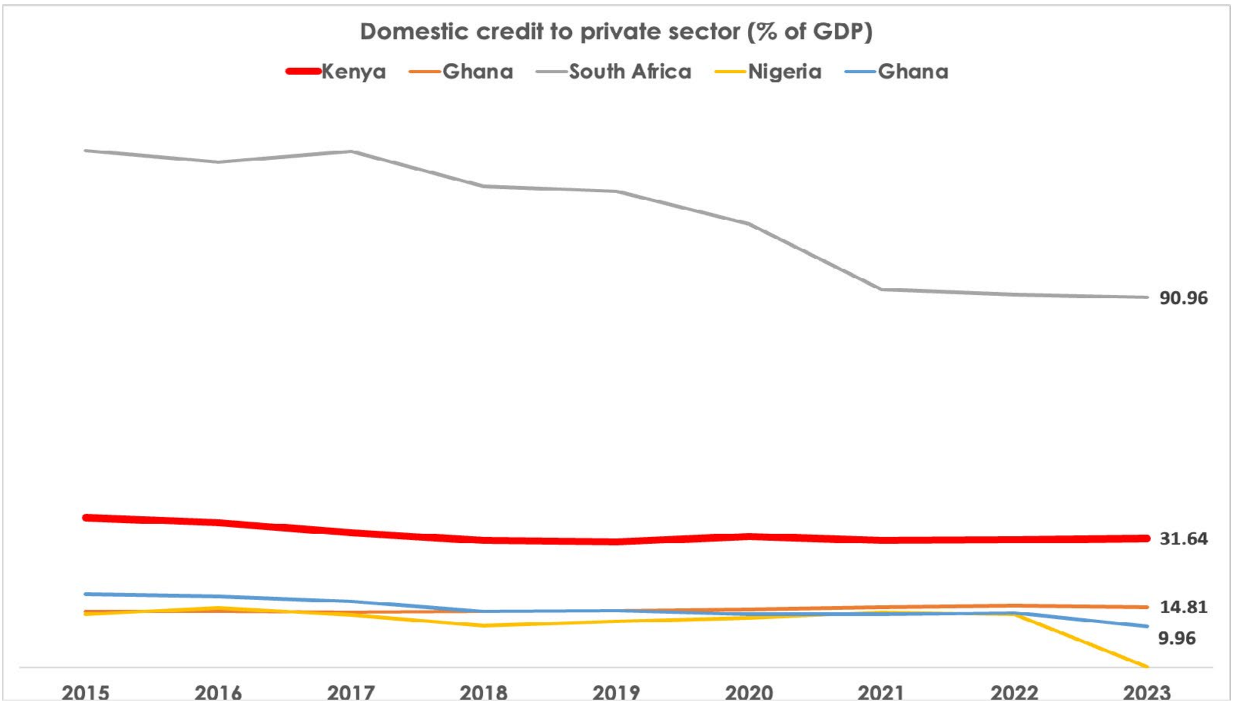
Not only does the Kenyan banking sector command an even bigger share of all financial assets today, but it has also become significantly more concentrated. The largest five banks owned over 60% of banking assets in 2022, backup from a low point of 49% in 2014.[19] Not surprisingly, then, the return on equity (ROE) of large Kenyan banks was 25.3% in 2023, higher than that of struggling medium and smaller banks.[20] This places Kenyan banks among the most profitable national banking sectors in the world, and well ahead of peers even in other

18 Federal Reserve Economic Data, St Louis Fed available via https://fred.stlouisfed.org/
19 Federal Reserve Bank of St. Louis available via here
20 CBK Financial Stability Report 2023 Table 4

concentrated banking markets like South Africa, where the average ROE is 15%. This level of profitability is reflected in banks' stock market valuations: in 2025, Kenyan banks made up eight of the ten most valuable listed Kenyan companies, up from six in 2016.

Especially considering the general heightened levels of domestic turbulence and international volatility, the CBK Financial Stability Report 2023 concludes that the Kenyan financial system was then in decent shape. However, though it was stable and also clearly larger and wider in terms of participation, it was a little deeper than it had been ten years before. Consider credit first. While FinAccess data reports that the number of individuals using credit[21] widened substantially to reach almost two-thirds by 2024 (Figure 4), domestic credit to the private sector as a proportion of GDP has increased only from 26% in 2005 to 31.6% in 2023. This level is higher than Ghana and Nigeria but well below South Africa (Figure 4). Interest rate caps imposed on lending between 2016 and 2019 may explain part of this, but six years after their removal, private sector credit remains weak.

Figure 4: Domestic credit to private sector (% of GDP)



Source: World Bank WDI

One might imagine that without the depth of credit penetration, domestic savings might flourish; yet gross domestic savings to GDP in Kenya also languished at 11.1% in 2023, the same as its twenty-year average. This level of savings is also a little different from South Africa, which has much higher credit penetration and is far below India. Yet again, at the individual level, FinAccess shows that two-thirds of Kenyans save using formal and informal products, a notable increase from the level in 2006.

1.5 ...and the startup innovation ecosystem has blossomed...

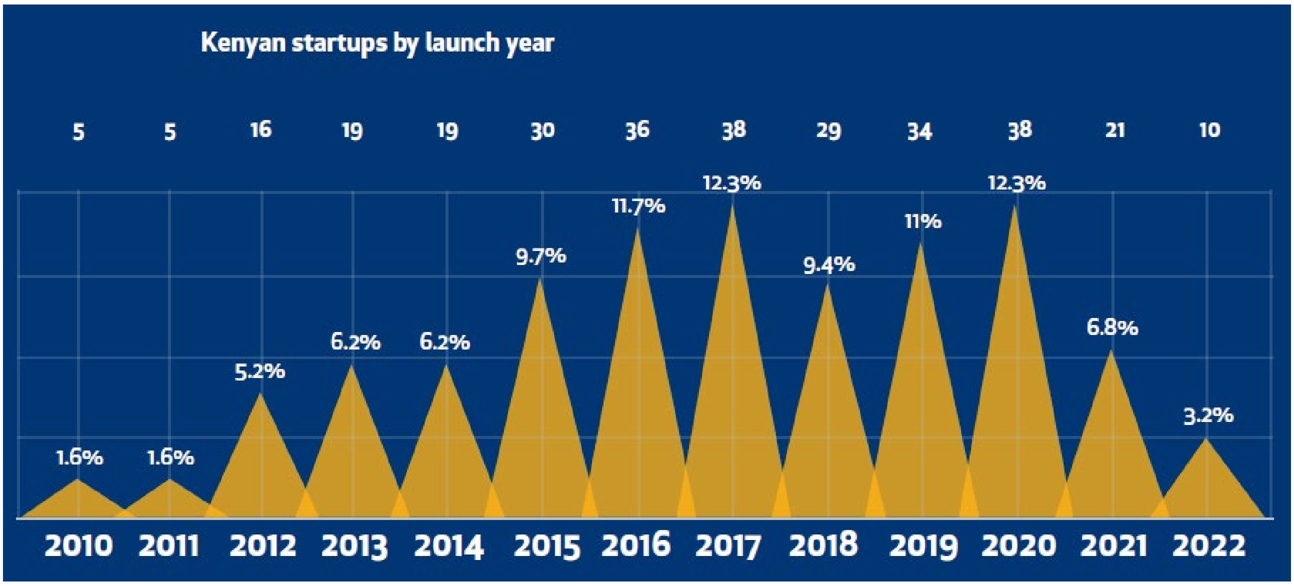
As part of its market facilitation role, FSD Kenya has consistently provided support in different ways for market innovation and for innovators: whether supporting large banks or telcos to bring a new product like M-Shwari to market in the first ten years (2005-2015), or whether through financing startups as it did explicitly through its Financial innovation for

21 Informal and formal

the real economy (FIRE) project in the last decade (2016-2025). During this latter period, one of the big environmental shifts has been the large inflow of private funding for startups. Kenya is home to one of the four largest startup ecosystems in Africa. Kenyan startups tracked by Disrupt Africa raised a total of USD 1.28 billion between 2015 and 2022, an amount second in Africa only to startups in Nigeria, although some of this funding was directed toward regional expansion beyond.[22] To place this number in perspective, total Official Development Assistance (ODA) disbursements to Kenya from large philanthropies captured in the DAC2A database totaled not much more than this (USD 1.65 bn) over the same period.[23]

Startup activity in Kenya by this measure peaked in 2020 (Figure 5). Of the startups tracked by Disrupt Africa, 45% participated in an acceleration programme, higher than elsewhere in Africa, and showed the depth of support available in the Kenyan startup ecosystem. The largest single sector for startups by the volume of funds raised was fintech, which also attracts the most commercial funding, as it does in other countries. The Briter Africa Investment Report 2024[24] confirms the overall picture of a startup funding ecosystem in Kenya, which has matured over the past decade, and entered a consolidation phase in 2023 when total funding raised started to decline.

Figure 5: Startups in Kenya by year



Source: Disrupt Africa 2022

1.6 ...creating the sense of a financial system which risks 'growing old' before it has 'grown up'.

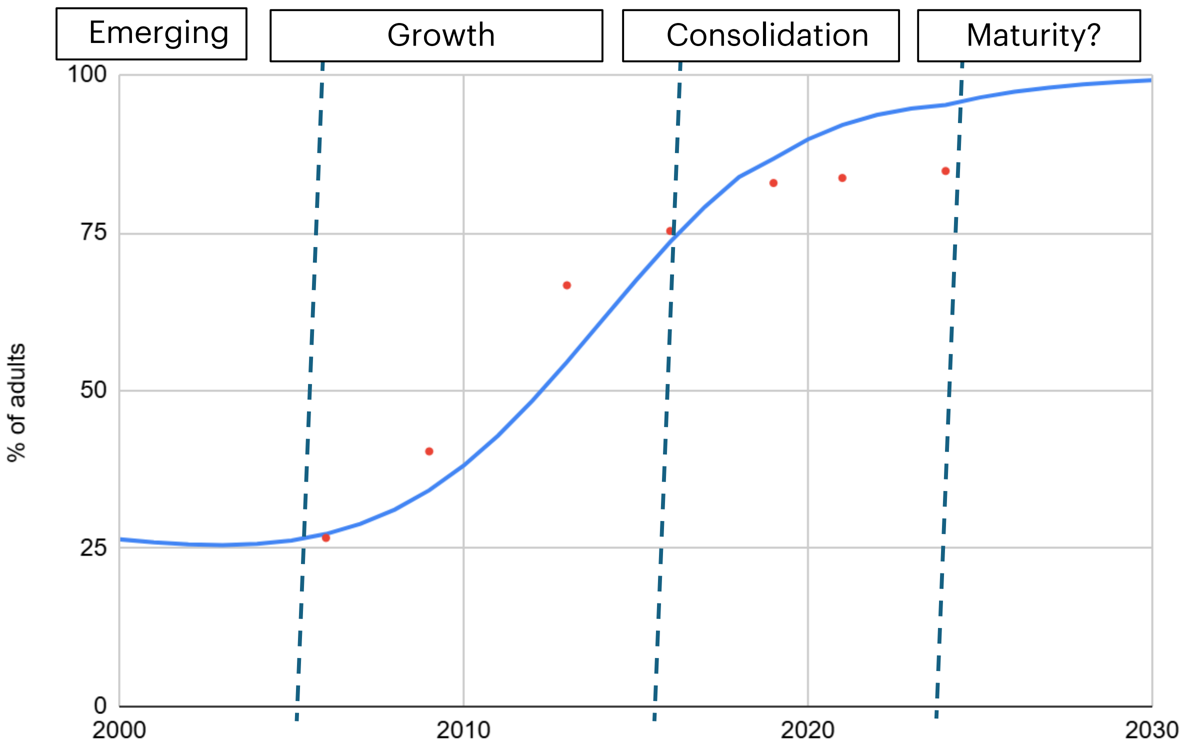
Like Kenya's society and economy, Kenya's financial system is larger than it was in 2016, and certainly much larger than it was in 2005. It is also more dynamic and innovative in some parts, like the startup ecosystem, and more profitable in other parts, notably large banks, which control an ever larger share of system assets. At a headline level, it is also more inclusive, with more adults than ever using formal accounts for payments, savings, credit, and even insurance. However, while the system is wider, it is not much deeper by macro private credit and savings measures, and high levels of informality have so far been little changed by pervasive digitisation.

22 The Kenyan Startup Ecosystem Report 2022 available here
23 DAC database
24 Briter Africa Investment Report 2024 available here

Furthermore, according to the 2016 review, poor people have not been the biggest beneficiaries of the most recent growth either. Using the measures developed by FSD Kenya, low-income Kenyans remain disproportionately excluded and continue to report low levels of financial health. While the financial system alone was never expected to eliminate poverty, it was hoped that higher levels of formal financial inclusion would result in better ability for people to mitigate shocks, which would drag them into poverty, and/or to take the opportunities which would boost them out of poverty. Although there is evidence that increased financial inclusion has helped many cope with shocks and avoid worse outcomes, the big picture of Kenya in the past ten years provides limited evidence that these desired outcomes have yet to happen at any scale. Instead, Kenya in 2024 provides a picture of what it looks like to have widespread financial inclusion without yet seeing broad-based inclusive growth.

The national timeline in Annex A lists the sequence of material events in the Kenyan environment that are relevant to FSD Kenya. However, the trajectory of financial inclusion in Kenya over twenty years fits a classic S-curve for market adoption, even though inclusion is not itself a product but an outcome of market offerings (Figure 6). Depicted this way, the decade from 2006 to 2016 was the phase of breakout growth. Since then, the Kenyan market has undergone a consolidation phase. As the Kenyan financial system stares down the next market stage called 'maturity', it is almost as if financial inclusion framed as using financial accounts risks growing old, in the sense of becoming stuck, before it has fully 'grown up' to its potential of meaningful inclusion and advancing inclusive growth. This is the environmental backdrop against which FSD Kenya has had to function during the second ten years of its life.

Figure 6: Overlaying market development phases on financial inclusion in Kenya



Source: Dots represent FinAccess actual measures of the % adults with formal accounts in the various years, fitted to the S-curve.

2 FSD Kenya's **role in the changes**

> ***""[FSD Kenya] can't change the macro (factors) but need to lay the groundwork—get the foundations right—so that when the time comes, the sector can take off."***
>
> —FSD Kenya PIC member

Evaluating the role of a market facilitator in a complex system is never simple. In any complex system, interventions can have disproportionate outcomes: substantial efforts may yield limited systemic change, while small, sometimes even unintended, actions that find leverage points can generate disproportionally large changes. However, complex systems are not random, and it is possible to scan for ex post evidence of impact by:

1) Controlling for exogenous factors in the environment to the extent possible;
2) Reviewing project indicators for the achievement of intended outcomes;
3) Considering counterfactuals, in other words, assessing what has actually happened against views of what would likely have happened even without the market facilitator present, and assessing the extent to which the difference can be attributed to actions of the market facilitator, and finally
4) Identifying any evidence of unintended consequences, including possible harm.

This section steps through each, contrasting the experience in the first ten years with that in the second.

2.1 The first ten years (2005-2015)

In its first ten years, FSD Kenya placed substantial focus on supporting the supply side of the Kenyan financial system. In practice, this meant providing advocacy and technical assistance that supported:

- The emergence of innovative new players, such as Equity Bank, which today has the largest retail banking customer base in Kenya, and
- The building of new financial products on the mobile platform was created by M-Pesa, including, most notably, M-Shwari (see case in 2.4).

FSD Kenya's role in the creation of M-Pesa was subtle and largely out of the public eye, but nonetheless significant. It did not provide the funding for the original experimentation which led to the creation of M-Pesa by Safaricom, supported by Vodafone.[25] However, seeing the potential early on, FSD Kenya funded a consultancy which assisted the early development; and more importantly, played an important role in advocating for the 'no objection' letter from the Central Bank of Kenya (CBK) which allowed M-Pesa to launch in 2007, in advance of enabling regulations which followed six years later. FSD Kenya's role in supporting M-Shwari was more profound, as recorded in the 2016 case study. It started with providing a book, The Portfolios of the Poor[26], to a key executive of the Commercial Bank of Africa at the right time, stimulating a vision of what was possible with low end financial services; and following this up with relatively modest technical assistance support totalling USD 650,000 which helped to translate the vision for a new credit and savings product into a reality.[27] This support, together with the bank's own investment of USD 14m, subsequently scaled to reach millions of customers. FSD Kenya was able to scale back its involvement, yet the products continued to be rolled out at a large scale, and others followed. In this, FSD Kenya played a classic market facilitator role that was very effective.

It was already evident in 2016 that the emergence of significant market players and market innovations like these was changing the composition and incentives of the financial system to become more inclusive of low-value accounts. Outside of its supply-side work, FSD Kenya also laid the foundations of other enabling initiatives that have been long-lasting into the second phase of its life.

Chief among these was the launch of the FinAccess survey in 2006, which provided for the first time a credible view of the dimensions of the retail financial services market in Kenya. FinAccess has become

25 The funding in fact came from DFID's Financial Deepening Challenge Fund to Vodafone Group, See here.
26 Daryl Collins et al (2009) Portfolios of the Poor, Princeton Press
27 M-Shwari case 2016

the flagship survey of retail finance in Kenya and continues to provide tri-annual yardsticks of progress and market potential to this day.

Looking beyond the runaway early success of a single mobile payment service, FSD Kenya foresaw the need to promote instant payment infrastructure, while also encouraging interoperability among payment services. It had also started a long-running effort to improve the quality of credit information in the market through catalysing and then supporting the formation of the Credit Information Sharing Association of Kenya in 2013.[28] The 2016 review noted that these efforts to build new financial infrastructure had promise but had yet to bear fruit, in part because of the longer cycles involved in building collaborative infrastructure.

In the face of strong evidence in 2016 that FSD Kenya had served effectively and successfully as a market facilitator up to that point, the review sounded a note of caution about the impact of all this obvious systemic change: *"This apparent contrast between conspicuous supply-side success and a still-poor economy –mirroring international debates - raises questions on the role of the finance sector. In particular, it begs questions on who/what it is there to serve, and on the incentives that drive behaviour....Finance is a market working better for the poor, but it is working even better for others."*

2.2 The second decade (2016-2025)

FSD Kenya entered its second decade on a high note, but also with an awareness of the need to demonstrate that all the growth in access and usage would, in fact, create value for the poor. This goal was reflected in its 2016 strategy: 'To generate sustainable improvements in the lives of lower-income people in Kenya'. This period marked a shift to focusing on the value created by the financial sector, beyond its growth alone.

This shift happened at a time when there were already emerging signs that 'embedded finance,' that is, finance which is bundled with the provision of goods or services in the real economy, could create new value and unlock new markets.

A prominent early mover example in Kenya is the PayGo solar energy sector. In this new market area, as with M-Pesa before, FSD Kenya played a quiet but important role, which is not always acknowledged (see case). PayGo solar businesses bundled the sale of off-grid energy kits (solar cells and batteries) with lease finance because off-grid households could not afford the lump sums involved to purchase outright. The business model was explicitly enabled by the expansion of mobile phones to rural areas, and specifically, the availability of a reliable mobile money platform. Because the customers of PAYGo solar businesses were mainly off-grid in rural areas and had relatively low incomes (or else they would have bought outright), the case for high-level impact on the poor was strong.

This compelling example awakened a curiosity to find other 'next generation' cases in which there could be a win-win between finance and the real economy, leading to systemic impact, with development capital playing an important role. FSD Kenya played an important, though quiet, supportive role in the early years of this sector. It did not directly provide much funding, which it was not able to do, but neither was this needed: donors, DFIs, and commercial funders provided ever larger amounts of finance during the growth phase. Instead, as a facilitator, FSD Kenya supported the founders of market leader M-KOPA in their early experimentation with flexible financial products, which did not succeed, but helped to lay the basis for their PayGo solar product. FSD Kenya's outgoing CEO has sat on the board of M-KOPA since its early days and has actively participated in the development of the industry association GOGLA. From 2016 to 2017, FSD Kenya provided support to M-KOPA Labs in designing and testing an asset-based credit scheme for low-income farmers.[29] In addition, FSD Kenya has supported other PAYGo solar players and the extension of PAYGo business models in other sectors under its FIRE project.

28 CIS Kenya, available here
29 MicroAsset Leasing Final Report 2018

Case 1
The emergence of PayGo business models in Kenya

Kenya has been at the forefront of developing pay-as-you-go (PayGo) business models. These models initially allowed low-income households to lease and ultimately own solar home systems through paying small, regular installments using mobile money. In the event of non-payment, the PayGo business is able to remotely disable the solar device which is connected to the mobile network so that it no longer produces energy. However, the model has since evolved to be applied to a variety of other consumer goods, including smart phones.

Since emerging around 2010, the PayGo sector in Kenya offers a compelling example of rapid market development to achieve substantial scale on a scalable basis, with strong support from development capital providers. It has gone through its own version of the adoption S curve described earlier for inclusion.

Early pilots showed strong consumer demand, and Kenya's relatively high mobile money penetration (over 70% of adults by 2014) created a conducive environment for scaling. Between 2010 and 2015, early PayGo companies in Kenya collectively raised substantial funding in grants, equity, and debt, largely from impact investors like Novastar Ventures, Acumen, and Shell Foundation. During this period, M-KOPA alone connected over 250,000 households. Venture capital backed aggressive customer acquisition, but many firms prioritized scale over profitability, accepting negative unit economics in the short term.

From 2016 to 2019, the sector matured. Top players, M-KOPA, d.light, and Sun King expanded their product lines (e.g., into financing TVs, fans, and eventually smartphones) and improved operational efficiencies. Capital raised surged: M-KOPA alone raised over USD 80 million by 2019 across several equity rounds and debt facilities. Industry-wide, off-grid solar investments in East Africa (not just Kenya) reached several hundred million dollars annually, though about 70% of the funds flowed to the largest seven companies. M-KOPA alone had surpassed 750,000 customers by 2019. In common with credit products in general and in Kenya at this time, there was also evidence of overextension of credit and even questionable sales and lending tactics by some providers.[30]

From 2022 onward, the sector rebounded sharply after enduring debt stress during Covid-19. New forms of capital emerged, including structured local-currency receivables financing. Kenya remains one of the largest PAYGo markets globally: Kenyan PAYGo providers serve over 1.5 million customers, delivering not just basic lighting but also smartphones, appliances, and productive-use equipment. Leading firms like M-KOPA are moving toward profitability, with improved unit economics from better risk management, diversified revenues, and cost efficiencies. The sector has consolidated, and it now appears sustainable.

In the first strategy 2016-2021 of its second decade, FSD Kenya continued to intervene in its traditional areas of policy, regulation and supportive financial industry infrastructure but added an innovation project which came to be known as the Financial Innovation for the Real. Economy (FIRE) project which would support new ways in which finance can be made to work for the poor through the real economy. Although FIRE supported a wide range of innovations at the early stage, some of which went on to further stages of development and achieved impact, the programme was considered too wide and broad to achieve systemic impact (see Case 2 below). This was especially so given the small size of the project, KSh 109m (USD 4.7 m) in the face of the growing waves of impact and venture capital, which were then flowing into startups in Kenya. FIRE is therefore an example of FSD Kenya's

30 CGAP blog 2022, available here

intentional exit from a project not because of failure, but because of its assessment that it could achieve higher impact returns on its time and money elsewhere, notably directed through a more narrow ectoral lens. However, demonstrating the ability to exit from projects like this is an important discipline for a market facilitator.

Case 2

Experimenting with innovation: the Financial Innovation for the Real Economy (FIRE) project.

Between 2017 and 2021, FIRE aimed to create market capacity and shape incentives to innovate financial solutions for real-world problems. It sought to ground innovation in solving real problems by testing various hypotheses under components among the agricultural value chains and informal workers in manufacturing and construction in order to find 'exemplars' or demonstration cases. It sought to complement venture and other forms of capital by allowing innovators to experiment with high-risk initiatives targeting underserved markets, particularly those that had not yet made a compelling internal commercial case or attracted interest from venture funders, who typically seek high-return prospects.

Under agricultural value chains, 20 pilot solutions across four interventions were tested. Six 'exemplars' emerged out of these through partnerships with local innovators like Apollo, SunCulture, Agricultural Finance Corporation, DigiFarm, Pula, and Performeter. Under the informal workers component, five pilot solutions were tested. One example emerged from the 17 pilot solutions tested across three wellbeing interventions. Eight pilots were conducted under the innovation observatory component.

Although project evaluations concluded that the project had largely achieved its performance goals, the decision was taken for FSD Kenya to exit from this type of innovation financing because the rising wave of incoming impact investment and venture capital made FSD Kenya's contribution less necessary and less impactful.

The review of the 2016-2021 strategy concluded that, while there had not been a breakthrough system change in the preceding five years, institutional strengthening and sustainability were hallmarks of the period. FSD Kenya had successfully sought to make FinAccess more sustainable through building deeper funding partnerships with government agencies. It had also exited its management of the Hunger Safety Net Programme, a cash transfer programmeme for poor and vulnerable households in the arid rural areas of northern Kenya, by transferring the management to the National Drought Management Authority (NDMA) and, more generally, its work in supporting government payments. See Case 3 below.

Case 3

Institutionalising new payment approaches: Hunger Safety Net Programme and Government Payments Project

The work of managing payments for a major cash transfer programme is not naturally the work of a market facilitator, but FSD Kenya originally took this on for the Hunger Safety Net Programme, originally funded by DFID. In part, this was to use the payouts in areas without financial infrastructure to build up appropriate infrastructure by offering incentives and managing the payment provider in an innovative way.

FSD Kenya leveraged this experience to achieve scaled and sustainable impact through its Government Payments Project, which continued through two phases. FSD Kenya worked with different agencies of the government of Kenya to develop solutions to digitise all government payments to maximise the positive impact on low-income households and financial market development. However, the focus was on ensuring a system-wide impact and long-term sustainability. FSD Kenya was able to transfer the ongoing payment services management function to the National Drought & Management Authority (NDMA). FSD Kenya was also able to play a critical role in convening key stakeholders, including the National Treasury, Central Bank of Kenya, NDMA, donors, private sector players like the Kenya Bankers Association, VISA, and Mastercard, to support the creation of a new platform for social payments under the National Safety Net Programme. This programme combines three cash transfer programmes as part of Inua Jamii, which are fully paid through the payment mechanism. The initial design, supported by FSD Kenya, introduced a choice-based model in which beneficiaries could select from four contracted Payment Service Providers (PSPs) during account opening, with the option to switch providers during designated "switching" windows, aimed at enhancing value and user agency. During the Covid-19 pandemic, the government payment platform proved invaluable in reaching vulnerable households who were negatively impacted. By 2024, 1.76 million people received a monthly stipend of Kshs 2000 through the initiative.

The programmeme laid the foundation for a more robust and inclusive social protection infrastructure.

Click here to learn more about FSD Kenya's role in the Hunger Safety Net Programme.

In the second strategy 2022-2025 of its second decade, FSD Kenya doubled down on its shift to focus on the real economy and four driver strategic drivers: gender and women's economic empowerment (WEE), meeting the financial needs of Micro and Small Enterprises (MSEs), leveraging the digital economy, and addressing climate risks and green opportunities.— The goal of the strategy is: "A financial system that increasingly delivers value for a green and inclusive digital economy while improving financial health and capability for women and micro and small enterprises".

In the 2022 - 2025 strategy period, FSD Kenya did not abandon its long-lasting work in policy and infrastructure, in which change takes time and requires patience from market facilitators. However, the new strategy continued a focus that had begun in the previous strategy on complex and demanding real sectors areas of affordable housing and supporting the emergence of green finance, while at the same time proposing other new projects in priority sectors, including agriculture, trade value chains, and health. These areas were selected based on a combination of potential to see demonstrable change, which could demonstrate the theory of change, and funder interest. One of these areas (trade) was subsequently paused and scaled back when a major funder first froze funding and then withdrew. The trade project was eventually discontinued.

In each of the other four project areas, a team of typically two to four staff at FSD Kenya manages an approved budget averaging USD 1m p.a. in order to achieve a demanding set of immediate and higher-order outcome indicators. To give a sense of how much of a shift had happened towards supporting the real sector, whereas the 2016-2021 strategy allocated 13% of total envisaged resources to 'building the real economy'[31], in the 2022-2025 strategy, the allocation had grown to 83% of project funding. In the actual project spend to end 2024, however, these real sector projects comprised only 73%, indicating a relatively lower spend than the fifth project, the long-standing policy and infrastructure project, which had more established engagements and a more predictable resource allocation.

Across this diverse and challenging portfolio of projects, the 2025 review reported evidence of traction by some projects more than others. Some, such as health and housing, were major government priorities, and as such were also very vulnerable to changes in sudden shifts in policy. In common, there is a complex ecosystem of players to understand and with which to engage, raising the risk that FSD Kenya was spreading itself too thinly and risked dissipating the impact of its resources across too wide a front.

> ***"FSD Kenya has been trying to hit a bigger and bigger ball with a bat which is getting smaller"***
>
> —Industry observer

31 To which arguably the FIRE programme (a further 13%) could be added since most of its innovations happened in real economy sectors.

The strategies of the second decade have unfolded in an external environment generally less favorable than that of the first ten years: it was marked by one major exogenous shock the Covid-19 pandemic and several long-term adverse trends discussed further below. Headwinds like these reduce the ability of a market facilitator to maneuver. However, since unpredictable change is inevitable in any complex system, the test of a market facilitator is how it is able to take the best advantage of shocks and changes to promote its purpose.

1) The **global Covid-19 pandemic** of 2020/21 caused a contraction of the Kenyan economy and widespread job losses, especially in the service sector. It led to a substantial number of people slipping back into poverty, and has left the national fiscus under considerable strain. Very few strategic plans globally had factored in this level of shock. FSD Kenya received recognition for the way it leaned into the shock, bringing its trusted data and relationships to bear (Case 4 below). However, the effect of the shock was not negative in the financial sector. It prompted the Kenyan government to enact policies encouraging cashless transactions[32], while many businesses strengthened their digital capabilities and adopted digital payment methods, resulting in digital merchant payments gaining traction[33]. The case below acknowledges how FSD Kenya was able to pivot its focus and deploy its core assets to the changed reality in ways that are not fully recognised in impact indicators since they were unexpected.

32 Digital financial services can supercharge the response to COVID-19, available here
33 Findex 2021 reported that 12% of Kenyan adults had made a digital merchant purchase for the first time after the start of Covid, available here

Case 4

Covid–19: How FSD Kenya pivoted

On the day the first Covid-19 case was announced in Kenya in March 2020, the CEO of FSD Kenya published a blog asking: How can inclusive finance assist in a pandemic?[34] This was the first of a long series of publications that FSD Kenya published during the pandemic, providing insights, guidance and knowledge. The fact that it could come out so soon demonstrated a nimbleness and a flexibility in practice.

In the months that followed, FSD Kenya leadership team was drawn into senior government forums and was frequently consulted for their advice. In this way, they were able to leverage some core assets:

1. Insights drawn from their databases–both FinAccess and Financial Diaries, which were refreshed by going back to original respondents at this time[35]–which were used to build scenarios to inform their policy advice.
2. Experience as a thought leader in the design of emergency cash transfer programmes–this was built on FSD Kenya's management of the Hunger Safety Net and on its support for setting up a government payment platform for cash benefits, which proved invaluable in reaching negatively affected vulnerable groups.
3. Collecting critical but missing data on businesses. The FinAccess Covid-19 MSE Tracker survey was launched in direct response to the pandemic, following a challenge from the Central Bank Governor to ensure FinAccess data could meaningfully inform crisis policy. While initiatives, particularly by the World Bank, were already tracking impacts on households, poverty, and formal businesses, data on micro and small enterprises were critically lacking. FSD Kenya and the FinAccess team stepped in to fill this gap, launching the MSE Tracker to monitor how MSEs were affected. The survey was later adopted by the government and integrated into the broader FinAccess programmeme, aligning with the national priority on MSEs under Kenya's post-2022 administration.

FSD Kenya convened and facilitated discussions on leveraging the government's single registry and Inua Jamii platform resulting in additional vulnerable Kenyans being included in the government's emergency cash response while Inua Jamii beneficiaries received additional payments.

When a senior policy maker who worked with FSD Kenya during the Covid period was asked whether FSD Kenya's response to the crisis had surprised him, he indicated it had not, because he had come to expect responsiveness and nimbleness from them.

2) Unfavorable environment for private lending and bank failures

While FSD Kenya has had substantial engagement and even leverage in financial policy making, several government events took place during the past ten years, which distracted policymakers' energy and focus. First, Kenya implemented a cap on bank interest rates in September 2016, through legislation which set the maximum lending rate at four percentage points above the Central Bank Rate (CBR) and established a minimum deposit interest rate at 70% of the CBR. Politicians sought mainly to reduce the cost of credit, enhance access to loans, particularly for SMEs, and increase returns on savings in response to public outcry over banking margins. However, as predicted by FSD Kenya and other economists, it resulted in reduced bank lending to SMEs and riskier clients. Ultimately, the cap was repealed in 2019.

34 How can inclusive finance help in pandemic?, available here
35 Kenya COVID-19 diaries, available here

Case 5

FSD Kenya's response to the interest rate cap law of 2016

Because of their distortionary influence on credit markets, traditional market facilitation approaches have discouraged the use of interest rate caps. Before the passage of the draft legislation that mandated rate caps on bank lending in Kenya, FSD Kenya sought to advocate against the imposition of the caps by commissioning a desk review of other markets with caps. A paper was submitted to the CBK Governor to help in his discussions with Parliament and the National Treasury. However, the Bill eventually passed into Law and the cap was imposed in 2016.

Once the new law was in place, FSD Kenya had the opportunity to shape how it was applied so as to ameliorate its perverse effects, which included tying the Central Bank's hand in adjusting the policy rate. This work turned into a proposal for a draft credit bill jointly developed by National Treasury, FSD Kenya and an expert consultant hired by FSD Kenya.

A key learning for a market facilitator is that it has to manage the tension between incremental reforms and complete overhaul of the regulatory architecture and will not always get it right. However, market facilitators need to assess carefully the political landscape and understand the interests of their partners so that advocating a theoretical best solution does not get in the way of a somewhat better one.

3) **Fiscal capacity of government and trust in government have both declined** as part of longer-term trends. Kenya's debt service to government revenue ratio tripled between 2016 and 2024, limiting the capacity of the government to deliver on programmes and, at times, to pay staff. By 2024, 32% of tax revenue was going to debt service.[36] The Edelman Trust Barometer 2025 reported that trust in government by Kenyans was by far the lowest of the sectors measured in its survey (only 38% of people trusted the government, while 76% trusted NGOs and 72% business).[37] Although during the past decade there was no single disruption on the same scale as that which followed the disputed 2007 election, growing youth-led protests culminated in violence in mid-2024 and led to reversals of tax policy and changes in senior ministers. These all contributed to shaping a policy environment with greater volatility and uncertainty, with less ability to support long-term policy making.

36 "Kenya's Fraught Choices", Financial Times 3 July 2024
37 2024 Edelman Trust Barometer, available here

Case 6

Navigating complexity through tactical adaptation: insights from FSD Kenya's health and green finance work

In a policy environment marked by fiscal constraints, declining trust, and institutional volatility, FSD Kenya has advanced its goals by adapting its tactics while remaining focused on long-term systemic outcomes. Two projects, the health finance project and the green finance project, illustrate how the organisation has responded to shifting conditions while upholding MSD principles.

1. Leveraging county governments as a responsive entry point

Whereas FSD Kenya had traditionally worked with the national government, recent years have seen a strategic shift toward deeper engagement with county governments, a move that has proven to be a key success factor. National-level engagement has become increasingly difficult due to reduced policy coherence, sudden shifts in priorities, and growing fiscal pressure. In some cases, contextual sensitivities have influenced how research findings were shared, occasionally affecting the pace of learning and reflection.

In contrast, county governments have emerged as more agile and responsive partners, enabling piloting, reform implementation, and locally owned progress. In Green Finance, this was evident through the institutionalisation of County Climate Change Funds (CCCFs) in 17 counties. These mechanisms embedded climate priorities into planning and budgeting processes, resulting in over KShs 636 million in local climate allocations from county budgets. This reflects MSD principles of local ownership, embedded change, and responsive systems development.

2. Shifting tactics, holding to strategy in health finance

FSD Kenya's health finance team has stayed focused on systemic barriers first identified in its 2016 financial diaries—notably affordability and quality gaps that undermine household resilience. When a major policy shift introduced the Social Health Insurance Fund (SHIF), rendering NHIF-focused plans obsolete, the team adapted. It scaled back, secured new funding from the Gates Foundation, and launched a health diaries study to understand household-level impacts under the new SHIF framework. This pivot reflects MSD principles of flexibility and evidence-driven facilitation, positioning FSD Kenya as a trusted partner for future engagement as the policy context stabilises. At the same time, it's continued to support market-led innovations such as value-based care pilots.

4) **Donor funding has been more constrained:** while official ODA flows to Kenya increased threefold between 2005 and 2015, except for a Covid-linked spike, they did not increase between 2016 and 2023.[38] Even before the dramatic reductions in funding announced by several major bilateral donors in 2024/5, FSD Kenya had already been through rounds of great funding uncertainty in 2017 and 2020, linked to changes in the focus of country strategy by donors and to national aid budget reductions. In general, this has meant that the scale of concessional funding has declined relative to other inflows, including venture funding for startups, as highlighted earlier.

During the past ten years, FSD Kenya's programme has had to work with these generally less favorable headwinds. There is evidence, at least from its responses to the Covid-19 pandemic, that FSD Kenya has shown the flexibility to pivot rapidly when needed.

38 DAC2A: Aid (ODA) disbursements to countries and regions in USD

2.3 Considering counterfactuals

The 2016 review helpfully set out four broad counterfactual statements about what could be expected to happen anyway, without further intervention by FSD Kenya in the subsequent ten years. By assessing in 2025 the extent to which each of these statements has been borne out, it is possible to get some sense of whether and how outcomes have varied from the reasonable expectations formed at the time. In Table 1 below, we distinguish an 'overshoot' as a case where the outcome is better than was expected, from an 'undershoot' where the outcome was worse, and from an outcome in line with expectations (i.e., with no apparent additionality). Then it is necessary to ask in each case to what extent the actions of FSD Kenya contributed to the observed outcome.

Table 1: 2015 counterfactuals re-examined in 2025

Counterfactual, which was proposed in 2016	Outcome observed in 2025
1) The development of the CIS and Switch systems will increase efficiency and competition, reducing costs for consumers and opening up new possibilities for new and better services.	**Undershoot:** The usage of Pesalink (the switch system supported by FSD Kenya, launched in 2017) has disappointed relative to the continued growth of mobile money and dominance of M-Pesa. While there has been some decrease in average costs, there is no evidence from the market shares of banks or mobile money that competition in payments has increased, and the burgeoning of digital credit providers (DCP) created the risk of consumer harm. *This is an area with unfulfilled potential and also some unintended consequences resulting from FSD Kenya's actions* (see M-Shwari & DCPs case below).
2) The existing momentum behind product development and innovation will continue. Some of this will reach the mass market/ poor, but much will be focused on the easier near-poor segments rather than the poor and the real economy.	**More or less as expected:** there has been some momentum towards innovation from fintech and other startups, but especially since Covid , innovations have not yet reached the poor on a large scale as they had with mobile money. Instead, innovations like sport betting and consumer credit have absorbed attention and focus. Note that Kenya as a country has steadily slipped down the Global Innovation Index country rankings relative to other countries, from 80th place in 2016 to 96th in 2024.[39] While there are potential bright spots, *there is not much evidence of systemic change.*
3) Some research and information (particularly FinAccess) and policy and regulation processes will continue, but with a diminished informed voice of the poor, will be less focused on inclusion. Beyond FinAccess, there will be little public research.	**Overshoot:** FinAccess has continued and grown in its role and acceptance as the national baseline on inclusion. However, there has also been a range of public research in other areas, from financial diary refreshes and extensions to SMEs to measuring financial health, which has broadened the lens. The publication of *Living on Little*[40] in 2020 consolidated years of diary research into a succinct and readable form to rival *Portfolios of the Poor,* which had a widespread impact after its launch in 2010. The government also undertakes a range of relevant public research. *Much of this overshoot can be attributed to FSD Kenya.*
4) The essential incentives and rules shaping behaviour, and the primacy of short-term imperatives, will be unchanged.	**Some evidence of 'overshoot':** there is some evidence that there is more awareness of market segmentation and potential, and a greater emphasis among FSPs on considering their social and environmental impact beyond. While the rise of ESG investing, especially on large listed firms, has had an influence, *FSD Kenya has also played a role here by advocating and pointing to opportunities.*

Note: 'overshoot' or 'undershoot' refers to whether the observed outcome is better or worse than foreseen in the absence of FSDK

39 Kenya ranking in the Global Innovation Index 2024, available here
40 The full book is available here

The counterfactual review in the table above yields a relatively positive, though mixed, picture. There is clear evidence that the outcome has been better than expected and that FSD Kenya clearly contributed to it in respect of at least one of the four areas, namely #3 (research), where FSD Kenya's groundbreaking work is widely acknowledged. This area has had some spillover effects on #4 (incentives), where the credible research and advocacy of FSD Kenya has started to contribute to the re-shaping of some incentives in the financial system, against a backdrop of wider trends on financial providers like ESG. However, in the other two areas, particularly #1 (switching and CIS), which was the focus of widespread efforts in the first ten years and subsequently, there is much less evidence that FSD Kenya had changed the outcome from the counterfactual. In one area (#2 on product momentum), by helping to start the digital credit market with a partner regulated by the CBK, FSD Kenya may have unintentionally contributed to the growth in similar products being offered by unregulated providers before regulatory guardrails were in place. FSD Kenya did provide both public resources, such as the Digital Credit audit, and through direct conversations with the regulators on how to address the "bubble" in digital credit that included unethical practices and signs of indebtedness and debt stress in some cases. At the height in 2019, this was the case for 8% of the population with loans via digital lending apps (see case below).

To put this discussion in perspective, however, another way of looking at counterfactuals is through the lens of scenarios. Scenarios are structured stories about possible futures. FSD Kenya has made substantial use of scenario building at various points during the past twenty years to help shape its own strategy and to influence regulators and market players. In 2011, FSD Kenya hosted a series of scenario workshops involving CBK and market players at which different combinations of uncertainties generated different outcomes for 2020 and 2030. The outcome of the 'best case' scenario (in which there was widespread growth in usage of digital channels) was a headline level of inclusion of 75% in 2021. The actual outcome in that year, as measured by FinAccess, was 83.7%, considerably better than the highest expectation ten years before. This observation helps at least to calibrate forward-looking expectations of the scale of the change in formal inclusion, which can underestimate powerful effects in the long run.

This early scenario work highlighted the importance of promoting channel interoperability and avoiding channel domination. It helped to inform FSD Kenya's ongoing quest to promote interoperable payment channels, beyond the formation of Pesalink alone. For example, FSD Kenya supported the technical advisory and stakeholder engagement for the development of a National Payments Strategy, which promotes a vision of a secure, fast, efficient, and collaborative payments system that supports financial inclusion and innovations that benefit all Kenyans. Full interoperability of all digital payments has remained elusive, even though mobile money services started to interoperate in 2022. However, even though the questions of dominance have remained, the outcomes for the usage of digital channels have been much higher than expected: according to CBK data, the volume of mobile payment transactions is ten times higher in 2024 than in 2016.

However, this discussion of counterfactuals raises two issues. First, while the inclusion of forward-looking counterfactuals was an innovation in the 2016 review, to be helpful, counterfactuals need to be calibrated by different foreseeable environments. We attempt to do that with new counterfactuals in the last section of this report. Second, counterfactuals raise the issue of yardstick: clearly, the rate of systemic change was far greater during the first ten years than during the second ten years. Achieving systemic change in a maturing market requires different perspectives and even skills than in a growth market. There is therefore a need to calibrate expectations to the stage of market maturity. In Annex B, we propose basic counterfactuals looking ahead to 2030, which are scenario-based as a development of this approach.

2.4 Unintended consequences and evidence of harm

During the review, we asked staff and observers about examples of where FSD Kenya's interventions may have had unintended consequences, whether positive or negative, and especially where there was evidence of any harm resulting.

The most important example is that of M-Shwari, the groundbreaking digital savings and credit product supported by FSD Kenya, launched in 2012, which started the race for digital credit. In the "adopt, adapt, expand, respond" (AAER) sequence expected for market development, the market response to M-Shwari led to a credit bubble in which a multitude of digital credit providers entered the markets without oversight, leading to abusive practices and over-lending (see Case 7). The question, of course, is to what extent a market facilitator that successfully helped to start a race can be held accountable for new entrants breaking the rules. However, the history of credit innovations suggests that at least some caution is warranted since the incentives for private players can be very strong to violate norms that lead to healthy outcomes in the absence of some form of regulation.

Case 7

M-Shwari and the boom in digital credit

M-Shwari is the mobile banking product suite offered by NBCA, a large Kenyan bank, in partnership with M-Pesa, the dominant mobile money service offered by telco Safaricom. At the time it was launched in 2012, M-Shwari offered features which revolutionized both savings and credit in Kenya. The product offered Safaricom subscribers the opportunity to remotely open a bank savings account with no minimum balances or monthly fees, which, unlike mobile money, could also pay interest; and they could also immediately access a micro-credit account with a limit that would grow over time.

A case study published four years after launch reported that “as a result of M-Shwari, millions of poor Kenyans now use savings and credit services that help them manage risks, mitigate the impact of shocks and, increasingly, invest in improving their livelihoods.”[41] This finding held up to robust review: MIT professor Tavneet Suri and her colleagues confirmed in a 2021 peer-reviewed paper that M-Shwari loans improved household resilience, making borrowers less likely to forego expenses due to negative shocks.[42] The 2016 case study outlined the catalytic role that FSD Kenya had played in supporting the design and initial roll-out of M-Shwari as a partner through research and technical assistance, supporting the bank to ensure that it would include a wider range of credit customers than their initial algorithm permitted.[43]

The case study also showed how this process had gone through the classic “adopt, adapt, expand, respond” (AAER) cycle of market development. Updating this to the present, M-Shwari has proven highly scalable and sustainable for its provider over time. In 2024, the NCBA Group reported disbursing KSh1 trillion/USD 7.7 bn in digital loans in that year alone; and having more than 60 million customers, the overwhelming majority of which were digital only, across five African countries.[44]

The market as a whole had dramatically expanded, too. The number of unique individual borrowers had risen to over 11.4 million in 2023, with the number of new loans granted soaring to over 60 million in 2021, almost double just two years earlier. Digital loans consistently made up almost 97% of loans by number in this period, though only 20% of the value. Banks made up most (95%) of the value of digital loans, even though the problems with predatory practices were disproportionately associated with non-bank providers.[45]

The early success of M-Shwari had triggered a market scramble: a large number of other digital credit providers (DCPs) followed the first movers, M-Shwari and early followers Tala and Branch, which had set up in Kenya. Because these new lenders were not deposit-taking, unlike NCBA, most of them fell outside of the purview of regulation. While adoption was rapid, 2.2 million

41 The Growth of M-Shwari in Kenya–A Market Development Story, November 2016

42 Tavneet Suri, Prashant Bharadwaj, William Jack, Fintech and household resilience to shocks: Evidence from digital loans in Kenya, Journal of Development Economics, Volume 153, 2021

43 The Growth of M-Shwari in Kenya–A Market Development Story, November 2016

44 NCBA website

45 Presentation in 2024 by the CEO of the Credit Information Sharing Association, the membership body catalyzed by FSD Kenya which oversees and supports the credit information system through Kenya’s licensed credit reporting bureaus, using credit records for the period 2019-2023

Kenyans had nonperforming loans by 2018.46 In 2019, the launch of Fuliza, a digital overdraft product by Safaricom and KCB with NCBA, further fueled the fire, leading to reports of widespread overindebtedness. By 2021, digital loans accounted for over half of the volume of new loans issued in that year, most in the form of small, short-term personal loans like M-Shwari. NCBA's market share was estimated at 75% at this time.47 However, while M-Shwari and Fuliza were products offered by banks, hence subject to some regulatory oversight, a host of small new digital credit providers were not, and the evidence grew of predatory practices outside of any regulatory constraint.

FinAccess 2021 provided evidence of the scale of these practices: a third of digital borrowers had experienced either aggressive loan recovery (such as being shamed on social media and by messages to their friends and family) or unexpected charges. 40% had negative listings on the credit reporting bureaus.48 High interest rates and Covid stress exacerbated the problem of over indebtedness.

Eventually, these problems led to two regulatory reforms:

- A government Gazette Notice of 2020, which prohibited negative credit reporting for amounts less than KSh1000 (USD7.70) and prohibited non-bank lenders from using credit information sharing.
- The CBK (Amendment) Act of 2021, which gave the CBK the power to license and oversee DCPs under regulations issued in 2022, and to fine unlicensed providers. By 2024, only 85 out of 400 DCPs had secured a license under the new regulations.

The outcome of M-Shwari was indeed to start a race in a new market, which even had developmental benefits, but without a referee at the time, abuse tainted the benefits. Even today, enforcing market conduct regulation on credit providers remains challenging for supervisors and requires ongoing vigilance and innovation in tools.

46 Redefining Digital Finance: Kenya's Bold Move to Regulate the Fintech Frontiner, available here
47 NCBA writes off sh11bn Fuliza, Mshwari loans, available here
48 Regulation of Digital Credit Providers in Kenya: Policy Issues and Options, available here

3 How has FSD Kenya **evolved as an organisation?**

"[FSD Kenya staff] have good hearts as well as good minds"

—Stakeholder interviewee 2025

While the role of 'market facilitator' sounds quite conceptual, FSD Kenya itself is not a concept: it is a functioning Kenyan legal entity, a trust in perpetual succession, which is:

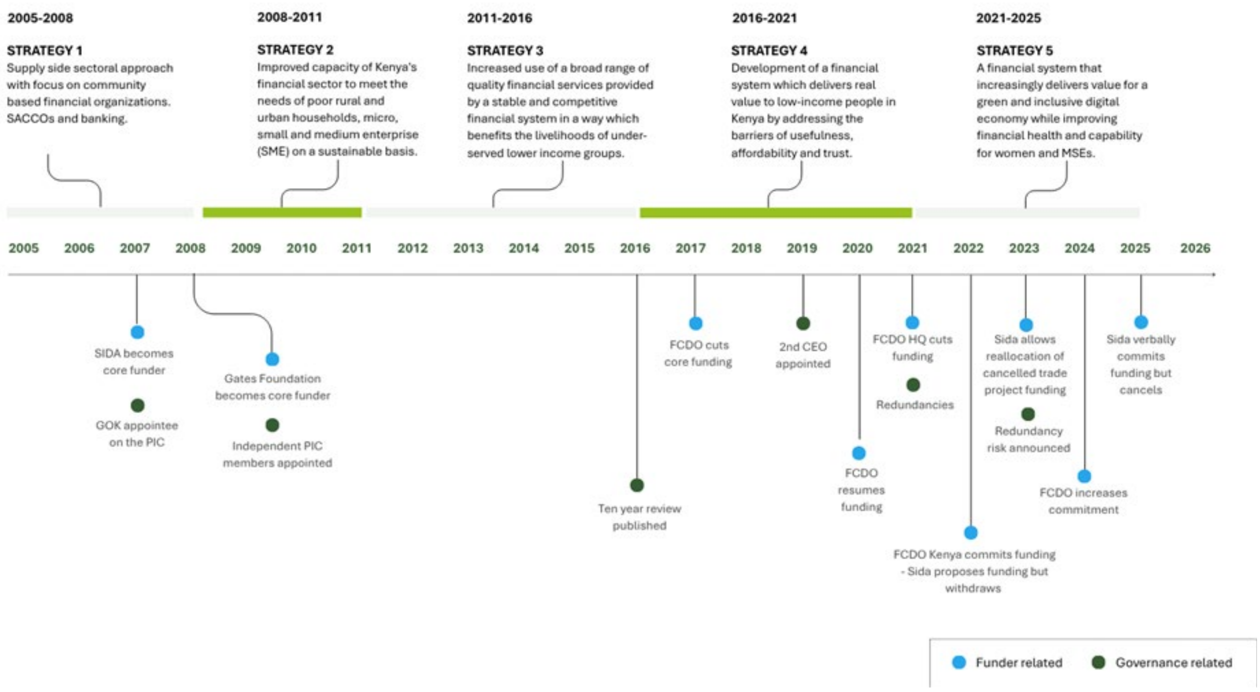
- Governed by professional trustees and by a Programme Investment Committee (PIC),
- Managed by a staff of 30 full-time employees, and
- Works with a number of domestic and international partner entities and contractors.

Tracking the institutional evolution of FSD Kenya allows us to ask questions about what capacities and structures are needed to achieve and sustain market systems change.

3.1 Institutional evolution

FSD Kenya's twenty-year timeline (Figure 7) shows several institutional milestones as the organization has evolved.

Figure 7: Institutional timeline of FSD Kenya over 20 years



These include years in which:

- New strategies were approved (namely in 2005, 2008, 2011, 2016, and 2021, with the goals or focus of each shown above);
- Governance arrangements changed through the evolution of the PIC and the appointment of a second CEO in 2019, when the first CEO, David Ferrand [49], stepped down;
- New donors entered the funding mix: The World Bank, through the then Ministry of Trade and Industrialisation, was the second core funder for the first strategy. Sida joined the founding funder DFID (now FCDO) in 2006 and the Gates Foundation in 2009. While other funders have been added over time, these three anchor funders collectively contributed 94% of total project funding.

Funding patterns

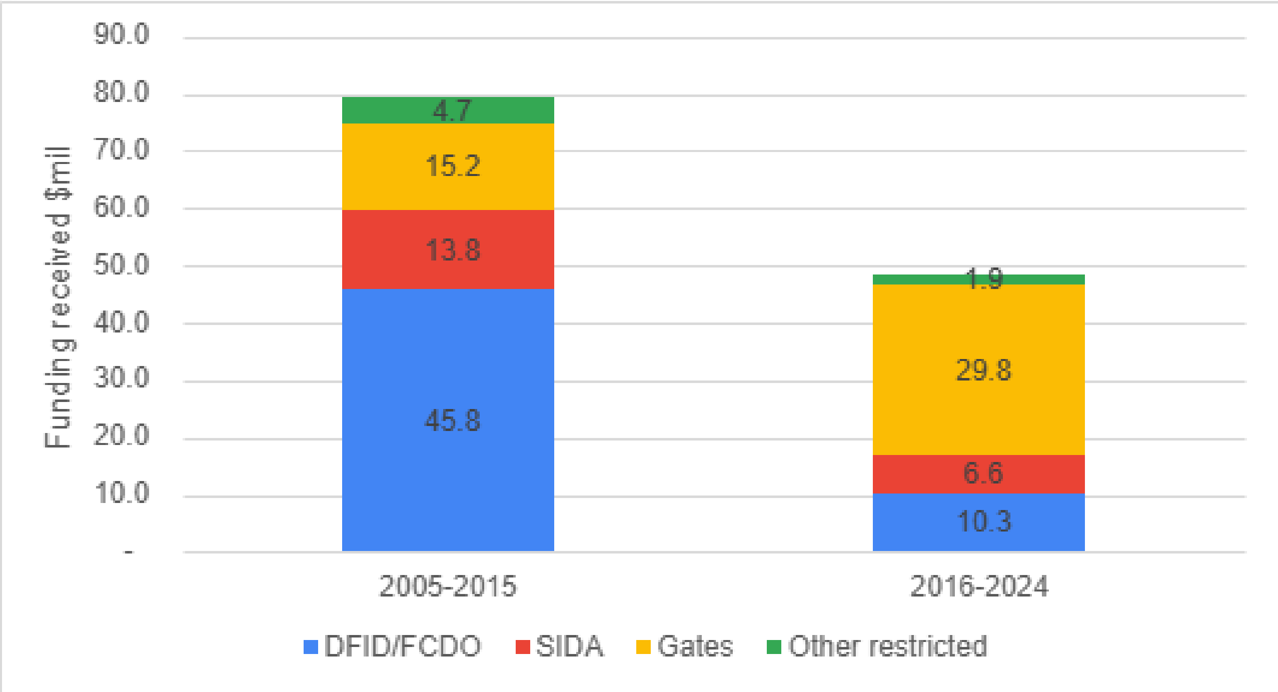
> ***"Donor fragmentation is pulling FSD Kenya in multiple directions. Stitching together all the small projects into coherent workstreams is a real challenge."***
>
> — PIC Member

Excluding non-core uses, FSD Kenya has so far received a total investment of USD 130 million (about USD 6.5 million a year) from its donors.[50] 95% of this has come from just three main donors. The level and composition of funding have changed significantly over the two periods under review (Figure 8): funding per annum averaged USD 7.2m during the first 11 years, and reduced by 25% to USD 5.4 million p.a. thereafter. Was this, in fact, a good investment by donors? (see case 8)

49 As an indication that at least one of the founding donors recognized the remarkable achievements of FSD Kenya, the founder-CEO David Ferrand was awarded an OBE by the British government in 2023 for his services to international development.

50 These numbers exclude substantial funds provided to it for cash transfers via the HSNP as programme managed by FSD Kenya, and for the incubation of FSD Africa on a passthrough basis in two years, since these do not directly reflect FSD Kenya's core market facilitation role.

Figure 8: Total funding of FSD Kenya by main donor and phase



Note: these numbers exclude:

1) HSNP expenditure: between 2011-2018, FSD Kenya managed a cash transfer programme funded by DFID/ FCDO.
2) FCDO funding for the setup of FSDA, which was managed as a pass-through.

Case 8:

USD 130 million donor funding over 20 years: Was this a good investment?

First, USD 130 million sounds like a lot of money for an MSD programme, but is it in fact? FSD Kenya's average annual spend in the recent period is minuscule relative to the sectors it seeks to influence–for example, it represents less than 7 basis points (0.07%) of the total revenue of Kenyan banks in 2023. It represents 0.25% of total ODA from official and private donors to Kenya tracked by DAC for this period. Over a similar period, one of FSD Kenya's core funders, the Gates Foundation, committed USD 875 million to AGRA, an institution based in Kenya but which works across Africa to scale agricultural innovations for smallholder farmers.[51]

Next, was it worth USD 130 million? One way to answer this is to frame some counterfactuals: what could instead have been done if this same amount of grant funding (worth USD 92 million in 2005 present value terms [52]) had been differently allocated back in 2005?

Option 1: financial sector: subsidise account opening costs

If donors wished to see more formal financial inclusion, they could have allocated the grant money instead to subsidise the cost of low-income bank accounts to incentivize banks to take on these customers. According to a study done in 2012, which aggregated data from large commercial banks including Kenya's Equity Bank, banks then lost an average of USD 12 per year per basic savings account.[53] Applied to subsidise this, the funds could have supported, on average, 500,000 basic accounts per year. Instead, the Kenyan formal financial system added a net 24 million adults over the period, a vastly superior return on investment.

Option 2: outside the financial sector: best alternative development uses

Mosquito bednets are frequently cited as one of highest yielding development interventions with a social ROI of 36-38 times i.e. if the investment in FSD Kenya were spent this way, it could potentially have generated over USD 3 billion in social benefits, or if considered for the first ten years only, USD 2.3 billion. It is much harder to measure the SROI of investments in financial inclusion. However, one of the RCTs undertaken in Kenya during this period provides the basis of a back-of-the-envelope comparison. Researchers Suri and Jack54 reported that over a 6-year period to 2014, mobile money had increased per capita household consumption among its users by 18.5%. Assuming conservatively per capita consumption of USD 400 at this time, this equates to a gain worth USD 87 per head per year. Applied per user to the incremental number of people who became formally included between 2006 and 2014, the cumulative gain in consumption alone for previously excluded households could be worth as much as USD 6.5bn, almost triple the hypothetical bednet return of USD 2.3 billion in that period. Of course, the consumption gain was likely not static, and is only part of the potential total benefits created beyond excluded households alone. But nonetheless, this crude partial measure suggests that the return on the FSD Kenya investment has at least rivalled other good development uses.

These two counterfactual illustrations are indicative, not conclusive. But they point to a general sense that the substantial donor investment in FSD Kenya has also yielded substantial returns.

51 Via https://www.gatesfoundation.org/about/committed-grants for grants made in Kenya between 2005 and 2024.
52 Since the UK government has been the largest single donor to FSD Kenya in this period, this uses the UK government's 3.5% discount rate for projects under 30 years.
53 GAFIS Focus Note 2: Stylizing savings behavior to better serve poor clients, available here
54 Suri, T. & Jack, W. (2016). The long-run poverty and gender impacts of mobile money. Science, Vol. 354, Issue 6317, pp. 1288–1292.

However, in addition to the reduced level of funding in the past ten years, funding patterns differed considerably in some other ways material to the activity of FSD Kenya:

- Importantly, the proportion of funding that was 'core' (versus restricted to specific project purposes) declined from 94% in the first period to 43% between 2016-2024;
- Substantial interruptions and changes to funding were more frequent in the second period, causing uncertainty and the need to lay off staff in 2017 and 2021.

Consequently, while staff numbers built rapidly to hit a peak of 42 in 2017, they then declined to around 30 in 2019 following the cessation of FCDO core funding, and have remained around that level since.

Legal structure and governance

FSD Kenya's legal structure has remained essentially the same over the 20 years: it remains a trust governed ultimately by two professional trustees who carry a fiduciary responsibility for the use and management of all funds received. However, while trustees carry fiduciary responsibility and are required to approve contracts and disbursements above defined limits,[55] the senior governing body is the Programme Investment Committee (PIC). The PIC approves the strategies and annual business plans and appoints the CEO, and has to signal 'no objection' to material investment decisions.

This qualifies FSD Kenya's structure as a hybrid governance model, different from some other FSDs and from pure donor-managed programmes, as shown in the Table below.

55 KSh20 million / USD 146,000 and Ksh12 million /USD 86,000 respectively in 2025

Table 2: FSD Kenya's structure contrasted

	'Pure' trust	Hybrid trust	Donor programme
Legal form	Trust/ company limited by guarantee	Trust/ company limited by guarantee	Implementing agency by agreement
Example	Other FSDs e.g., FinMark Trust (South Africa)	FSD Kenya	Typical donor programme
Fiduciarily responsible	Board of trustees/ directors	Board of trustees	Implementing agency
Strategic programme decisions made by	Board	PIC including trustees	Donor committee with the implementing agency
Operational decisions	Management appointed by the board	Management appointed by the PIC	Implementing agency
Approvals of contracts and disbursements	Management under delegated authorities	Trustees, although they may delegate up to defined limits	The implementing agency subject to any contractual provisions

Although the core legal structure has remained the same, the composition of governance has evolved over time. While each of the three core donors and the two professional trustees have always been represented on the PIC, the Principal Secretary of the National Treasury was invited to nominate a GOK representative in 2007, and two independent PIC members were added in 2009. In 2024, one of the independents assumed the role of PIC chair from the previous chair, who had represented a donor. There were therefore 8 PIC members (with 3 donor-appointed alternates). An independent review of the PIC in 2024 concluded that it was functioning effectively; although the blend of funders and independents means that it has not always been easy for management to find the appropriate level of engagement with the PIC–neither too project detailed nor too removed from results.

The existence of professional trustees (a role now played by accounting firm BDO) adds a layer of assurance around the management of donor funds, beyond the standard annual external audit. This added assurance comes at a cost: the combined fees for trustees, auditors, and independent PIC members amount to some USD 225k p.a., a relatively modest 4% of the average annual spend during the period since 2016. However, the cost of additional layers may not only be financial: there is also a risk that trustees in their role as approvers of large contracts may slow down or double-guess management if they are not well informed about the nature of activities.

3.2 Core success factors of FSD Kenya

> ***"Many staff members have either been with the organisation for a long time working on relevant issues or come from outside with real-world experience in the market areas that FSD Kenya aims to support. This gives their staff a significant amount of credibility"***
>
> —PIC Member

As part of the 2025 review, a list of strengths and weaknesses was discussed with PIC, staff members, and outside observers. Staff members had the opportunity to rank the resulting lists of strengths and weaknesses. The Table below shows the top 5 results.

Table 3: Strengths and weaknesses of FSD Kenya (from the 2025 review)

	Strengths	Weaknesses
1	Established track record and credibility	Overextension of staff across a broad portfolio dilutes focus and limits depth
2	Recognized industry authority and convenor	Unclear pathways for translating data and insights into impact
3	High-quality research as a foundation for influence	Private sector engagement is not fully leveraged
4	Longstanding inclusive mandate	Strategic engagement with PIC limited
5	Staff are passionate, credible, and well-regarded, with strong institutional knowledge and leadership	Gender inclusion lacks clarity and direction

The 2016 review listed a set of key factors that, in the reviewer's opinion, had contributed to FSD Kenya's success to that point. Table 4 below updates the list with a reassessment of whether each factor remains in place in 2025.

Table 4: Key factors from the 2016 review re-evaluated in 2025

Key factors in the 2016 review	Assessment in 2025
The quality of its people – their understanding of and closeness to the market and market players	This remains a core strength that is widely recognised across the market
Independence and neutrality – seen as a 'third party' able to engage with multiple partners	FSD Kenya remains independent in governance and practice, although it is perceived now as closer to government than before; see the comment below about neutrality not in fact being an attribute
Analysis and knowledge-led – able to offer relevant and informed insight through interventions.	This is still widely recognised in the market
Flexibility – able to adapt what it offers – technical assistance, information, grant support, guarantees – depending on the situation and need.	This was demonstrated especially during Covid-19 (see case); also, FSD Kenya has tried various approaches and intentionally exited from some. However, more of its funding is restricted, which reduces flexibility.
Longevity – able to take on tasks requiring longer-term engagement for success and ownership.	This is uncertain, especially due to funding uncertainties, which have meant that funding commitments have been revised during strategy periods.
A culture of closeness and engagement – having the right networks and credibility to know 'who' as well as 'what' in relation to market players.	FSD Kenya has strong networks with regulators, policymakers, and the private sector. It has accumulated reputational capital, which it spends in convening. This was demonstrated in the willingness to respond by high-profile leaders in the government and financial sector to meet for the purpose of the review.

The Table above shows that FSD Kenya has generally managed to maintain the elements which were regarded as its distinctive strengths; however, especially related mainly to its funding mix, it is less clear that it remains structured to take on long-term flexible engagement in the same way as before. This list was originally induced from bottom-up observation of FSD Kenya in 2016. It remains to consider the list on a top-down basis in 2025, i.e., whether FSD Kenya has in fact functioned as a systems facilitator.

3.3 To what extent has FSD Kenya actually functioned as a market systems facilitator?

> ***"FSD is uniquely positioned between government and industry, serving the financial system and the poorest households."***
>
> —PIC Member

It is all too easy to assume that, because FSD Kenya's legal documents, its staff, and its website all speak of its role as a market facilitator, it automatically behaves like one. While intention certainly counts, behavior, especially when embodied in organizational culture, counts even more. The Table below evaluates the extent to which FSD Kenya satisfies indicators linked to its role.

Table 5: Attributes and indicators of the role of market facilitator

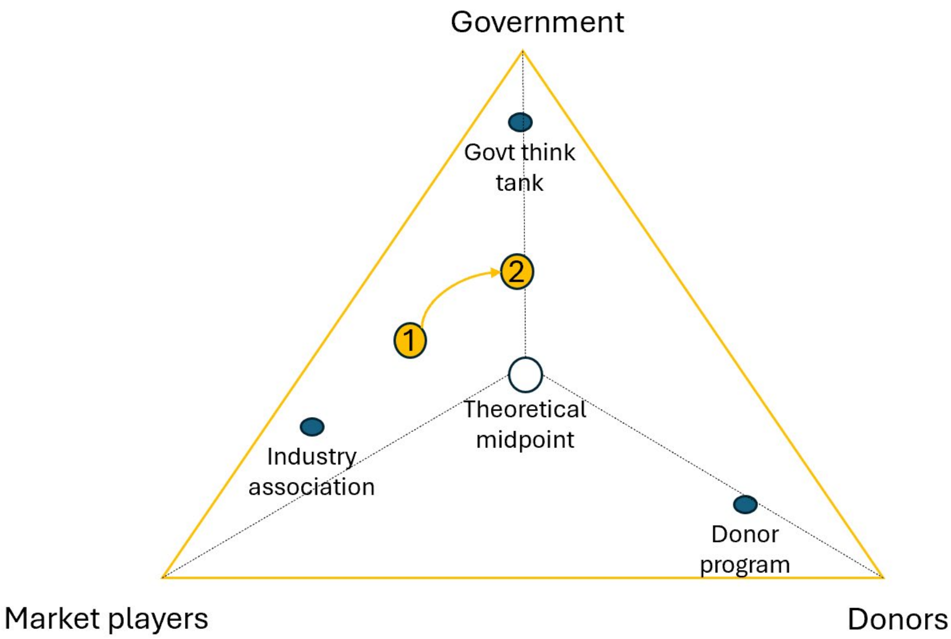
Attribute	Indicators	Our Assessment	
1) Independent, and seen to be independent, of any one market player or funder	There is more than one funder	Y	FULLY TRUE
	Diverse stakeholders understand the role the organization plays	Y	
	Diverse stakeholders trust the organization	Y	
2) Applies market systems thinking systematically	Identifies the core issue, its linkages to the system in question & any leverage points in setting up a project	S	MAINLY TRUE
	Trains staff and PIC in market systems approach	S	
	Shows flexibility in deploying funding	S	
	Designs exit strategies for each project & programme and executes on them when appropriate	Y	
3. Acts as a market catalyst	Has intentionally exited from some projects	Y	MAINLY TRUE
	Doesn't compete in the market or crowd out others	Y	
	Projects show sustainability after exiting	S	
	There is evidence of crowding out of other resources and players	S	

Key: Y: Yes/ fully true of FSD Kenya S: Somewhat true N: No/ not true

The analysis in the Table above shows that FSD Kenya continues to act mainly true to its purpose as a market facilitator.

One issue that emerged during the review is the question of its neutrality. We believe that a market system facilitator is not neutral in the sense of not having a point of view or position, and that it should not be neutral: indeed, FSD Kenya's point of view is clear–it is to make financial systems work better for the poor. The clearer language for this position is impartiality, meaning that it does not favor the interests of any one stakeholder group as it pursues this position. However, as it does this, its relative closeness to different stakeholder groups is unlikely ever to be at the theoretical midpoint between the groups and may need to change over time (Figure 9). These changes can be by conscious design, linked to strategy, or through unconscious perception formed by stakeholders. For example, during its first ten years, FSD Kenya was perceived as being closer to the private sector (marked by 1 in Figure 9), but in the more recent period, it was seen to have moved closer to government (position 2). The key issue for a market system facilitator is to avoid being so close to any one vertex that it is sucked into its orbit, and loses its impartiality, becoming effectively a government think tank or an industry association or donor programme as shown at each vertex.

Figure 9: The Golden Triangle of facilitator positioning



However, in order to maintain its impartiality and be seen to do so, a market facilitator has to have a credible, cogent story of its purpose and vision which other stakeholders can easily understand. Financial inclusion provided a clear narrative for the first decade, but no longer does so. In the absence of a clearly articulated, compelling vision of its current strategic focus on what value looks like in the real economy, FSD Kenya may be more prone to misunderstanding, not only among external stakeholders but also among its partners. A lack of clarity about the current mandate and its scope was a common theme during stakeholder interviews. Many felt that FSD Kenya does not yet communicate the shift in its mandate and work clearly to those beyond its immediate network.

4 **FSD Kenya** in the context of the market systems development approach

The Market Systems Development (MSD) approach is now almost a quarter of a century old. FSD Kenya has been a bellwether of the approach in practice: not only was it one of the earliest programmes, but it is also one of the longest-lasting. Following its ten-year review, FSD Kenya also became regarded as a 'poster child' of the approach and one of its trend setters. In this section, we reflect on the evolution of the MSD approach and on how FSD Kenya's experience can and should inform this. This enables us to revisit a question which is at the foundation of the MSD approach: when should a market facilitator exit?

4.1 Market Systems Development (MSD) at twenty: What does FSD Kenya add?

More than twenty years ago, the ideas behind the MSD approach started to cohere and affect programmeming among a core group of supportive donors, which included DFID (now FCDO), SDC, USAID, Sida, and Australia's DFAT. By 2018, the Springfield Centre, a key thought leader in developing the concept and in training donors in MSD, identified over a hundred donor programmes explicitly using MSD principles, active in more than fifty countries, primarily in sub-Saharan Africa and South Asia.[56] In addition to financial inclusion programmes like FSD Kenya, MSD programmes covered a range of sectors with an emphasis on agriculture and agribusiness value chains, youth employment and skills development, water, sanitation, and hygiene (WASH), and health markets.

The BEAM Exchange was set up as a specialist platform for exchanging knowledge about the MSD approach in practice. From its analysis of eligible MSD programme reporting, the latest BEAM Evidence Review 2024[57] reports that the majority of MSD programmes claim to have a positive impact, even up to the farthest outcome (poverty) level of the theory of change. However, it qualifies this finding with the methodological caution that it can assess only published reports, which may be subject to publication bias.

Where does FSD Kenya fit into this evolving story of the MSD approach? The first ten years of FSD Kenya largely bore out the theory of change around financial inclusion: FSD Kenya has generally worked within the prevailing theory of change around financial inclusion: namely that reductions in transaction costs, better understanding of risks of providing financial services and greater trust by customers would lead to changes in the market system, enabling greater access and usage at large scale which would enable users of financial services to take more advantage of opportunities to generate incomes and to better manage risk. Over time, some users could climb a ladder out of poverty, and others would benefit from a safety net of remittances, savings, or insurance to prevent them from falling into poverty.[58] However, in the second decade, even though there have been more digital payments and higher levels of formal financial inclusion than ever, there is not the same evidence either of systemic change in the financial system or of improved financial health or reduced poverty as in the first period.

Several explanations could account for this. As described in Section 3, severe exogenous shocks like Covid-19 set back the path towards poverty reduction in many countries. As described in Section 4, FSD Kenya also had, on average, fewer flexible resources at its disposal to spend on pursuing systemic change opportunities in a financial system that had grown much bigger over time. But most likely, there were simply fewer opportunities for systemic change than in the first ten years, when the Kenyan retail financial system had started from a relatively low base of coverage. In any market system, the potential for intervention towards systemic change may be greatest during the early years of a new platform being implemented. FSD Kenya had the good fortune to be starting around the time that the mobile platform was being rolled out in Kenya, which became the dominant platform for digital engagement over the past two decades. Its dominance is not over yet, though it is challenged by the recent arrival of new general-purpose technology platforms such as Artificial Intelligence, which will likely undergo their own S-curve of adoption and impact in the next twenty years.

56 Springfield Center landscaping 2015 updated 2018
57 Hilton T. (2024) The results achieved by programmemes that use the MSD approach, BEAM Exchange, accessed from www.beamexchange.org; this is based on evaluation reports which met BEAM standards for review (acknowledging the risk of publication bias)
58 Suri, T. & Jack, W. (2016). The long-run poverty and gender impacts of mobile money. Science, Vol. 354, Issue 6317, pp. 1288–1292.

The lessons of FSD Kenya for the MSD approach include, therefore, being attuned to the cycles of market development and being careful to frame forward-looking expectations based on the past: complex systems rarely follow linear dynamics. At a deeper level, the evolving Kenyan financial system may also show the limits of a fixation on 'markets' for retail financial services: as the pioneers of new institutional economics have argued, markets work best as a solution for exchanging homogeneous products and services when asset specificity is low. Wholesale financial markets, such as equity, bond, or forex markets, are much closer to this than retail financial services. The latter are often bundled and provided within ecosystems set up by financial service providers, which can create friction to free movements in return for convenience or security, both of which are highly valued by financial consumers who are often slow to switch trusted providers.

Moreover, this experience has contributed to a broader reconsideration of the financial inclusion theory of change. Despite rising inclusion metrics, the gap between access and outcomes—particularly around financial health — has become increasingly difficult to ignore. As a result, there appears to be a shake-up underway, with growing recognition that inclusion alone may be insufficient to deliver meaningful improvements in resilience and wellbeing.

Understanding the dynamics of digital ecosystems has become increasingly important as they become more pervasive. These ecosystems are complex hybrids between markets and hierarchies or firms and require a distinct approach. FSD Kenya's experience may indeed call time on the 'M' for market in the 'MSD' formulation by showing the need to avoid using tools and language that may be appropriate for markets but not for ecosystem development.

4.2 The future and the case for facilitator exit

> ***"I'd be terrified if FSD Kenya were to disappear. It takes an incredible amount of time and effort to build an institution like this — a trusted convenor across government and industry. It's not easy to cultivate that kind of credibility or to bring in and nurture the right talent."***
>
> —Industry observer 2025

One of the bedrock principles of the MSD approach is that a market facilitator like FSD Kenya should, at some stage, exit the market, and its role as a catalyst is completed. Without this discipline of intended exit, there is a risk that the facilitator would become too entrenched in the market and even become itself a market actor, rather than supporting evolution towards a sustainable path which needs no further catalysis.

Successive reviews of FSD Kenya have wrestled with the question of whether and when to exit. The 2021 programme review stated: "The FSD team tries hard to ensure that FSD remains a market facilitator and does not become a market actor, but this is becoming more difficult after a long history of active market engagement in an increasingly vibrant market. *The next strategy should carefully consider this question and start exploring what an FSD Kenya exit strategy will look like.*

Four years later, we again discussed this question of exit with market observers, some of whom responded with horror to the possibility that Kenya could lose through the exit of FSD Kenya, an independent, well-capable institution, at a time when there is a shortage of credible institutions of this type.

So, what is the ongoing need for a market facilitator in the Kenyan financial system? By one headline measure—financial inclusion—the market development work is indeed nearly done, although there remain pockets of exclusion that a research house could track and spotlight. However, as Section 1 has shown, measured against the indicators of financial depth that were cited earlier, there remains a long way for the Kenyan financial system to reach maturity. The successful embedding of financial services is still at a relatively early stage.

The next generation of potential platforms for financial services is still shaping up now, even as diminishing returns inevitably set in on the mobile platform in its maturity. One example of a candidate platform of the future is the protocol-driven tokenized world of the 'finternet', proposed by Nandan Nilekani and Augustin Carstens in 2024.[59] This is still at the stage of conceptual vision, but if realized over the next ten years, it would radically change the role and nature of the financial system. The second is that the explosive deployment of AI in the sector could propel customer interfaces and industry efficiencies to new levels. This leads us to conclude that the wider task of market facilitation is by no means over in Kenya.

The nature of both markets and ecosystems is that they evolve over time in response to their environment of rules, shocks, and demand, and the need for facilitation differs at different stages of market development. With the right leadership and funding, a market facilitator can and should evolve in its role also. The true MSD test is therefore not necessarily whether the organization itself has credible plans to close, but rather that:

1) It imposes the discipline of designing all its underlying projects with a credible plan to exit from them; and
2) It has, in fact, exited from project interventions, and at least some of these interventions have been shown to be sustainable without it.

Considered through this lens, FSD Kenya's project portfolio has had enduring project areas like policy and infrastructure. One of the longest-lasting projects, FinAccess, is also one of its most recognized contributions. FSD Kenya's monetary contribution has declined substantially from 100% to only 14% of FinAccess costs in 2024, although it still plays an important role in advising and guiding the question setting. Arguably, the scene may be set for a full exit from FinAccess by 2030, since the CBK and KNBS have demonstrated the willingness to continue. So, in at least one long-lived project, there is growing evidence of sustainability.

The flip side of the test is about project exits. Other than the ill-fated trade programme which was closed in 2021 because of external circumstances not under the control of FSD Kenya, there have so far been two examples of deliberate exit from underlying projects which were discussed in Section 2: namely, the Financial Innovation for the Real Economy (FIRE) project (2017-2021) and the Government Payments Project. There is evidence, therefore, that there has been intentional project exit, either because no longer needed or impactful (FIRE), or because a suitable institutional home had been found (HSNP/ government payments).

The base presumption for a market facilitator should not be a pre-programmemed exit, for example, by setting a prescribed sunset date. Instead, there should be ongoing questioning about whether there remain activities to do that are likely to generate systemic change in a particular context and time. If so, there is a case for market facilitation to continue, provided the facilitator can also evolve. This is not the same as giving an MSD programme a perpetual license to operate. To maintain its license as a facilitator requires governance and funding controls that ensure that each project is identified and pursued on a catalytic basis and that the discipline of project exit is enforced.

Four-to-five-year strategy funding cycles already bring some of this discipline, but not enough: the test for FSD Kenya should not be whether a donor will continue to fund something; but whether its management and board continue to have a clear vision for systemic change in that area; and can monitor discernible progress against movement towards realizing that vision. If there is no longer a vision or no longer any progress, the exit should happen at the project level. Of course, this approach would imply some flexibility to reassign funds within a strategy cycle. Without some of that flexibility, a market facilitator becomes simply a donor programme manager.

59 Carstens and Nilekani 2024 "Finternet: the financial system of the future" available here

5 Conclusion

FSD Kenya was born in the early years of the emerging MSD movement. FSD Kenya's early success fueled the appeal of the MSD approach, towards a peak in Kenya at least around 2015. At that time, FSD Kenya was assessed to have been an effective market systems facilitator. This review concludes that it has generally remained an effective market facilitator in the decade since then, even though there is less evidence of systemic change in the Kenyan financial system or of higher-level impact compared with its stellar first ten years.

While FSD Kenya has continued to faithfully apply the MSD approach, the world has changed around it. The change is most noticeable in its donors, whose capacity and interest in funding FSD-type entities in a flexible manner have waned over time. This change in appetite has been caused by factors outside of the performance of MSD programmes, including historic shifts in their priorities and budgets.

However, underneath these obvious shifts lies some uneasy questioning about whether an MSD approach can still yield positive returns at later stages of market development. While Kenya remains a global poster child for widespread formal financial inclusion, the fruits of this change have been less than satisfying. The transmission mechanism, which translates financial inclusion into improved financial health and inclusive economic growth, now appears weaker than it did before. There are various possible reasons for this, including the changes in economic structure linked to digitization. To ignore shifts like this risks irrelevance. In some ways, FSD Kenya is somewhat like the canary in the proverbial 'coalmine' of the waning paradigm focused on formal financial inclusion. As with the canary, a shortage of sufficient oxygen in the form of new funding or new ideas will cause its exit or demise, regardless of the strength of the case to continue to exist.

However, exit need not be the inevitable outcome: FSD's quest to harness the financial system for the best possible poverty reduction outcomes equips it to function more like an 'eagle' than a canary, with clear vision to observe, test, and evolve its own thinking and methods of engagement. While FSD Kenya's portfolio of underlying projects should always be subject to strict exit discipline, which forces them either to become sustainable or close in reasonable timeframes, there is a case for the organization to continue to exist. FSD Kenya can evolve as a locus of thinking and demonstration of how subsequent phases of system evolution can be nudged to be more pro-poor.

Now in its twenties, market systems thinking applied to financial development is in need of a refresh. If it is given the opportunity to do so, FSD Kenya has the potential to play an important role in shaping this refresh with potentially valuable learnings for markets well beyond Kenya alone.

Annexes

Annex A: Contextual milestones for Kenya and its financial system 2005-2024

Year	National	Financial policy and regulatory	Financial product and provider
2006		Microfinance Act enacted Banking Act amended to mandate the sharing of negative credit information by banks	
2007	Post-election violence		MPesa launched
2008	Vision 2030 launched	First CRB Regulations gazetted, Sacco Societies Act enacted	
2009	East Africa Marine System (TEAMS) fiber optic cable lands in Mombasa	First AML Law	
2010	New constitution promulgated	Banks act changed to allow bank agents Competition Act passed CBK licenses first CRB in Kenya Kenya greylisted Sasra established	Equity Bank rolls out bank agents
2011		NPS Act passed	
2012		CBK mandates sharing of both negative and positive credit information	M-Shwari launched
2013	County governments come into effect General elections	Competition Authority of Kenya established GoK's second medium term-plan developed Government announces plans to digitise all government payments New 10% excise tax on money transfer introduced	

Year	National	Financial policy and regulatory	Financial product and provider
2014	E-Citizen proof of concept Budget crosses KShs 2tr mark Kenya exits greylist Kenya issues first Eurobond (USD 2bn)	NPS regulations gazetted	
2015	Kenya becomes LMIC	CBK issues moratorium on licensing new banks	Failure of Imperial Bank; Dubai Bank placed on receivership;
2016	Interest rate cap bill implemented (previous Donde Bill passed in 2000 but struck down so not implemented)		Chase Bank placed on receivership
2017	Government gross debt as % GDP cross 50% mark		Pesalink launched by IPSL
2017		Movable Property Security Rights Act enacted	
2018		Third medium term for the financial services sector published	Mobile money interoperability (P2P) launched
2019		Interest rate cap CMA regulatory sandbox launched	
2020	Covid pandemic starts		
2021		CBK amendment act bringing digital credit providers (DCP) under CBK by requiring registration by 2022	
2022		NPS strategy published	Mobile money interoperability (merchant till) launched
2023	The Social Health Insurance (SHI) Act 2023	Standardized QR codes issued; Finance Bill 2023 Fourth medium-term plan for the financial services sector	
2024	GenZ protests Kenya greylisted by FATF		
2025		Moratorium on licensing new banks lifted	

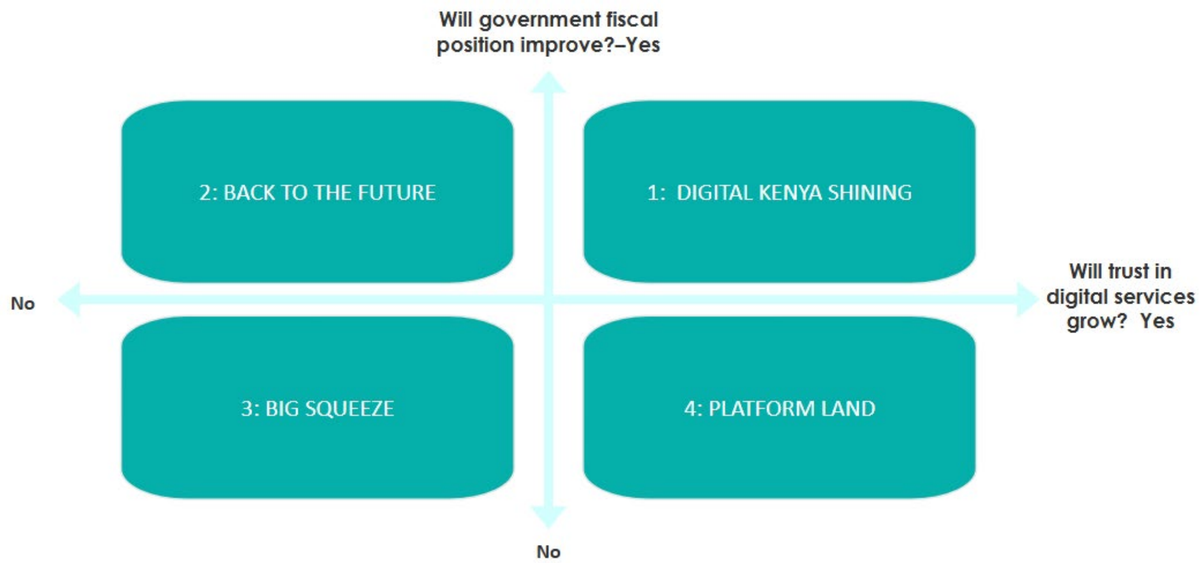
Annex B. New scenarios and counterfactuals for 2030

In Section 2.3, we reviewed the counterfactuals that had been proposed in 2016 for the Kenyan financial system at this time. These scenarios were developed as part of a workshop with the FSD Kenya team and were just one of many potential options that could be considered for how to frame future scenarios. Since we have concluded that there remains a case for FSD Kenya to continue as a market catalyst, in this section, we propose new counterfactuals for the period to 2030. These may be used to evaluate FSD Kenya in five years' time.

One of the difficulties of assessing counterfactuals is distinguishing the different circumstances over which FSD Kenya has had no control from those over which it can influence: for example, no counterfactual or scenario envisaged a global pandemic in 2020/1; yet, as the case study showed, the way in which FSD Kenya mobilised to support the official response to the pandemic demonstrated resourcefulness and flexibility.

We have also discussed how FSD Kenya has, at various stages, resorted to the methodology of scenario building to consider alternative worlds in which its role and strategy may have to change. In the 2025 review process, we supported the staff of FSD Kenya again to build scenarios of Kenya through 2030 (Figure 10). These scenarios provide a context in which to consider different counterfactuals for 2030 based on how the macro environment beyond the control of FSD Kenya plays out.

Figure 10: Scenarios for Kenya in 2030



Source: FSD Kenya review workshop, April 2025

These simple scenarios were not intended to shape future strategy but rather to help create a new set of scenario-based counterfactuals. Below is a short description of each scenario and its implications for new counterfactuals.

Scenarios					
	Baseline 2024	**Digital Kenya Shining**	**Back to the Future**	**Platformland**	**Big Squeeze**
Narrative		Kenya leads East Africa's digital economy with broad inclusion	Solid public infrastructure and analog service delivery maintain moderate growth	Private platforms drive growth, but social exclusion and inequality rise	Growth slows amid mistrust, poor service delivery, and economic stress
Growth Drivers		Inclusive digital innovation, investor confidence, regional integration	Public investment, analog resilience, moderate consumption	Fintech-led growth, consumer-led digital uptake, limited public investment	Informality, subsistence growth, remittances
Constraints		Managing digital risks, maintaining trust, coordinating public-private	Slow digital transformation, inefficiencies in delivery	Fiscal fragility, regulatory lag, rising inequality	Low trust, policy drift, institutional weakness
Uncertainties:					
Digital Trust:		High	Low	High	Low
Fiscal squeeze		No	No	Yes	Yes
Headline outcomes					
Indicative GDP Growth p.a.	5%	6-7%	5– 5.5%	4– 5.0%	2.5 – 3.5%
Poverty Rate in 2030	38%	22– 25%	28 – 30%	30– 33%	36 – 40%
Counterfactuals for 2030:					
1. Inclusion: % of adults with financial accounts	84%	90– 93%	85 – 88%	87 – 90% (but more dormant/ inactive)	80 – 83% (limited access + trust gaps)
2. Pro-Poor Innovation Index	2024=100	140 – 160	110 – 120	115 – 130	90 – 100

Scenarios					
3. Pro-Poor Research Index	2024=100	130 – 150	110 – 125	100 – 115	80 – 95
4. Incentives for Pro-Poor Services		**Strong alignment:** High competition, inclusive DPI, data-sharing, and impact-linked capital reward pro-poor design	**Moderate alignment:** State incentives and public service mandates support inclusion, but innovation is slow and supply-driven	**Weak alignment:** Focus on scale and profitability; rural and low-income segments underserved unless highly profitable	**Minimal alignment:** Players prioritize risk-avoidance, informal margins, or predatory survival; few systemic pro-poor incentives

Bibliography

- Acumen, Novastar Ventures, & Shell Foundation. (2010–2022) *Startup Financing Reports.*
- BFA Global. (2025) *FSD Kenya: Twenty Years of a Market Systems Approach in the Kenyan Financial System.*
- BEAM Exchange. (2024) *MSD Evidence Review.*
- Briter Bridges. (2024) *Africa Investment Report.*
- CBK, Kenya National Bureau of Statistics (KNBS), & FSD Kenya. (2006–2024) *FinAccess Survey Series.* Nairobi.
- Central Bank of Kenya (CBK). (2019–2024) *Financial Stability Reports.* Nairobi: CBK.
- Collins, Daryl, Jonathan Morduch, Stuart Rutherford, & Orlanda Ruthven. (2009) *Portfolios of the Poor.* Princeton: Princeton University Press.
- Credit Information Sharing Association of Kenya (CIS Kenya). (2013–2024)
- Disrupt Africa. (2022) *Kenyan Startup Ecosystem Report.*
- Edelman. (2025) *Trust Barometer: Kenya.*
- Financial Action Task Force (FATF). (2024) *Greylisting Reports.*
- Gibson, Alan. (2016) *FSD Kenya: Ten Years of a Market Systems Approach in the Kenyan Finance Market.* Springfield Centre.
- Government of Kenya. (2008) *Kenya Vision 2030.* Nairobi: Ministry of Planning.
- Government of Kenya. (2016) *Interest Rate Cap Legislation.* Nairobi: National Assembly.
- Government of Kenya. (2021) *Central Bank (Amendment) Act.* Nairobi.
- Government of Kenya. (2023) *Social Health Insurance Act.* Nairobi.
- International Labour Organization (ILO). (2015, 2021) *Employment Statistics – Kenya.*
- Jack, William & Tavneet Suri. (2014) *Risk Sharing and Transactions Costs: Evidence from Kenya's Mobile Money Revolution. American Economic Review.*
- M-KOPA, GOGLA, d.light, & Sun King. (2010–2025) *Internal Reports and Impact Data.*
- National Treasury & Central Bank of Kenya. (Various Years) *National Payment Strategy.*
- Suri, Tavneet & William Jack. (2021) *The Long-run Poverty and Gender Impacts of Mobile Money. Science.*
- World Bank. (2005–2023) *World Development Indicators (WDI).* Washington, D.C.: The World Bank.
- World Bank. (Various Years) *Global Findex Database.* Washington D.C.: The World Bank.
- Zollmann, Julie & Daryl Collins. (2020) *Living on Little: Navigating Financial Scarcity in Modern Kenya.* BFA Global.

- Uga. Ita nonest fuga. Name quam ex etur ra voluptat asimolu ptiste vendesecea nos apidiaectem ut qui sim nobitis sum quaspe si rest as explia solorio. Berferumqui bea atur a conseratur?
- Magnitint, et ma dolores tibusci debisita que et aliquamus mil ipsunt perum inulles mi, offici a vero tectatquia cupta dolupta site susdam ipsape dusantios dolupta simillestrum aut illanducid magnitio. Eribus rerit, vit venitatur, qui blaboriatat porepere pere lissimus, sapicaesto est esse

Riverside Green Suites
(Palm Suite), Riverside Drive
Nairobi, Kenya

P.O Box 11353, 00100,
Nairobi, Kenya

+254 20 513 7300
info@fsdkenya.org
@FSDKe
@FSDKe
www.fsdkenya.org

ISBN 978-9914-777-04-8