RemitSCOPE

Africa

Kenya

Country diagnostic

IFAD
Investing in rural people

PRIME AFRICA

ACKNOWLEDGEMENTS

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ACRONYMS

AML/CFT	anti-money laundering/combating the financing of terrorism
API	Application Programming Interface
CAK	Communications Authority of Kenya
CBK	Central Bank of Kenya
CDD	customer due diligence
CMA	Capital Markets Authority
CRR	cash reserve ratio
DFS	digital financial services
EAC	East African Community
EAPS	East African Payment System
EAMU	East African Monetary Union
ESAAMLG	East and Southern Africa Anti-Money Laundering Group
EU	European Union
FDI	foreign direct investment
FFR	Financing Facility for Remittances
fintech	financial technology
FIU	Financial Investigations Unit
FRC	Financial Reporting Centre
FSP	financial service provider
GCC	Gulf Cooperation Council
GDP	gross domestic product
IFAD	International Fund for Agricultural Development
IGAD	Intergovernmental Authority on Development
IMTO	international money transfer operator
IOM	International Organization for Migration
KBA	Kenya Bankers Association
KDIC	Kenya Deposit Insurance Corporation
KES	Kenya shilling
KEPSS	Kenya Electronic Payment and Settlement System
KITS	Kenya Interparticipant Transaction Switch
KYC	know-your-customer
MFI	microfinance institution
MMP	mobile money provider
MNO	mobile network operator
MRP	money remittance provider
MTO	money transfer operator
MVNO	mobile virtual network operator
NPS	National Payments System
PRIME Africa	Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa
PSP	payment service provider
P2P	peer-to-peer
P2G	person-to-government
RSP	remittance service provider
REPSS	Regional Payment and Settlement System
RTGS	real-time gross settlement
SACCO	savings and credit cooperative
SASRA	SACCO Societies Regulatory Authority
SDG	Sustainable Development Goal
SOE	state-owned enterprise

Executive summary

This research is part of a series of country diagnostics in selected African countries, in implementation of the Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative. The diagnostic series can be downloaded on the RemitSCOPE web portal.

Migration and remittances

- Kenya is a net inbound remittance market, receiving just over US$3 billion in 2020 (with the United States and the United Kingdom as the main sending markets), compared to outflows at US$710 million (2018). Remittances account for nearly 3 per cent of gross domestic product (GDP) and are a leading source of foreign exchange in the country.
- The United States, the United Kingdom, South Africa, the United Arab Emirates and Germany are the top send countries (Central Bank of Kenya [CBK], 2020), whereas, according to the 2019 FinAccess Survey, Uganda, the United Republic of Tanzania and the United States are the main receiving countries. Germany is the largest send market from the European Union (EU), although volumes are small (US$89 million in 2020).
- In 2021, despite the COVID-19 crisis and against all projections made by the World Bank and the CBK, remittance inflows into Kenya continued to hit a record high. While the reasons underlying this increase are still unknown, it may be due to wider use of formal remittance services and people sending additional funds to support relatives back home.
- Kenya is a net receiver of migrants with a mixed migrant profile. It hosts over 1 million immigrants, 47 per cent of whom are refugees and asylum seekers.
- There is an estimated half a million Kenyans formally living overseas. Largely skilled, they use legitimate channels to migrate mostly to the United States, Europe and elsewhere in Africa. Increasingly, lower-skilled Kenyans also migrate to the Middle East, with estimates suggesting there are as many as 120,000 living there (official data are unavailable).
- There are also no data on the prevalence and scale of informal remittance transactions from and to Kenya, although stakeholder interviews suggest that they are commonplace from border countries.
- The CBK currently collects and publishes total remittance inflow data in US$+ on a monthly basis, broken down into North American and European flows, and the rest of the world. It also publishes an annual report with a summary of the sector's performance.

Financial environment

- Kenya has a well-developed national payments system (NPS) to support remittances, but the regional payment systems, which have the potential to reduce the costs of intraregional remittances, are underutilized. The CBK is reviewing its National Payment Strategy 2021–2025, which outlines measures to enhance Kenya's global lead in digital payments.

- Kenya has well-established civil registration and national identification systems, in which 88 per cent of people have a foundational ID. The country is in the process of implementing integrated biometric identification as the next step.
- The financial services distribution network is extensive and includes bank and non-bank providers, mostly concentrated in urban areas.
- Savings and Credit Cooperatives (SACCOs) play an important role in providing financial services and are increasingly formalizing their operations. Financial technology (fintech) companies have made a strong entry into the market, heightening product diversity and competition.
- Kenya's financial inclusion levels are one of the highest in Africa. Eight out of 10 adults have access to some form of financial service. This was mainly achieved through the uptake of mobile money wallets (79 per cent of adults).
- M-Pesa is a dominant market player in Kenya's mature mobile money landscape, characterized by activity levels of above 50 per cent and 66 per cent of the customer base using advanced digital financial services (such as savings, credit and insurance products).

Regulatory environment

- Money remittance regulations for providers wishing to offer inbound and outbound remittances are clear and include mobile money providers. Kenya has no foreign exchange control regime, but remittance provider types are limited, and licensing and approvals may take considerable time.
- There are 17 licensed money remittance providers (MRPs) in Kenya. International money transfer operators (IMTOs) do not need to be licensed but operate through commercial banks and licensed MRPs as agents.
- Following increased cases of suspected terrorism funding and a rapidly growing financial services market, Kenya has developed a robust anti-money laundering/combating the financing of terrorism (AML/CFT) framework. In 2015, 13 MTOs were closed until they could demonstrate compliance.
- Risk-based customer due diligence (CDD) is discretionary and applies to various financial products and to all financial service providers (FSPs), banks, non-banks and payment service providers (PSPs), but there are no tiers or thresholds and there are no lower-risk or basic accounts.
- Kenya has consumer protection and data privacy laws that cover international remittances, however, services (especially digital) are not always transparent in terms of pricing, and dispute resolution mechanisms are not always clear for digital-based services, which undermines trust.
- Kenya has deposit protection insurance in banks, deposit-taking microfinance institutions (MFIs) and mortgage companies. It also requires remittance service providers (RSPs) to hold some funds in an escrow account. In addition, Kenya taxes mobile money and has just introduced a digital service tax. The levies are increasing the cost of using digital remittance services.

Remittance market structure

- The structure of the Kenyan remittance market varies according to the different migration profiles. It is highly digitalized, driven by high financial inclusion rates and prevalence of mobile wallets. More than half of all remittances flow into M-Pesa wallets, and over half of all transactions are channelled through Equity Bank.
- Remittance value chains to and from Kenya involve a number of players, including the sending parties, banks or international remittance aggregators, a licensed entity in the receive market and payout subagents. Digital remittance services should be much more streamlined than traditional, cash-based ones that rely on partners and payout agents.
- In Kenya, 41 commercial banks, 14 deposit-taking MFIs, PostBank, 17 MRPs and two mobile money providers (MMPs) have direct licence to offer inbound and outbound money transfers. IMTOs partner with these entities and pay out via their own networks and subagents (mainly foreign excahnge bureaus and lower-tier banks).
- While market share data for companies are unknown, the type of services and operators used vary by location, corridors and the profile of migrants. Interviews suggest SendWave and WorldRemit are the largest senders of remittances into Kenya globally.
- At 7.5 per cent of the amount sent, the average cost of sending remittances to Kenya is above the Sustainable Development Goas (SDGs)-recommmended 3 per cent, but lower than the average cost for sub-Saharan Africa (8.5 per cent) and other intra-African corridors. There are low-cost services in many of the largest send markets where competition is more intense.
- There is low transparency in Kenya (as in many other countries) on the range of remittance services and the total cost of sending/receiving money. While transparency is mandated by the government, full disclosure of total costs to non-customers is often unavailable.
- Digital channels are driving down remittance costs, although full impact is yet to be realized as players set up cross-border integration partnerships. It is possible to send remittances from one mobile wallet to another to seven other African countries from Kenya, and it is possible to receive mobile-to-mobile remittances from six countries, making it one of the most integrated nations globally.
- Access to international remittances in Kenya is among the best on the continent, with a good distribution of monte transfer operators (MTOs) and agent locations (where funds are received into wallets).
- Anecdotally, the use of informal channels to send and receive money to/from Kenya is high, especially within the East African region. *Hawala* (traditional money brokerage service) service providers are also prevalent, although many of the Somali ones are registered as MTOs in Kenya.
- The main informal channel used within the region is via registered and unregistered M-Pesa agents residing in other countries and offering cross-border money transfers and cash-in/cash-out services.
- PRIME Africa will focus programme activities on three countries sending remittances to Kenya – Germany, Uganda and South Africa.
- The average cost of sending money from Uganda to Kenya is 4.1 per cent of the amount transferred. However, stakeholders suggest that the Uganda to Kenya remittance corridor is still predominantly informal, with transfers made through unapproved M-Pesa agents. These services may even cost more than formal mobile money transfers, but customers are willing to pay a premium for a trusted service.

- Kenya's diaspora in South Africa is relatively small, with a mix of formal and informal migrants. Stakeholder interviews portray a growing corridor since the COVID-19 pandemic. Use of informal channels is notable and includes *hawala* traders and routing money through Botswana to avoid foreign exchange controls.
- The Kenyan diaspora in Germany is the largest in the EU but is still very small, amounting to just 14,000 people. While average costs are relatively high at 7.7 per cent of the amount sent, online operators such as WorldRemit and SendWave have much more competitive pricing – around 3 per cent.

Financial services for remittance users

- Kenya has high levels of financial inclusion in terms of account ownership. However, there are opportunities for remittances to further drive usage and increase linkages between payment channels and financial services. Kenyan banks offer a wide range of diaspora-related financial services, but Kenyans abroad can also access domestic products and services.
- Kenyan FSPs offer a diverse range of diaspora-focused financial products. However, not many are designed specifically for remittance beneficiaries.
- Equity Bank and Kenya Commercial Bank provide two examples of innovation in diaspora financial services. Kenya is a global leader in such services.

Stakeholder coordination

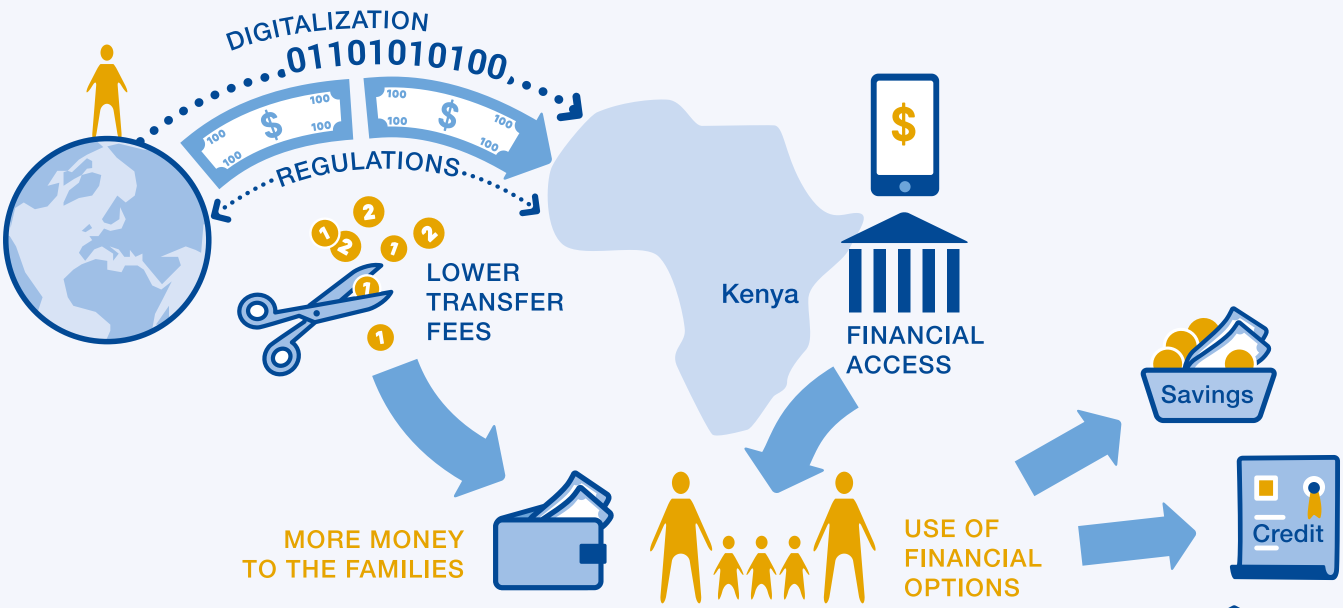
- At present, interventions from development partners on remittances are limited in Kenya, apart from descriptive research studies. The CBK plays an active role in supporting the sector, and the Remittance Association advocates for the sector's interests.

The PRIME Africa initiative

IFAD is implementing the **Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative**, co-financed by the EU and aimed at maximizing the impact of remittances for millions of families in selected African countries, which contributes to fostering local economic opportunities in migrants' countries of origin (figure 1).

Figure 1. PRIME Africa activities in Kenya

GOALS

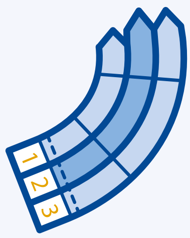


REDUCED REMITTANCE TRANSFER COSTS from Europe to and within Africa

ENHANCED FINANCIAL INCLUSION through remittance-linked financial services

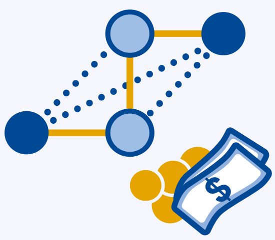
ACTIVITIES

- **Address the data gap**
  Strategic market data allow for further market depth and width, and targeted capacity-building to key stakeholders for remittance data creation and use.



- **Increase market competition**
  Expand access to remittances through close cooperation with public and private sectors, and additionally reduce significantly direct and indirect costs, and spur market competition.

- **Support an enabling environment**
  Coherent national regulatory frameworks in both sending and receiving countries can foster competition in remittance corridors and enable safe, cheap and fast transfers.



- **Finance and promote business models linking remittances and financial services**
  Co-finance and promote innovative, replicable and scalable business models and technologies that link remittances to financial services, toward greater financial inclusion.

- **Finance scalable innovations and related capacity**
  Collaboration mechanisms in place among central banks, regulatory bodies, the private sector and diaspora communities in sending and receiving countries; and strengthened capacity to adapt and scale up best practices within an operational framework that allows cooperation among partners.

Objectives

PRIME Africa is an initiative of the International Fund for Agricultural Development (IFAD), implemented by its Financing Facility for Remittances (FFR) and co-financed by the EU.

The initiative aims at addressing the development opportunities that remittances provide in the form of innovations, partnerships and scalable products that promote more affordable and faster remittances transfers. PRIME Africa's objectives are to:

A. Reduce remittance transfer costs to Kenya in support of SDG 10.c[1] and the Global Compact for Safe, Orderly and Regular Migration.
B. Reduce the use of informal remittance channels to Kenya.
C. Enhance financial inclusion – general access to useful financial products and services – through remittance-linked financial services.

This diagnostic provides an assessment of Kenya's remittance market, especially in light of the COVID-19 pandemic, using a market-oriented approach. It includes a supply side analysis as well as a review of three key inbound corridors.

The findings and recommendations of this diagnostic study will inform the road map being designed for a prioritized approach to interventions and the achievement of PRIME Africa goals. It is envisaged that funding will be made available to the public and private sectors for road map implementation.

Methodology

Data and relevant information for this diagnostic study were gathered using:

- Primary data collection
  - interviews with key stakeholders: regulators, associations, remittance service providers (money transfer operators, banks, mobile network operators, aggregators and fintech start-ups offering cross-border remittances)
  - mystery shopping exercises for data related to service providers, pricing and products

- Secondary data
  - desk-based research: review of relevant, recent and authoritative sources

Data collection was conducted between October 2020 and January 2021, with remittance flows updated as of Q4 2021. Two-virtual National Remittance Stakeholder Network (NRSN) meetings were held in Q1 and Q2 2021, and an in-person event took place in Nairobi on 16 June 2022, on the occasion of the International Day of Family Remittances (IDFR).

1/ By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.

RECOMMENDATIONS

A. Implement a remittances data strategy that enables improved data analytics and generation of market information, including disaggregated remittance inflows, outflows, channel usage and estimates of informal flows. A review should also include the impact of the COVID-19 pandemic on the marketplace.

B. Expand remittance providers' licensing categories to ensure even distribution of access points, improved access and choice.

C. Identify and leverage opportunities for cross-border remittance payment and settlement through regional bloc retail payment systems.

D. Improve transparency in the remittance market and review pricing and cost structures.

E. Address the high use of informal remittance services in the region.

F. Champion an open application programming interface (API) culture for ID authentication and verification, and between banks and PSPs.

G. Support transition to full payment ecosystem interoperability across channels.

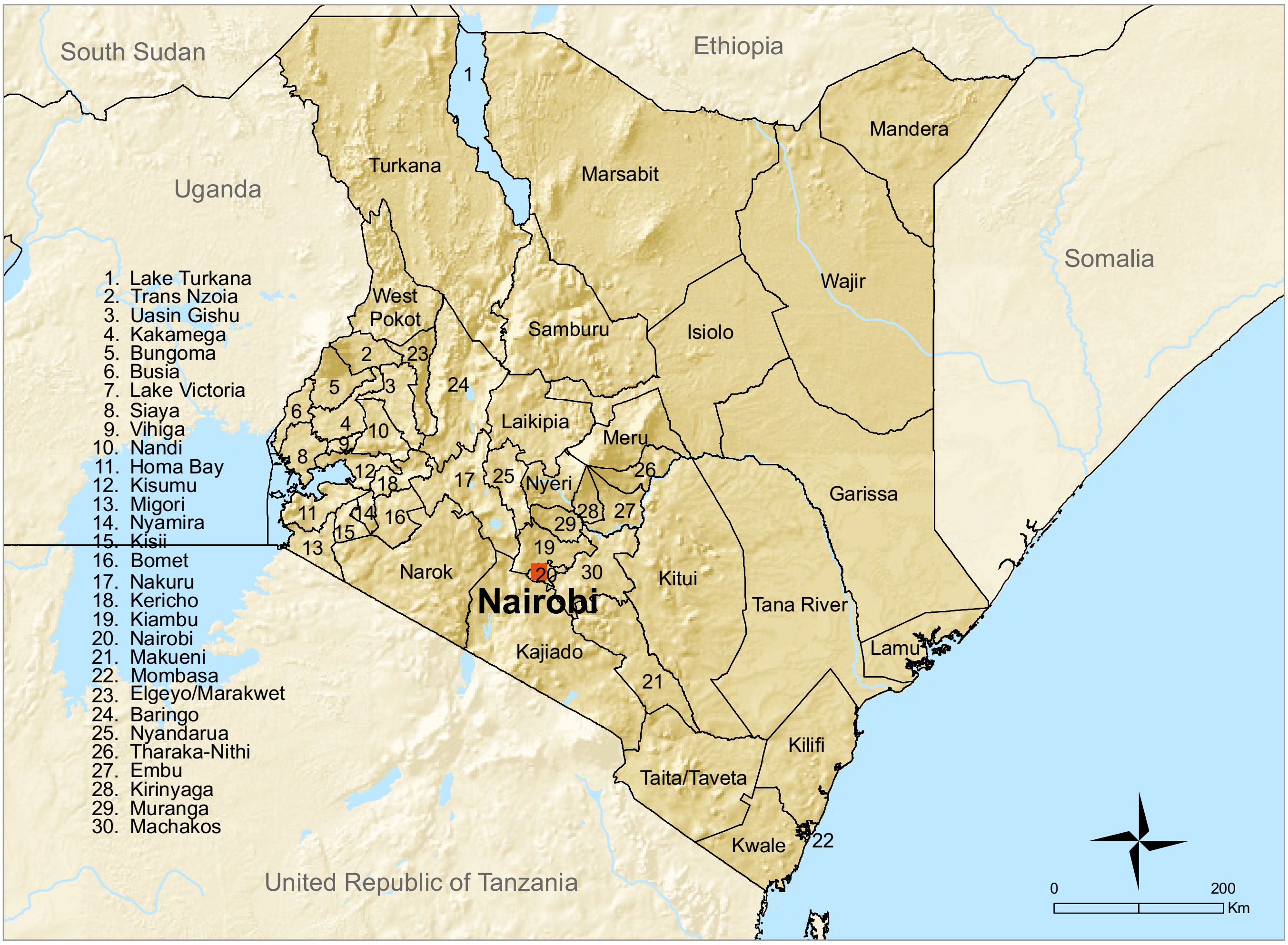
H. Promote financial education and awareness, especially around international remittances, fraud, cybersecurity and consumer protection.

I. Support industry to lead in innovation for world-leading remittances, payments and remittance-linked financial services.

J. Leverage the National Remittance Stakeholder Network to create a working group for the coordination, implementation and review of improving Kenya's remittance landscape.

1. Migration and remittances

Figure 2. Map of Kenya



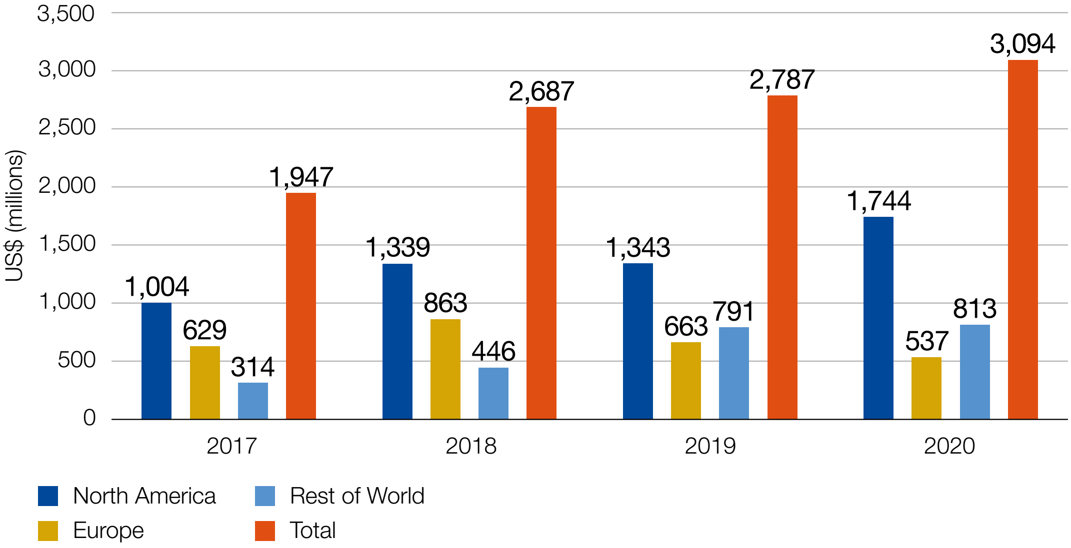
This section provides an overview of the migration patterns and other socio-economic activities that drive inbound and outbound remittances in Kenya as well as a sender/receiver profile. It also examines informal flows, accuracy, consistency and accessibility of remittance data.[2]

Remittance flows into and out of Kenya

- Kenya is a net inbound remittance market, receiving US$3 billion in 2020, with the United States and the United Kingdom as the main send markets. Outward-bound remittances were US$710 million (2018). Remittances account for nearly 3 per cent of GDP and are a leading source of foreign exchange in the country.
- Kenya is one of the five highest remittance-recipient countries in Africa, receiving US$2.787 billion in 2019 (CBK, 2019) after: Egypt (US$26.781 billion); Nigeria (US$23.809 billion); Morocco (US$6.735 billion) and Ghana (US$3.521 billion) (World Bank Annual Inflows 2019a).
- Remittances to Kenya remained resilient against the backdrop of the COVID-19 pandemic and recorded record highs in 2020. Remittance inflows stood at US$299.6 million for the month of December 2020, compared to US$250.3 million for December 2019, constituting a 19.7 per cent increase. At the end of 2020, cumulative remittance inflows stood at US$3.094 million, a 10.7 per cent increase from US$2.787 million in 2019 (figure 3).
- Remittances are an important economic driver in Kenya's economy, contributing 3 per cent to its GDP in 2018 (World Bank, 2019b) and topping foreign direct investment (FDI) and portfolio equity flows. Cash inflows from citizens working abroad are now Kenya's leading source of foreign exchange, ahead of tourism and agricultural exports. Remittances are included in Kenya's Vision 2030 programme, the National Migration Policy, the Kenyan Diaspora Policy and the Draft Payments National Strategy, with commitments to grow remittances and reduce costs.
- According to the CBK (2021), top inflows in 2020 were from: the United States (US$1.67 billion, 54 per cent); the United Kingdom (US$230 million, 7 per cent); South Africa (US$195 million, 6 per cent); Germany (US$89 million, 3 per cent) the United Arab Emirates US$73 million, 2 per cent) (author's own calculations based on data from the CBK).
- The World Bank estimates that remittance outflows from Kenya were US$710 million in 2018 (World Bank, Bilateral Matrix, 2018). The CBK does not publish outbound remittances or inflow data by corridor. According to the Matrix, which is based on estimates where data are unavailable, the top five outbound remittance destinations for 2018 were: Uganda (US$423 million, 59.5 per cent), India (US$84 million, 11.8 per cent); the United Republic of Tanzania (US$35 million, 4.9 per cent), Egypt (US$18 million, 2.5 per cent); and Nigeria (US$13 million, 1.8 per cent). According to the FinAccess Survey 2019, the largest outbound corridors are Uganda (24 per cent), the United Republic of Tanzania (12 per cent) and the United States (10 per cent) (figure 4).

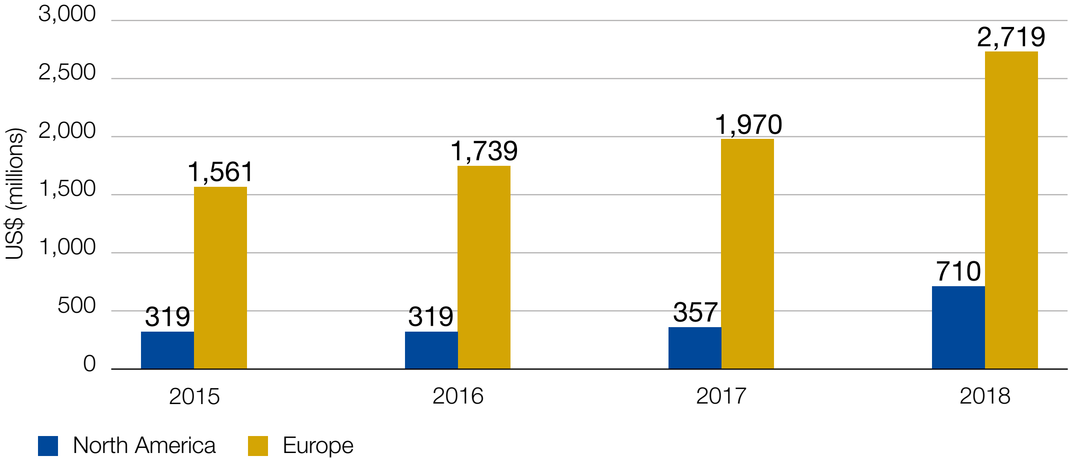
2/ Important note on data. There are a number of different data sources used in the next section, which are not always consistent thereacross. Where available, data have been used by the Government of Kenya, but are supplemented by international databases.

Figure 3. Inbound remittances (US$ million)



Source: CBK, 2017–2020.

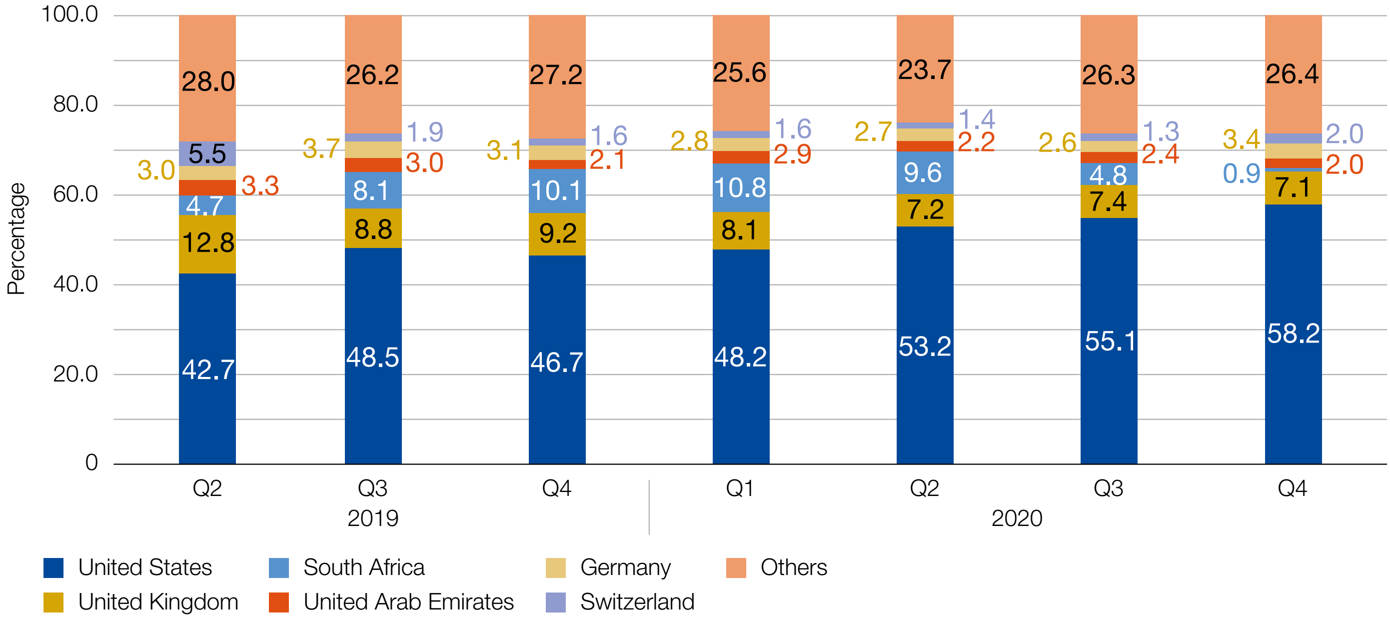
Figure 4. Total remittance inflows and outflows for Kenya (US$ million)



Source: World Bank Bilateral Remittance Matrix, 2015–2018.

- The United States, the United Kingdom, South Africa, the United Arab Emirates and Germany are the top send countries, while according to the 2019 FinAccess Survey, Uganda, the United Republic of Tanzania and the United States are the main receiving countries. Germany is the largest sender in the EU although volumes are small (US$89 million in 2020) (figure 5).
- These data have not been officially published by the CBK. The data capture formal remittance flows by corridor. They show that remittance inflows from the United States increased in 2020, accounting for nearly 60 per cent of flows in Q4 of that year. Remittances from the United Kingdom accounted for 7 per cent. Inflows from South Africa dropped significantly in Q4 2020.

Figure 5. Remittances by source country (percent of total)



Source: CBK, 2021.

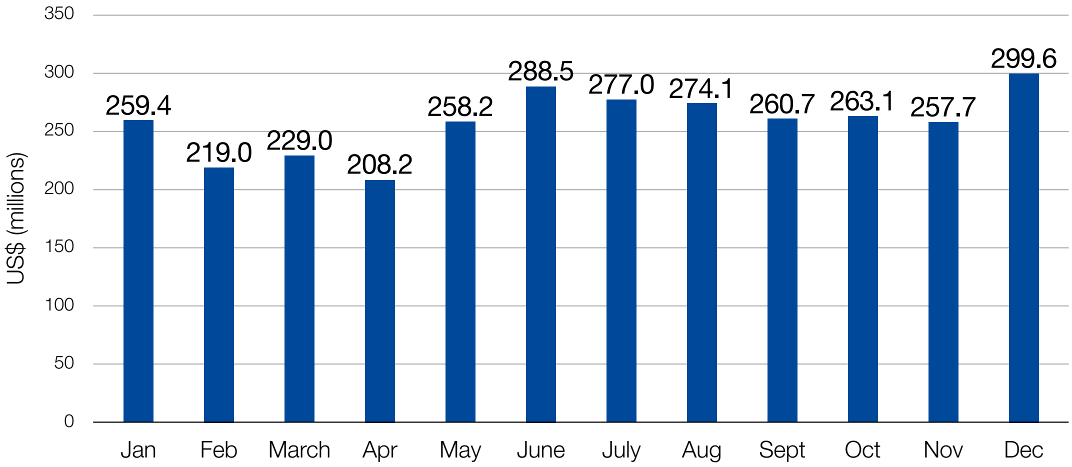
Table 1. Top eight countries from where money is sent or received (%)

Country	Destination	Country	Origin
Uganda	24.0	United States of America	34.0
United Republic of Tanzania	12.1	Uganda	9.2
United States of America	10.0	United Arab Emirates	8.4
Australia	7.9	Qatar	7.1
United Kingdom and Northern Ireland	3.4	Germany	6.0
India	3.4	United Kingdom and Northern Ireland	6.0
Canada	3.3	United Republic of Tanzania	2.1
Rwanda	2.8	Saudi Arabia	2.4
United Arab Emirates	2.3	Canada	1.9

Source: FinAccess Survey 2019.

- The FinAccess Survey 2019 is a survey of 11,000 households across Kenya (table 1). As outbound remittance data are not available from the CBK by corridor, the FinAccess Survey results provide insight. That said, the number of households receiving or sending money is not clear from the survey.
- The FinAccess Survey captures remittances sent through both informal and formal channels. This may help explain some of the discrepancies between the formal data from the CBK for inbound 2021 (figure 5) and the FinAccess survey results, especially regarding inflows from Uganda.

Figure 6. Total global remittance inflows into Kenya for 2020, (US$ million)



Source: CBK (2020, 2021).
Note: The COVID-19 pandemic started in March 2020

- In response to the COVID-19 pandemic, Kenya had a temporary decline in remittance inflows, but then recovered and experienced growth. Remittance inflows stood at US$299.6 million for December 2020, compared to US$250.3 million for December 2019 – a 19.7 per cent increase (CBK, 2021) (figure 6).
- The CBK had projected a decline of 12.3 per cent (US$338 million) but later revised projections after seeing an increase of 1 per cent (US$24.7 million) in June 2020. The World Bank also projected a 23.1 per cent fall for sub-Saharan African countries in April 2020 but revised this to a 9 per cent decrease in October 2020. Looking forward, the World Bank predicts a decline in 2021 as the full impact of diaspora job losses and declining business performance is fully felt.
- The increase in remittance inflows could be related to either the diaspora increasing their support against economic hardships at home, or as a result of travel restrictions prompting a significant shift from informal to formal channels for sending money home. At present, this analysis is hypothetical and not supported by data. At the height of the lockdown in Kenya, FSPs, including remittance providers, remained open, which would have encouraged the use of formal channels.
- In response to the COVID-19 pandemic, the CBK put in place measures to support the economy and the use of digital payments (see annex I). Between February and October 2020, the volume of mobile money transactions up to KES 1,000 (US$10) increased by 114 per cent, with a 200 per cent increase in value. This tier accounts for over 80 per cent of transactions. In the same period, the monthly volume of PSP transfers increased by 87 per cent and business-related transactions rose by 82 per cent: there were 2.8 million additional 30-day active customers using mobile money. CBK measures were implemented from 16 March 2020 and were phased out by 31 December 2020. M-Pesa then issued a 45 per cent price reduction targeting low-value transactions under KES 1,000.

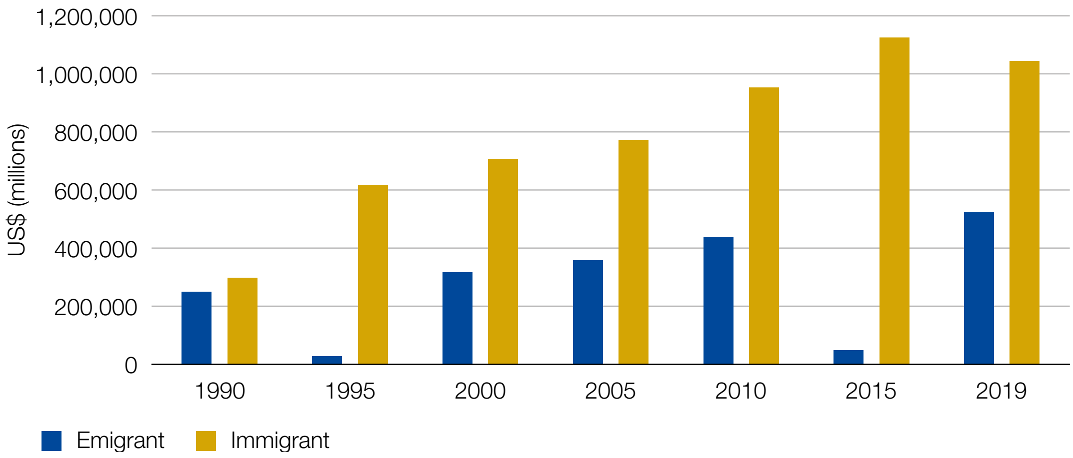
Remittance inflows into Kenya continued a record high in 2021 despite the COVID-19 pandemic. While the underlying reasons are still unknown, it is thought to be due to an increase in the use of formal remittance services and additional funds being sent to support relatives back home.

Emigration and migration

Kenya is a net receiver of migrants, with a mixed migrant profile. It hosts over 1 million immigrants, 47 per cent of whom are refugees and asylum seekers.

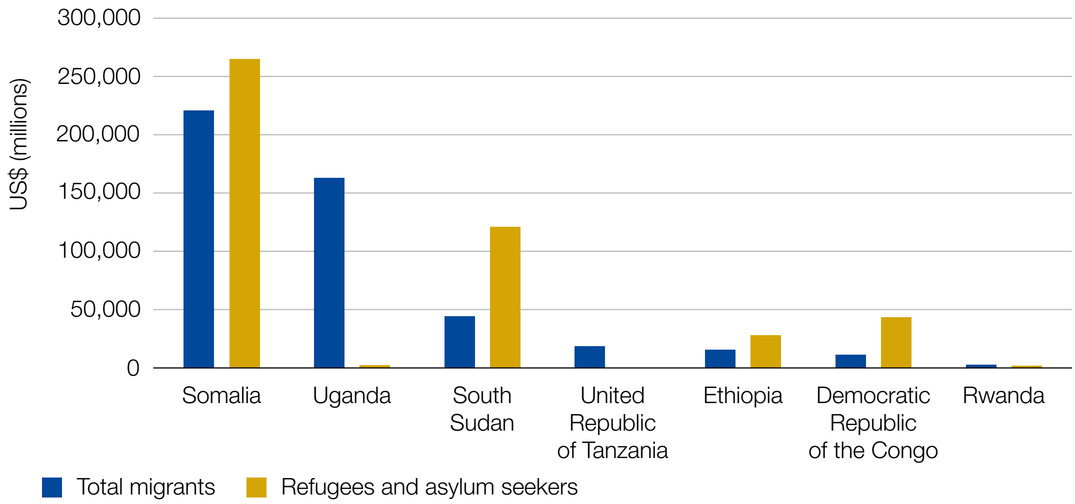
- Kenya is mainly a destination and transit country for people in mixed migration flows from East Africa, including refugees, irregular and economic migrants and trafficked persons. Migrants, mainly from African countries, transit through Kenya to reach South Africa, the Middle East, North Africa, West Africa, Europe and North America (ILO, 2020).
- In 2019, there were just over 1 million international immigrants in Kenya (1,044,854) and as of July 2020, 496,289, (47 per cent) of these were refugees and asylum seekers (latest data available) (UN DESA, 2019; UNHCR, 2020a) (figure 7).
- Kenya is host to the third-largest number of refugees and asylum seekers in the region, after Uganda (1,444,873) and Ethiopia (916,678) (Regional Mixed Migration Secretariat [RMMS, 2018]). The majority of refugees are from Somalia (53.9 per cent), while South Sudanese (24.7 per cent), Congolese (9 per cent) and Ethiopians (5.8 per cent) make up the other major nationalities (UNHCR, 2020b). This is attributed to: (i) Kenya's geographical location amid fragile neighbouring countries; and (ii) Kenya's relatively reliable transportation network; and (iii) Kenya's stable economy (IOM, 2018: 48) (figure 8).

Figure 7. Kenyan migrant stocks (1990–2019)



Source: UN DESA (2019).

Figure 8. Number of immigrants into Kenya and refugee and asylum seekers



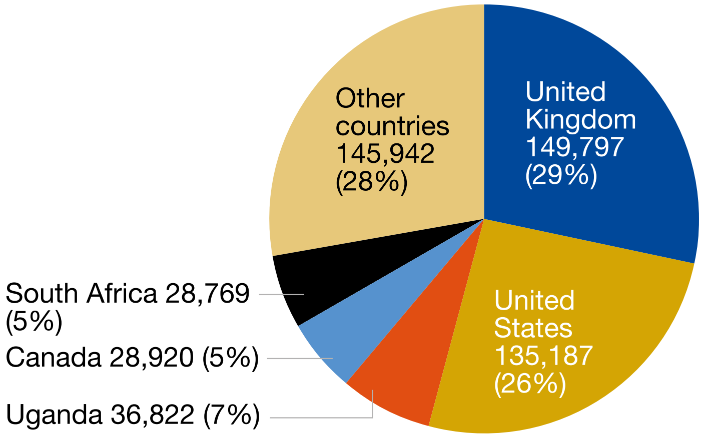
Source: UNHCR (2020a).

- Labour migrants from Asian countries, such as Bangladesh, India, and Pakistan are also found in Kenya. They mostly come to set up businesses (MGSOG, 2017: 6), although actual numbers of this category of migrants are yet to be published.

An estimated half a million Kenyans formally live overseas. Largely skilled, they use legitimate channels to migrate mostly to the United States, Europe and within Africa. Increasingly, lower-skilled Kenyans migrate to the Middle East, with estimates of as many as 120,000 Kenyans living there.

- Kenyan emigrants stand out for being educated and traveling for employment or education abroad through regular means. The total number of emigrants is estimated at 525,400, with the United Kingdom, the United States, Uganda, Canada and South Africa being the top destinations (UN DESA, 2019a).
- The number of Kenyans formally living in other African countries is much higher than those residing in EU countries – 137,969 versus 38,229. The top host countries include neighbours Uganda, the United Republic of Tanzania and others such as South Africa and Mozambique (UN DESA, 2019b) (figure 9). Stakeholder interviews suggest there are significantly more Kenyans in South Africa who did not use legitimate migration channels.
- According to the UN DESA (2019b), Germany has the largest Kenyan diaspora in the EU, with 3 per cent of the total diaspora, or some 14,000 Kenyans. Across the EU, Kenyan diaspora sizes are small – below 5,000 in each country. The next-largest Kenyan diasporas in the EU are in Sweden and Italy, with an estimated 5,000 and 4,000 emigrants respectively.
- Low-skilled Kenyan migrants travel to the Middle East and the Gulf countries for work, with this type of emigration facilitated by private employment agencies. More recently, Kenya has tightened its immigration procedures to the Middle East. Except for Egypt, Libya, Sudan and Turkey, data on the number of Kenyans in Middle East and North Africa countries is limited (Stakeholder Interviews, 2020). It is estimated that there are between 100,000 and 120,000 Kenyans residing in the region.

Figure 9. Migrant stock by destination



Source: UN DESA (2019b).
Please note: migrant stock bilateral data from the World Band and UN DESA do not include data from the GCC States.

Informal remittance flows

- There are no data available on the prevalence and scale of informal remittance flows from and to Kenya. However, stakeholder interviews suggest they are commonplace from border countries.
  - The CBK does not currently have any data on informal remittance values. Accurate estimations of informal remittances are rare. Informal channels include sending money with friends and family, the *hawala* system, traders, bus drivers; informal agents and unregistered/unlicensed operators. Obviously, data on informal remittances is difficult to collect. Surveys are the only way to form a picture of the prevalence of informal flows across different corridors.
  - The CBK announced in January 2021 that it will be commissioning a survey on diaspora remittances as part of an effort to increase monetary transfers' role in economic growth. The information will include: the efficiency and cost of alternative remittance channels; difficulties encountered in making cash/non-cash transfers; availability of information on investment opportunities for Kenyan diaspora; and use of remittances received. Both the Bank of Uganda and the Central Bank of Nigeria are collecting data on the informal sector and it is hoped they will coordinate in order to enable comparison across countries and corridors.
  - It is assumed and confirmed through stakeholder interviews that use of informal channels is higher to and from countries where there are shared borders. For example, there are reports of high use of M-Pesa peer-to-peer (P2P) transfers from Uganda to Kenya, Safaricom's deactivation of the roaming facility from agents' handsets did little to deter the practice. Similarly, there are some MTN Mobile Money agents in Kenya border towns offering services to Uganda, although this is not as widespread as with M-Pesa (stakeholder interviews, 2020).

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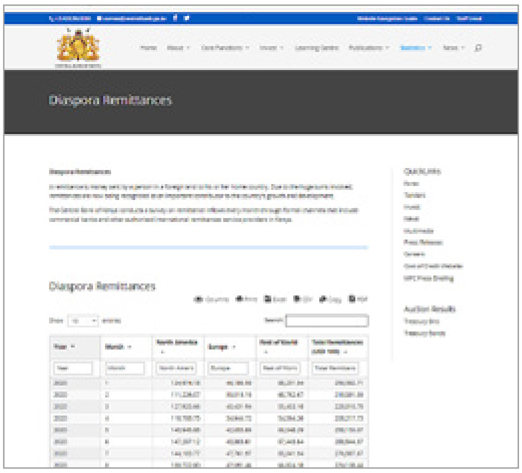
- In focus group discussions conducted in 2018 in the United Kingdom by the Financial Sector Deepening programme in Africa (FSD Africa) with members of the Kenyan diaspora, everyone indicated using formal channels to send money home. In the seven African countries involved in the study, the Kenyan diaspora was found to be the most digitalized – using online and app-based services for mobile money transfers. It had the lowest use of informal services (FSD Africa, 2018).
- Remittance flows have increased since the COVID-19 pandemic but the extent of this behaviour change has yet to be quantified. Some stakeholders thought the increases were due to informal flows going through formal channels following border and service closure, e.g. between South Africa and Kenya (stakeholder interviews, 2020).

Remittance data collection frameworks

The CBK currently collects and publishes total monthly remittance inflow data in US$, broken down by North America, Europe and the rest of the world. It also publishes an annual report with a summary of the sector's performance.

- The CBK collects inbound remittance data from reports submitted by all authorized/licensed providers: commercial banks, MTOs and MMPs. These data are only collected in blocks from the send destinations, for example North America, Europe and the rest of the world by value and volume. They are published monthly by the CBK and are up to date, the latest data available being December 2020 (CBK, 2020a). Monthly remittance data is useful for tracking inflow patterns and identifying seasonal trends.

- The CBK also publishes an annual report, which includes a summary of remittance inflows.
- According to one stakeholder, the CBK collects many data for AML/CFT and reporting purposes, however it has been suggested that the different databases are not yet comparable, integrated or interoperable. Apparently, this is something that the CBK is currently working on.
- The CBK is currently improving its data collection templates and systems from the RSPs and is aiming at providing more detail with more analytics by next year. Currently, data is only published by region. At present banks do not have to report their interbank, cross-border, account-to-account transactions to the CBK, which means these are not reflected in the remittances data.



PRIORITY POLICY ACTION

1. Implement a data strategy that, among other functions, enables improved data analytics and generation of market information, including disaggregated remittance inflows, outflows, channel usage and estimates of informal flows. Planned amendments to reporting templates could be informed by CBK data needs as well as market needs with the following considerations:
   - harmonized templates and reporting across the East Africa Community (EAC) to facilitate eventual harmonization of regulations under the East African Monetary Union (EAMU);
   - outflow figures brought to the same level of detail as inflow data;
   - information portals publicly available for easy access to disaggregated inflow and outflow remittance data to inform business decisions; and
   - access to market share information of RSPs to enhance transparency in the market.

2. Industry collaboration on CBK's diaspora remittances survey. Recommended collaborators could include the African Institute of Remittances, FSD Kenya and IFAD's FFR to maximize opportunities and ensure consistency across countries.

3. Inclusion of remittance modules in household surveys to understand and form national estimates on the size of the informal market, for example by expanding the remittance questions in the FinAccess surveys. Such data would also serve to guide policy decisions and action plans to formalize informal remittances and support efforts to curb illicit flows.

2. Financial environment

This section looks at:

- the payment system infrastructure in Kenya that supports the remittance market;
- identification and addressing systems required to access remittances and other financial products; and
- financial inclusion in Kenya and the use of digital payment instruments.

Payment systems infrastructure and payments interoperability

Kenya has a well-developed national payments system to support remittances, but regional payment systems with potential to reduce costs of intra-regional remittances are underutilized. The CBK is reviewing its 2021–2025 National Payment Strategy, which outlines measures to enhance Kenya's global lead in digital payments. Facilitating industry-led interoperability emerges as a priority, together with trust, security and innovation.

The CBK is reviewing its 2021–2025 National Payment Strategy, which outlines measures to enhance Kenya's global lead in digital payments.

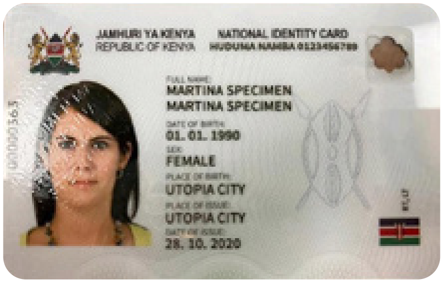
Kenya has a well-developed national payments infrastructure that enables remittance companies and banks to settle remittance transactions easily and direct money into bank accounts and mobile wallets. The Kenya Electronic Payment and Settlement System (KEPSS) is a real-time gross settlement (RTGS) system, with an automated clearing house in Nairobi.

- Interoperability between payment channels allows RSPs and remittance recipients to move money easily between different channels. However, Kenya already has some level of interoperability here, with Kenswitch, PesaLink (IPSL Kenya) and bilateral agreements all enabling the service.
- Mobile wallets offering real-time transactions at the same cost as inter-network payments have been interoperable since 2018 through a multilateral approach rather than a third-party aggregator. Kenya does not have a central switch that provides full interoperability between bank accounts, cards and mobile wallets, although they do have interoperability between themselves. More information on Kenya's payment system and interoperability can be found in annex II. Despite these levels of interoperability (mostly account-to-account) already achieved, the Kenyan market remains fragmented at authentication and distribution levels. For example, mobile money, agency banking and merchant services are close-looped and agents serve customers through multiple FSPs, different terminals and prefunded accounts. The implication for remittances is that customers can only use specified cash-out providers, thus limiting their choices. Agents end up preferentially partnering with dominant providers as the cost of serving smaller players is higher.
- The CBK has two regional payment and settlement systems to process large payments – The East Africa Payment System (EAPS) and the Regional Payment and Settlement System (REPSS). While these have the potential to drive down the costs of interregional remittances and settlement between regional RSPs, usage is low due to limited intra-Africa trade traffic, more competitive bank-led legacy systems and low awareness. The Pan-African Payments and Settlement System, developed by

the African Export-Import Bank (Afreximbank), and currently under development, is designated to support implementation of the African Continental Free Trade Area (AfCFTA) by enabling cross-border trade payments to be made and settled in African currencies (Afreximbank, 2020).

Know-your-customer requirements

Kenya has well-established civil registration and national identification systems, where 88 per cent of people have a foundational ID.[3] It is now implementing integrated biometric identification as the next step.



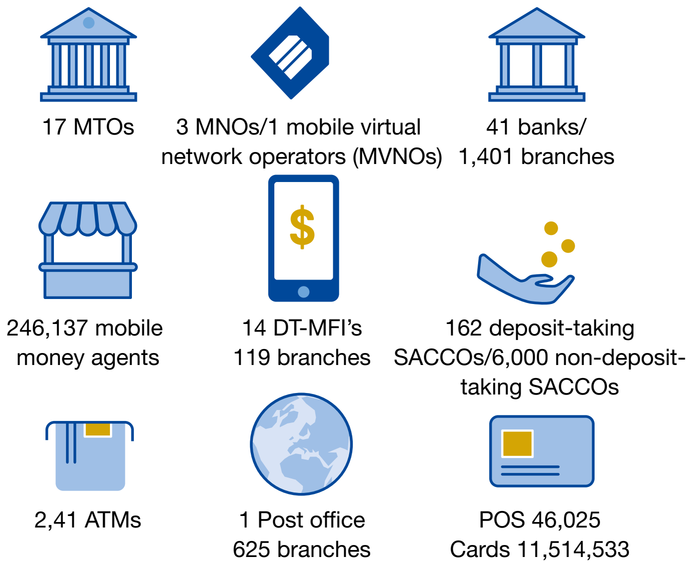
- Kenya has a well-established national ID system, administered by the National Registration Bureau, part of the Ministry of Interior and Coordination of National Government. The bureau also oversees the State Department for Immigration, Border Patrol and Registration of Persons. About 88 per cent of Kenyans are documented, which is useful for identification and access to public and private services. ID is mandatory for citizens aged 18 years and above. The civil registration system issues birth certificates, which must be produced when enrolling in schools and applying for an ID card or a passport.
- Identity can be verified through the Integrated Population Registration System (IPRS), a national database operating in real-time. All licensed FSPs can access the IPRS on application and approval by the Ministry of the Interior. The automated fingerprint identification system checks against duplication and multiple entries (Open Society Justice Initiative, 2019).
- Introduced in January 2019, Huduma Namba is an advanced nationwide biometrics register that is integrated across several public services through an e-government portal. The register is meant to link with other existing government databases such as the National Social Security Fund, National Hospital Insurance Fund and the National Transport and Safety Authority. The Government of Kenya conducted a round of Huduma Namba registration from April to May 2019 and indicates that 36 million people were registered. The government communicated that issuing new cards for those registered began in January 2021 and current national ID card would have been phased out at the end of 2021.
- Challenges. There are concerns that Huduma Namba identification contravenes certain aspects of the law, including exclusion of currently unregistered citizens, stateless persons and those unable to provide biometrics, which may result in subsequent denial of government services (Citizen Digital, 2020).
- Under the Common Market Protocol, citizens of the EAC can travel within Kenya, Rwanda, South Sudan and Uganda using national identity cards in addition to regional and international passports. Issuance of East African passports started in 2017. It is expected that an integrated e-immigration management systems and services will be developed (East African Community, 2017).

3/ https://id4d.worldbank.org/guide/types-id-systems.

Distribution of access points

The financial services distribution network is extensive and features bank and non-bank providers that are mostly concentrated in urban areas (figure 10).

Figure 10. Financial service access points



- Commercial banks. With 41 banks, some annalysts believe Kenya is overbanked. The total branch network is 1,401 branches. Of those banks, 19 have 59,578 agents under the agency banking model (CBK, 2020d). The competitive market environment and recent restrictions on movement due to the COVID-19 pandemic have seen banks investing heavily in digital banking services and encouraging the use of agents for low-value transactions. Bank agents double up as agents for insurance companies and offer cash-in/cash-out services and account opening. Clarification is needed on whether bank agents can pay out international remittances, as stakeholder interviews vary on the issue.
- Deposit-taking microfinance banks play a complementary role to commercial banks, as opposed to being competitors. They offer a vital service to the significant proportion of the population lacking access to commercial banks (AMFIK, 2017).
- Mobile money providers. There are three MMPs: Safaricom M-Pesa, Airtel Kenya and Telkom Kenya. M-Pesa is the market leader with a 98.8 per cent share. Airtel Kenya's Airtel Money has 1.1 per cent and Telkom Kenya's T-Kash 0.05 per cent. Together, the three have 202,102 agents (2020). Equity Bank offers Equitel, a mobile virtual network operator with a customer base of 1.88 million (Equitel, 2020).
- Microfinance institutions. Three wholesale microfinance businesses – Micro Enterprises Support Program Trust, Soluti Finance East Africa, and Oiko Credit – focus on lending to other MFIs. Of the 34 credit-only institutions with a total of 486 fully fledged branches, 230 are in rural areas and 156 in urban areas (AMFIK, 2017). It is estimated that MFIs serve about 7 million depositors and close to 1.5 million borrowers (ORCA, 2015).

SACCOs, fintechs and payment integrators

SACCOs play an important role in providing financial services and are increasingly formalizing their operations. Fintechs have made a strong entry into the market, heightening product diversity and competition (table 2).

Table 2. SACCOs, fintechs and payment integrators

Safaricom Sacco LIMITED; Taqwa SACCO; CHAI SACCO; Kenya Police SACCO; unaitas; STIMA SACCO; mwalimu national; MHASIBU; HARAMBEE SACCO Your Future, Our Concern	**SACCOs** began as informal savings associations but have formalized their operations in the last decade to include front-office service activities, back-office SACCO activities, digital solution offerings, agency banking and card services. The 188 deposit-taking SACCOs are regulated by the SACCO Societies Regulatory Authority (SASRA), while 6,000 non-deposit-taking SACCOS are supervised by the Commissioner for Cooperatives. Through their branches, they offer financial service products and are key in expanding into rural areas. Following increasing instances of fraud, SASRA plans to supervise and regulate non-deposit-taking SACCOs with deposits over US$2 million (SASRA, 2020).
OKash; Tanda; FarmDrive; LipaPlus; TALA; M-Changa; Wayawaya	**Fintech.** The fintech landscape has seen remarkable with growth attributed to the mature payments ecosystem and conducive regulatory environment. Of the estimated 150 fintech start-ups, mobile payments (e.g. M-changa, Wayawaya, LipaPlus) and lending platforms (e.g. Tala, Branch, Farmdrive, Okash and Tanda), which makes shops into banking and mobile money agents (Nzekwe, 2020) (Tanda, 2021). See figure 16 for Kenya-based fintechs offering cross-border remittance services.
IPSL; DPO GROUP; jambopay Simple & Secure; iPay; cellulant	**Payment Integrators.** The expanding payments ecosystem has led to the emergence of integrators that serve various providers, especially merchants, to enable them to accept various payment instruments. IPSL (PesaLink), Jambopay, Cellulant, DPO and iPay are examples.

Financial inclusion

Financial inclusion levels in Kenya are among the highest in Africa, with eight out of 10 adults formally financially included. This has mainly been achieved through the uptake and use of mobile money wallets (79 per cent of adults).

- Kenya has one of the highest financial inclusion rates in Africa after Mauritius and South Africa, with 83 per cent of people formally financially included (FinAccess, 2019). This is largely driven by the high adoption of mobile money.
- The gender gap in financial services usage declined marginally from 8 per cent to 7 per cent between 2016 and 2019 and by 5 per cent (91 per cent men and 86 per cent women) for mobile usage – substantially below sub-Saharan Africa's average of 13 per cent. This is largely attributed to affordability, low literacy skills and some families not approving of usage, according to the mobile service providers' association GSMA /2020).
- Inclusive solutions targeting previously excluded segments such as youth, women, the elderly, persons living with disability and low-income earners. Micro, small and medium enterprises and Islamic finance houses are on the increase and bridging gaps. Examples include: fee waiver for transactions lower than KES 1,000 (US$10); youth savings products; alternative credit, score-based lending to do away with collateral requirements; low-value basic accounts; dedicated call centre lines serving persons with disabilities; and sharia-compliant microfinance (CFI, 2018).
- Financial literacy efforts are paying off but the dynamic nature of technological advance requires sustained efforts. The CBK, payment providers and development partners have typically championed such efforts. Awareness levels are increasing even among low-tier and illiterate customers (OECD/INFE, 2020).
- Usage of informal services, especially among rural dwellers and older persons, persists. These include savings groups, and rotational savings and credit associations, and money lenders (FinAccess, 2019).

Financial inclusion levels in Kenya are among the highest in Africa, with eight out of 10 adults formally financially included.

Figure 11. Financial inclusion by country

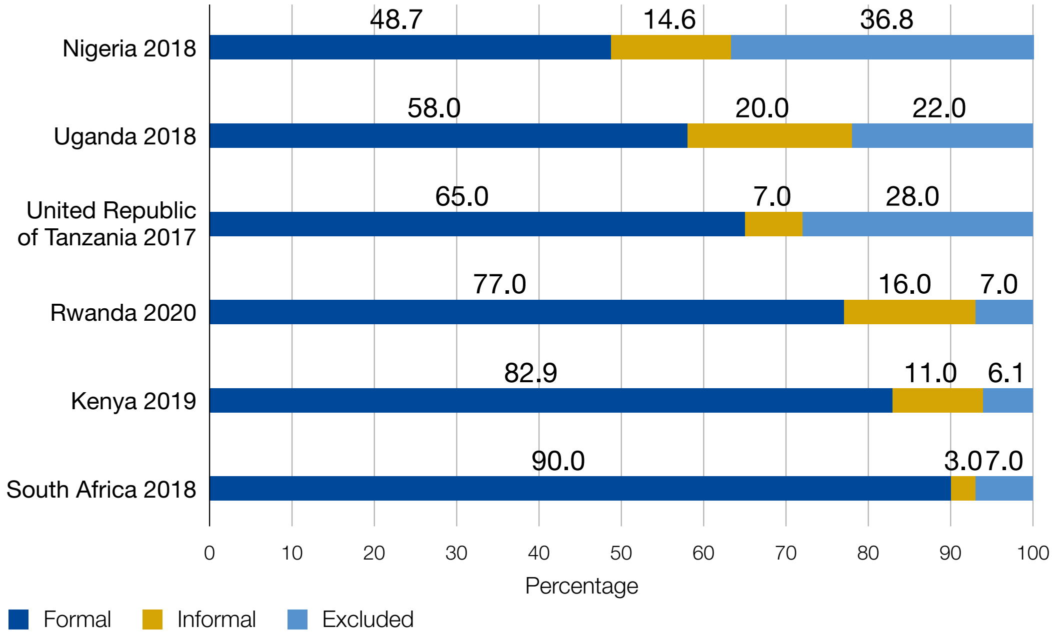
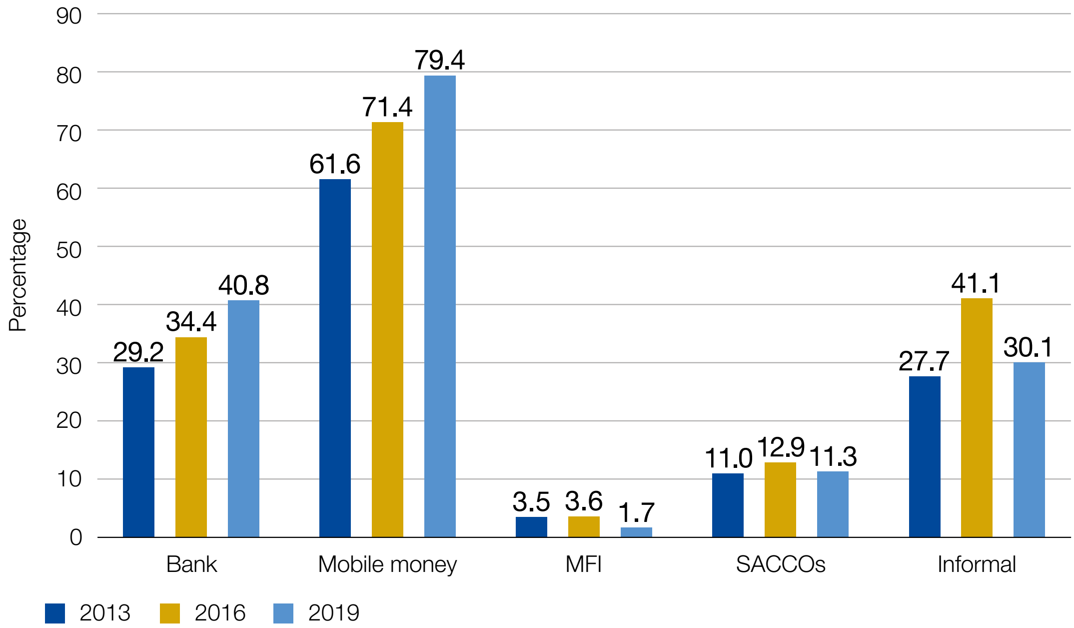


Figure 12. Financial services usage by financial service provider type



Source: FinAccess, 2019.

Mobile money usage and growth

- Kenya's mobile money ecosystem is mature, with intense competition and collaboration between service providers, mobile money, commercial banks, MFIs and fintechs.
- Mobile money is the key driver to boost financial inclusion, but a conducive regulatory landscape has also been important. The Communications Authority (CA) reported 30.5 million mobile money accounts in Kenya, served by over 200,000 agents (CA, 2020).
- M-Pesa is the dominant market player, with a 98 per cent market share. Equity Bank offers Equitel, a mobile virtual network operator. Other operators offering mobile money in Kenya include Airtel and Telkom's T-Kash. MMPs enable remittance inflows and outflows.
- Growth in the use of mobile money has been significant, with activity rates among all subscribers increasing from 51 per cent to 71 per cent between 2016 and 2019.
- According to FinAccess (2019), 66 per cent of customers are advanced digital financial service users, mainly determined by uptake of second-generation products such as mobile investments, crowdfunding and overdraft solutions. However, remittance use is limited since users, including diaspora customers, can only transfer to or receive via mobile money.
- Diasporans with an M-Pesa wallet using roaming services can access all self-service facilities (those not requiring an agent or merchant). Roaming is not available in all countries. For example, Safaricom has no roaming partner in some markets such as Lesotho.

M-Pesa is a dominant market player in Kenya's mature mobile money landscape, characterized by activity levels of above 50 per cent and 66 per cent of the customer base using advanced digital financial services.

Table 3. Market position and services offered by Kenya's four mobile money providers

		M-PESA	airtel money	T-Kash	Equitel
Agents		195,854	24,805	2,525	-
Active customers		30,193,833	310,359	13,999	1, 660,000
Market share		98%	1%	0.04%	-
First generation products	P2P/send money	✔	✔	✔	✔
	Cash-in/cash-out	✔	✔	✔	✔
	Bill payment	✔	✔	✔	✔
	Airtime purchase	✔	✔	✔	✔
	Bulk payments	✔	✔	✔	✘
Second generation products	Cross-border remittances	✔	✔	✘	✔
	Merchant payments	✔	✔	✔	✔
	Digital lending	✔	✔	✔	✔
	Digital savings	✔	✔	✘	✘
	Microinsurance	✔	✔	✘	✔
	Crowdfunding	✔	✔	✘	✘
	Investments	✔	✔	✘	✘
	Bank2wallet/Wallet2bank	✔	✔	✔	✔
	Card solution	✔	✘	✘	✔
	Overdraft	✔	✘	✘	✔

PRIORITY POLICY ACTION

1. Support transition to full payment ecosystem interoperability across channels. The current situation requires prefunding of accounts for liquidity management. A national switch would enhance the efficiency of settlement mechanisms. This in turn would enable operators to free up funds otherwise tied up in prefunded accounts. A real-time, cross-border interoperable platform integrating national and regional retail payment systems would then be more achievable and could ease the flow and settlement of cross-border payments, ultimately reducing costs for both users and service providers.
   - Agent interoperability would benefit agents by enabling the consolidation of different service provider floats into a single account, In the future this could well be extended to bank agents along the PesaLink model.
   - Merchant interoperability. A universal Quick Response (QR) code would ensure interoperability but, more importantly, eliminate the need for point of sale devices as both merchants and customers can access it through app-based smartphones or feature phones. This would be a significant move towards a fully open, efficient and affordable payments ecosystem driving down costs, especially for the poor and informal businesses (FSD Kenya, 2018).
2. Identify and leverage opportunities for cross-border remittance payment and settlement through regional bloc retail payment systems. The Pan Africa Payment and Settlement system looks promising as it has a digital payment module, the useage of which can extend to remittances (Afreximbank, 2020).
3. Open APIs for authentication and verification of electronic know-your-customer (KYC) as currently KYC must be repeated for each service onboarding. This would also expand the number of providers who can safely access this register for electronic KYC authentication (CBK, 2020b).
4. Advocate for service providers to sustainably make permanent some COVID-19 pandemic measures such as reduced fees, expansion of transaction and balance limits.

3. Regulatory environment

To engage in cross-border money transfers, operators and their partners must follow the rules and regulations of the host jurisdiction. Each country has its own regulatory environment, governing licensing, compliance (including AML/CFT and KYC frameworks), consumer protection, exclusivity and rules of engagement.

This section presents the regulatory environment pertaining to international remittances in Kenya, assessing whether it is fit for purpose, proportionate, fair and in line with the goals of PRIME Africa.

Money remittance regulations for providers wishing to offer inbound and outbound remittances are clear and include MMPs. Kenya no longer has foreign exchange controls regime. Remittance provider types are limited, and licensing and approvals may take a long time.

- The CBK is the primary regulator governing financial services and formulates financial policies under the Central Bank of Kenya Act (2014). The Central Bank of Kenya Act (2014) is charged with controlling and regulating banking and the financial sector as a whole. The National Payment Systems Act, No. 39 of 2011, preceded the National Payment Systems Regulations (2014), which provides for the authorization and oversight of PSPs, the designation of payment systems, the designation of payment instruments and anti-money laundering measures (CBK, 2014). The Banking Act and its regulations govern the business of banking and related matters (CBK, 2020). In 2013, the CBK published The Money Remittance Regulations.
- The regulations do not clearly define the entities that are eligible for licensing but outlines those that do not need additional licensing by virtue of their banking licence. These are commercial banks, mortgage finance companies, the Kenya Post Office Savings Bank, the Postal Corporation of Kenya, and deposit-taking MFIs. Under the CBK Banking Act, the last two entities require an approval from CBK to offer money remittances. This means that there are no restrictions on the type of entity that can offer remittance services, provided they meet the regulatory requirements.
- The regulations clearly outline the application process for licensing and renewal of licences as well as the prescribed form and fees, supporting documents, capital requirements, the conditions on the issuance of the licence, including requirements for disclosure of fees and currency exchange rates. Prohibited activities for remittance providers include: acting as authorized gold dealers, lending money, deposit taking, maintaining current accounts on behalf of customers, establishing letters of credit, and acting as custodians of customer funds. The CBK gives a service-level agreement of 90 days for approval of new applications, but stakeholder feedback indicates that approvals take much longer, sometimes up to six months. Once issued, licences are valid up to 31 December of each year and must be renewed two months in advance. There is an opportunity to issue licences on a rolling basis and extend term validity.
- Kenya does not have any specific regulation covering remittance payment hubs, so remittance providers require approvals when launching new products or corridors. While this can cause delays, engagement levels are apparently good.
- Kenya no longer has foreign exchange controls but requires institutions dealing with foreign exchange to be licensed by CBK as stipulated in the Banking Act 2014.

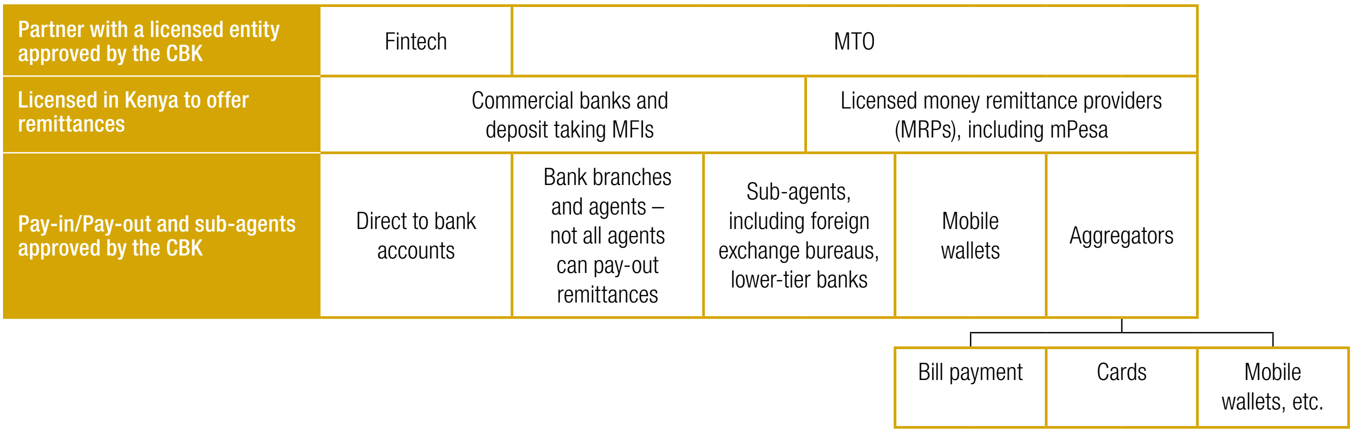
Exceptions to this rule are foreigners investing more than 75 per cent in company shares and Kenyans investing more than US$500,000 who need approval from the CBK.

Licensing

There are 17 licensed MRPs in Kenya. IMTOs do not need to be licensed but operate through commercial banks and licensed MRPs as agents.

- Of Kenya's 17 licensed RSPs, 15 are MTOs and two are MMPs. IMTOs such as Western Union, MoneyGram, WorldRemit, SendWave, etc. operate in Kenya through commercial banks and MTOs as agents, as IMTOs do not require licensing or approval. The CBK was unable to provide a list of the number of IMTOs or subagents operating in the country.
- According to the CBK, eligible entities can become subagents of Banks or MRPs, but a survey of subagents in the market shows that majority are foreign exchange bureaus and lower-tier banks. This is attributed to the stringent AML/CFT requirements set by the IMTOs and bank agents. At the same time, IMTOs encourage new participants to become subagents for better agent network management since the banks and MTOs recruiting subagents are responsible for their performance.
- Both mobile money providers M-Pesa and Airtel are licensed, but Airtel has yet to begin offering services. It is only in the last two years or so that MMPs have been licensed for cross-border transactions. Previously, M-Pesa had to be an agent of licensed entities (e.g. banks). As such, many payments into wallets still take place through banks.
- SACCOs, mobile money agents and MFIs do not currently offer remittances directly or as subagents. According to SASRA, the CBK considers there are insufficient risk controls for them to engage in foreign exchange transactions. SASRA is currently building the risk capacities of some of its members in order to become eligible in the future (stakeholder interviews, 2020).

Figure 13. Remittance market structure



- IMTOs do not obtain licences; they operate through agents.
- IMTO bank agents only need to seek approval from the CBK.
- MTOs need to be licensed to become IMTO agents or to launch their own remittance products.
- Subagent agreements between banks and MTOs must be approved by the CBK, but responsibility for subagents rests with the parent bank or MTO.

Compliance

Following increased instances of suspected terrorism funding and a rapidly growing financial services market, Kenya has developed a robust AML/CFT framework. In 2015, 13 MTOs were closed until they could demonstrate compliance.

Closure of MTOs in Kenya over AML/CFT concerns

In 2015, following an increasing number of terrorist attacks in Kenya, the CBK closed 13 money remittance providers, all Somali-owned, over concerns about financing terrorist groups like Al-Shabaab. The CBK then issued regulations for the operations of the suspended firms and, after they complied, allowed them back in business. This opened up a new regulatory landscape for Kenya's remittance providers, one that has remained in place until now (Business Today, 2015).

Following increased instances of suspected terrorism funding and a rapidly growing financial services market, Kenya has developed a robust AML/CFT framework.

- Kenya has been adopting and developing its AML/CFT policies in cooperation with foreign partners to prevent criminal and terrorist organizations from receiving financial support.
  - Kenya is a member of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG) an organization created by 18 African states specifically to implement the Financial Action Task Force (FATF) recommendations on combating money laundering.
  - The Financial Reporting Centre (FRC) is a government institution created in 2012 by the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA) 2009, with the principal objective of helping identify the proceeds of crime and combat money laundering.

- Kenya's anti-money laundering framework was set up in 2009 and has since then adopted a risk-based approach to AML/CFT regulations and internal risk assessments. It has issued specific guidelines for mobile payments (see annex III for a timeline of AML/CFT regulations).
- Mobile money balance and transaction limits that were increased from US$700 to US$1,500 are still in use.
- The NPS 2021–2025 strategy outlines a plan to implement security data analytics for near-real-time monitoring of attempted or suspected fraud, as well as AML/CFT threats (CBK, 2020).
- According to the CBK's 2021–2025 National Payment Strategy, cyber threats and fraud are the two main concerns of the industry and stakeholders.
- Transaction splitting is a key AML concern. Split transactions equivalent to US$10,000 or above are not permitted, in line with the reporting requirements of the FRC, as specified under the Proceeds of Crime and Anti-Money Laundering Act.
- The private sector relies on the state for core business functions such as verifying national IDs to accord with KYC and anti-money laundering best practices (Caribou Digital, 2019).
- Current AML/CFT management protocols are onerous and expensive – e.g. the requirement to screen all remittance transactions regardless of value. Compliance is the highest cost driver in the remittance businesses. And such costs are passed on to customers, hence defeating attempts at cost reduction (stakeholder interviews, 2020).

- For banks, KYC compliance requirements are comprehensive and involve a range of checklists.
  - For regular accounts, applicants must generally provide an ID and then, in certain cases, proof of address, source of income and a referee from their previous bank.
  - For non-bank digital financial services, the minimum documentation required is a national ID or passport, which must also be shown at registration and for all transactions.

Risk-based CDD is discretionary and applies to various financial products and to all FSPs, banks, non-banks and PSPs. But there are no tiers or thresholds and there are no lower-risk or basic accounts.

- Kenya has an IPRS that banks and PSPs can check IDs against.
- Kenya does not have a tiered KYC approach given that all account opening requires a national ID or a passport. However, M-Shwari, the digital savings and lending product offered in partnership with M-Pesa and NCBA has a tiered KYC model for increased transaction limits (see annex III for an overview of Kenya's risk-based approach to CDD).
- Strict CDD guidelines such as requirement for national ID at account opening, without options for tiered KYC, are exclusive to those who may not currently hold identification. That includes citizens who are required to provide disproportionately more documentation to acquire a national ID because they live close to porous borders, as in north-eastern Kenya.
- Refugees and asylum seekers use alien cards, which are approved identification types.
- Mandatory requirements for national ID for diaspora Kenyans to access financial services may exclude a sizeable number of people who have dual citizenship or have lived abroad for many years – obtaining an ID requires physical presence in Kenya's provincial registration offices. Most diaspora accounts also accept EAC/Kenyan passports or other verification documents.
- Remote onboarding for financial services is permitted but must be accompanied by subsequent physical presence.

M-Shwari – a case of tiered KYC

- M-Shwari is a digital savings and lending product offered by Safaricom M-Pesa in partnership with NCBA Bank.
- An active M-Pesa customer can activate M-Shwari based on KYC at registration after producing a national ID or passport and a completed application form.
- Obtaining higher savings limits requires the following additional KYC documentation:
  - KES 250,000 (US$2,240): identification is validated against the Integrated Population Registry Service (IPRS).
  - KES 500,000 (US$4,500): M-Shwari customers need to present original and national ID at a customer service point.
  - Above KES 500,000 (US$4,500): customers are required to present the original and a copy of their PIN certificate at a customer service centre.

Kenya has consumer protection and data privacy laws that cover international remittances; however, services (especially digital) are not always transparent in terms of pricing, and dispute resolution mechanisms are not always clear, which undermines trust.

- Kenya's regulations on money remittance sufficiently cover data privacy and consumer protection for PSPs, agents and customers. Provisions include review and approval of subagent contracts, confidentiality of customer and user information, prohibition from charging customers fees above those stipulated, openly displaying conversion rates and not advertising free remittances without indication of foreign exchange margin charges.

Kenya has consumer protection and data privacy laws that cover international remittances.

Consumer protection

- The Kenya Information and Communications (consumer protection) Regulations (2010) cover the rights and obligations of service providers vis-à-vis consumers; consumers' obligations; safeguards and guidelines for providing customer service; including provisions for persons with disabilities. The legislation guarantees:
  - the right to receive clear and complete information about rates;
  - the right to be charged only for the products and services subscribed to; and
  - equal opportunity for access to the same type and quality of service as other consumers in the same area at substantially the same tariff.

- Regulation 41 of the NPS on Customer Service Agreements stipulates that service providers are required to sign customer service agreements with each user who reaches a minimum threshold (CA, 2010).
- In practice, digital remittance services are not always fully transparent to customers about all the charges the latter will incur. This undermines consumer trust. Often, only customers or registered individuals are able to view pricing. Furthermore, clear grievance and recourse mechanisms are not always in place for digital-based services.

Data privacy

- Kenya's Data Protection Law of 2019 regulates the collection and processing of data and introduces elaborate obligations for those who do the collection and processing. Key clauses included the establishment of the Office of the Data Protection Commissioner (implemented in November 2020); registration of data controllers and data processors; and lawful, fair and transparent use of personal data. The law presents specific provisions for the collection, storage and processing of sensitive data (race, health status, ethnic and social origin, conscience, belief, genetic data, biometric data, property details, marital status, etc.) (Kenya Parliament, 2019).
- Critics have identified gaps in the newly passed law including: definition of how reasonable the duration of data storage is internationally recognized data protection principles are not fully incorporated; and rights of data subjects are not fully outlined.

Kenya has deposit protection insurance in banks, deposit-taking MFIs and mortgage companies. It also requires operating RSPs to hold some funds in an escrow account. Kenya taxes mobile money and has just introduced a digital service tax, both of which will increase the cost of using digital remittance services.

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Remittance/deposit protection

- RSPs are required to place a security consisting of either a surety bond, irrevocable letter of credit or insurance bond for KES 5 million (US$45,000); it is not clear how this would be used as protection for remittance users in case of failure to pay out.
- The Kenya Deposit Insurance Corporation (KDIC) is mandated to protect depositors against the loss of their insured deposits in the unlikely event of the failure of a member bank. The current membership comprises 41 commercial banks, one mortgage finance institution and 13 deposit-taking microfinance banks. KDIC's new revised coverage limit has been KES 500,000 since July 2020.

Taxation of mobile money

- In 2013, the National Treasury introduced a 10 per cent excise duty on money transfer services without adequately consulting industry stakeholders. Taxation policy on standard transactions has the potential to reverse some of the financial inclusion and overall financial gains achieved, while also inducing users to return to cash (Africa Growth Initiative, 2019).
- A digital service tax came into effect on 1 January 2021. The 1.5 per cent tax is levied on income earned from services offered through a digital marketplace by local/international individuals and companies. This is likely to affect online remittance services originating or terminating in Kenya as well as other fintech products. The rationale behind the tax is to level the field between service providers with physical and online presence respectively (KRA, 2020).

Cryptocurrencies

- In 2015, the CBK issued two separate clarifications concerning the legal status of virtual currencies such as Bitcoin. The first was addressed to the general public and concluded that "the public should desist from transacting in Bitcoin and similar products." The second document cautioned all financial institutions against dealing in virtual currencies or transacting with entities that are engaged in virtual currencies, at the risk of appropriate remedial action from the CBK (Didenko, 2017). While there are no immediate plans to review this approach, future developments (such as the state issuing "official" virtual currencies) may prompt a revision.

Agent exclusivity and invisible barriers to approval

- Money remittance regulations make no reference to agent exclusivity, although National Payment Systems regulations prohibit exclusivity between agents and service providers. Some licensed providers maintain exclusive relationships by choice. Some IMTOs also offer higher commission structures for service providers to remain exclusive, known as 'Freedom of Choice' remuneration models.
- Stakeholders interviewed cited invisible barriers to entry, both when seeking approval to offer money remittance services and when expanding locations or new corridors. They further indicated that only one money remittance institution has been licensed since 2019.

PRIORITY POLICY ACTION

1. Foster transparency in the remittance market, especially for mobile and digital services through improved disclosures of all pricing (fees and foreign exchange rates), provided live on company websites for non-customers to view. Create more awareness around credible price comparison sites targeting the Kenyan remittance market.
2. Expand remittance providers licensing categories to ensure even distribution of access points, improved access and choice. As an example, foreign exchange bureaus, which are highly liquid, mainly offer remittance services as subagents but have the capacity to become full agents. Product-based licensing compared to service provider licensing would ensure products suitable for the market are licensed; especially for fintechs.
3. Consider publishing the CBK's tracking system for licensing and new product/corridor approval with some service level agreements mechanisms. A tracking system would ensure service providers can adequately plan their market entry.
4. Review taxation on mobile money and digital services. An impact assessment can be conducted to determine correlation with informal channels.
5. Deployment of relevant regulatory and supervisory technologies would facilitate supervision in the expanding digital payments ecosystem. In addition, FSPs would be able to efficiently and cost effectively manage compliance.
6. Facilitate awareness and customer education on dispute resolution mechanisms, cybersecurity and fraud to enhance trust, especially for digital products.
7. Open API for authentication through IPRS and, once the Huduma Namba registry is accessible, introduce authentication for providers with biometric functionality.

4. Remittance market structure

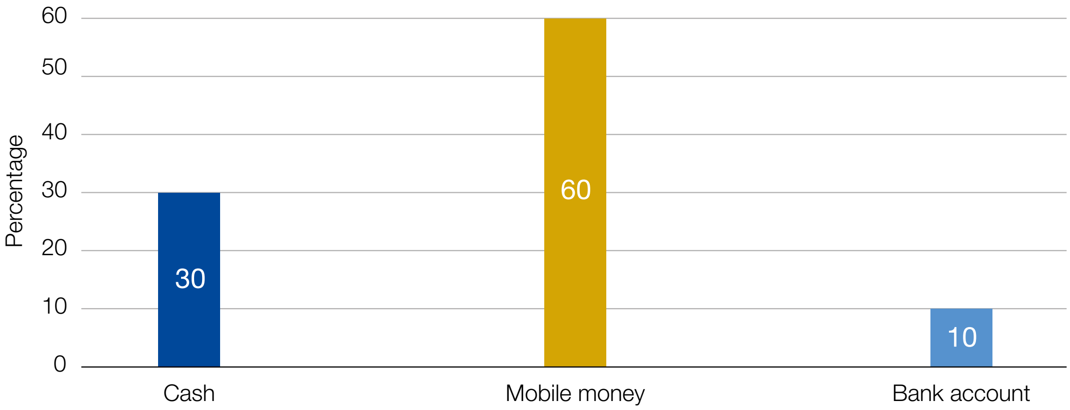
This section looks at the structure of the remittance market and competition in the main send markets and at Kenya's payout and outbound remittance networks. The cost of sending money to Kenya is assessed, some cost drivers are identified and insights into access to services are offered.

The Kenyan remittance landscape varies according to the migration profiles involved. It is a highly digitalized market driven by high financial inclusion rates and prevalence of mobile wallets. More than half of all remittances terminate in M-Pesa wallets and over half of transactions are channelled through Equity Bank.

The Kenyan remittance landscape varies according to the migration profiles involved. It is a highly digitalized market driven by high financial inclusion rates and prevalence of mobile wallets.

- There is no information publicly available on the structure of the remittance market into or out of Kenya. As noted, there are 17 MTOs licensed in Kenya to offer services as well as the postal service, and 41 commercial banks and deposit-taking MFIs (CBK, 2020e). However, given that IMTOs do not need to be licensed to operate in Kenya, but can partner with licensed entities, the number of IMTOs offering services to and from Kenya is unknown. Furthermore, the prevalence of informal, unregistered service providers is also not known, although one stakeholder suggests that informal remittance flows into Kenya could be as much as US$1 billion.
- Stakeholder interviews indicate that the choice of remittance service and market structure varies according to geography, corridors, type of migrant, legal status, age of sender and receiver, and income/education levels. For example, younger, more educated Kenyans are more likely to use digital services.
- Safaricom's M-Pesa dominates the mobile money landscape with a 98 per cent market share; it reported revenues of US$11.8 million from its subsidiary M-Pesa Global (licensed MTO) in 2019, which handled more than 50 per cent of all inflows to Kenya (Safaricom, 2020). It is estimated that 30 per cent of inflows are cash-outs and 10 per cent are paid into bank accounts (stakeholder interviews).
- Equity Bank processes about 50 per cent of inbound remittances due to its last-mile distribution capabilities (US$1.6 billion in 2020). With a customer base of 11 million account holders, 175 branches and 38,000 agents, Equity Bank acts as an aggregator in the market, offering IMTOs payments into own and other bank accounts, through banking agents and into mobile money wallets (mainly M-Pesa). Some 90 per cent of Equity Bank remittances terminated in digital channels (stakeholder interviews, 2021).
- Stakeholder interviews further identified a tendency for full cash-out of remittances received. However, this pattern shifted restrictions on movement imposed during the COVID-19 pandemic, when there was a marked increase in digital usage. Remittances received from MTOs are typically cashed out at subagent exchange bureaus, MTO outlets or bank branches offering MTO services. Liquidity is reportedly a challenge for paying out international remittances at mobile money agents. The preference for cash introduces an added cost, which is higher for rural remittance recipients.

Figure 14. Termination of international remittances by payment channel, according to industry stakeholders (estimates on % market share)

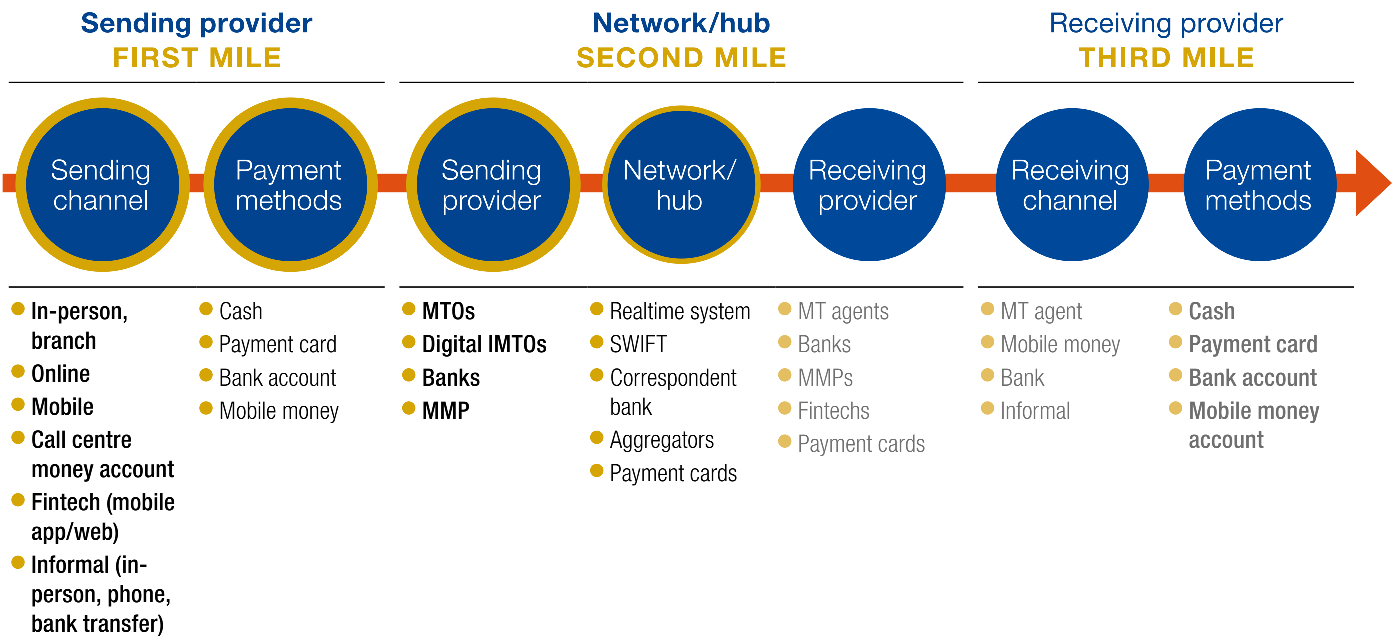


Source: Stakeholder interviews, 2020.

Market structure and value chains

Remittance value chains to and from Kenya involve a number of players, including the sending party, banks or international remittance aggregators, a licensed entity in the receive market and payout subagents. Digital remittance services should be much more streamlined than traditional cash-based ones relying on partners and agents.

Figure 15. Remittance service providers in Kenya



In Kenya, 41 commercial banks, deposit-taking MIFs, the postal service, 17 money remittance providers and two MMPs have direct licence to offer inbound and outbound money transfers. IMTOs partner with these entities and pay out via own networks and subagents, mainly foreign exchange bureaus and lower-tier banks.

Table 4. Licensed entities in Kenya and main remittance service providers

CBK direct licence			Contracted by banks and MTOs	Licensed under banks
IMTOs offer remittances through banks, DT-MFIs and MTOs				
Banks and deposti-taking MFIs	**MTOs**	**MMPs**	**Subagents**	**Fintechs and online providers**
– Banks offering cross-border services through SWIFT, EAPS etc. – Ecobank (Rapid Transfer), UBA (Africash) and postal service (PostaPay) have own remittance products – Most banks are agents of IMTOs: Western Union, MoneyGram, Ria, WorldRemit, SendWave and Xpress Money (Unimoni). DTB Kenya has a banking hall dedicated to remittances – Banks offer SWIFT also to send and receive services (e.g. KCB, Equity, etc.) that focus on diaspora and remittances	MTOs have very distinct characteristics: – Dahabshiil, Tawakal, Juba Express, etc. have United Kingdom, United Arab Emirates, United States, Somalia and South Sudan as key destinations. Close to 90 per cent of these are Somali-owned businesses, have their own remittance payment platforms, international cash-out networks and are heavily cash focused, offering no digital send or receive channels. Combined, they have 52 agents, 46 per cent of them in Nairobi. – Others such as Flex, Upesi and Mukuru MT are more digitally focused	– M-Pesa Global offers send and receive through partnerships with 25 entities, including aggregators and IMTOs, enabling send and receive to 167 countries – Airtel Money licensed but currently not offering services – Equitel is a payout partner for Juba Express	– Mostly foreign exchange bureaus and lower-tier banks who are subagents of banks and MTOs – Form the bulk of remittance outlets but are not listed in CBK count – MFIs include Uwezo, SMEP, Kenya Women's Finance Trust – There are 76 foreign exchange bureaus in Kenya, but it is not clear how many are agents of IMTOs	– Include web/ app-based and online services such as PesaBase, that partner with banks in Kenya to offer remittances and small-scale trade flows but have received full licensing in other jurisdictions, e.g. Australia

Postbank Kenya and Postal Corporation of Kenya cross-border remittance profiles

Kenya Post Office Savings Bank (KPSBP), also known as Postbank Kenya

- Postbank Kenya is a special type of bank regulated by the Kenya Post Office Savings Bank Act Cap 493B and primarily engaged in the mobilization of savings for national development. It does not offer the full suite of banking services but is allowed to offer cross-border remittances.
- In practice Postbank, intensively supported by the World Savings and Retail Banking Institute and others, advances through partnerships in microfinance and digital banking, involving many types of agents in the process.
- Remittances. Postbank offers remittances as an agent of IMTOs including Western Union, MoneyGram, Ria Money and Express Money that leverage Postbank's extensive distribution network of 98 branches, especially in rural areas (KPSBP, 2021).

The Postal Corporation of Kenya (PCK)

- PCK is also known as Posta and is a state-owned enterprise that provides accessible, affordable and reliable postal services countrywide. Its services include communication, distribution and payment solutions through its network of 623 branches in 10 regions (PCK, 2021).
- Posta has notably implemented a fully interoperable payments switch for processing third- party, low-value payments for any local bank, channel or payment instrument, and is linked to the real-time gross settlement system. However, 50 per cent of the post offices are not connected to the switch (The Standard, 2020).
- Own products offered include Posta Pesa, Posta Pay individual and institutional domestic money transfer services.
- Cross-border remittances. Posta is a subagent of a commercial bank that offers IMTO services from Western Union, MoneyGram and Ria, among others.
- Posta offers agency services for most commercial banks, MMPs, and MFIs, and collects and disburses payments for e-government and state-owned enterprises such as water companies, Telkom Kenya, etc. (PCK, 2021).
- Other innovative services from Posta include disbursement of government-to-person (G2P) cash transfers and virtual postal addresses linked to mobile numbers. It has also entered into a distribution agreement with Jumia (Standard Newspaper, 2020).

While market share data for companies is unknown, the type of services and operators used vary by geography, corridors and the profiles of migrants. While no official data exists, interviews suggest SendWave and WorldRemit are the largest senders of remittances into Kenya globally.

Figure 16. Type of remittance service providers, services and operators to/from Kenya

North America and Europe (inbound)	Intra-Africa (inbound and outbound)	Middle East (inbound)
– Traditional IMTOs including Western Union, MoneyGram, Ria – Online and app-based IMTOs including WorldRemit, SendWave, SimbaPay, etc. – Banks via SWIFT	– M-PESA agents acting as unregistered agents in the send-countries (significant market share for neighbouring countries) – Informal through buses and traders (neighbouring) – Informal: *Hawala* (esp. from Somalia) – Kenya-registered MRPs, including Dahabshiil, Upesi, Tawakal, Flex etc. – Pan-regional banks, especially for white collar, higher-income workers and larger values (Equity, KCB, etc.) – IMTOs and pan-African MTOs – African fintechs – small but growing, including ChipperCash, Eversend.	– Regional IMTOs including Dahabshiil, Transfast – *Hawala* – Mobile to mobile including to M-PESA (Qatar)

Pricing and transparency

At 7.5 per cent of the send amount, the average cost of sending remittances to Kenya is above the SDG-recommended 3 per cent, but lower than the average cost for sub-Saharan Africa (8.5 per cent) and other intra-African corridors. There are low-cost services from many of the largest send markets where competition is more intense.

- The average cost of sending remittances to Kenya is 7.5 per cent of the send amount, which is marginally lower than 8.5 per cent, the average send fee for sub-Saharan Africa and higher than the global average cost – 6.51% (RPW, Q4). It is also significantly lower than several African countries with lower volumes of remittance inflows (figure 17).
- On average, it costs more to send remittances from other African countries, including the United Republic of Tanzania, South Africa and Rwanda, than from Germany, Canada and the United States (figure 18).

Figure 17. Average cost of sending US$200 within Africa (US$)

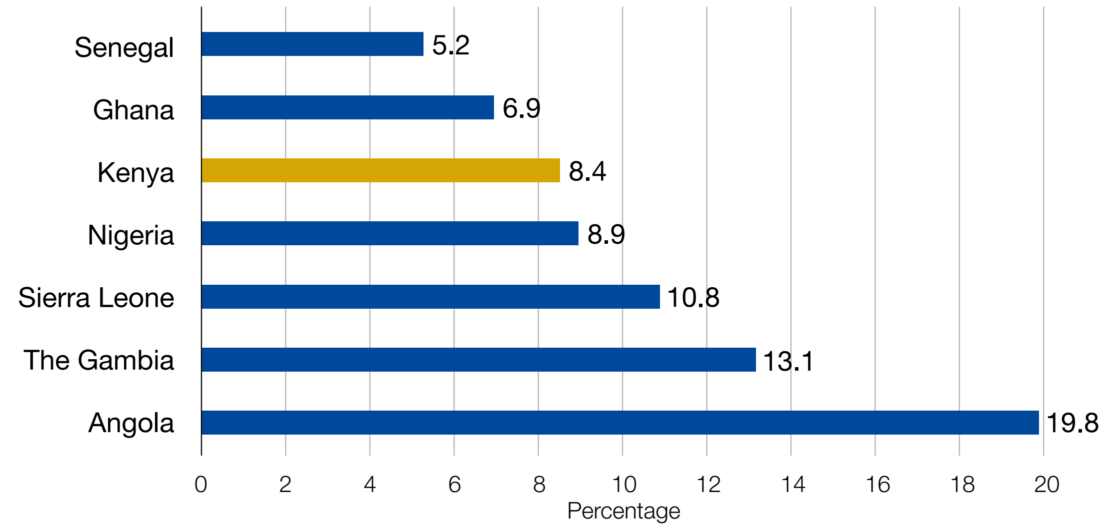
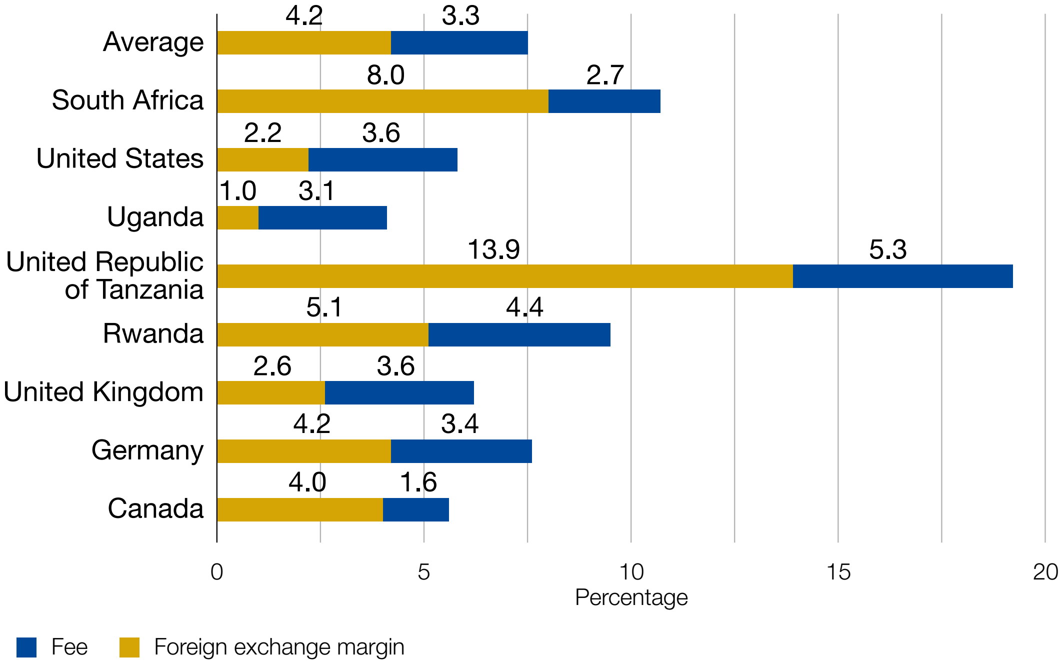


Figure 18. Cost of sending US$200 equivalent to Kenya (Q4 2020)



Source: RPW Q4 2020.

- It is important to consider that average costs do not always reflect what people are actually paying to send money home.
- For example, in high-volume corridors (such as the United Kingdom and the United States), SendWave offers services for 1.2 and 2.7 per cent respectively to send US$200 equivalent. For Uganda to Kenya, services cost 1 per cent of the send amount with Western Union, and from Germany to Kenya the cost is 4.5 per cent with WorldRemit and 0.1 per cent with Remitly (see figure 19).

There is low transparency in Kenya and elsewhere on the range of remittance services and the total cost of sending/receiving money. While transparency is mandated by the government, full disclosure of total costs to non-customers is often unavailable.

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- There is poor transparency on remittance services and the costs of using remittance services in Kenya. The CBK outlines in its regulations that service providers must be upfront about costs ahead of transactions.
- Challenges
  1. This requirement is not always adhered to by operators (see screenshot below), who often fail to inform customers clearly about fees.
  2. One needs to have a local mobile wallet and a recipient telephone number to check prices. That makes comparing prices across service providers challenging.
  3. Undisclosed additional charges are frequently levied so that the sum remitted can be less than the amount declared upfront.
  4. Cash-out fees are not disclosed.

- Fees and foreign exchange margins make cross-border remittances difficult to compare and contrast. This is further complicated where there are also cash-out fees to consider, which can prompt consumers to use informal channels.
- Figure 19 shows the costs of sending money to Kenya from different send countries by different operators, and it clearly demonstrates the variation in costs even between large, well-known operators. While Western Union is relatively expensive from Germany and the United Kingdom, it is one of the most competitive services from Uganda. Operators can change their pricing daily based on foreign exchange rates, and wich means a competitive operator one week may not necessarily still be so the next week.

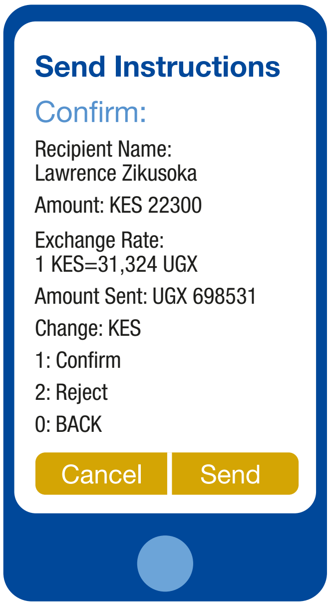
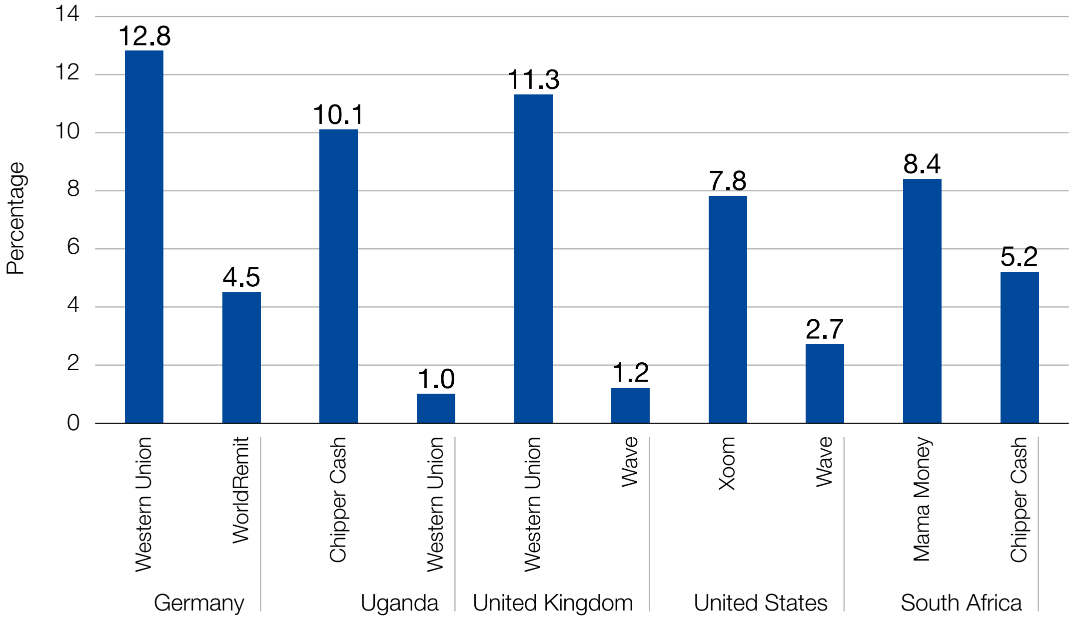


Figure 19. Cost of sending US$200 equivalent to Kenya by operator in Q4 2020 (mystery shopping)



Digital channels are driving down remittance costs, although full impact is yet to be realized as players set up cross-border integration partnerships. It is possible to send mobile-to-mobile-wallet remittances to seven other African countries from Kenya, and to receive mobile-to-mobile remittances from six countries, making Kenya one of the most integrated markets globally.

- Mystery shopping conducted in Q4 2020 suggests that the cost of sending money to Kenya from Uganda and Rwanda using a mobile device has dropped significantly since Q2 2020, when the average cost was 7.1 per cent of the send amount. This trend is encouraging and demonstrates that there is room to improve efficiency and align costs to the SDG-recommended levels of 3 per cent.
- Even with a 5.3 per cent charge, to send US$200 to Kenya using a mobile device is still relatively expensive compared to other mobile-to-mobile services globally. It is not clear why that is so. Additionally, mobile money attracts an additional 2–2.3 per cent cash-out fee from an agent or a similar amount in transaction fees for using e-value instead, for example for P2P and bill payments, etc.
- It is not clear why services provided over the Internet are so costly (averaging 7.6 per cent of the send amount). Although for operators who offer cash-in/cash-out services via agents, the explanation is that they need to pay agent commissions. The average cost of online services from South Africa and Uganda is especially high. See annex 4 for further analysis of pricing into Kenya.
- Safaricom has standard pricing agreements for aggregators and MTOs that range from US$1.5 to US$0.5 per transaction, depending on volume. International aggregators usually take a fee per transaction of between 0.25 and 1.5 per cent. There needs to be consistency in cost reductions over time to build trust with consumers. Fees and foreign exchange margins should be publicly available on mobile network operator (MNO) websites so that customers can compare the prices of different service providers. This should be mandatory in licensing agreements.

Figure 20. Average total cost of sending US$200 equivalent to Kenya, Q4 2020

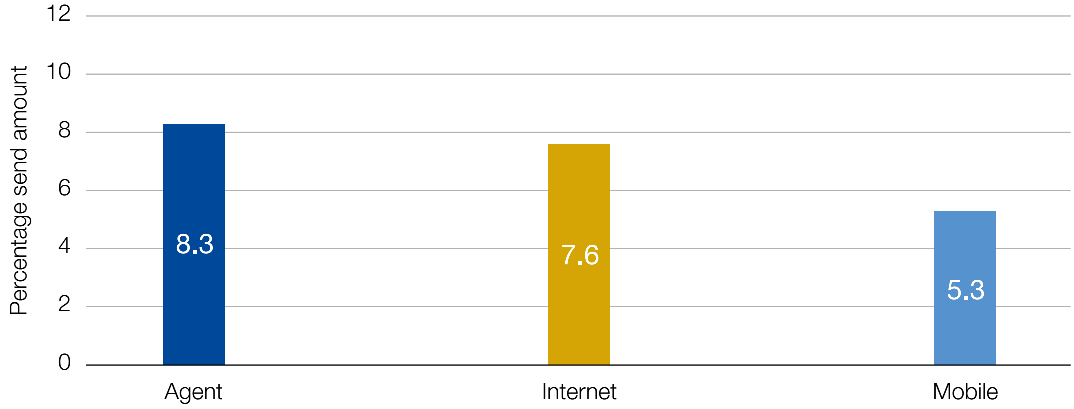
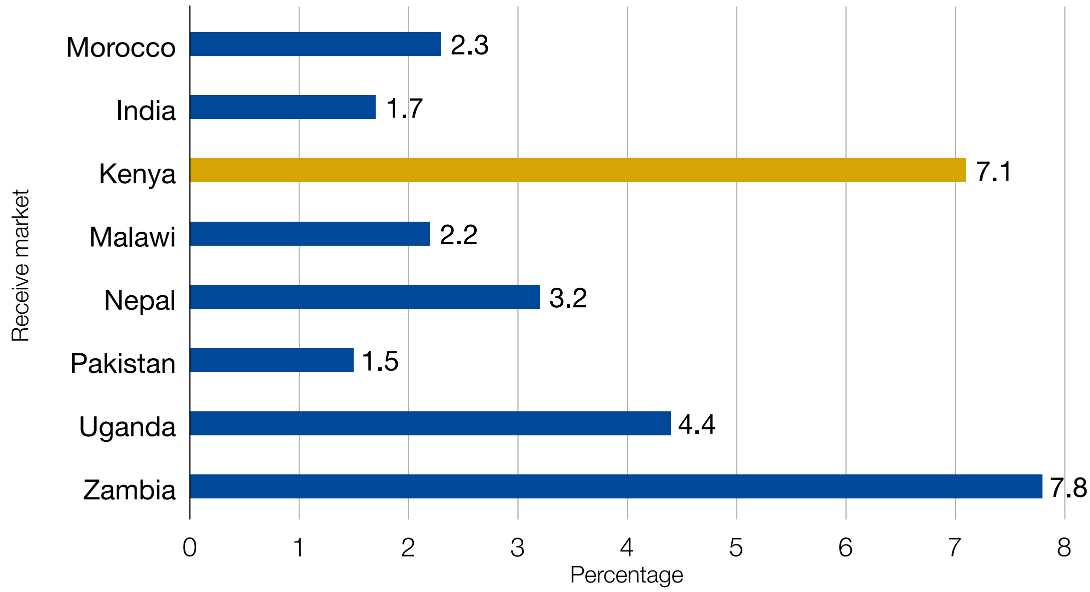


Figure 21. Average cost of sending US$200 equivalent using mobile-to-mobile cross-border remittance services to different receive countries



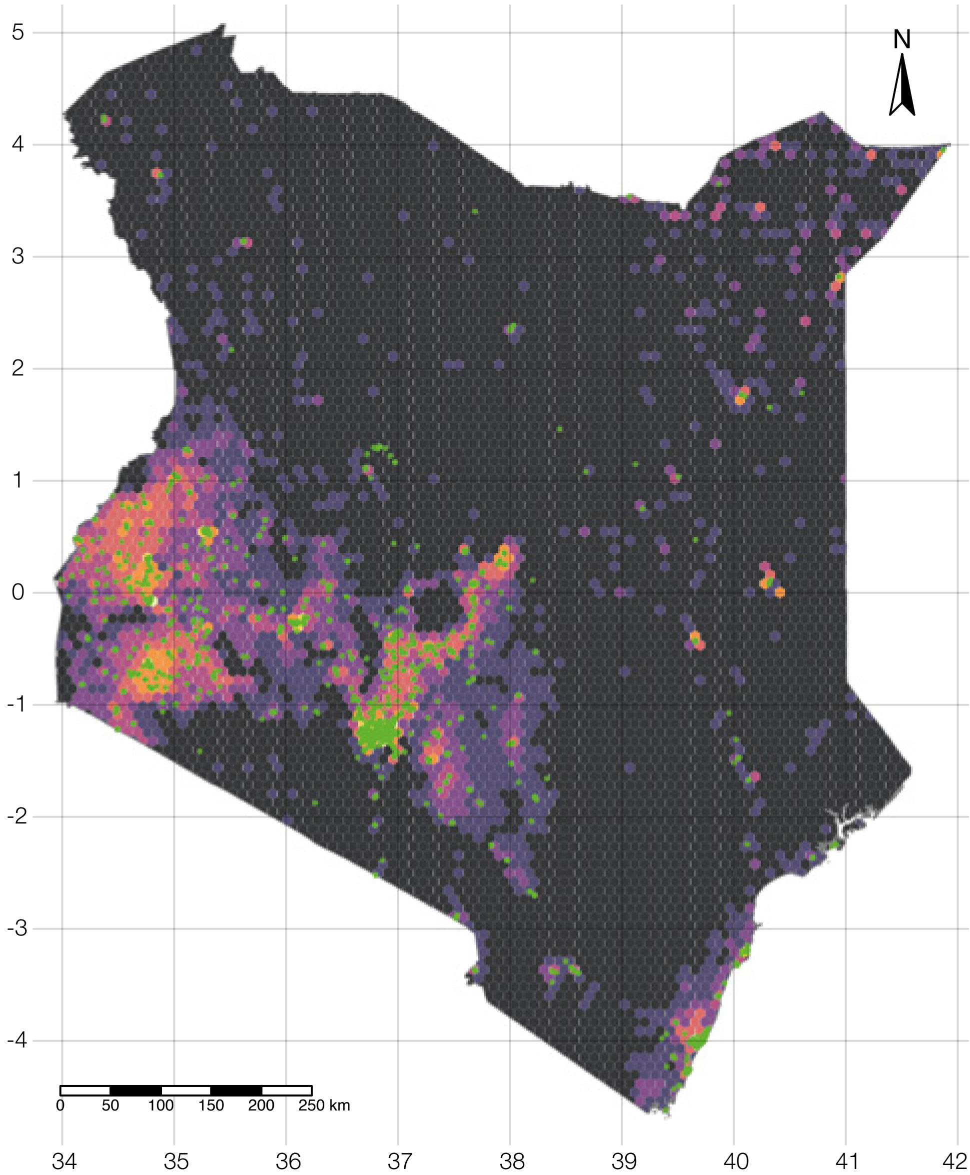
Source: GSMA, 2020.

Access

Access to international remittances in Kenya is among the best in Africa, with a good distribution of MTO locations and mobile money agents.

- Kenya has the sixth-largest physical payout network of agents in Africa (using Western Union and MoneyGram agents as a proxy). In Q2 2020 there were 3,745 agents, which is equivalent to 7 agents per 100,000 people.
- Furthermore, Kenya also has the largest and most established mobile money agent network in Africa (nearly 250,000 agents) and most RSPs offer international remittances paid into or initiated from mobile wallets.
- Figure 22 shows the underserved areas in Kenya with respect to money transfer agents (not including mobile wallets). It is evident that the majority of people are well served, except for areas with relatively low population density, where people may have a long way to travel (coloured light purple).

Figure 22. Remittance access points and population density map

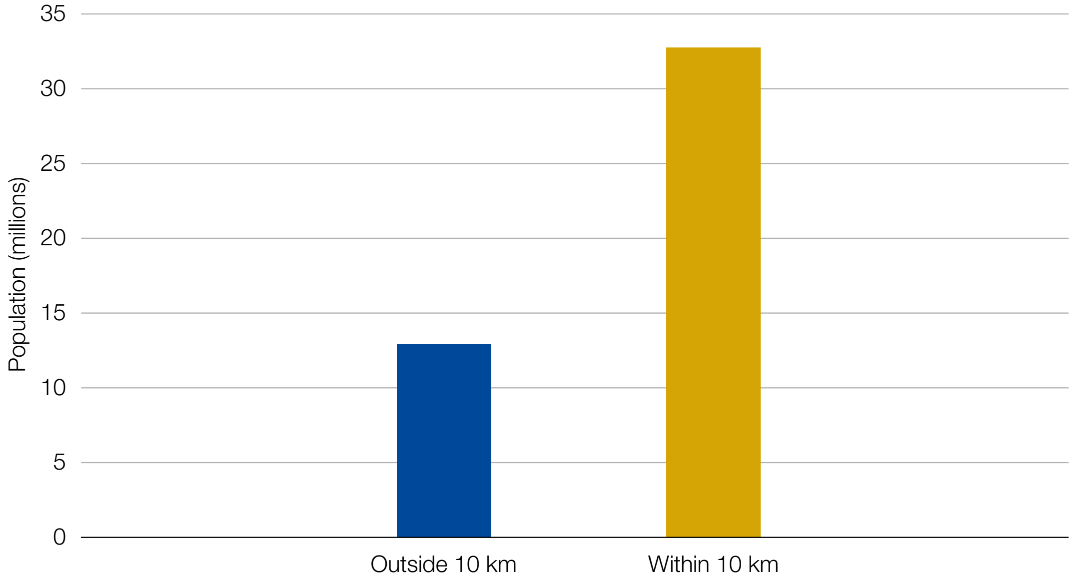


Population density

0 to 4,100	27,400 to 45,000	130,000 to 256,000
4,100 to 13,500	45,000 to 71,000	256,000 to 588,998
13,500 to 27,400	71,000 to 130,000	Access points

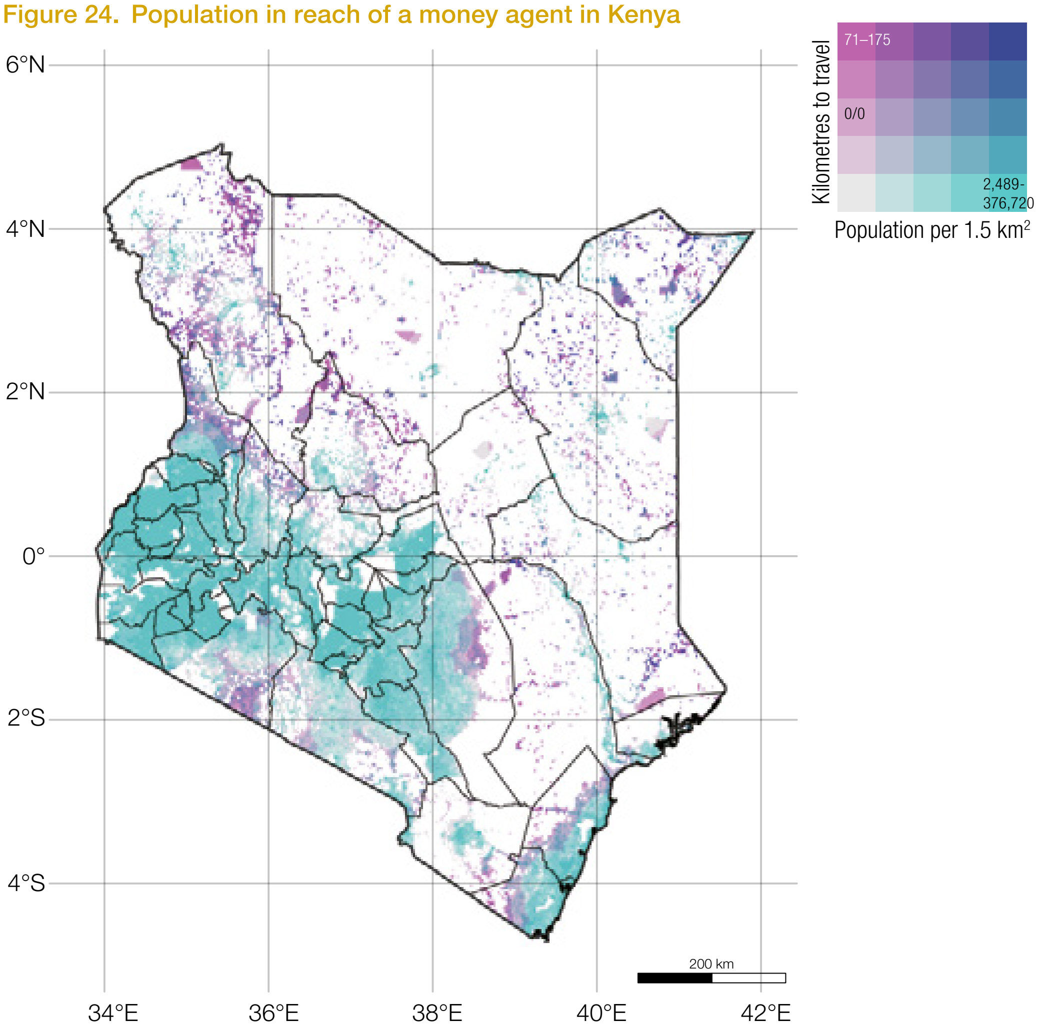
Source: World DataLab, IFAD 2020.

Figure 23. Population in reach of a money agent in Kenya. 12.9 million Kenyans do not live within a 10 km radius of a money agent



12.9 million Kenyans do not live within a 10km radius of a money agent

Figure 24. Population in reach of a money agent in Kenya



Source: World Data Lab (2020).

Table 5. Comparison of money transfer operators agents per 100,000 people across countries

	Number of agents (Western Union and MoneyGram de-duplicated)	Population	Population (100,000)	Agents per 100,000 people
Gambia, The	1,085	2,347,706	23	46
Ghana	2,648	30,417,856	304	9
Kenya	**3,745**	**52,573,973**	**526**	**7**
Rwanda	717	12,626,950	126	6
Nigeria	6,310	200,963,599	2,010	3
Uganda	1,043	44,269,594	443	2

Source: World Data Lab data scraping for PRIME Africa.

Informal channels

Anecdotally, the use of informal channels to send and receive money to or from Kenya is high, especially within the East African region. Hawala service providers are also prevalent, although many of the Somali hawala providers are registered as MTOs in Kenya.

- In Kenya, informal channels include physical transfers through friends and family, transport and courier companies, migrant associations, foreign exchange bureaus not licensed to carry out cross-border cash transfers, retail outlets, unlicensed online money transfer apps, and *hawala* and *hundi* systems. Informality is mainly driven by limited availability and accessible formal remittance channels, high prices, unreasonable KYC requirements, familiarity and easier access and use of informal channels (GSMA, 2018). In other cases, informal channels are used for money laundering and to transfer illicit proceeds or to fund illegal activities.
- In Q1 2021, the Government of Kenya conducted a survey to gauge the prevalence, use and costs of informal service providers. It was conducted in February/March 2021 by the CBK in partnership with the Kenya National Bureau of Statistics, the Ministry of Foreign Affairs and other stakeholders. The information sought includes efficiency and cost of alternative remittance channels, difficulties encountered in remitting cash versus non-cash transfers, and availability of information to Kenyans in the diaspora about investment opportunities in Kenya and use made of remittances received. The survey provides an opportunity to gain evidence-based insights on the prevalence of informal channels.

Hawala

- Most outbound transactions to Somaliland and Somalia are sent via the traditional *hawala* system. Notably, a review of *hawala* agents operating in Somalia, e.g. Dahabshiil, Tawakal and Amal (Casj Learning Partnership [CALP] 2012) shows the same agents are formally licensed in Kenya and other East African countries. This could be attributed to the regulatory vacuum in Somalia and would indicate a high possibility of self-regulation.
- *Hawalas* are informal money transfer companies that move funds both domestically and internationally. This type of system was originally developed to facilitate trade between distant regions where conventional banking institutions were either absent, weak or unsafe.

- *Hawala* money transfers typically weave in and out of formal channels. For example, the Somali Canadian Education and Rural Development Organization (SCERDO), has indicated that "Somali citizens can receive their *hawala* remittance through their mobile phone," (SCERDO, 2015 quoted in RefWorld, 2015), and "*hawala* organizations collect funds from Somalis living abroad and contract with agents on the ground in the country, who use mobile phones and email to transmit money to the recipients." (WPI, 2014 quoted in RefWorld, 2015).

The main informal channel within the region consists of registered and unregistered M-Pesa agents residing in other countries and offering cross-border money transfers and cash-in/cash-out services.

M-Pesa

- With the rise of mobile money, and particularly informal service providers that make M-Pesa (from Kenya) and MTN (from Uganda) more available to users on both sides of the border, transaction costs have dropped well below the cost of carrying cash. Informal M-Pesa services are freely available in Uganda through registered and unregistered agents, and M-Pesa users can transact while roaming.
- MTN users' lines switch off after one month of roaming in Kenya, which requires customers to either rely on an M-Pesa agent back home or one of the relatively fewer informal MTN agencies in Kenya.

- **M-Pesa/MTN (unregistered)**
  Dual agents operate in Uganda with formal MTN and informal M-Pesa accreditation (i.e. no agent number) through dedicated personal lines (i.e. agents transact on behalf of customers). These agents are used to send money both ways because they are 'interoperable.' Located throughout Uganda, they pass on informal foreign exchange rates from money changers (+/-0.1–0.5 UGX).

- **M-Pesa/MTN (registered)**
  Dual agents in Uganda operating formal M-Pesa (i.e. with agent number) through a physical relationship in Kenya. A Kenyan partner registers the agency to a Kenyan bank and address but places the kiosk in Uganda. Like the unregistered version, an MTN agency located in the same premises makes it "interoperable". They operate on the border and pass on informal foreign exchange rates (+/- 0.1–0.3 UGX).
- While not formally licensed, M-Pesa in Uganda facilitates "interoperability" both ways. The prevalence of both registered and unregistered M-Pesa agents in the country makes it easier both to send and to receive across the border, which is critical to driving informal preferences. Kenyans in Uganda can easily send money home or cash out by M-Pesa. Ugandans in Kenya can build a relationship with an agent in Uganda near their family to send money home.
- Challenges are that, while these roaming agents offer formal channels, they are not legal. There is no KYC conducted on senders and fake IDs are often used to process transactions.

PRIME Africa corridors

- The CBK publishes monthly remittance inflows for three regions: Europe, North America and rest of world (including Africa). According to the CBK, 17 per cent of remittances in 2020 have come from Europe, which includes EU countries, but also the United Kingdom, the second-biggest remittance sender.
- Reflecting where the diaspora is, Germany, Sweden and Italy are the three largest send markets from the EU, annually transferring to Kenya respectively US$94 million, US$23 million and US$22 million.
- Uganda and the United Republic of Tanzania are the top African corridors remitting to Kenya, with each country being responsible for approximately 7 per cent of Kenya's total inflows, close to US$200 million. South Africa and South Sudan also remit US$109 million and US$30 million respectively. Despite having the sixth- largest Kenyan diaspora, Mozambique is not a top remittance corridor to Kenya.

PRIME Africa will focus programme activities on three inbound remittance markets to Kenya: Germany from the EU and intra-Africa, Uganda and South Africa.

Figure 25. Kenya's main remittance corridors

	Remittance inflows (US$ millions)	% total inflows	Remittance inflows (US$ millions)	% total inflows	% total inflows	Number of formal Kenyan migrants
	World Bank BRM (2018)		CBK (2021) (for 2020)		FinAccess (2019)	UN DESA (2019)
United States	855	31	1,660.0	53.6	34.0	135,187
United Kingdom	734	27	230.5	7.4	6.0	149,797
Uganda	191	7			9.2	36,822
United Republic of Tanzania	184	7			2.1	24,434
Canada	167	6			1.9	28,920
Australia	116	4				24,122
South Africa	109	4	202.0	6.5		28,769
Germany	94	3	89.1	2.9	6.0	13,901
South Sudan	30	1				9,800
Switzerland	24	1	48.9	1.6		3,723
Sweden	23	1				4,881
Italy	22	1				4,144
The Netherlands	20	1				3,463
United Arab Emirates			73.6	2.4	8.4	No data
Qatar					7.1	No data
Saudi Arabia					2.4	No data
World (others)			789.0	25.5		
World (total)	2,719					525,437

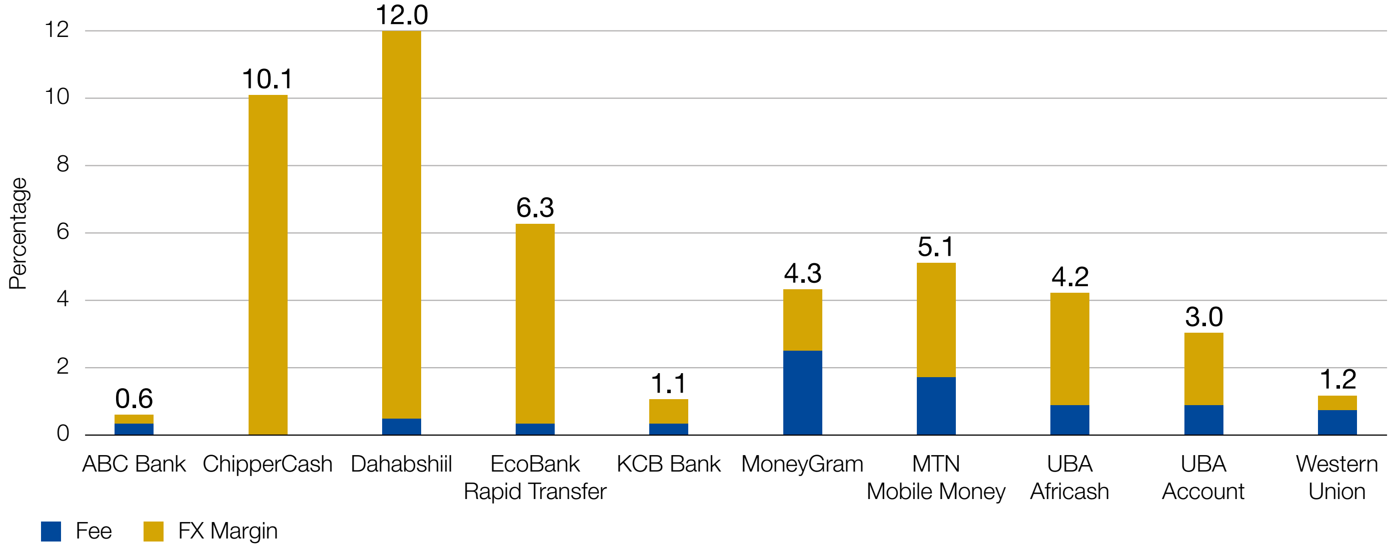
Intra-African corridor   Gulf Cooperation Council corridor   EU corridor

Source: CBK, 2021.

The average cost of sending money from Uganda to Kenya is 4.1 per cent of the send amount sent. However, stakeholders suggest that the Uganda to Kenya remittance corridor is still predominantly informal, with transfers made through unapproved M-Pesa agents. These services may even cost more than formal mobile money transfers, but customers are willing to pay a premium for a service they trust.

- Uganda hosts an estimated 36,822 Kenyans, representing 7 per cent of the Kenyan diaspora – the largest intra-African migrant population from Kenya (UN DESA, 2019b).
- According to World Bank estimates, a total of US$2,719 million in remittances was received in Kenya in 2018, 7 per cent of this (US$191 million) came from Uganda (figure 25). The CBK does not report it as a top formal corridor into Kenya, but the 2019 FinAccess Survey suggests that 9.2 per cent of Uganda's remittances come from Uganda itself (the second-largest send country after the United States). The survey does not distinguish between money sent through formal and informal channels.
- Uganda has a diverse range of remittance players, with remittances to Kenya using MTOs such as Dahabshiil, Tawakal, Amal, Bakaal, that have a presence in both countries. Also available are regional banks that offer competitive services, such as Equity, KCB and Ecobank, while formal mobile-to-mobile services are also available through MTN and Airtel to M-Pesa. Western Union offers a competitive service at 1.2 per cent of the send amount.
- However, interviews suggests that the Uganda to Kenya corridor has a strong informal remittance presence, with M-Pesa account holders offering unlicensed services to send funds to registered M-Pesa users in Kenya through person-to-person transfers, leveraging the East African regional roaming agreements.
- The average cost of sending US$200 from Uganda to Kenya is 4.1 per cent of the total amount, making it one of the most competitive send corridors to Kenya.
  - Banks and MTOs are the most competitively priced.
  - Funds can now be sent from MTN Mobile Money to M-Pesa. However, while this makes transfers easier, it remains to be seen how this service will compete with roaming agents that are formal but illegal.
  - There is currently no place for Kenyans living in Uganda to obtain information on the relative costs of the different service providers. There may be a perception that informal services are cheaper.

Figure 26. Average cost of sending US$200 by service provider from Uganda to Kenya

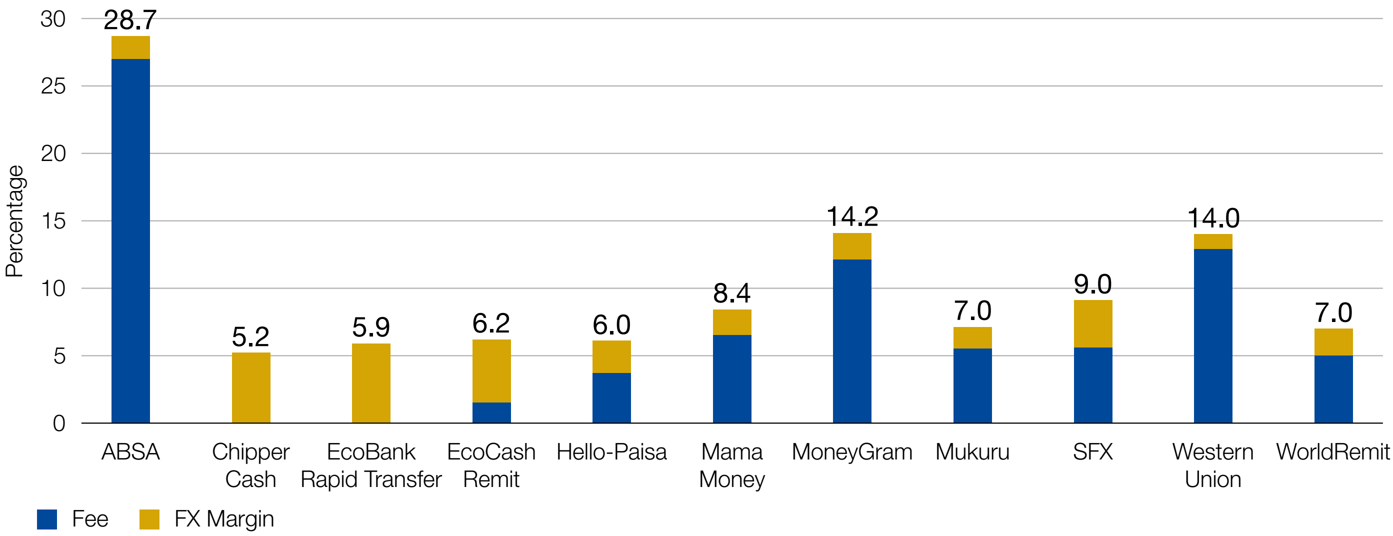


Source: RPW Q4 2020.

Kenya's diaspora in South Africa is relatively small, with a mix of formal and informal migrants. Stakeholder interviews portray a growing corridor since the COVID-19 pandemic. Notable usage of informal channels includes hawala traders and routing money through Botswana to avoid foreign exchange controls.

- In 2018, a reported 28,769 Kenyans lived in South Africa, representing 5 per cent of total emigrants.
- According to data from the CBK (author's own calculations), in 2020 remittance inflows from South Africa totalled US$195 million, representing 6 per cent of Kenya's total inflows. This suggests that the average annual remittance for each member of the Kenyan diaspora in 2020 was US$6,800. According to the CBK, remittances from South Africa to Kenya dropped from 10.8 per cent of inflows in Q1 2020 to 0.9 per cent of inflows in Q4 2020 (figure 26).
- South Africa has foreign exchange controls with stringent KYC requirements such as proof of address, proof of income, etc. The emergence of fintech-led MTOs such as Hello Paisa and Mama Money shifted the monopoly held by banks and MTOs. The entry of Mukuru money transfer into Kenya and Uganda is also expected to ease the transfer of funds from South Africa into these markets.
- Mobile money failed to scale in South Africa due to high levels of bank-driven financial inclusion (93 per cent, second-highest in sub-Saharan Africa). The re-entry of MTN Money and Vodacom M-PESA, coupled with a more conducive regulatory environment lowering dependency on banks, all make the outlook more positive.
- Informal services are driven by high send costs and foreign exchange controls, and include sending through traders.
- Stakeholders reported significant growth in volumes since the COVID-19 pandemic, an indication of the possibility of informal flows being routed through formal channels. For example, *hawala* providers and traders using Kenya as a transit hub to China, Somalia and the Middle East. Transaction values notably increased from an average of US$300 per month. According to the South African Reserve Bank, authorized dealers with limited authority licensees are not allowed to send trade flows.
- Stakeholders anecdotally indicated that Kenyans send money home through Botswana to avoid exchange controls in South Africa (stakeholder interviews, 2021).

Figure 27. Average cost of sending US$200 by service provider from South Africa to Kenya



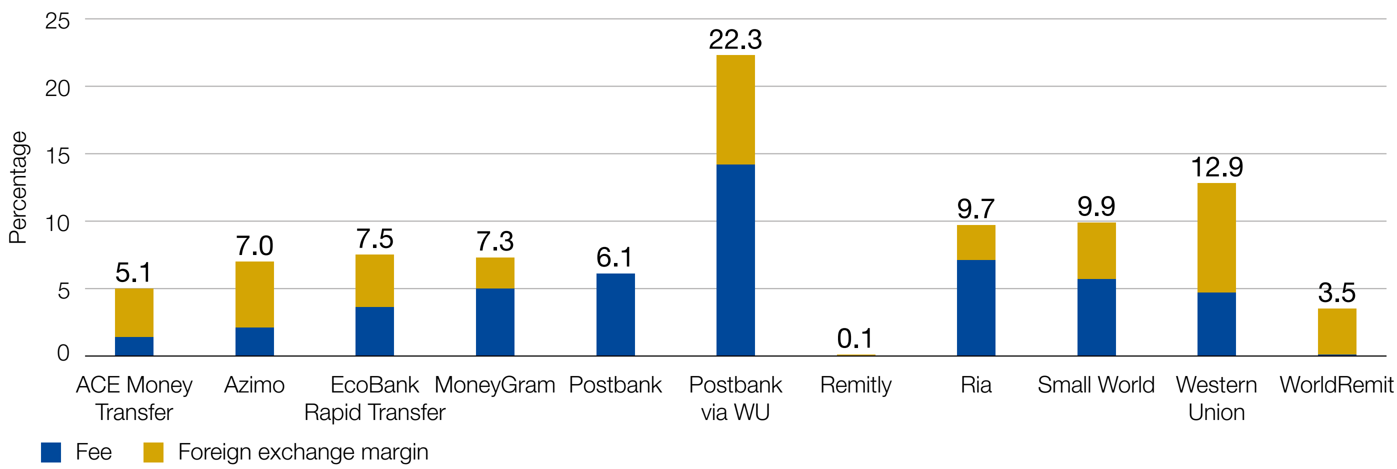
Source: RPW Q4 2020.

The Kenyan diaspora in Germany is the largest in the EU, but still very small, with 14,000 people. While average costs are relatively high at 7.7 per cent of the amount sent, online operators such as WorldRemit and SendWave have much more competitive pricing, at around 3 per cent.

At 10.7 per cent to send US$200 (Q4, 2020) to Kenya, South Africa has one of the highest average send fees in sub-Saharan Africa. IMTOs Western Union and MoneyGram charge more while new entrants Chipper Cash, HelloPaisa and WorldRemit have more competitive rates.

- Germany has the largest Kenyan diaspora in the EU with approximately 14,000 Kenyans residing there, compared to other EU countries hosting an average of 5,000. According to the CBK, Germany is the largest send market in the EU, with remittances valued at US$89 million in 2020, accounting for 3 per cent of Kenya's total inflows. According to the 2019 FinAccess survey, Germany was the fifth-largest remittance-sending country to Kenya, with 6 per cent of remittance-receiving households receiving remittances from Germany, on par with the United Kingdom.
- The average cost of sending US$200 from Germany to Kenya is 7.7 per cent, one of the highest rates in the EU. Remitly, a fintech based in the United States, is the lowest-priced, charging no fees and levying very small foreign exchange margins (0.1 per cent). WorldRemit offers 3.5 per cent and SendWave also offers competitive services. Given the small remittance volume, this is not a competitive market and is not a focus for many operators (figure 27).
- Online financial services and digital payments are used less in Germany than other peer EU countries, with African diaspora focus groups citing trust issues. The awareness, trust and uptake of online digital services is not known in this corridor.
- The IMTO Western Union charges are particularly high both via Germany's Postbank, cash and card. Ecobank's RapidTransfer is also offered from Germany.

Figure 28. Average cost of sending US$200 by service provider from Germany to Kenya (Q4 2020)



Source: RPW Q4 2020.

PRIORITY POLICY ACTION

1. Review pricing and cost structures of cross-border remittance services, especially digital, and ensure they are efficient, in alignment with the 2021–2025 Draft National Payment Strategy. Given M-Pesa's dominant position in the market and as the main payout partner for international remittances, it should enhance market competition, efficiency in cost structures and consumer protection to broaden choice.
2. It is recommended that pricing for cross-border remittances be transparent, upfront and available online. It is also urged that there be full discloser on pricing, especially for mobile transfers, including cash-out fees. Charges and foreign exchange margins should be publicly available on the MNO websites at all times so that customers can compare the prices of different service providers. This should be mandatory in licensing agreements.
3. Streamline mobile money remittance value chains, with operators encouraged to make certain **they** have the most appropriate solutions for clients.
4. Address the conversion of formal channels to informal usage in other markets and decide whether and what action to take. For example, **beyond disabling** lines under roaming facilities, what other actions can be taken to deter unauthorized M-Pesa usage in Uganda? MTN Uganda deactivates roaming services after one month.
5. Review whether support is required through the Remittance Association to help cash-only MTOs to digitalize, and assist with integration to mobile money. This is especially the case for cash-based Somali-owned MTOs.

5. Financial services for remittance users

Aside from being a movement of money from a sending country to a receiving country, remittances also have the potential to act as a catalyst for financial inclusion. A number of entities offer diaspora- and remittance-linked products in Kenya.

Kenya has high levels of financial inclusion in terms of account ownership. However, there are opportunities for remittances to further drive usage and increase connections between payment channels and financial services. Kenyan banks offer a wide range of diaspora-related financial services, but Kenyans abroad can also access domestic products and services.

Kenyan banks offer a wide range of diaspora-related financial services, but Kenyans abroad can also access domestic products and services.

- In many countries, international remittances are the first interaction that people have with formal financial services. Remittances have therefore the potential to drive formal domestic financial inclusion. Kenya does not have the same need to expand financial inclusion through international remittances as it is estimated that 50–60 per cent of these end up in mobile wallets. Kenya has high levels of financial inclusion (about 80 per cent of the adult population) with an impressive 66 per cent of consumers using advanced digital financial services. However, there are still opportunities to ramp up usage of financial services through international remittances.
- While residing overseas, Kenyan diaspora members with M-Pesa wallets can use all the financial services that they can access remotely at home.
- While it is estimated that only 10 per cent of international remittances are directed to bank accounts in Kenya, Kenyan banks have also developed products specifically for the diaspora to attract savings, investments and insurance. A key stakeholder suggests that remittances sent to bank accounts are predominantly for investment purposes and to access additional products.

- Furthermore, many Kenyans have domestic bank accounts and financial products, despite residing overseas. Equity Bank in Kenya not only monitors designated diaspora-owned accounts but also uses its know-your-customer guidelines, combined with the country code or the telephone number attached to the account to identify an account as a "non-national" or "diaspora" account. The bank then tracks the balance sheet of these accounts, looking at transactions, deposits and loans. In relation to remittances received through Equity Bank of approximately US$3.5 million per day and over 25,000 transactions, the balance sheet of diaspora-linked accounts is low, at 30,000 accounts and US$35 million in loans and US$45 million in savings (2019) (stakeholder interviews, 2020).
- The Kenyan diaspora is well organized overseas (see IOM, 2017: 25 for list of organizations). Kenyan diaspora SACCO offers savings, credit and help with investing in Kenya.
- As for financial services for remittance users, in Kenya the opportunities are there to develop additional products that meet the needs of diaspora and remittance-receiving households. These include credit, investment products, products that give senders more control over their funds and interest on mobile money to incentivize a culture of savings. Improved financial literacy among remittance beneficiaries will assist people in using the products available in an optimal way.

Kenyan FSPs offer a diverse range of diaspora-focused financial products. There are not many products targeted specifically at remittance beneficiaries.

- In 2017, the IOM under the ACP-EU partnership (Africa, Caribbean and Pacific–European Union), published the *Send Money and Invest in Kenya Guide* for the diaspora. It offers information on how to send remittances, the main operators and diaspora banking services, including investments (see Guide).

Table 6. Overview of remittance-linked products and financial products for the Kenyan diaspora

Product category	Offered by	Key features	Enrolment requirements
Diaspora savings and current accounts for businesses and individuals	Equity	The Diaspora Self-Service Portal, one of the Eazzy Banking self-service tools for account opening and management, stock trading and insurance for families at home	Passport or national ID, proof of address, KRA PIN certificate – all notarized HF – Letter of introduction from an existing account holder, employer or bank
	NCBA	Homeward product offers lending, insurance, investment and money transfer with six partners	
	KCB	Offers diaspora mortgage, diaspora investment, money transfer and insurance, emergency medical cover, personal accident cover, inbound travel as well as death and funeral cover. Has agents abroad to assist with account opening	
	Coop	Offers accounts, investments, mortgage financing and money transfer with seven partners	
Mortgage	HF	High-interest savings account 100% mortgage financing	
Pension and social security funds	LapFund	Savings and retirement fund, survivor benefit and pension-backed mortgage	National identification, minimum US$100 contribution monthly
Investments	Diaspora Investment Fund: African Diaspora Asset Managers (ADAM)	Money market fund, fixed -income fund, equities fund, property fund and business growth fund. Payments via Visa cards, bank accounts and M-Pesa	Membership-based
	Diaspora Investment SACCO/Kenya Diaspora SACCO/Kenya Qatar Diaspora (KQD) SACCO	Savings, credit, real estate development, investment opportunities	Membership-based
	Britam	Money market and fixed-income wealth management	Copy of ID/passport, KRA PIN certificate
	Cytonn	Investments in real estate, unit trusts, pensions and structured products	Utility bill, copy of bank statement
Insurance: health, life, asset	KCB Diaspora Account	Emergency medical cover, personal accident, inbound travel as well as death and funeral cover	Passport or national ID

- **An example of remittances as collateral in Kenya.** The Commercial Bank of Africa (now NCBA) and Safaricom (a mobile network operator) launched M-Shwari in November 2012, making it the first mass digital credit service in Kenya. NCBA develops a credit score for M-Shwari customers by leveraging information moving through the M-PESA system. This means that for international remittance customers using M-Pesa to send and receive remittances and their transaction history increases their credit score when applying for a loan.

Case studies on innovation

Equity Bank and Kenya Commercial Bank provide two examples of innovation in diaspora financial services. Kenya is a global leader in this field.

Equity Bank

- Launched in 2018 under the Eazzy Banking umbrella, Equity has introduced several self-service digital tools, namely: EazzyNet, EazzyPay, the Eazzy Banking app, EazzyBiz, Eazzy Save, Eazzy Chama and the Diaspora Self-Service Portal.
- In Q3 2020, 98 per cent of transactions took place outside Equity branches, with 83 per cent conducted through mobile and internet banking. Known for digital services innovation, Equity Bank was awarded the title of Africa's best digital bank in both 2019 and 2020 by the EURomoney Awards for Excellence.
- Kenyans are not limited to using Equity's designated diaspora-owned accounts while abroad but can access all financial services and manage these remotely. The Eazzy Banking app allows users to access all normal bank services, including sending money and paying for goods, services and bills. It incorporates fraud-combating measures through biometric fingerprint access and one-time passwords to authenticate transactions. Similarly, Eazzy online banking provides a one-time PIN to registered mobile numbers and verify transactions.
- Equity's Diaspora Self-Service Portal is one of Eazzy Banking's digital solutions. This tool enables clients to open and check bank accounts; transact from their accounts via EazzyNet; send remittances to and from select countries; buy and sell stocks and shares; and obtain insurance for themselves and their families in Kenya. Diaspora banking products include diaspora-specific current accounts and Eazzy Save, as well as junior and business accounts. The diaspora fixed-deposit account facilitates lump sum investment and immediate borrowing, while the Diaspora Jijenge Account promotes disciplined savings habits through small monthly contributions, while also banning partial withdrawal of funds.
- Equity provides two diaspora insurance covers related to deaths and funerals: (i) Diaspora Last Expense Cover provides for return transportation and funeral expenses for Kenyans living abroad; and (ii) Diaspora Return Ticket Insurance enables diaspora members to return home upon the death of next of kin.

Kenya Commercial Bank (KCB)

- KCB Diaspora Banking Unit was launched in 2012, initially offering a range of accounts (including current, transactional, student and junior accounts); mobile banking; and loans, and mortgage and investment products.
- In order to help members of the diaspora manage risk and avoid financial losses, KCB subsequently developed a series of insurance products marketed under the KCB Diaspora label, including death and funeral cover and inbound travel insurance in medical emergencies, as well as personal accident cover during visits to Kenya. The death and funeral insurance covers the repatriation of remains; burial and coffin expenses; the cost of accompanying family members; and funeral expense benefits for four named dependents. In order to be eligible for these products, the policy holder must reside abroad; hold a valid Kenyan passport or ID; have a KRA PIN certificate; and provide notarized proof of address.
- UCB agents are present in 11 foreign countries, including seven United States states, to facilitate the opening of diaspora accounts. There is no agent presence in the PRIME corridors (Uganda, South Africa and Germany).

PRIORITY POLICY ACTION

1. Support more remittance-linked financial services, including insurance, pensions, investments and savings, especially those services that target the last mile to remittance beneficiaries. Kenya should set an example globally of best practice and innovation in this area. This could include linkage to government-run providers such as the National Hospital Insurance Fund and the National Social Security Fund. To achieve this, a shift should be made towards account-based remittance services, as these cannot be offered as effectively with cash-to-cash remittances.
2. Interest paid to MNOs on their trust accounts should be paid to low-income remittance (and other mobile money) users as interest on their balances (or paid into an M-Shwari-type locked savings account). This may encourage and drive formal savings.
3. Promote remittance-specific financial literacy, especially for remittance receivers and outbound senders on topics such as channels, price comparators, checking fees and foreign exchange rates, and remittance-linked financial services.

6. Stakeholders and coordination

The structure of remittance governance in Kenya

- The Central Bank of Kenya Act (2014) gives the CBK a mandate to formulate and implement monetary policy aimed at achieving and maintaining stability in the general level of prices, and to foster the liquidity, solvency and proper functioning of a stable, market-based financial system (CBK, 2014).
- This includes helping to maintain a well-functioning banking system. The CBK carries out the following remittance-related functions:
  - Banking supervision, including foreign exchange bureaus and MRPs. In Kenya, commercial banks are allowed to provide remittances services under the Banking Act.
  - National Payment System. Under the 2011 National Payment System Act, oversight of payment and settlement systems is a core Central Bank function. The aim is to promote safety and efficiency by monitoring existing and planned systems, assessing them against objectives and, where necessary, inducing change.
  - Financial markets for foreign exchange management. The CBK provides indicative currency exchange rates that are determined by market forces. Remittance providers are at liberty to use these or other currency indicators.
  - Statistics. The Statistics Department publishes market information on remittances, including monthly diaspora remittance inflows.
  - The Banking Fraud Investigations Unit looks into fraud complaints from commercial banks, other financial institutions and parastatals, and advises the financial industry on fraud prevention and detection strategies.

- The CBK also drives national financial inclusion initiatives, including financial access literacy and the ongoing development of the four-year financial inclusion strategy.

Other relevant supporting entities

- The Ministry of Information, Communications and Technology, Innovations and Youth Affairs. Mandate comprises formulation of policies and laws that regulate standards and services in the ICT sector, telecommunications and the media industry.
- The Communications Authority (CA) is the regulatory authority for the communications sector in Kenya. It is responsible for facilitating the development of ICT sectors including broadcasting, cybersecurity, multimedia, telecommunications, electronic commerce and postal and courier services (CA, 2021). CA provides market information and performance statistics on entities including MMPs.
- The Competition Authority of Kenya is mandated to enforce relevant legislation to promote and protect effective competition in markets. It is also tasked with preventing misleading market conduct throughout the country (CAK, 2021).
- The Financial Investigations Unit (FIU) is a special wing in the Directorate of Criminal Investigations that specializes in investigations of financial crimes (FIU, 2021).
- The Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Kenya is a member of ESAAMLG, an 18-country group dedicated to combating money laundering by implementing FATF recommendations (FATF, 2021).

Regulators

- **The Central Bank of Kenya** is working towards improvement of both internal and published remittance data; the aim is to make this information more comprehensive and indicative of corridors, channel and outflows. A diaspora remittances survey was planned by the CBK in February/March 2021 and remittances are included in the National Payment System.
- **Ministry of Foreign Affairs:** actualizing policy actions is stipulated in the National Diaspora Policy.

Apex bodies

- **Kenya Bankers Association.** Shares knowledge on Kenya's remittance market.
- **Kenya Forex and Money Remittance Association.** Advocates for the interests of RSPs and liaises with the CBK on non-regulatory governance.

Development partners

- **IFAD.** The **Financing Facility for Remittances** implemented the PRIME Africa programme aimed at maximizing the impact of remittances for millions of families in Africa and helping create local economic opportunities in the migrants' countries of origin. Kenya is a focus country. The **Global Forum on Remittances, Investment and Development (GFRID)** is aimed at promoting partnerships and the exchange of best practices in order to maximize the impact of remittances in migrants' communities of origin. GFRD was held in Nairobi in June 2021.
- **Financial Sector Deepening (FSD) Africa**, in partnership with the Centre for Financial Regulation and Inclusion (CENFRI), has developed evidence-based, remittance-related information covering Kenya and other African countries.
- **BFA Global** has conducted qualitative studies on refugee finance and policy and regulation pillars in Kenya and Uganda, leading to knowledge sharing and programme design.
- **Microsave Consulting (MSC).** A consulting firm that has conducted behavioural studies on remittance beneficiaries and providers in Kenya and Uganda.
- **The International Organization for Migration (IOM)** has conducted studies on migrant remittances, culminating in publications such the *Send Money and Invest in Kenya Guide*.

At present, interventions from development partners on remittances are limited in Kenya, apart from descriptive research studies. The CBK plays an active role in supporting the sector, as does the Remittance Association.

PRIORITY POLICY ACTION

1. There is limited evidence of policy action and programmes resulting from remittance-focused studies conducted in Kenya (and other sub-Saharan countries). Programmes aimed at implementing recommendations on price reduction, promoting formal channels and driving financial inclusion would thus be a suitable entry point.
2. Leverage the National Remittances Stakeholder Network to create a working group for the coordination, implementation and review of Kenya's remittance landscape as well as the implementation of the CBK's National Payment Strategy.

7. Priority policy actions

1. Migration and remittances

- Implement a data strategy that, among other functions, enables improved data analytics and generation of market information, including disaggregated remittance inflows, outflows, channel usage and estimates of informal flows. Planned amendments to reporting templates could be informed by CBK data needs as well as market needs, with the following considerations:
  1. harmonized templates and reporting across the EAC for consistency to facilitate eventual harmonization of regulations under the East African Monetary Union (EAMU);
  2. more detailed outflow information to the same level of detail as inflow data;
  3. information portals publicly available for easy access to disaggregated inflow and outflow remittance data to inform business decisions; and
  4. access to market share information on RSPs to enhance transparency.

- Industry collaboration on CBK's planned diaspora remittances survey launched in February/March 2021. Recommended collaborators included: Institute of Africa Remittances, FSD Kenya and the FFR at IFAD to maximize opportunities and ensure consistency across countries. This presented an opportunity for Kenya to share remittance best practice with other countries.
- Inclusion of remittance modules in household surveys such as FinAccess planned in Kenya, especially to understand and form national estimates on the size of the informal market. Such data would also serve to guide policy decisions and action plans to formalize informal remittances and help curb illicit flows.

2. Financial environment

- Support transition to full payment ecosystem interoperability across channels: The current situation requires prefunding of accounts for liquidity management. A national switch would enhance efficiency of settlement mechanisms. This, in turn, would enable operators to free up funds otherwise tied up in prefunded accounts. A real-time cross-border, interoperable platform integrating national and regional retail payment systems would then be more achievable. It could also ease the flow and settlement of cross-border payments, ultimately reducing costs for both users and service providers.
  1. Agent interoperability would benefit agents by enabling the consolidation of different service provider floats into a single account. In the future this could possibly be extended to bank agents under the Pesalink model.
  2. Merchant interoperability. A universal QR code would ensure interoperability but, more importantly, eliminate the need for point of sale devices as both merchants and customers could use apps on smartphones or feature phones. This would be a significant move towards a fully open, efficient and affordable payments ecosystem, driving down costs, especially for the poor and informal businesses (FSD Kenya, 2018).

- Identify and leverage opportunities for cross-border remittance payments and settlement through regional bloc retail payment systems. The Pan-African Payment and Settlement system (PASPP) looks promising as it has a digital payment module that could be used for remittances (Afreximbank, 2020).
- Open APIs for authentication and verification of electronic KYC as currently KYC must be repeated for each service onboarding. This would also expand the number of providers who can safely access this register for electronic KYC authentication (CBK, 2020b).
- Advocate for service providers to sustainably make permanent some COVID-19 pandemic measures such as reduced fees, expansion of transaction and balance limits.

3. Regulatory environment

- Foster transparency in the remittance market, especially for mobile and digital services through improved disclosure of all pricing (fees and foreign exchange rates), provided live on company websites for non-customers to view. Create more awareness around credible price comparison sites targeting the Kenyan remittance market.
- Expand remittance providers licensing categories to ensure even distribution of access points, improved access and choice. As an example, foreign exchange bureaus, which are highly liquid, mainly offer remittance services as subagents but have the capacity to become full agents. Product-based licensing compared to service provider licensing would ensure products suitable for the market are licensed, especially for fintechs.
- Consider publishing the CBK's tracking system for licensing and new product/corridor approval service-level agreements. A tracking system would ensure service providers can adequately plan their market entry.
- Review taxation on mobile money and digital services. An impact assessment can be conducted to determine correlations with informal channels.
- Deployment of relevant regulatory and supervisory technologies would ease supervision in the expanding digital payments ecosystem. Additionally, FSPs would be able to efficiently and cost effectively manage compliance.
- Facilitate awareness and customer education on dispute resolution mechanisms, cybersecurity and fraud to enhance trust, especially for digital products.
- Open API for authentication through IPRS and, once Huduma Namba registry is accessible, authentication for providers with biometric functionality.

4. Remittance market structure

- Review pricing and cost structures of cross-border remittance services, especially digital, and ensure they are efficient in alignment with the Draft National Payment Strategy 2021–2025. Given M-Pesa's dominant position in the market and as the main payout partner of international remittances, enhance market competition, efficiency in cost structures and consumer protection to broaden choice.
- It is recommended for cross-border remittances pricing to be transparent, upfront and available online. There should be full discloser on pricing, especially for mobile, including the display of cash-out fees. Fees and foreign exchange margins should be publicly available on the MNO websites so that customers can understand any variations in costs and compare prices across service providers. This should be mandatory as part of licensing agreements.

- Streamlining mobile money remittance value chain. Encourage operators to ensure they have the most appropriate solutions for them. May not always be through an aggregator.
- Address the conversion of formal channels to informal usage in other markets and decide what action, if any, to take. For example, beyond disabling agent till roaming facilities, what other actions can be taken to deter unauthorized M-Pesa usage in Uganda? MTN Uganda deactivates roaming services after one month.
- Review whether support is required through the Remittance Association to assist cash-only MTOs in digitizing and help with integration with mobile money. This is especially the case for cash-based, Somali-owned MTOs.

5. Financial services for remittance users

- Support for more remittance-linked financial services including insurance, pensions, investments and savings especially those that target the last-mile remittance beneficiaries. This could include linkage to government-run providers such as the National Hospital Insurance Fund and the National Social Security Fund. To achieve this, support a shift towards account-based remittance services as these cannot be offered as effectively with cash-to-cash remittances.
- It is recommended that interest to MNOs on their trust accounts is paid to low-income remittance (and other mobile money) users as interest on their balance (or paid into an M-Shwari-type locked savings account). This may encourage and drive formal savings.
- Provision of remittance-specific financial literacy, especially for remittance receivers and outbound senders on channels, price comparators, checking fees and foreign exchange rates, and remittance-linked financial services.

6. Stakeholder coordination

- There is limited evidence of policy action and programmes resulting from remittance-focused studies conducted in Kenya (and other sub-Saharan African countries). Thus, programmes aimed at implementing recommendations made on price reduction, promoting formal channels and driving financial inclusion would be suitable entry points.
- Leverage the NRSN to create a working group for the coordination, implementation and review of Kenya's remittance landscape and support the implementation of the CBK's National Payment Strategy.

ANNEX 1

Measures put in place by the Central Bank of Kenya in response to the COVID-19 pandemic

Table 7. Measures put in place by the Central Bank of Kenya in response to the COVID-19 pandemic

Agency and participants	COVID-19 response	Impact
CBK	– Extension of repayment period for personal and household loans – Lowering of the cash reserve ratio (CRR) from 5.25 per cent to 4.25 per cent	– Total loans restructured of KES 844 billion accounted for 29 per cent of the total banking sector – Additional liquidity of KES 35 billion to support the banks as they restructured performing loans
CBK	Lowering of Central Bank Rate to enable banking sector to lower lending and deposit rates	Average commercial banks' lending rates decreased to 11.89 per cent, a 16-year low enabling provision of affordable credit
CBK, Commercial Banks, Payment Service Providers	– Waiver of mobile money fees for transactions under KES 1,000 (US$9), interbank transfers and Bank-to-Web and Web-to-Bank banking – Increased daily mobile money transaction limits from KES 70,000 (US$623) to KES 150,000 (US$1,345) – Daily limit for mobile money transactions – and mobile money wallet limit – increased from KES 140,000 (US$1,278) to KES 300,000 (US$2,738) – Total monthly limit on mobile money transactions was removed – PSPs and commercial banks directed to eliminate transfer charges between mobile money wallets and bank accounts	– Between February and October 2020, the volume of transactions up to KES 1,000 increased by 114% and the value of these transactions increased by 200%. Transactions under KES 1,000 account for over 80% of transactions – 2.8 million new 30-day active customers using mobile money (CBK National Payment Strategy, p. 47) – The monthly volume of PSP transfers increased by 87% and business-related transactions increased by 82% between February and October 2020

Source: CBK Annual Report, 2020.

ANNEX 2

Kenya's National Payment System

The National Payment System is broadly divided into:

- Large-value payments. This comprises the Kenya Electronic Payment and Settlement System (KEPSS), which is a real-time gross settlement system processing and settling domestic transfers in real-time. Upgraded in June 2020, KEPSS transaction capacity is now at 1 million, up from 50,000 per day (CBK 2020).
- East African Payment System (EAPS). A funds transfer mechanism used to move money from one bank to another across borders within the East African Community countries of Kenya, Rwanda, the United Republic of Tanzania and Uganda. Transactions are carried out in the EAC local currencies.
- Performance. In 2019/2020, banks conducted 3,020 transactions worth US$496.10 million over the EAPS network. The KES was the leading trading currency, with total values of US$342.7 million (69.1 per cent). Low uptake by other member states is attributed to (i) reluctance to trade in each other's currencies (EA 2019); and (ii) low volumes of intraregional trade within EA and stiff competition from banks with established correspondent bank relationships in the region (CENFRI 2018).
- Regional Payment and Settlement System (REPSS). A multilateral netting system with end-day settlement in a single currency, allowing regional trade transactions using local currencies and thus reducing dependency on US$ and EUR. Only nine member countries out of 21 participating in REPSS – Democratic Republic of Congo, Egypt, Kenya, Malawi, Mauritius, Rwanda, Eswatini, Uganda and Zambia – and the central banks of Burundi, Djibouti, Sudan and Zimbabwe are in advanced stages of preparations. Low participation is attributed to countries with multiple regional bloc memberships (COMESA, 2020) and low awareness among potential users. This system has the potential to benefit remittance payments and settlement if there are large volumes.
- The Pan-African Switch System will enable its regional subsidiaries in West Africa, East Africa, South and Central Africa and North Africa to create an ecosystem for switching and settlement of payment transactions across the continent.

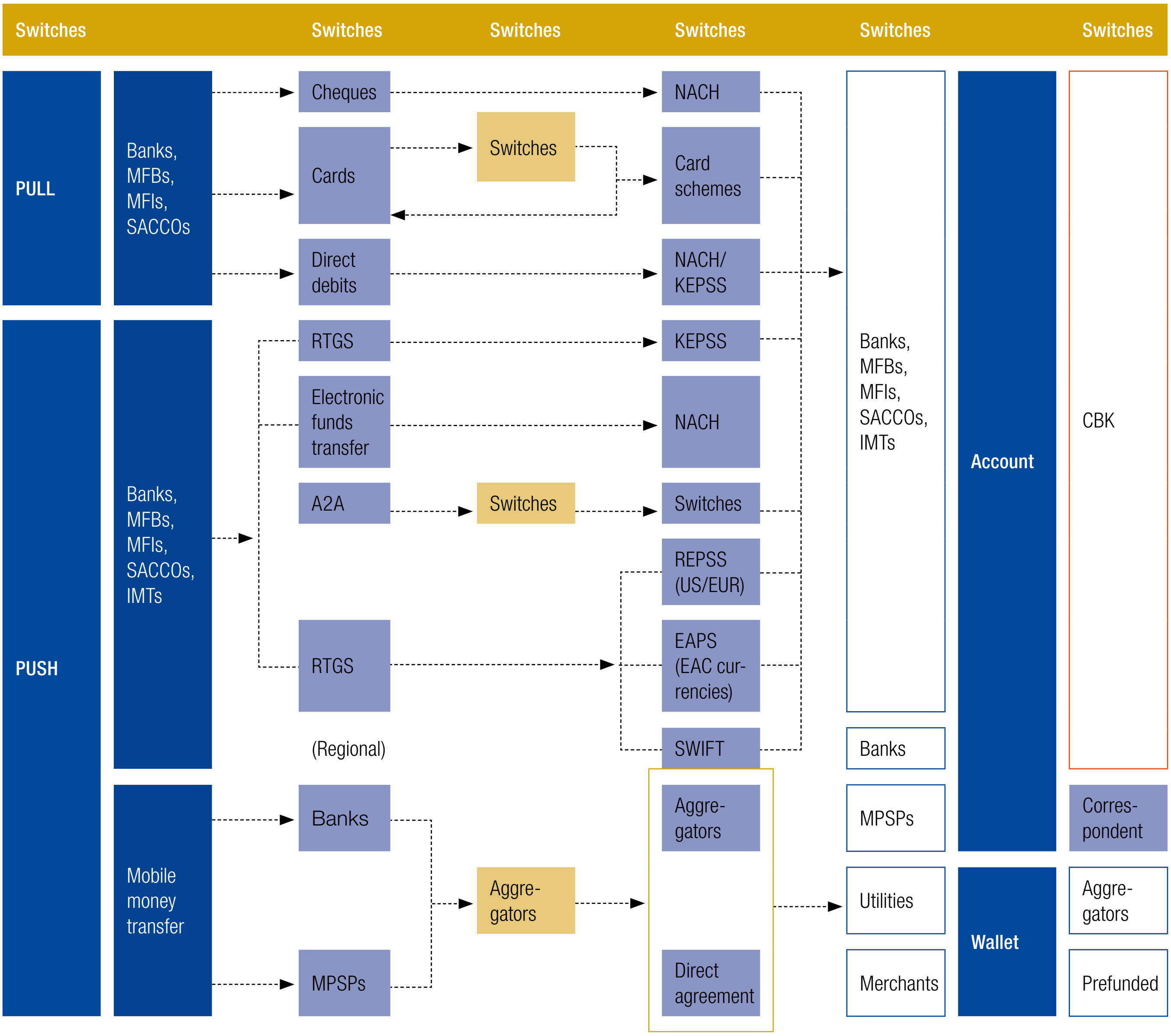
Interoperability and switching in Kenya

- **Bank Interoperability**. The Kenya Interparticipant Transaction Switch (KITS) payments platform connects all Kenya Bankers Association (KBA) members in one domestic network under the commercial name **PesaLink**. This allows banks of all sizes and market share to benefit from an interoperable payments network. KITS allows any customer of a KBA member bank to send and receive funds in real-time from their accounts. In 2016, the KBA launched the Integrated Payments Service Limited (IPSL) mandated to develop and launch PesaLink, an instant payments bank interoperability initiative. PesaLink has plans to offer G2P and P2G bulk payments and mobile money interoperability.
- **Card interoperability.** In Kenya, as with other international markets, EURopay, Master Card and Visa enabled cards are interoperable and can be used at any member terminal localy and internationally. **Smart cards** (credit, debit or prepaid) **are increasingly in use** at any enabled ATM, POS terminal, kiosk, e-commerce

merchant affiliated with institutions other than the institution which issued the card (issuer and acquirer are different institutions).

- **ATM integration.** Kenswitch is a shared financial switch by a consortium of more than 20 commercial banks in Kenya. It facilitates the delivery of electronic banking services 24/7 via various delivery channels. These include service activation, account enquires, cash and cheque services, bill payments and money transfer services. The venture is supported by the CBK and the KBA under the auspices of the NPS Modernization and Reform Process Project but is wholly and privately owned by Loita Transaction Services. It is predominantly for ATM sharing.
- **Payment gateway.** An example is Interswitch, a privately owned, Africa-based payments processing company offering a variety of services with specialization in e-commerce payments.

Figure 29. Kenya's national payments landscape



Source: Draft National Payment Strategy 2021–2025, CBK.

Note: A2A = account-to-account; EFT= electronic funds transfer; MFB = microfinance bank; MPSPs = mobile payment service providers; and NACH: Nairobi Automated Clearing House.

International and local aggregators for remittances

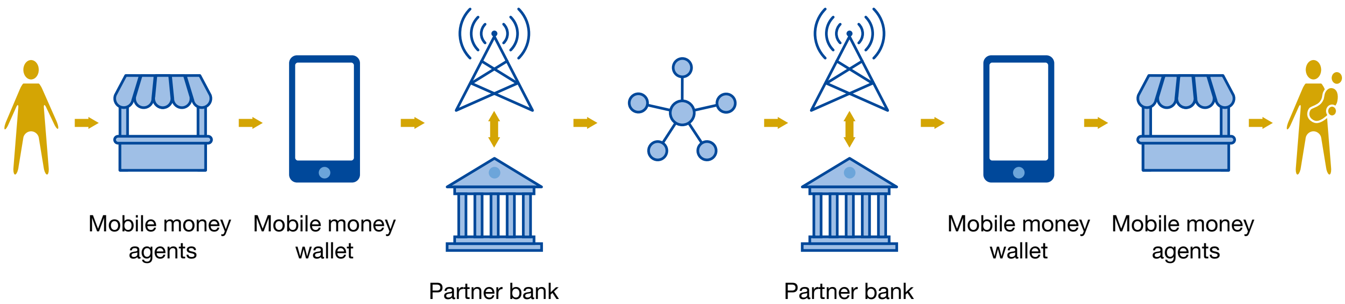
International aggregators

- International aggregators play an important role in connecting RSPs to payout networks across multiple countries.
- International aggregators serving the Kenyan market include MFS Africa, Thunes, TerraPay and HomeSend.
- Facilitate API integration across RSPs – MMPs, payment card issuers, banks and MTOs, thus extending reach and expanding payment options and value-added services. These models typically depend on RSPs prefunding accounts.
- Safaricom has standard pricing agreements for aggregators and MTOs that are dependent on volume and range from US$1.5 to US$0.5 per transaction.
- International aggregators typically take a fee per transaction of between US$0.25 and 1.5 per cent or less per transaction.
- International aggregators are testing interesting models of linking international remittances with other financial services and bill payment options.
- They play an important role in intraregional trade that drives volumes.

Local aggregators

- Niche aggregators are also emerging. With headquarters in Kenya, they offer remittance services, airtime top-up and bill payments. These include EMQ Kenya, which aims to offer more competitive rates than regional and international players.

Figure 30. The mobile money value chain from remittance senders to receivers



ANNEX 3

Timeline of AML/CFT regulation and Kenya's risk-based approach to consumer due diligence

A timeline in AML/CFT regulation

- 2009. Establishment of the Anti-Money Laundering framework to connect the legislation that the country had adopted in the matter.
- 2014. Under the NPS Act, AML guidelines developed for mobile payments services, mainly outlining the use of acceptable identification during mobile account opening, setting daily and weekly transaction limits and carrying out KYC whilst tracking and reporting suspicious transactions.
- 2015. CBK introduced reporting for exposure to AML and terrorism financing, risk mapping to inform CBK's risk-based approach to AML/CFT regulations and internal risk assessment.
- 2017. Proceeds of Crime and Anti-Money Laundering Amendment Act, 2017. The new legislation and amendments are designed to enforce the AML and CFT framework and mechanisms.
- 2017. Prevention of Terrorism Act , along with the Prevention of Organized Crimes Act on tracking, identifying and preventing or punishing organized criminal or terroristic actions, as well as retrieving criminal proceeds and directing them to proper uses.
- March 2018. CBK issued a guidance note on conducting money laundering/terrorism finance risk assessments and submitting annual reports.

Table 8. Kenya's risk-based approach

Legal source and coverage	Risk-based approach	CDD/client identification and verification (CIV) requirements, ID systems	Limits on accounts	Agent-based and remote CDD
Source: Regulations and guidelines on AML/CFT, agent banking, payment systems. **Coverage:** Risk-based CDD applies to various financial products and to all FSPs: banks, nonbanks, PSPs.	Discretionary. Regulation allows for a risk-based approach, but no tiers or thresholds.	**Full CDD/CIV:** – All providers must check and record customer ID card, passport, driver's license or birth certificate. – For a mobile PSP, the SIM card and mobile phone number should be registered. **SEPA Direct Debit:** Simplified measures are allowed for lower-risk scenarios.	No lower-risk/basic accounts defined. Overall e-money limits: per transaction US$680, transactions per month US$9500.	No specific provision

Source: CGAP, 2019.

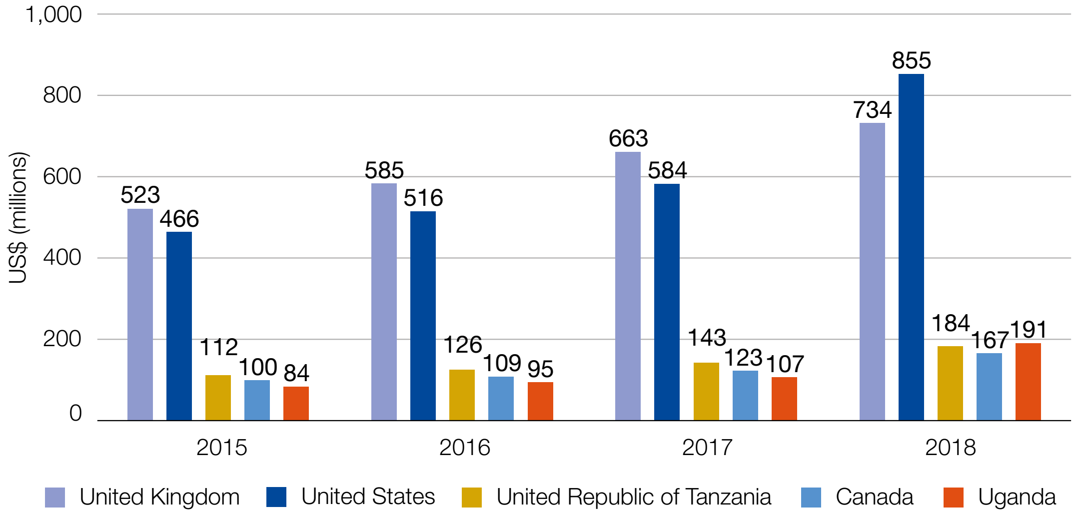
ANNEX 4

Further analysis on pricing to send money to Kenya

- Sending remittances to Kenya through banks attracts the highest fees, except for Rwanda, where bank costs are lower than those of MTOs.
- Overall MTOs are cheaper than banks, despite MTOs paying commissions to agents at both send and receive ends – costs not incurred when using the other send channels. This shows that there is intense competition between MTOs in sending money using cash and in competing with informal operators.
- It is evident that there are significant variations in costs, even within the same corridor and using the same channels, especially with the charges made by banks.

According to the CBK, the United Kingdom, the United States, the United Republic of Tanzania, Canada and Uganda are the top send countries while India, Uganda, the United Republic of Tanzania, Nigeria and Egypt are the top destinations. Germany and Sweden are the largest send markets from the EU, although volumes are small (less than US$100 million in 2018) (figure 30).

Figure 31. Remittance inflows to Kenya (US$ million), 2015–2018

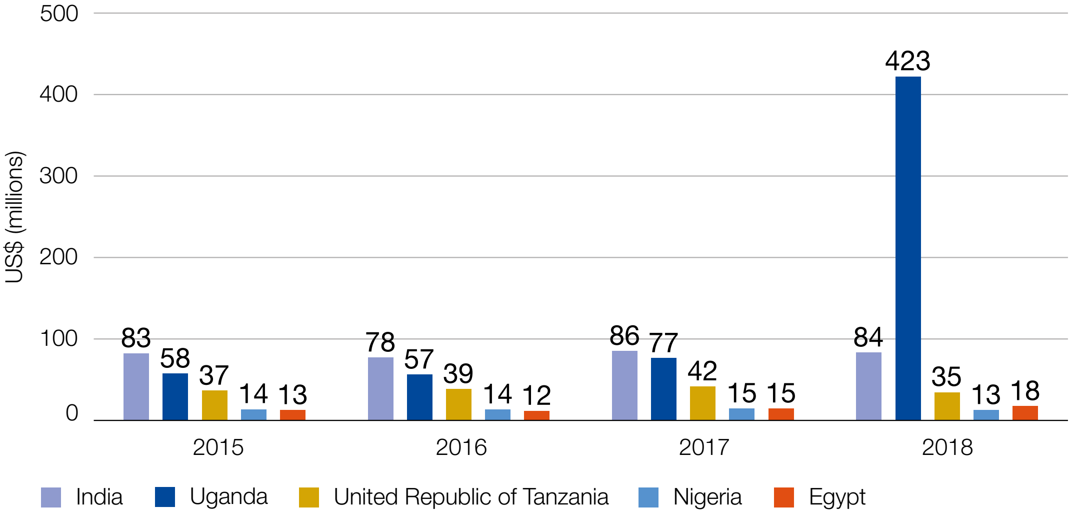


Source: (World Bank, Bilateral Remittance Matrix).

- The United Kingdom, the United States, the United Republic of Tanzania, Canada and Uganda were the top five sending countries from 2015 to 2018

NB: these data are from the World Bank Bilateral Matrix and do not include data from the Middle East. Data differ from data published by the Central Bank of Kenya. However, the CBK does not currently publish inbound or outbound data by corridor.

Figure 32. Remittance outflows from Kenya (US$ million), 2015–2018



Source: (World Bank, Bilateral Remittance Matrix)

- India, Uganda, the United Republic of Tanzania, Nigeria and Egypt were the top five receiving countries from 2015 to 2018 (figure 31).

The World Bank data indicate a significant spike in international remittances from Kenya to Uganda in 2018. The reason is not yet clear, especially without corresponding corridor data from other sources, including the CBK and the Bank of Uganda.

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International Fund for Agricultural Development (IFAD)
IFAD is a specialized agency of the United Nations and an international financial institution, with the mandate to invest in rural people to eradicate poverty in low- and middle-income countries.

Financing Facility for Remittances (FFR)
IFAD's US$65 million multi-donor Financing Facility for Remittances aims at maximizing the impact of remittances on development and promoting diaspora engagement in migrants' countries of origin.

For more information, visit: **www.ifad.org | www.ifad.org/ffr | www.RemitSCOPE.org**

Developing Markets Associates Global (DMAG)
Headquartered in central London with a regional office in Sydney, DMAG is a leading payments consultancy engaged by both the public and private sector to deliver projects around the world. Since the company was founded in 2007, it has grown to 20 full-time staff, with a global network of research and support staff of a further 60 people. DMAG's core competencies include:

- Remittances and payment systems
- Financial inclusion and access
- Diaspora investment and diaspora related affairs

For more information, visit: **www.developingmarkets.com**

About the initiative

Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa)
PRIME Africa is a EUR 15 million initiative co-financed by the European Union and implemented by IFAD's FFR, aimed at improving the management of remittances and their use for development impact in selected African countries.

For more information, visit: **www.ifad.org/prime-africa**

Read the other PRIME Africa country diagnostics:

1. Cabo Verde
2. Ethiopia
3. Ghana
4. **Kenya**
5. Morocco [ENG/FRE]
6. Senegal [ENG/FRE]
7. South Africa
8. The Gambia
9. Uganda

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