



# RemitSCOPE

Africa



## Kenya

Country diagnostic  
2023

PRELIMINARY RELEASE



# ACKNOWLEDGEMENTS

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This diagnostic was updated in March, April and May 2023 to reflect significant changes in market conditions and provide current data insights.

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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
CBL	Creidt Bank Limited
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

# Changes in the Kenyan Remittances market since Q1 2021

This document provides an update to the original Kenya country diagnostic that was produced in 2021. This section focuses on significant changes that have occurred since that time.

- In general, there have not been major structural changes to the Kenya remittance market in the last two years. The volume of remittances flowing into Kenya has grown noticeably during this period with the United States continuing to be the main sending country and increased flows from the Saudi Arabia. Informal flows remain popular for transactions with bordering countries.
- The financial environment continues to improve with reasonably well-developed payment systems, good distribution networks and a mix between bank and non-bank providers. Kenya still has one of Africa's highest financial inclusion rates largely driven by the large uptake of mobile wallet driven accounts.
- There have been no significant regulatory changes as such. However, the Communications Authority Of Kenya (CA) directed mobile service providers to ensure that full personal details of all subscribers were updated by 15 October 2022. This was to ensure that ownership of every SIM was traceable and had implication for mobile-wallet driven accounts. Additionally, the Central Bank of Kenya (CBK) is taking a stronger role in respect of ensuring compliance by market operators with anti-money laundering/counter the financing of terrorism.
- There has been an increase in understanding by Kenyan banks and other market participants of the potential advantages that offering remittance services can bring to their business. This is leading to increased competition and signs that pricing for remittances is declining. There have been two new entrants joining the market with money remittance licenses, Afrisend Money Transfer and Wapi Money. Fintechs are present but are primarily focused on domestic payment services.
- There continues to be a lack of remittance-specific linked products but it is understood that some financial services providers are seriously examining services such as insurance-linked remittance services. There continue to be significant opportunities for improvement in this area.
- Since April 2021, the CBK has been released remittance inflow data monthly disaggregated by 33 corridors.
- The first Diaspora Remittance Survey was launched in 2021 which provided initial granular insights from the sender.
- In February the CBK launched the National Payments Strategy 2022–25, the guiding principles of the strategy include trust, security, usefulness, choice and innovation.
- There have been updates in the stakeholders and coordination involved in the remittance market in Kenya. The State Department of Diaspora Affairs (under the Ministry of Foreign Affairs) has been rebranded as the Ministry of Foreign Affairs Diaspora Affairs. The new department's mandate includes specific reference to support remittance and diaspora investment in Kenya.
- The PRIME Africa project has driven major enhancements in stakeholder engagement in Kenya. There have been ongoing National Remittance Stakeholder Network meetings to discuss and make progress in the remittances market. A remittances

road map for Kenya has been developed and continues to evolve. Additionally, a Community of Practice has been established. Two operators were provided with technical assistance under the PRIME Africa funded Remittance Access and Innovation (RAI) programme to improve their risk assessment processes to enable improved access to remittances for customers. Furthermore, a new initiative, through a partnership between IFAD, Credit Bank, Interswitch and Ria Money Transfer, is being undertaken to facilitate the provision of remittance services to rural recipients via SACCOs. IFAD and FSD Kenya are planning a project 'unleash the potential of SACCOs to serve remittance users in rural areas of Kenya' in 2023–2024, with the aim of improving informed public policies and private sector strategies for enhancing the role of SACCOs in delivering remittances to the Kenyan rural population.

# Executive summary

This research is part of a series of country diagnostics in selected African countries, in the 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.

The report is structured in seven sections. Chapter 1 covers migration and remittance flows, followed by the financial environment (chapter 2), chapter 3 presents the regulatory environment, followed by the remittance market structure (chapter 4), chapter 5 looks at financial services for remittance users, chapter 6 covers the stakeholders and coordination involved in the Kenya remittance market and the financial section (section 7) presents key recommendations that are summarized below.

## Migration and remittances

- Kenya is a net inbound remittance market, receiving just over US\$4 billion in 2022 ranking 5th in Africa (with the United States and the United Kingdom as the main sending markets), compared to outflows at US\$509 million (2022). Remittances account for nearly 3.4 per cent of gross domestic product (GDP) and are a leading source of foreign exchange in the country.
- The United States, the United Kingdom, Saudi Arabia and Germany are the top countries sending to Kenya (Central Bank of Kenya [CBK], 2023), whereas, according to the World Bank Bilateral Remittance Matrix, the receivers of remittances from Kenya in 2021 were Uganda (US\$321 million), Somalia (US\$235 million), South Sudan (US\$74 million) and Tanzania (US\$40 million). Germany is the largest send market from the European Union (EU), although, according to CBK data, volumes are small (US\$130 million in 2022).
- Intra-Africa flows totalled approximately US\$205 million in 2022 (5 per cent of total inflows). The largest corridors into Kenya are from Republic of Tanzania (US\$56 million), Uganda (US\$28 million) and, South Africa (US\$20.6 million).
- Transactions continued to grow to record levels in 2022, building off the progress made during the COVID-19 crisis and against all projections made by the World Bank and the CBK at that time. While the reasons underlying this increase are multi-fold, it may be due to improved conditions in key sending markets, noticeably the USA, as well as continued wider use of formal remittance services.
- Kenya is a net receiver of migrants with a mixed migrant profile. It hosts over 1 million immigrants (2022), 52 per cent of whom are refugees and asylum seekers.
- There is an estimated half a million Kenyans formally living overseas (UN DESA 2020). Although the Kenya Diapsora Policy suggests that this figure could be as high as 3 million, including migrants moving outside regulation migration channels. 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 200,000 living in Saudi Arabia alone (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, European, Asian, African and Oceania flows, and the rest of the world as well as a link to an excel based spreadsheet that contains data for 30 remittance corridors.<sup>1</sup> It also publishes an annual report with a summary of the sector's performance.
- CBK launched the publication of the Diaspora Remittances Survey and existing plan to undertake National Remittance Household survey by 2023.
- In Sept.2022, the Kenyan Government established a State Department for Diaspora Affairs under Ministry of Foreign Affairs now rebranded Ministry of Foreign and Diaspora Affairs.

## 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 launched its National Payment Strategy 2022–2025, which outlines measures to enhance Kenya's global lead in digital payments. Sections 3.9–3.11 cover cross-border payments including topics such as transparency, regional initiatives and global standards.
- Kenya has well-established civil registration and national identification systems, in which 91 per cent of people have a national 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. Kenya has 38 banks with a total branch network of 1,459 branches. Of those banks, 19 have 59,578 agents under the agency banking model (CBK, 2020d).
- Deposit-taking microfinance banks play a complementary role to commercial banks, as opposed to being competitors. The 40 credit-only institutions have a total of 362 fully fledged branches, 198 are in rural areas, 107 in urban areas and 57 in peri-urban areas (AMFIK, 2021). It is estimated that MFIs serve about 7 million depositors and close to 1.5 million borrowers (ORCA, 2015).
- Savings and Credit Cooperatives (SACCOs) play an important role in providing financial services completing the banking offering and are increasingly formalizing their operations. Through proper technical, commercial and compliant partnerships certain of them can add remittances to their offering and reach out lower end of the market customer segments.
- Financial technology (Fintech) companies have made a strong entry into the market, heightening product diversity and competition. They are largely focused on domestic transfers.
- Kenya's financial inclusion levels are one of the highest in Africa. Eight out of 10 adults have access to an account (bank account or mobile wallet) (FinAccess 2021). In particular, the wide usage of account among the population was mainly achieved through the uptake of mobile money wallets (81 per cent of adults owns a mobile money account? ). This prevalence of mobile wallets among the population strongly influences the remittance distribution while opening opportunities to achieve financial inclusion.
- There are three Mobile Money Providers. M-Pesa is a dominant market player in Kenya's mature mobile money landscape, characterized by mobile wallet activity

1/ <https://www.centralbank.go.ke/diaspora-remittances/>

levels of above 50 per cent with 66 per cent of the customer base using advanced digital financial services (such as savings, credit and insurance products).

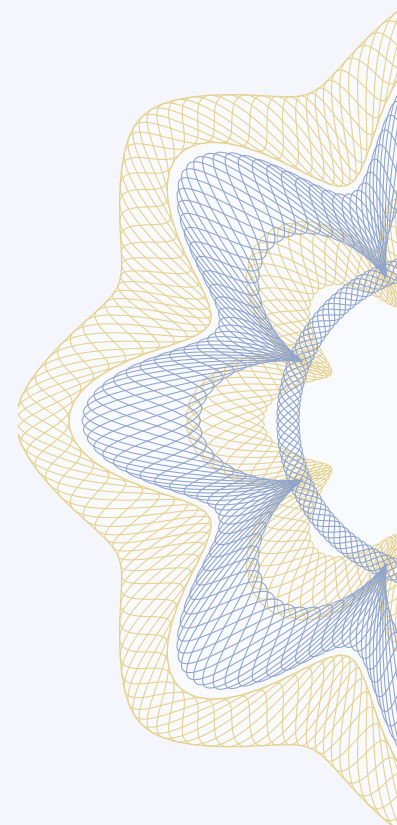
## Regulatory environment

- 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 (to banks and remittance service providers (MRPs)), and licensing and approvals may take a considerable time.
- There are 19 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. This limits the effective adoption of RBA for remittance product by providers given that their own discretionary RBA practices might not be recognized as a national standard by their foreign partners.
- 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 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 various migration profiles. Different methods are used for payments from outside of Africa compared to intra-Africa remittances. It is highly digitalized, driven by high financial inclusion rates and prevalence of mobile wallets.
- 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 are more streamlined than traditional, cash-based ones that rely on partners and payout agents as funds can be credited directly to a mobile wallet.
- In Kenya, 38 commercial banks, 14 deposit-taking MFIs, PostBank, 19 MRPs and two mobile money providers (MMPs) have a direct licence to offer inbound and outbound money transfers (CBK Banking Supervision Annual Report 2022). IMTOs partner with these entities and pay out via their own networks and subagents (mainly foreign exchange bureaus and lower-tier banks).

- While market share data for companies are unknown, the type of services and operators used varies by location, corridors and the profile of migrants. Interviews with key market players suggest Send Wave and WorldRemit are the largest senders of remittances into Kenya globally, with Chipper Cash growing in popularity. However, according to the Diaspora Remittance Survey, the most preferred service provider was M-Pesa/Safaricom followed by banks, World Remit, Wave and Western Union.
- At 6.2 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 (6.7 per cent, RPW 2022) and other intra-African corridors. There are low-cost services from 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. The National Payments Strategy 2022–2025 is planning to implement a range of measures to facilitate more sustainable growth in Kenya, particularly around the issue of transparency. One of the initiatives that will be considered will be to align the costs and charges of mobile money remittance transactions to the Pricing Principles issued by CBK in December 2020.
- 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 African countries (seven in total worldwide), 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 money transfer operators (MTOs) and agent locations (from where received funds into wallets can be withdrawn). For example, the number of active mobile money agents increased by 15.5 per cent. Additionally, Equity Bank with has 39,640 agents, KCB Bank Kenya Limited with 20,610 agents and Cooperative bank of Kenya Limited with 15,554 agents in Kenya.
- 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.
- 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 US\$200 from Uganda to Kenya is 7.24 per cent of the total 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 that has proven to work.

- Kenya's diaspora in South Africa is relatively small, with a mix of formal and informal migrants. Stakeholder interviews portray a growing corridor during the COVID-19 pandemic which subsequently declined due to visa restrictions in South Africa and less use of remittances to Kenya as a settlement hub for onward transfer to the Middle-East and Asia. 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 over 16,000 people. While average costs have declined to 4.99 per cent of the amount sent, online operators such as WorldRemit and SendWave have more competitive pricing – around 3 per cent.

## Financial services for remittance users

- Kenya has high levels of financial inclusion in terms of account ownership. It is estimated that 50–60 per cent of international payments end up in mobile wallets. 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 and 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 among African leaders in such services with potential to expand.

## Stakeholder coordination

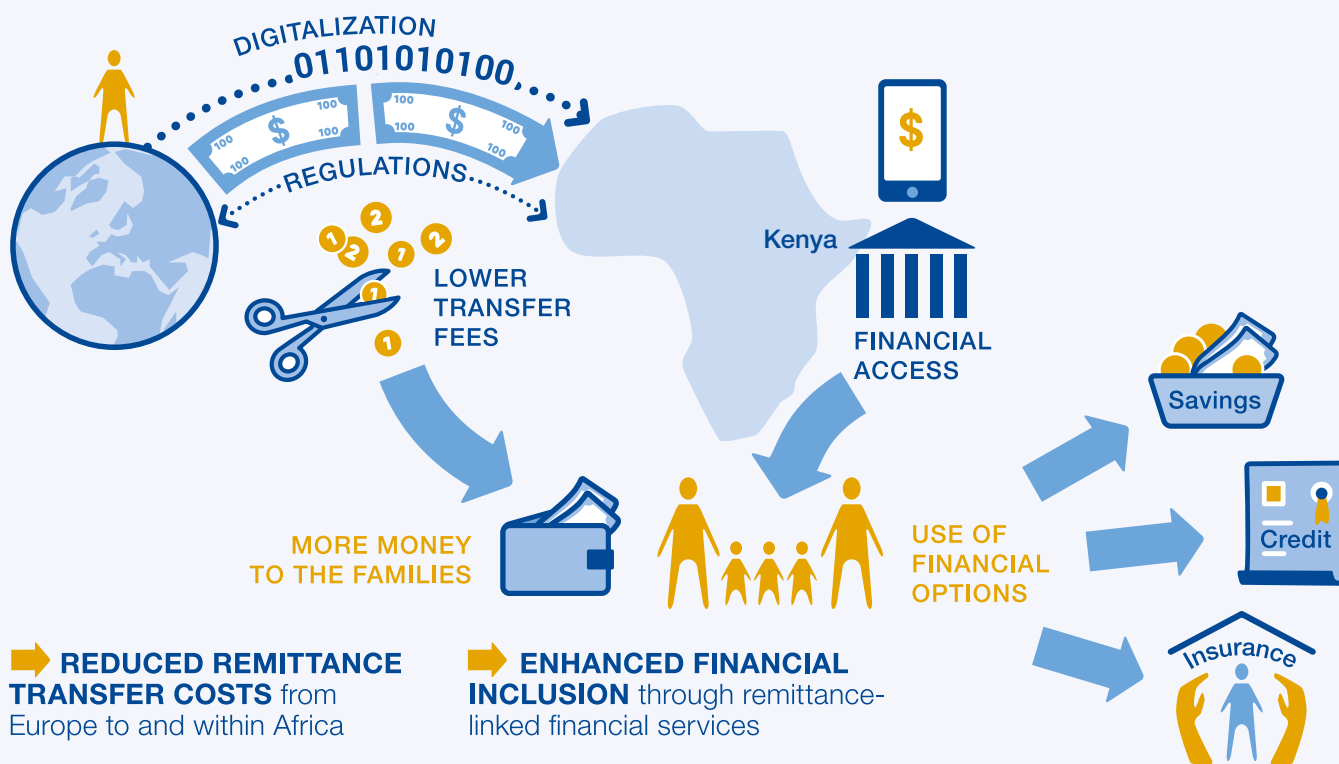
- At present, interventions from development partners on remittances are rather limited in Kenya, apart from descriptive research studies. The exceptions are the PRIME Africa project led by IFAD and the IGAD/UNCDF initiative regarding harmonisation of regulatory framework in the horn of Africa. The PRIME Africa programme, which is undertaking the Remittances Access Initiatives (RAI) in partnership with Cenfri to foster simplified CDD and improve digital on-boarding for remittance users, funding of Credit Bank Kenya, strengthening work with FSD Kenya, and launching the 'scaling and leveraging digital international remittances to Ghana, Kenya, Senegal, the Gambia and Uganda' project with MFS Africa. and other initiatives under grant facilities. PRIME Africa has also played a convening role in the National Remittances Stakeholder Network, the development of the Kenya Remittances Roadmap and the Community of Practice. The CBK plays an active role in supporting the sector, and the Kenya Forex & Remittance Association (KFRA) 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**

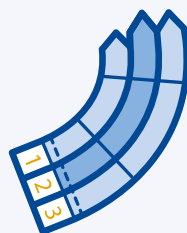


**ACTIVITIES**



● **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**

Cohherent 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 remittance transfers. PRIME Africa's objectives are to:

- A. Reduce remittance transfer costs to Kenya in support of SDG 10.c<sup>2</sup> 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.
- D. Accelerate digitization of international remittance, the use of digital products and the digital payments ecosystem in Kenya.

This diagnostic provides an assessment of Kenya's remittance market, especially in light of and since, 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 the original diagnostic study informed the road map that was designed to ensure a prioritized approach to interventions and the achievement of PRIME Africa goals.** Funding has been made available to the public and private sectors for implementation of the roadmap and qualifying initiatives are included in Section 6.

## 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 for the original diagnostic was conducted between October 2020 and January 2021. This diagnostic was updated in March, April and May 2023 and includes new data.** In addition, a series of in-person National Remittance Stakeholder Network meetings have been held since the original virtual meeting in Q1 2021.

2/ 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.



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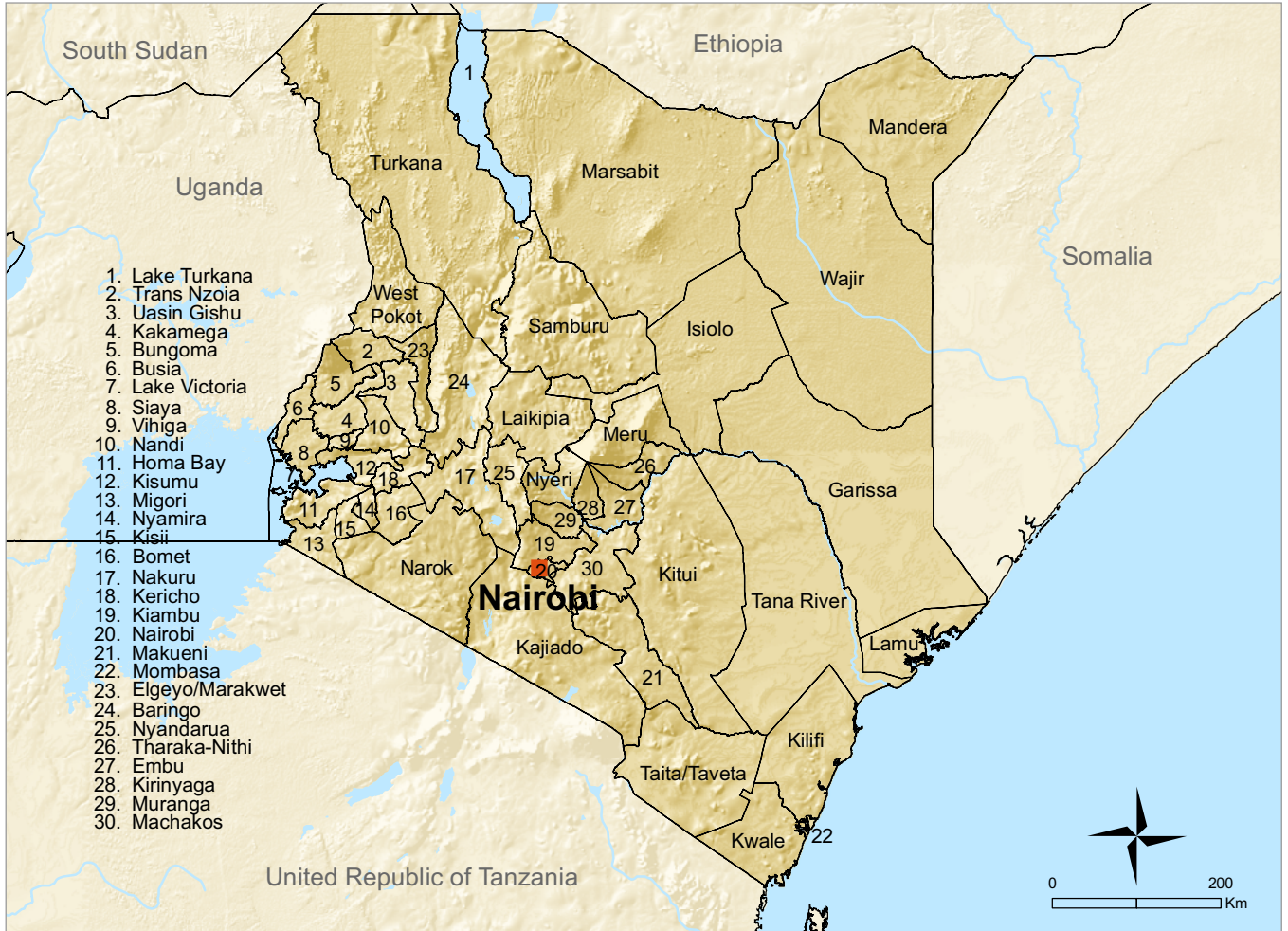
## RECOMMENDATIONS

The recommendations list below have been updated from the original recommendations in the diagnostic that was produced in 2021 to reflect changes as a result of that diagnostic and subsequent developments in the market.

- A. Continue to implement a remittances data strategy that enables improved data analytics and generation of market information, including disaggregated remittance outflows, channel usage and estimates of informal flows.**
  - B. Expand remittance providers' licensing categories to ensure an even distribution of access points, improved access and choice.**
  - C. Identify and leverage opportunities for cross-border remittance payment and settlement through the regional bloc.**
  - 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. Continue to leverage the National Remittance Stakeholder Network to maintain the Community of Practice for the coordination, implementation and review of improving Kenya's remittance landscape.**
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# 1. Migration and remittances

Figure 2. Map of Kenya





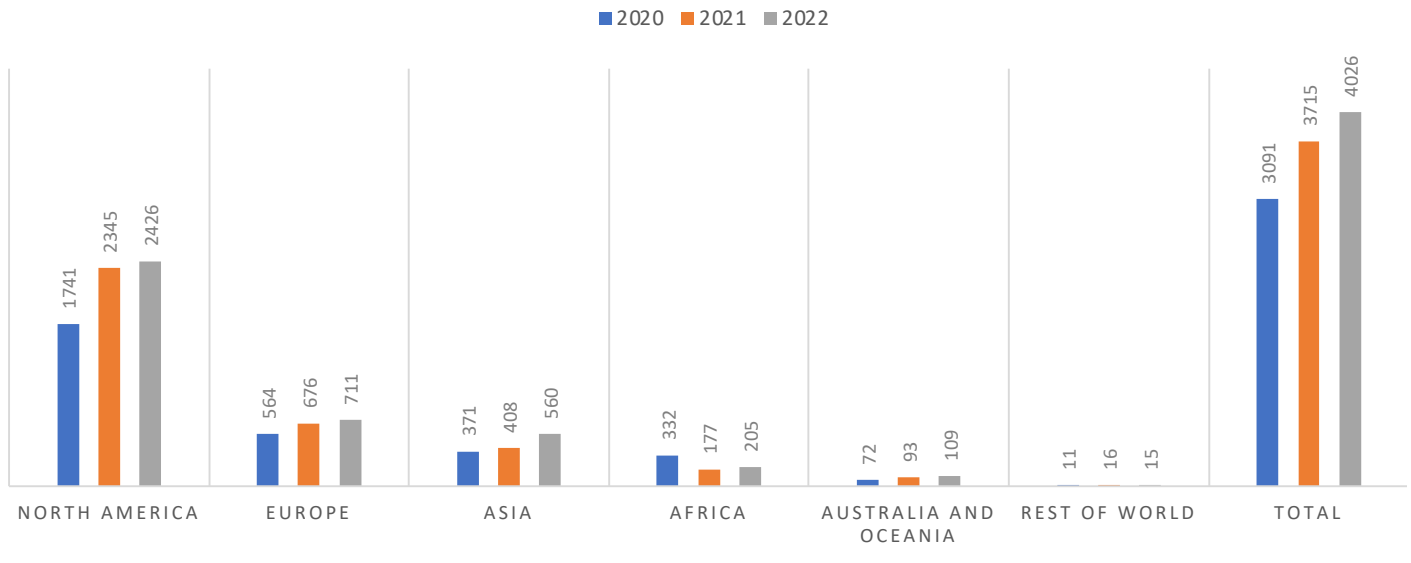
This section provides an overview of the migration patterns and other socio-economic activities that drive inbound and outbound remittances in Kenya as well as a sender/receiver profile. It also examines informal flows, accuracy, consistency and accessibility of remittance data.<sup>3</sup>

## Remittance flows into and out of Kenya

- Kenya is a net inbound remittance market, receiving over US\$4 billion in 2022, with the United States and the United Kingdom as the main send markets. Outward-bound remittances were estimated at US\$9 million (2021) by KNOMAD compared to World Bank bilateral remittance matrix which estimated outflows at US\$714 million in 2021, demonstrating the need for published data from the CBK on outflows by corridor. Remittances account for nearly 3.4 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\$3.7 billion in 2021 (World Bank 2021) after: Egypt (US\$31 billion); Nigeria (US\$19 billion); Morocco (US\$11 billion) and Ghana (US\$4.1 billion) (World Bank Annual Inflows 2021).
- Remittances to Kenya remained resilient against the backdrop of the COVID-19 pandemic and recorded record highs in 2020.
- Remittances are an important economic driver in Kenya's economy, contributing 3.4 per cent to its GDP in 2021 (World Bank, 2021) and exceeding 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, the Payments National Strategy, and the newly established State Department for Diaspora Affairs with commitments to grow remittances and reduce costs.
- According to the CBK (2022), top inflows in 2022 were from: the United States (US\$2.3 billion, 57.5 per cent); the United Kingdom (US\$333 million, 8.3 per cent); Saudi Arabia (US\$302 million, 7.6 per cent); Germany (US\$129 million, 3.3 per cent) Australia US\$105 million, (2.6 per cent) (author's own calculations based on data from the CBK).
- In 2022, remittance outflows from Kenya totalled approximately US\$509 million (Ksh 70 billion), according to the CBK banking supervision annual report (2022), which is an increase from US\$444 million in 2021. The CBK does not publish outbound remittances by corridor.
- The World Bank estimates that remittance outflows from Kenya were US\$714 million in 2021 (World Bank BRM 2021). According to the World Bank's Bilateral Remittances Matrix, which is based on estimates where data are unavailable, the top five outbound remittance destinations for 2021 were: Uganda (US\$321 million, 45 per cent), Somalia (US\$235 million, 33 per cent); South Sudan (US\$74 million, 10 per cent), Tanzania (US\$40 million, 6 per cent); and Democratic Republic of Congo (US\$25 million, 4 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).

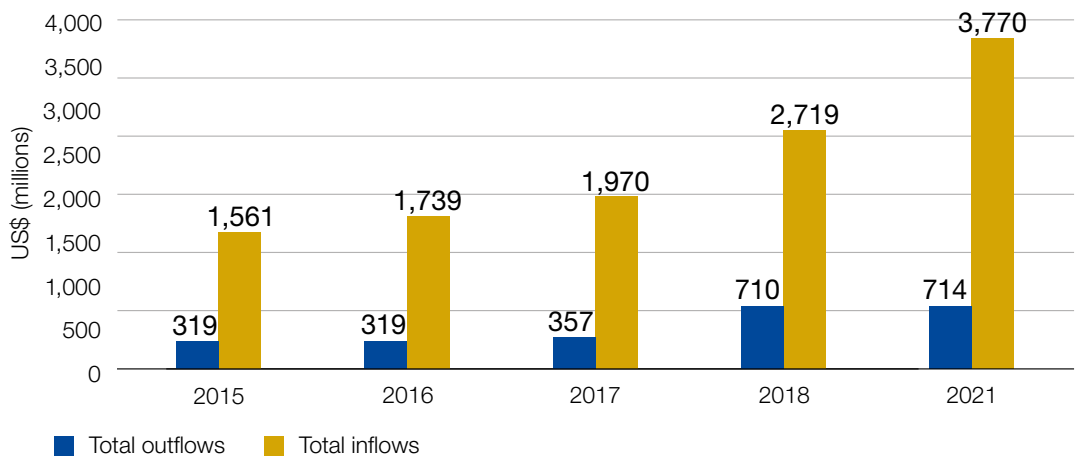
<sup>3/</sup> Important note on data. There are a number of different data sources used in the next section, which are not always consistent thereacross. Where available, data have been used by the Government of Kenya, but are supplemented by international databases.

Figure 3. Inbound remittances (US\$ million)



Source: CBK, 2023.

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

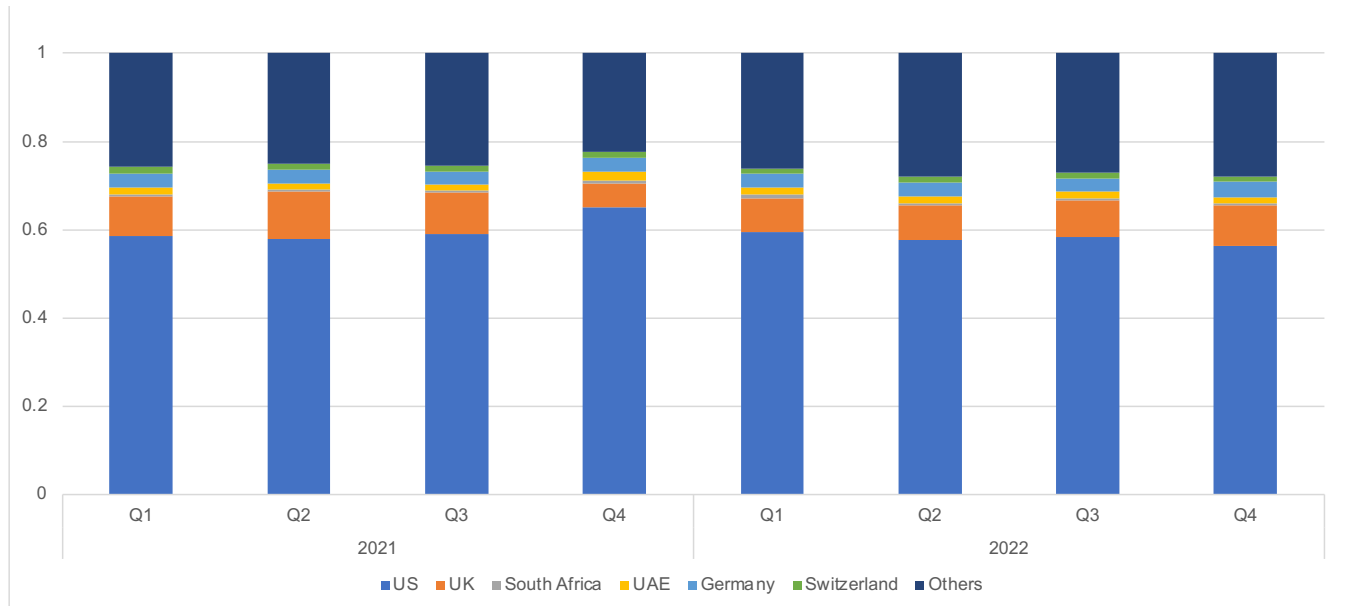


Source: World Bank Bilateral Remittance Matrix, 2022.

- The FinAccess Survey 2019 is a survey of 11,000 households across Kenya. The FinAccess Survey was issued again in 2021, however, remittances data was not included. 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 United States, the United Kingdom, Saudi Arabia, and Germany are the top countries sending to Kenya, while according to the 2019 FinAccess Survey, Uganda, the United Republic of Tanzania and the United States are the main receiving countries from Kenya. Germany is the largest sender from the EU (US\$129 million in 2021) (figure 5).
- These data have not been officially published by the CBK. The data captured shows formal remittance flows by corridor but not informal flows, which are believed to be sizeable. They show that remittance inflows from the United States increased in

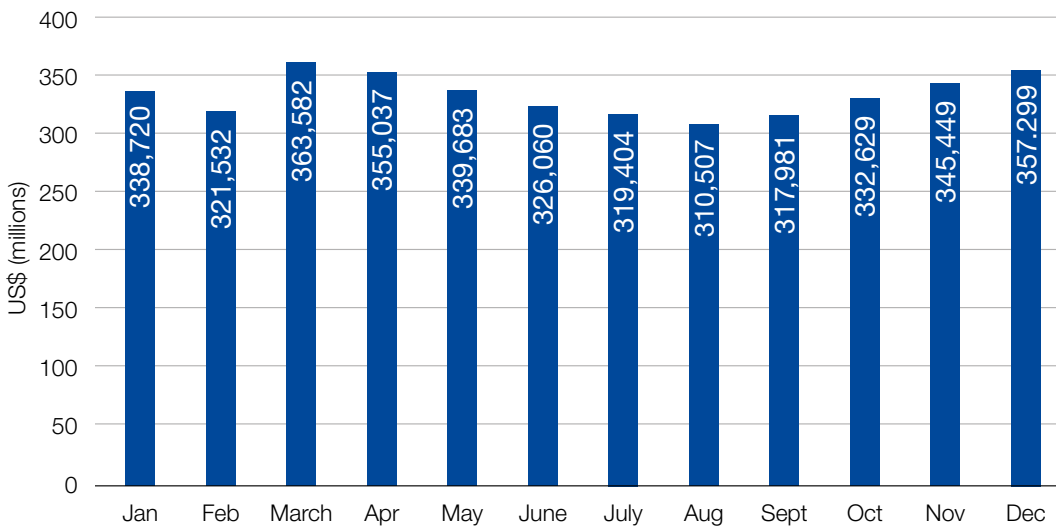
2022 accounting for nearly 60 per cent of flows in Q4 of that year. Remittances from the United Kingdom accounted for 7 per cent. Inflows from South Africa dropped significantly in Q4 2020 and have remained low. It is understood that Kenya was being used as a forwarding point for payments from South Africa to the Gulf States, particularly during COVID-19 but that this particular sub-market has diminished quite quickly.

**Figure 5. Remittances by source country (per cent of total)**



Source: CBK, 2023.

**Figure 6. Total global remittance inflows into Kenya for 2022, (US\$ million)**



Source: CBK, 2023.

*Transactions continued to grow to record levels in 2022, building off the progress made during the COVID-19 crisis and against all projections made by the World Bank and the CBK at that time. While the reasons underlying this increase are still unknown, it is thought to be due to improved conditions in key sending markets, noticeably the USA, as well as continued wider use of formal remittance services.*

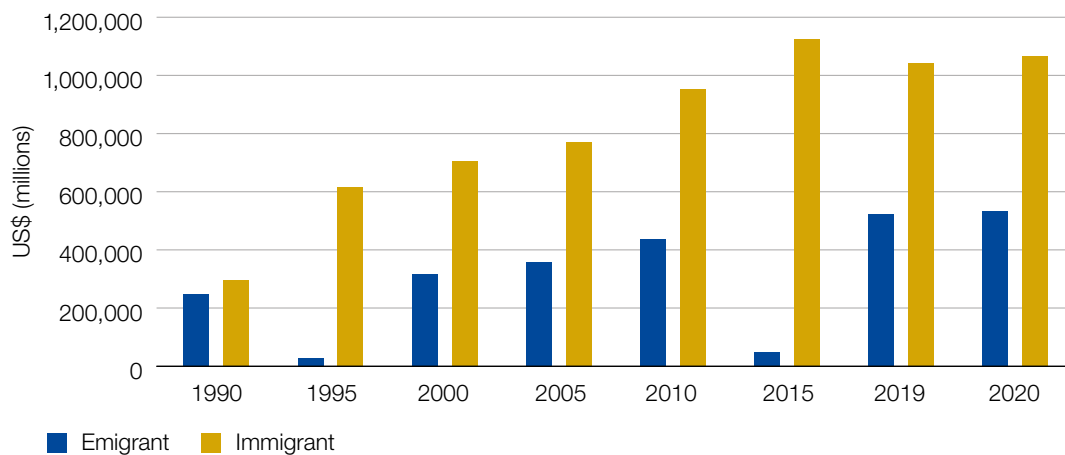
- In response to the COVID-19 pandemic, Kenya had a temporary decline in remittance inflows, but then recovered and experienced growth. Remittance inflows stood at US\$299.6 million for December 2020, compared to US\$250.3 million for December 2019 – a 19.7 per cent increase (CBK, 2021).
- The CBK had 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.
- The increase in remittance inflows is most likely related to either the diaspora increasing their support during a period of economic hardship 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.

## Emigration and migration

- 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 2020, there were just over 1 million international immigrants in Kenya (1,050,100) and as of April 2022, 550,817, (52 per cent) of these were refugees and asylum seekers (latest data available) (UN DESA, 2020; UNHCR, 2022) (figure 7).
- Kenya is host to the third-largest number of refugees and asylum seekers in the region, after Uganda (1,532,168) and Ethiopia (941,000) (UNHCR). The majority of refugees are from Somalia (55 per cent), while South Sudanese (31 per cent), Congolese (6 per cent) and Ethiopians (4 per cent) make up the other major nationalities (UNHCR, 2023). This is attributed to: (i) Kenya's geographical location amid fragile neighbouring countries; (ii) Kenya's relatively reliable transportation network; and (iii) Kenya's stable economy (IOM, 2018: 48) (figure 8).

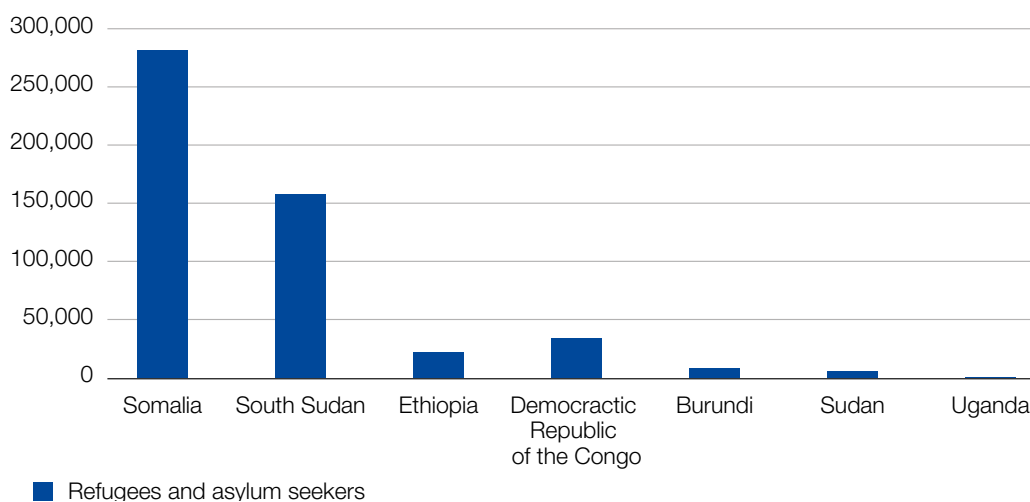
*Kenya is a net receiver of migrants, with a mixed migrant profile. It hosts over 1 million immigrants, 52 per cent of whom are refugees and asylum seekers.*

**Figure 7. Kenyan migrant stocks (1990–2019)**



Source: UN DESA, 2020: Migrant Stock by Origin and Destination.

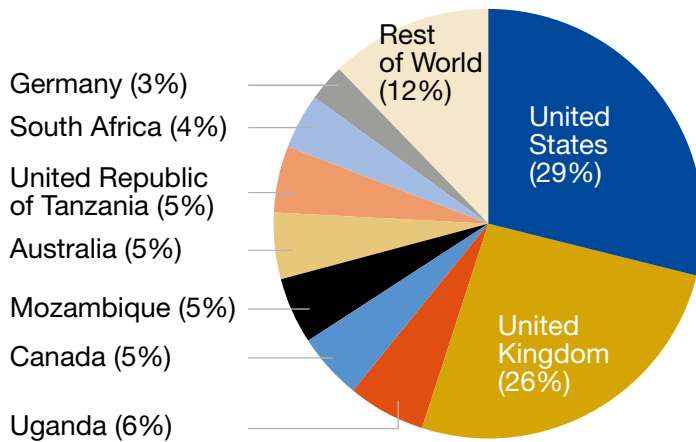
**Figure 8. Number of immigrants into Kenya and refugee and asylum seekers**



Source: UNHCR 2023.

- 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.

**Figure 9. Kenyan diaspora by destination**



*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 200,000 Kenyans living in Saudi Arabia alone.*

Source: UN DESA 2020.  
Please note: migrant stock bilateral data from the World Bank and UN DESA do not include data from the GCC States.

- 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 535,300, with the United States, the United Kingdom, Uganda, Canada and Mozambique being the top destinations (UN DESA 2020).
- The number of Kenyans formally living in other African countries is lower than those residing in EU countries – 126,637 versus 187,678 (respectively). The top host countries include neighbours Uganda, Mozambique and the United Republic of Tanzania (UN DESA 2020) (figure 9). Stakeholder interviews suggest there are significantly more Kenyans in South Africa who did not use legitimate migration channels.
- According to UN DESA (2020), Germany has the largest Kenyan diaspora in the EU, with 3 per cent of the total diaspora, or some 16,678 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 4,600 and 4,200 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 at least 200,000 Kenyans in Saudi Arabia alone.

## 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 conducted a Diaspora Remittances Survey between March and May 2021 as part of an effort to increase monetary transfers' role in economic growth. The information collected includes: 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 the 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, 2022).
- 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 overall since the COVID-19 pandemic but the extent of this behaviour change has yet to be quantified. Some stakeholders, during interviews in 2020 thought the increases were due to informal flows going through formal channels following border and service closure, for example, between South Africa and Kenya.



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## 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 as well as on the top 33 corridors. 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 published in regional blocks from the send destinations, for example North America, Europe and the rest of the world by value and volume. In addition, flows for the top 33 corridors are available on the CBK website but there is limited awareness of this and it is not widely used. They are published monthly by the CBK and are up to date, the latest data available being April 2023 (CBK, 2023). 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 continues to improve its data collection templates and systems from the RSPs and is aiming at providing more detail with more analytics by next year. 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.

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### 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. 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, as well as in the upcoming National Remittance Household Survey in collaboration with KNBS and FSD Kenya. Such data would also serve to guide policy decisions and action plans to formalize informal remittances and support efforts to curb illicit flows.
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## 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 has launched its 2022–2025 National Payment Strategy, which outlines measures to enhance Kenya's global lead in digital payments. Sections 3.9–3.11 focus on cross-border payments, particularly on transparency, regional initiatives and adoption of ISO in 2022. Facilitating industry-led interoperability emerges as a priority, together with trust, security and innovation.*

- Interoperability between payment channels allows RSPs and remittance recipients to move money easily between different channels. Kenya has some level of interoperability with Kenswitch, PesaLink (IPSL Kenya) and bilateral agreements all enabling the service. In April 2022 the CBK launched mobile money interoperability between Airtel, Safaricom and Telkom.
- 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's, 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. 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), 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. As of June 2022, the PAPSS

*The CBK has launched its 2022–2025 National Payment Strategy, which outlines measures to enhance Kenya's global lead in digital payments.*



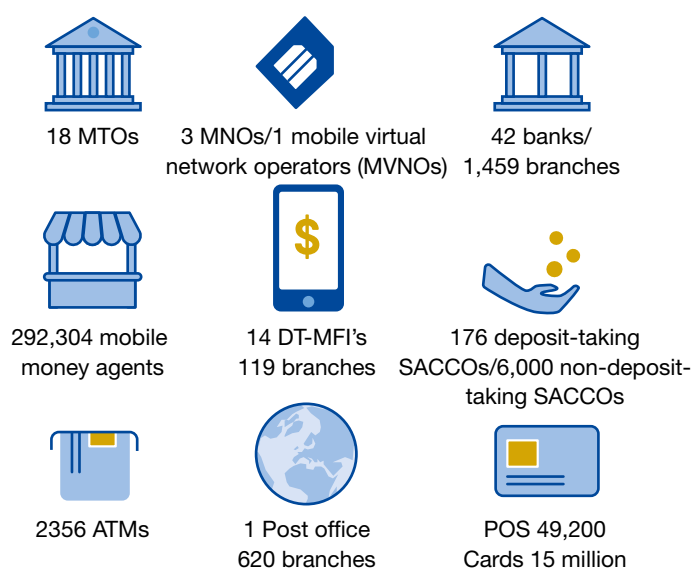
(CDD) and KYC innovations. The target countries are Ghana, Kenya, Morocco, Senegal, South Africa, the Gambia and Uganda. The target audience is remittance-receiving households, especially low-income rural households and women-centre. The project involves providing dedicated capacity building to 14 selected RSPs and allows the private sector to pilot new ways to conduct their CDD and KYC processes (appendix 5 provides further information on the project).

## 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).*

- Commercial banks. With 38 banks, some analysts believe Kenya is overbanked. The total branch network is 1,459 branches. Of those banks, 19 have 59,578 agents under the agency banking model (CBK, 2020d). The competitive market environment and restrictions on movement due to the COVID-19 pandemic saw 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 99.7 per cent share of customers. Kenya's Airtel Money has 0.2 per cent and Telkom Kenya's T-Kash 0.1 per cent (2021). Together, the three have 318,607 active agents (CBK 2022). 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 40 credit-only institutions with a total of 362 fully fledged branches, 198 are in rural areas, 107 in urban areas and 57 in peri-urban areas (AMFIK, 2021). It is estimated that MFIs serve about 7 million depositors and close to 1.5 million borrowers (ORCA, 2015).

**Figure 10. Financial service access points**



## 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 1).

Table 1. SACCOs, fintechs and payment integrators<sup>4</sup>

	<p><b>SACCOs</b> began as informal savings associations but have formalised their operations in the last decade to include Front Office Service Activities (FOSA), Back Office SACCO activities (BOSA), Digital solution offerings, Agency Banking and card services. Kenya has over 5,000 SACCOs of which 261 are regulated by SASRA (deposit-taking and non-deposit taking). The national SACCO authority was established in 2008 as recognition of SACCOs' relevance in the financial sector.</p> <p>Through their branches, they offer financial service products and are key in expanding reach to rural areas. Following increasing incidents of fraud, SASA plans to license non-deposit taking SACCOs with deposits of over US\$2 million (SASRA, 2020). In March 2022, CBK launched a new digital lender license and it is anticipated that they will partner with SACCOs.</p>
	<p><b>Fintech.</b> The Fintech landscape has experienced remarkable growth attributed to the mature payments ecosystem and conducive regulatory environment. Of the estimated 150 fintech start-ups, mobile payments (examples M-changa, Wayawaya, LipaPlus and lending platforms (examples Tala, Branch, Farmdrive, Okash) and Tada which makes shops into banking and Mobile Money agents (Nzekwe, 2020), (Tanda, 2021) See p.38 for Kenyan based Fintechs offering cross border remittance service</p>
	<p><b>Payment Integrators.</b> The expanding payments ecosystem has led to the emergence of integrators who serve various providers especially merchants to enable them accept various payment instruments. IPSL (PesaLink), Jambopay, Cellulant, DPO and iPay are examples.</p>

4/ On March 21, 2022, the Central Bank of Kenya (CBK) announced the publication of the Central Bank of Kenya (Digital Credit Providers) Regulations, 2022 (the Regulations) on March 18. The Regulations were issued pursuant to Sections 57(1), 57(3) and 57(4) of the Central Bank of Kenya Act (the CBK Act). They provide for the licensing and oversight of previously unregulated Digital Credit Providers (DCPs). Total regulated lenders = 32.

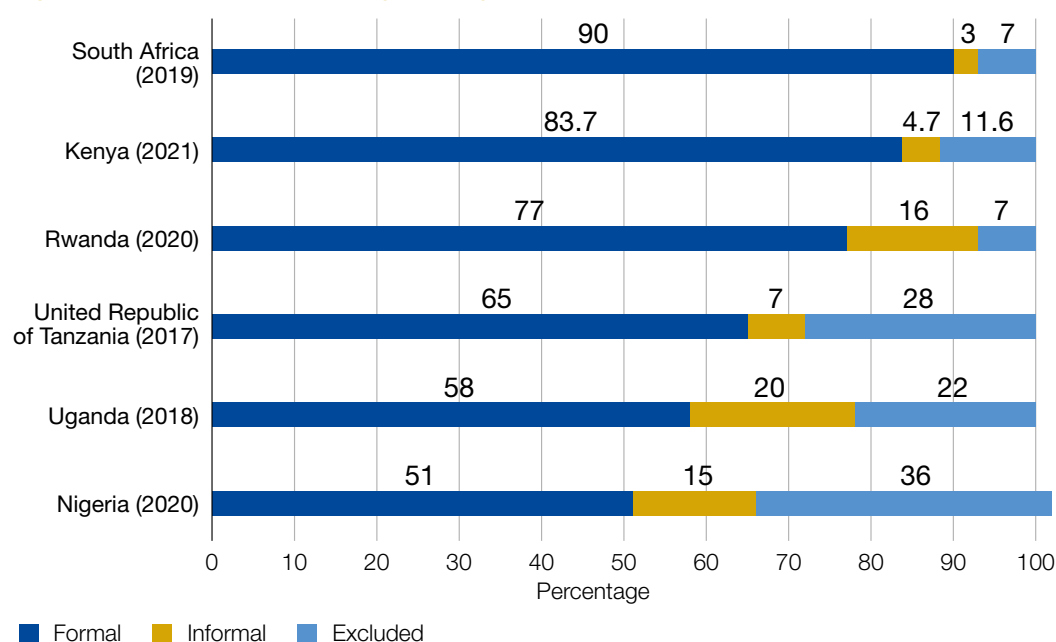
## Financial inclusion

Financial inclusion levels in Kenya are among the highest in Africa, with 8 out of 10 adults formally financially included. This has mainly been achieved through the uptake and use of mobile money wallets (81 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).

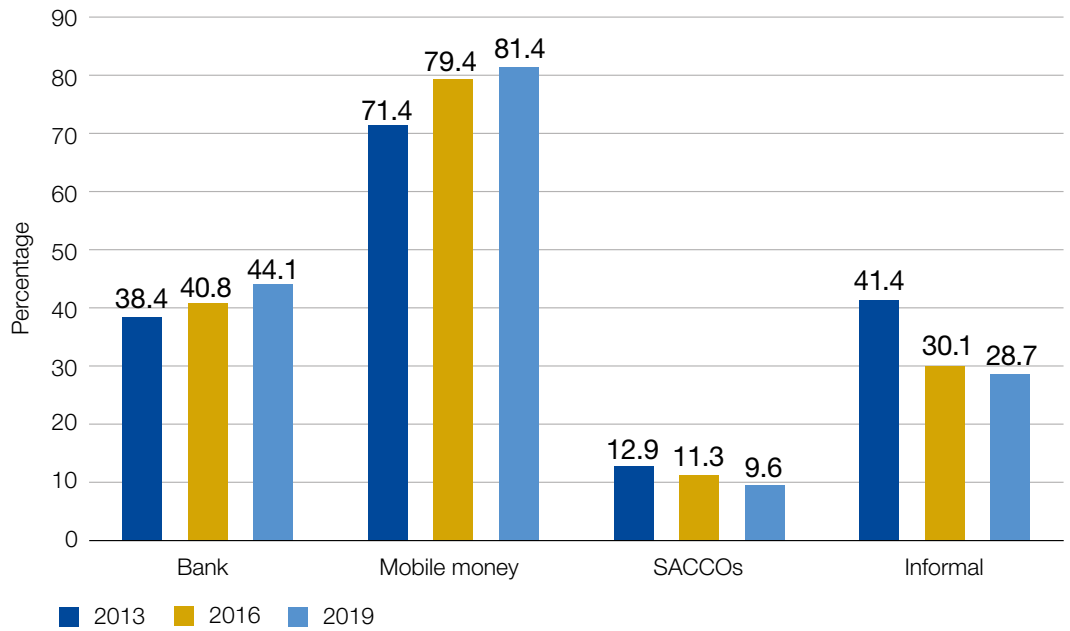
*Financial inclusion levels in Kenya are among the highest in Africa, with eight out of 10 adults formally financially included.*

Figure 11. Financial inclusion by country



Source: CBK FinAccess 2021.

Figure 12. Financial services usage by financial service provider type



Source: FinAccess, 2019.

## Diaspora Remittances Survey

- Between March and May 2021, the CBK, along with the Kenya National Bureau of Statistics (KNBS) and the Ministry of Foreign Affairs (MFA) conducted Kenya’s first Diaspora Remittances Survey.
- The main aims of the survey were to have more insight into the remittance inflows to Kenya, and to gain an understanding of the efficiency of formal remittances and cost of alternative remittance channels. The survey also sought to investigate the difficulties with remitting cash or in-kind transfers, as well as looking at the availability of information for Kenyans in the diaspora about investment opportunities in Kenya.
- The survey had 1,321 participants with 28 per cent from Europe, 27 per cent from North America, 22 per cent from Asia and 16 per cent from African countries.
- Key findings from the survey include that over 70 per cent of respondents sent remittances in cash through formal channels, mostly through RSPs, banks and mobile money operators.
- The use of digital service providers was found to be high amongst the respondents due to convenience, efficiency in terms of speed and ease of access. The most popular service provider was Safaricom/M-PESA, followed by RSPs such as World Remit, Wave and Western Union.
- In terms of remittance costs, participants in the survey noted costs of between 4–5 per cent, on average, with costs from Europe and Asia being higher than other regions in the world, averaging around 6 per cent.
- The main challenges with remitting through formal channels were around high costs, hidden charges and some long transfer times.
- In terms of investment, the main areas of interest and activity were in land or real estate, the stock market and/or government securities.



## 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 CBK reported 74.4 million mobile money accounts in Kenya, served by over 300,000 agents in February 2023 (CBK, 2023).
- M-Pesa is the dominant market player, with a 99 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 81.4 per cent between 2016 and 2021.
- 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 2. Market position and services offered by Kenya's four mobile money providers**

					
<b>Agents</b>		300,000	24,805	2,525	-
<b>Active customers</b>		30,193,833	310,359	13,999	1, 660,000
<b>Market share</b>		98%	1%	0.04%	-
<b>First generation products</b>	P2P/send money	✓	✓	✓	✓
	Cash-in/cash-out	✓	✓	✓	✓
	Bill payment	✓	✓	✓	✓
	Airtime purchase	✓	✓	✓	✓
	Bulk payments	✓	✓	✓	✗
<b>Second generation products</b>	Cross-border remittances	✓	✓	✗	✓
	Merchant payments	✓	✓	✓	✓
	Digital lending	✓	✓	✓	✓
	Digital savings	✓	✓	✗	✗
	Microinsurance	✓	✓	✗	✓
	Crowdfunding	✓	✓	✗	✗
	Investments	✓	✓	✗	✗
	Bank2wallet/Wallet2bank	✓	✓	✓	✓
	Card solution	✓	✗	✗	✓
	Overdraft	✓	✗	✗	✓

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## 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 be extended to bank agents using the PesaLink model.
    - Merchant interoperability. Take advantage of the 2023 the Kenya Quick Response Code Standard 2022 to ensure interoperability and, 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 usage 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 of the measures introduced during the COVID-19 pandemic which have not been maintained, 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 Afric.

*Money remittance regulations for providers wishing to offer inbound and outbound remittances are clear and include MMPs. Kenya no longer has a foreign exchange control 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. This authorization process is not causing any difficulties in the operation of the market.
- 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.

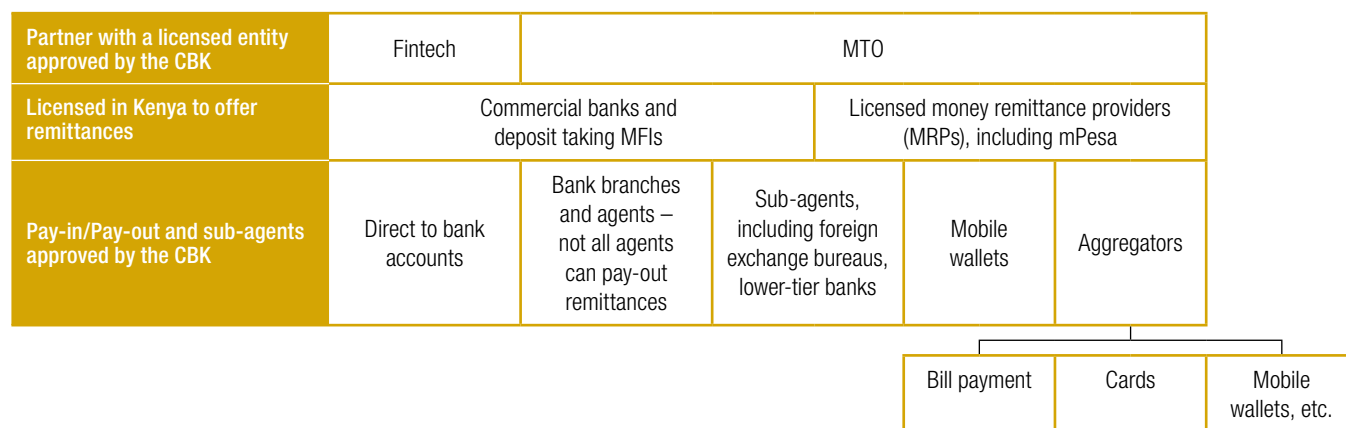
- In 2019, the National Treasury established a Taskforce on the National Risk Assessment on money laundering and terrorist financing (NRA Taskforce). The main objective of the NRA was to identify, assess and understand Kenya's ML/TF risks at both national and sectoral levels. The Taskforce undertook a series of activities that resulted in the NRA Report and the National Anti-Money Laundering and Countering Financing of Terrorism and Proliferation Financing Strategy and Action Plan in 2021. The key highlights impacting the Kenyan remittance market include:
- The report found that the banking and foreign exchange bureaus sector pose a high ML vulnerability. Weaknesses identified include low AML/CFT knowledge among staff of foreign exchange bureaus, and money remittance providers and ineffective systems of monitoring and reporting suspicious activity in foreign exchange bureaus. Unregulated businesses offering financial services such as credit only institutions pose a high ML risk. This is due to difficulties in establishing the sources of funding for such enterprises as well as the use of such businesses to create multiple layers of transactions aimed at concealing the source of funds. See below on closure of MTOs in Kenya (CBK annual report 2022).

## Licensing

- Of Kenya's 19 licensed money remittance providers (MRPs), 17 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 the 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. Airtel began operating cross-border transfer from and to Kenya in the last few years. From Kenya, Airtel allows customers to send remittances to Malawi, Rwanda, Tanzania and Zambia. Airtel is also partnered with World Remit, which allows customers to send from the World Remit platform and receive in an Airtel wallet. It is only in the last few or so that MMPs have been licensed for cross-border transactions. Previously, M-Pesa had to be an agent of licensed entities (such as 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 but a new grant under the PRIME Africa project will explore the conditions that enable payouts to be made by using Credit Bank's licence. 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.

*There are 19 licensed MRPs in Kenya. IMTOs do not need to be licensed but operate through commercial banks and licensed MRPs as agents.*

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).
- 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 were increased from US\$700 to US\$1,500 and are still in use. During the COVID-19 pandemic, the CBK issued emergency measures, including increasing the transaction limit to Ksh. 150,000

- (US\$1,100) and the daily limit to Ksh 300,000 (US\$2,200). The mobile wallet balance was also increased to Ksh 300,000 (US\$2,200). These have remained in place.
- The NPS 2022–2025 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 2022–2025 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 – for example, the requirement to screen all remittance transactions regardless of value. Compliance is one of the highest cost drivers in remittance businesses. And such costs are passed on to customers, which reduces the effectiveness of cost reduction measures (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.
  - Kenya has an integrated population registration system (IPRS) that allows banks and PSPs to check customer IDs against CDD guidelines, such as the requirement for a national ID to open a bank account. Current CDD guidelines can be 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.
  - In 2022 the CBK issued a letter to chief executives of commercial banks, microfinance companies and mortgage finance firms stating that two companies were engaging with money remittance business without the appropriate authorisation, and therefore raising fears of money laundering and fraud.
    - The aim of the letter was to stop these entities partnering with the Fintechs that were performing remittances without the correct license.
    - As a result, approximately US\$52.5 million was confiscated from one of the companies and frozen in two banks and 19 mobile money accounts. As of February 2023, the courts in Kenya dismissed the charges against the company and ordered the frozen funds to be released.
    - It is understood that the main issue with Fintechs operating money remittances without the appropriate license was due to AML concerns, especially due to recent terrorist events in Kenya.
    - Stakeholders suggest that this has caused a disruption to the Fintech sector with some stopping their operations in Kenya altogether for fear of fines or closure.
  - 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 a 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.
- The IFAD and Cenfri remittance access and innovative (RAI) programme has been designed to improve CDD/KYC process to enable improved access to remittances for customers.

### Tiered KYC and Customer Due Diligence

- Each Financial Service Provider is able to set their own tiered Customer Due Diligence levels. This applies to all FSPs, banks, non-banks and PSPs. This has resulted in a lack of standard approach by product to proportionate money laundering and terrorist financing risks with no tiers or thresholds and, as a result no lower-risk or basic accounts.
- This approach limits the effective adoption of RBA for remittance product by providers given that their own discretionary RBA practices might not be recognized as a national standard by their foreign partners.

### 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's regulation on mobile money 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; however, services (especially digital) are not always transparent in terms of pricing, and dispute resolution mechanisms are not always clear, which undermines trust.*

### 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).

### 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).
- Since this point a number of regulations have been made to help strengthen its implementation including Data Protection (Compliance and Enforcement) Regulation in 2021 which includes complaint handling procedures, Data Protection (Registration of Data Controller and Data Processors) Regulations 2021, and Data Protection (General) Regulations 2021 which includes the transfer of personal data outside of Kenya.
- 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 introduced a digital service tax, both of which increase the cost of using digital remittance services.*

### Remittance/deposit protection

- RSPs are required to place a security consisting of either a surety bond, irrevocable letter of credit or insurance 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. As of June 2021, membership comprised of 39 commercial banks, one mortgage finance institution and 14 deposit-taking microfinance banks. KDIC's new revised coverage limit has been KES 500,000 since July 2020.

*Kenya taxes mobile money and has just introduced a digital service tax, both of which will increase the cost of using digital remittance services.*



### 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). There were proposals to double the tax to 3 per cent in 2021, however, these were ultimately rejected by Parliament.

### Cryptocurrencies

- In 2015, the CBK issued appropriate remedial action (Didenko, 2017). Governor Patrick Njoroge of the CBK declared in December 2015 that virtual currencies like Bitcoin were not considered legal tender in the country. 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.
- In February 2022, the CBK published a discussion paper exploring the potential implementation of a Central Bank Digital Currency (CBDC) in Kenya. The paper urged Kenyans to express their opinions to help shape the introduction of a digital currency in the nation. In June 2023 a follow-up paper was issued that stated that a CBDC in Kenya may not be a compelling priority in the short to medium term, however, the CBK will continue to monitor developments to consider for the future.
- Kenya was estimated as the fifth-largest country for crypto ownership globally (KWS 2022).

### 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.

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## 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, for example, for Foreign exchange bureaus, SACCOs and so on, 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 agreement 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 should 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 to introduce authentication for providers with biometric functionality.
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## 4. Remittance market structure

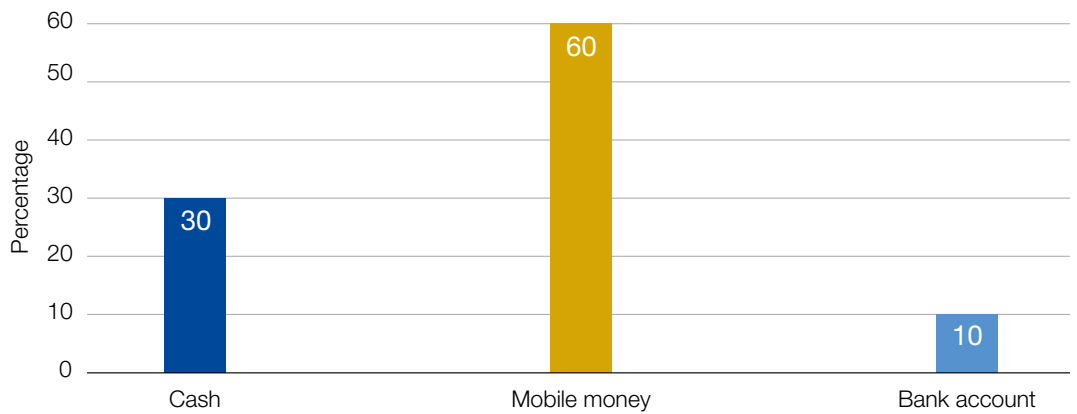
This section looks at the structure of the remittance market and competition in the main send markets and at Kenya's payout and outbound remittance networks. The cost of sending money to Kenya is assessed, some cost drivers are identified and insights into access to services are offered.

*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.*

- There is no information publicly available on the structure of the remittance market into or out of Kenya. As noted, there are 19 MRPs licensed in Kenya who offer services as well as the postal service, and 38 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 99 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) and having nearly 50 per cent of all bank accounts in Kenya (Equity Bank 2023). With a customer base of 9 million account holders, 217 branches and 42,000 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 because of restrictions on movement imposed during the COVID-19 pandemic, when there was a marked increase in digital usage, but has somewhat returned following the crisis. 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.

*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.*

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

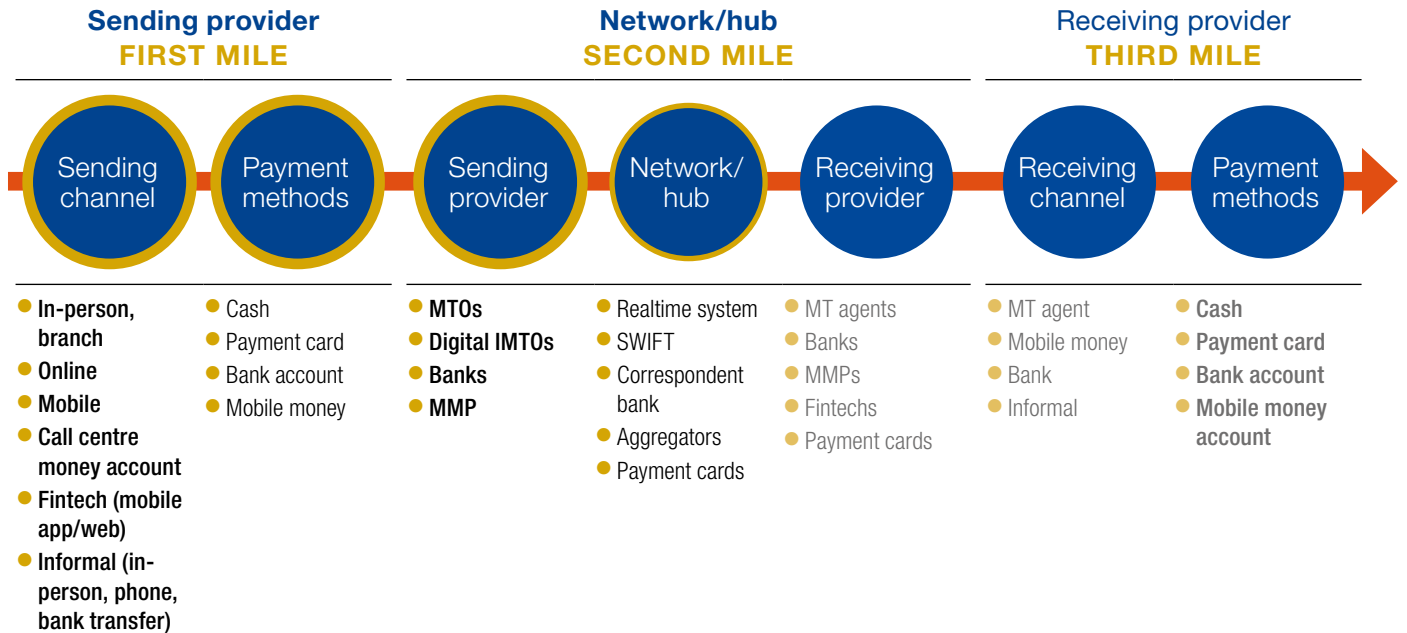


Source: Stakeholder interviews, 2023.

## 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, 38 commercial banks, deposit-taking MIFs, the postal service, 19 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 3. 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 deposit-taking MFIs	MTOs	MMPs	Subagents	Fintechs and online providers
<ul style="list-style-type: none"> <li>– Banks offering x-border services through SWIFT, EAPS etc..</li> <li>– Ecobank (Rapid Transfer), UBA (Africash) and Postal Service (PostaPay) have own remittance products</li> <li>– Most banks are agents of IMTOs: Western Union, MoneyGram, RIA, World Remit, SendWave and Xpress Money (Unimoni). DTB Kenya has a banking hall dedicated to remittances</li> <li>– Banks offer SWIFT also to send and receive services (e.g. KCB, Equity etc.) that focus on diaspora and remittances</li> </ul>	<p>MTOs have very distinct characteristics:</p> <ul style="list-style-type: none"> <li>– Dhahabshil, Tawakal, Juba Express etc.. have UK, UAE, USA, Somalia and South Sudan as key destinations. Close to 90 percent of these are Somali owned businesses, have their own remittance payment platforms, international cash out networks and are heavily cash focused. Recently some have begun to offer digital receive channels. Combined they have 52 agents with 46% in Nairobi. <b>See Annex 8.</b></li> <li>– Others such as Flex, Upesi and Mukuru MT are more digitally focused</li> </ul>	<ul style="list-style-type: none"> <li>– M-Pesa Global offers send and receive through partnerships with 25 entities, including Aggregators and IMTOs, enabling send and receive to 167 countries</li> <li>– Airtel Money licensed but currently not offering services</li> <li>– Equitel is a payout partner for Juba Express</li> </ul>	<ul style="list-style-type: none"> <li>– Mostly Forex Bureaus and lower tier banks who are sub agents of Banks and MTOs.</li> <li>– Form the bulk of remittance outlets but are not listed in CBK count.</li> <li>– MFIs include Uwezo, SMEP, Kenya Women's Finance Trust.</li> <li>– There are 76 forex bureaus in Kenya, not sure how many are agents of IMTOs.</li> </ul>	<ul style="list-style-type: none"> <li>– Include web/ App based and online services such as PesaBase who partner with banks in Kenya to offer remittances and small-scale trade flows but have received full licensing in other jurisdictions e.g. Australia.</li> </ul>
				

## 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 and Ria Money that leverage Postbank's extensive distribution network of 96 branches, especially in rural areas (Postbank, 2023).

### 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 622 branches in 10 regions (PCK, 2023).
- 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).
- **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) to help deliver goods for ecommerce companies).

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.

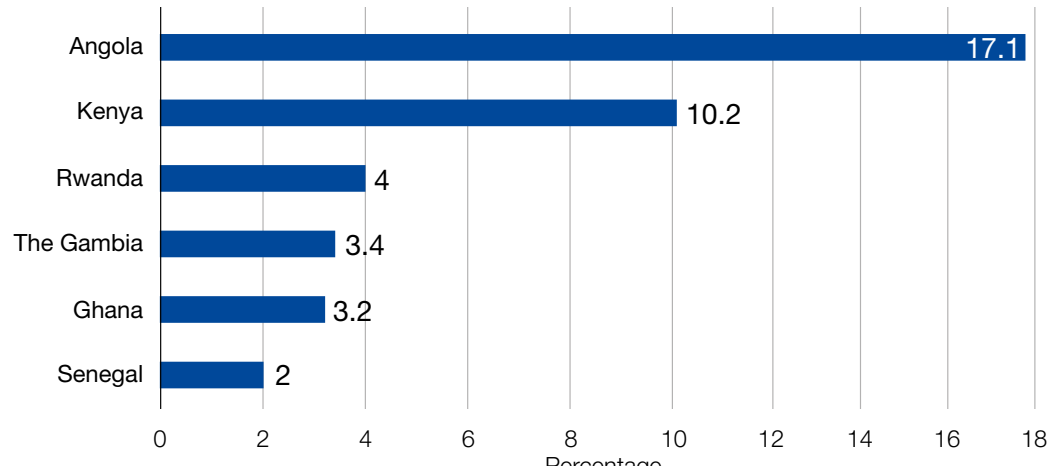
**Table 4. Type of remittance service providers, services and operators to/from Kenya**

North America and Europe (inbound)	Intra-Africa (inbound and outbound)	Middle East (inbound)
<ul style="list-style-type: none"> <li>– Traditional IMTOs including Western Union, MoneyGram, Ria</li> <li>– Online and app-based IMTOs including WorldRemit, SendWave, SimbaPay, etc.</li> <li>– Banks via SWIFT</li> </ul>	<ul style="list-style-type: none"> <li>– M-PESA agents acting as unregistered agents in the send-countries (significant market share for neighbouring countries)</li> <li>– Informal through buses and traders (neighbouring)</li> <li>– Informal: <i>Hawala</i> (esp. from Somalia)</li> <li>– Kenya-registered MRPs, including Dahabshiiil, Upesi, Tawakal, Flex etc.</li> <li>– Pan-regional banks, especially for white collar, higher-income workers and larger values (Equity, KCB, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>– Regional IMTOs including Dahabshiiil, Transfast</li> <li>– <i>Hawala</i></li> <li>– Mobile to mobile</li> <li>– Locally owned GCC IMTOs. for example: Al-Fardan, Al Ansari</li> </ul>
		

## Pricing and transparency

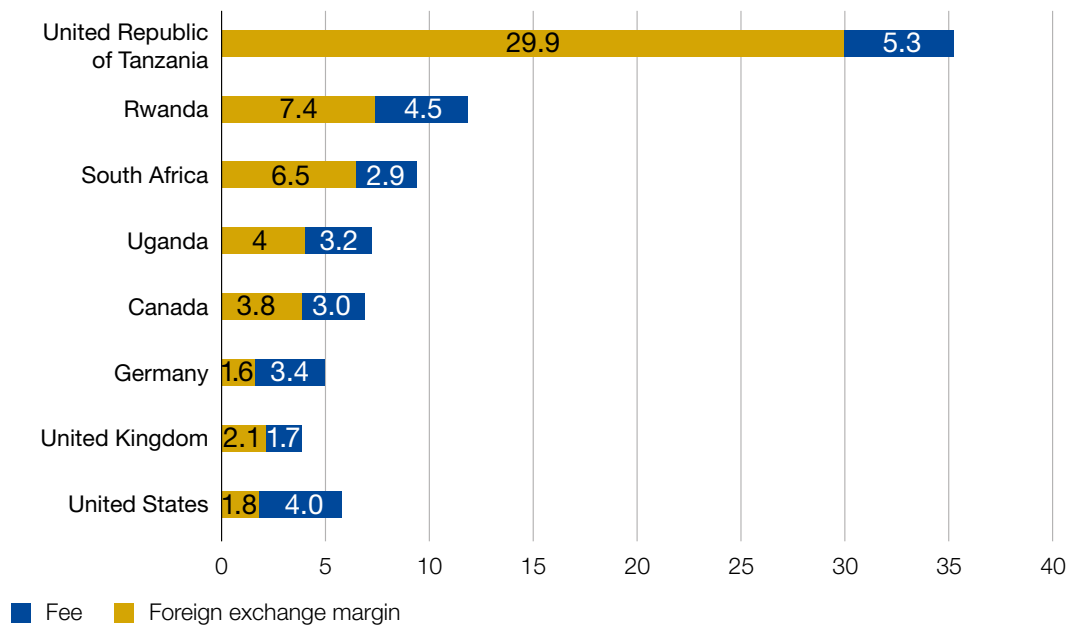
- At 6.2 per cent of the send amount, the average cost of sending remittances to Kenya is above the SDG-recommended 3 per cent, but lower than the average cost for sub-Saharan Africa (6.7 per cent) and other intra-African corridors. The global average cost for remittances is 6.3% (RPW Q3 2022). There are low-cost services from many of the largest send markets where competition is more intense. (Figure 16).
- 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 17).
- Kenya continues to be a relatively high-cost African market to send remittance to from within the continent. Sending money to Rwanda, Ghana, Gambia and Senegal is lower cost for a variety of reasons that include: money sent from one West Africa Monetary Zone to another does not involve a FX margin and so is cheaper; some countries have many mobile-to-mobile cross border services; and, some have more competitive send markets where prices are set to compete with informal services.

Figure 16. Average cost of sending US\$200 within Africa (US\$) (2022)



Source: RPW (Q2 22) and PRIME pricing (Q4 22).

Figure 17. Cost of sending US\$200 equivalent to Kenya (2022)



Source: RPW (Q2 22) and PRIME pricing (Q4 22).

- 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 0.44 and 2.5 per cent respectively to send US\$200 equivalent. For Uganda to Kenya, services cost 2 per cent of the send amount with Ecobank Rapid Transfer, and from Germany to Kenya the cost is 5.9 per cent with WorldRemit and 0.4 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.*

- 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.
- In the NPS 2022–25 CBK plans to implement a range of measures to facilitate even more sustainable growth of remittances in Kenya, and ensure that remittance activities become cheaper, faster, secure and more transparent. Among the initiatives that will be considered include aligning the costs and charges of mobile money remittance transactions to the Pricing Principles that were issued by CBK in December 2020, ensuring increased transparency by adopting global standards on remittances, price transparency and tracking such as encouraging the use of such tools as the World Bank’s Remittance Prices Worldwide database, and overall, aligning the remittance sub-sector with global best practice and guidance from the G20 Plan to Facilitate Remittance Flows and Global Partnership for Financial Inclusion (GPII) targets.
- **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 18 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 sending cash via Western Union is relatively expensive from Germany and United Kingdom, it is more competitive from Uganda. Operators can change their pricing daily or intra-day based on foreign exchange rates, which means a competitive operator one week may not necessarily still be so the next week.

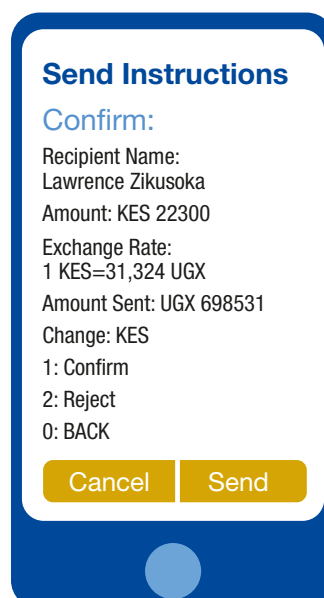
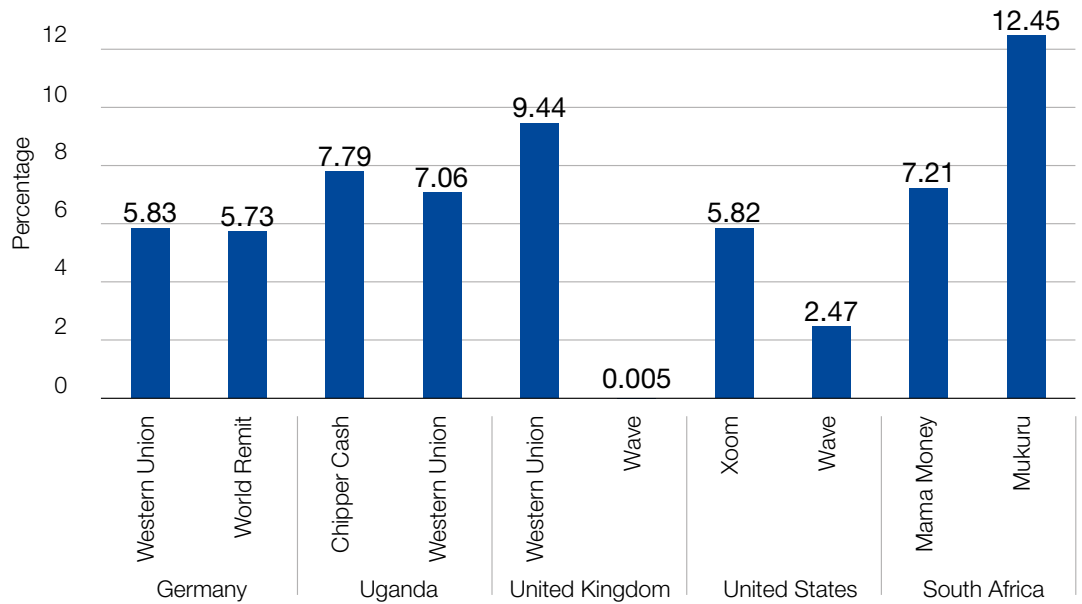




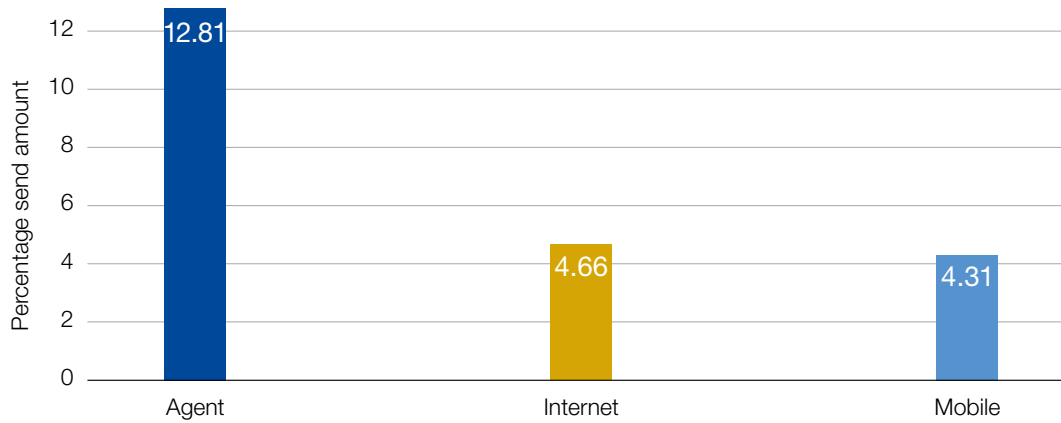
Figure 18. Cost of sending US\$200 equivalent to Kenya by operator in 2022



Source: RPW (Q2 22) and PRIME pricing (Q4 22).

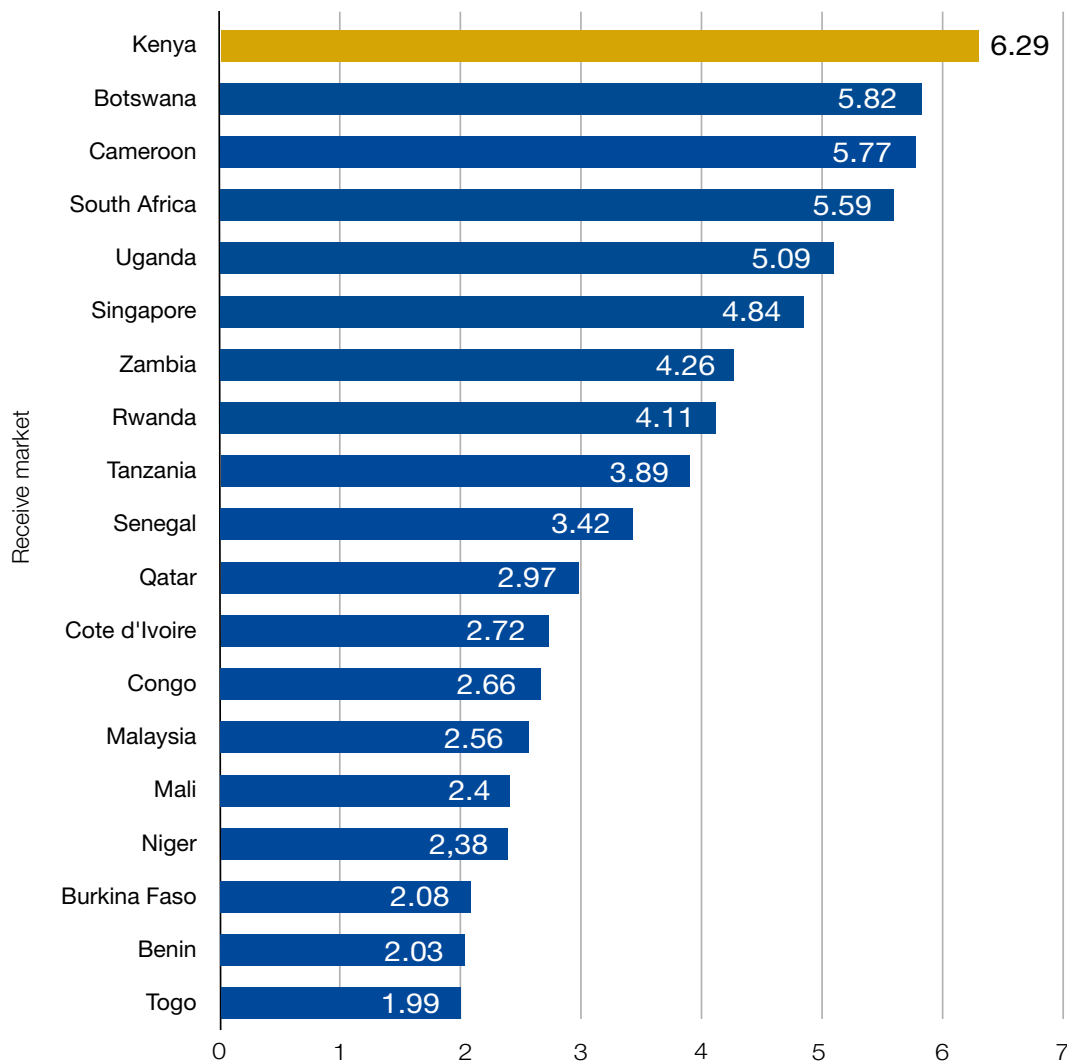
- Mystery shopping conducted in Q4 2022 suggests that the cost of sending money to Kenya from Uganda and Rwanda using a mobile device has dropped significantly since Q4 2020, when the average cost was 5.3 per cent of the send amount, down to 2 per cent. This trend is encouraging and demonstrates that there is room to improve efficiency and align costs to the SDG-recommended levels of 3 per cent in other corridors.
- Mobile money also 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.
- Prices for services provided over the internet have declined since Q4 2020 (averaging 4.6 per cent of the send amount). The reason why these remain above the SDG target is often due to the operators who offer cash-in/cash-out services via agents needing 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 issued by the Central Bank.

Figure 19. Average total cost of sending US\$200 equivalent to Kenya 2022



Source: RPW (Q2 22) and PRIME pricing (Q4 22).

Figure 20. Average cost of sending US\$200 equivalent using mobile-to-mobile cross-border remittance services to different receive countries

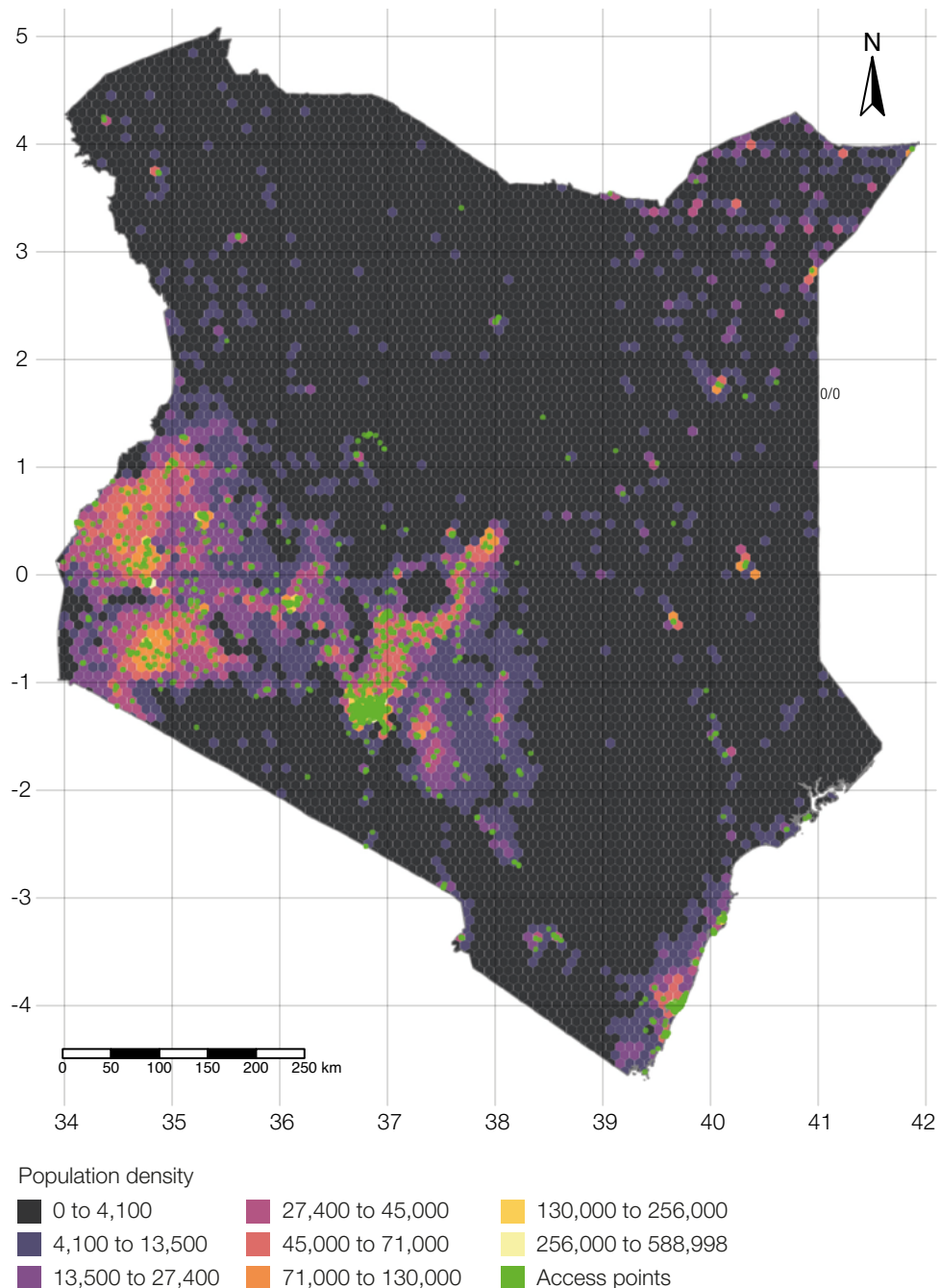


Source: GSMA, Mobile Money: Cross-border remittance costs 2022.

## Access

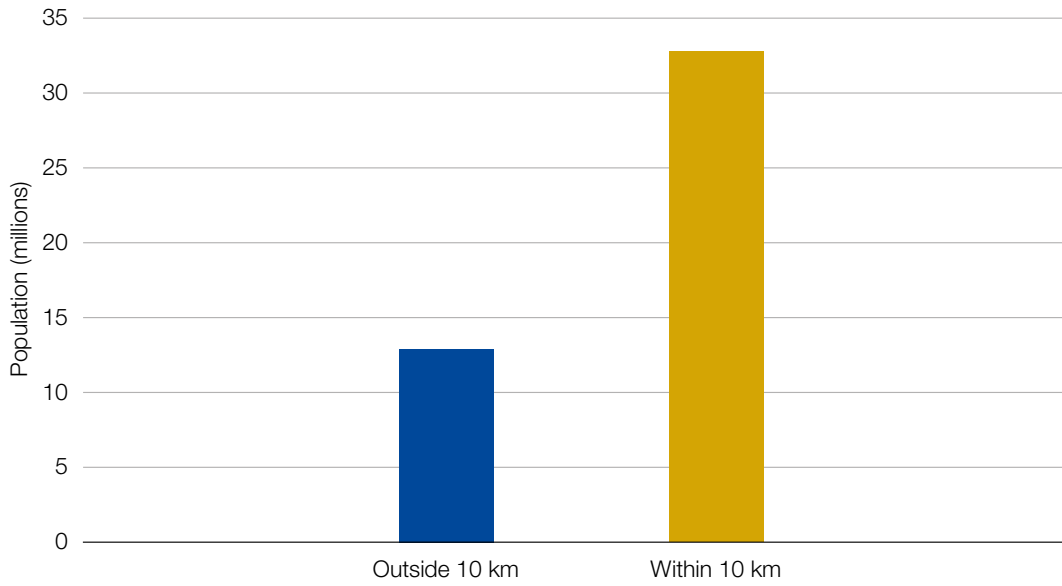
- Kenya has the sixth-largest physical payout network of agents in Africa (using Western Union and MoneyGram agents as a proxy). In Q2 2020 there were 3,745 agents, which is equivalent to 7 agents per 100,000 people.
- Furthermore, Kenya also has the largest and most established mobile money agent network in Africa (nearly 250,000 agents) and most RSPs offer international remittances paid into or initiated from mobile wallets.
- Figure 21 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 21. Remittance access points and population density map



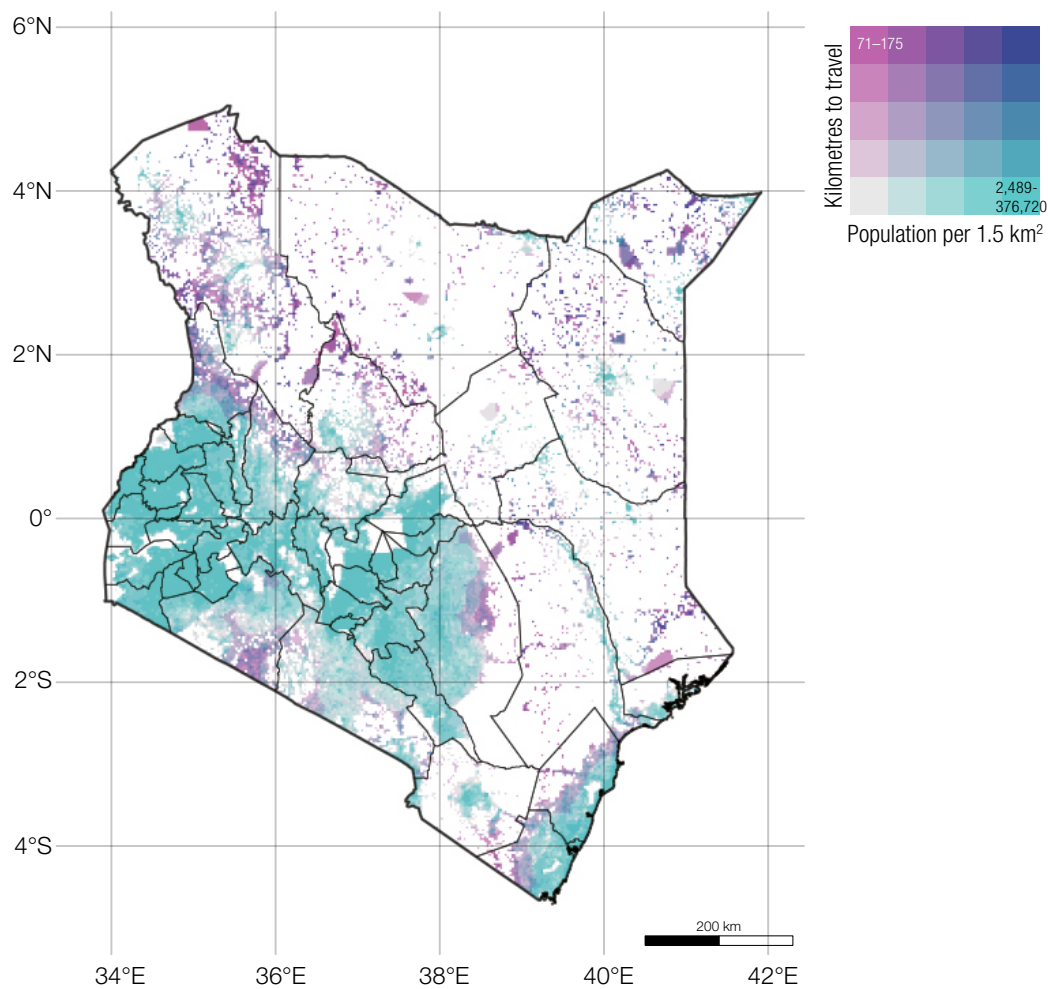
Source: World Data Lab 2020

Figure 22. Population in reach of a money agent in Kenya.



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

Figure 23. 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
<b>Kenya</b>	<b>3,745</b>	<b>52,573,973</b>	<b>526</b>	<b>7</b>
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 of 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 March and May 2021 by the CBK in partnership with the Kenya National Bureau of Statistics, the Ministry of Foreign Affairs and other stakeholders. The information collected 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 revealed that approximately 30 per cent of respondents sent remittances through informal channels, with Hawala operators the preferred choice because of the lower transaction charges, convenience and ease of access. Respondents also noted that sending money with friends and family and carrying the cash personally were also popular choices for informal money transfer. Over 70 per cent of the respondents sent remittances in cash through formal channels, with the main channels being MTOs, banks and MMOs.

### Hawala

- 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.

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

## PRIME Africa corridors

- The CBK publishes monthly remittance inflows for six regions: Europe, North America, Asia, Africa, Australia and Oceania and rest of the world. According to the CBK, 18 per cent of remittances in 2022 have come from Europe, which includes EU countries, but also the United Kingdom, the second-biggest remittance sender.
- Reflecting where the diaspora is, Germany, Netherlands and Italy are the three largest send markets from the EU, annually transferring to Kenya respectively US\$129.5 million, US\$24.5 million and US\$23 million in 2022.
- The United Republic of Tanzania and Uganda are the top African corridors remitting to Kenya, sending US\$56 million and US\$28 million respectively. South Africa and South Sudan also remit US\$21 million and US\$3 million respectively in 2022. Despite having the sixth- largest Kenyan diaspora, Mozambique is not a top remittance corridor to Kenya.

Figure 24. Kenya's main remittance corridors

	Remittance inflows (US\$ millions)		Remittance inflows (US\$ millions)		Number of formal Kenyan migrants
	World Bank BRM (2021)		CBK (2022)		UN DESA 2020
Australia	198	5%	106	3%	24,557
Canada	217	6%	79	2%	29,241
Germany	130	3%	129	3%	16,678
Italy	32	1%	23	1%	4,275
South Africa	107	3%	21	1%	19,901
South Sudan	44	1%	3	0%	9,800
Sweden	41	1%	26	1%	4,616
Switzerland	33	1%	51	1%	3,800
The Netherlands	30	1%	25	1%	3,582
Uganda	154	4%	28	1%	34,241
United Kingdom	1,018	27%	333	8%	139,352
United Republic of Tanzania	110	3%	56	1%	24,274
United States	1294	34%	2,334	58%	156,960
<b>World (total)</b>	<b>3,770</b>		<b>4,028</b>		

■ Intra-African corridor ■ EU corridor

Source: World Bank BRM 2022; CBK Remittance inflows 2022; UN DESA 2020.



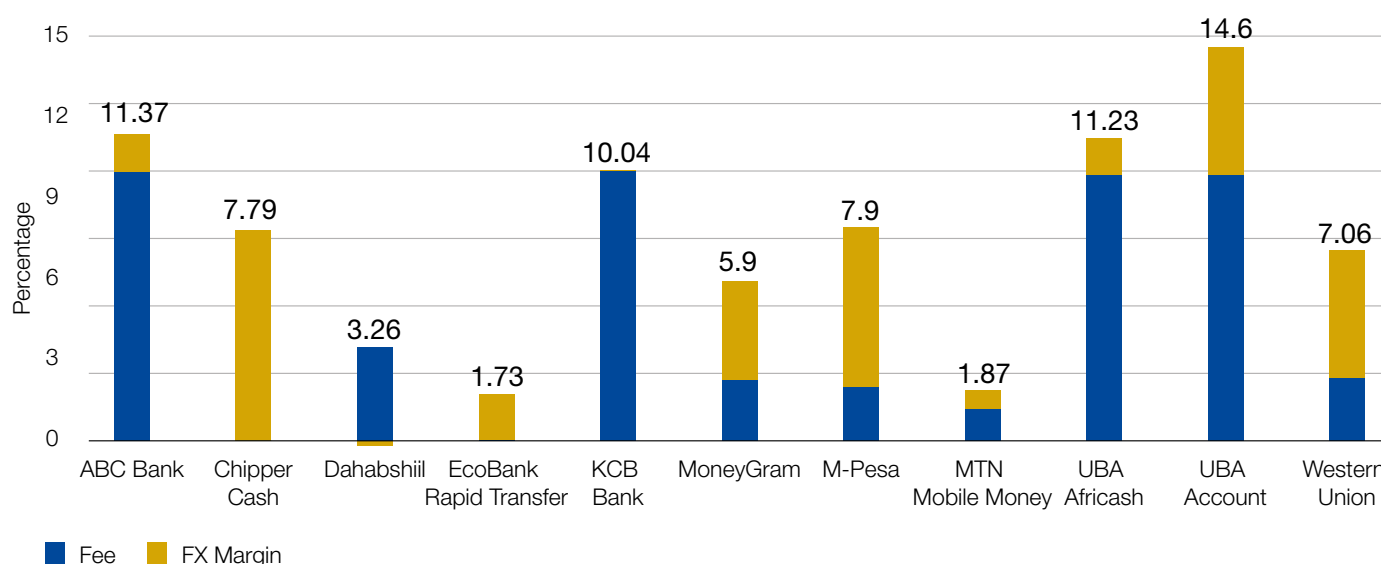
## Uganda-Kenya Corridor

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 34,241 Kenyans, representing 6 per cent of the Kenyan diaspora the largest intra-African migrant population from Kenya (UN DESA, 2020).
- According to World Bank estimates, a total of US\$3.7 billion in remittances was received in Kenya in 2021, 4 per cent of this (US\$154 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 Kenya'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. There was no update to this in the 2021 FinAccess Survey nor the Diaspora Remittances Survey (2021).
- 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.
- 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 7.24 per cent of the total amount. 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. 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.

The average cost of sending money from Uganda to Kenya is 4.1 per cent of the send amount sent.

Figure 25. Average cost of sending US\$200 by service provider from Uganda to Kenya

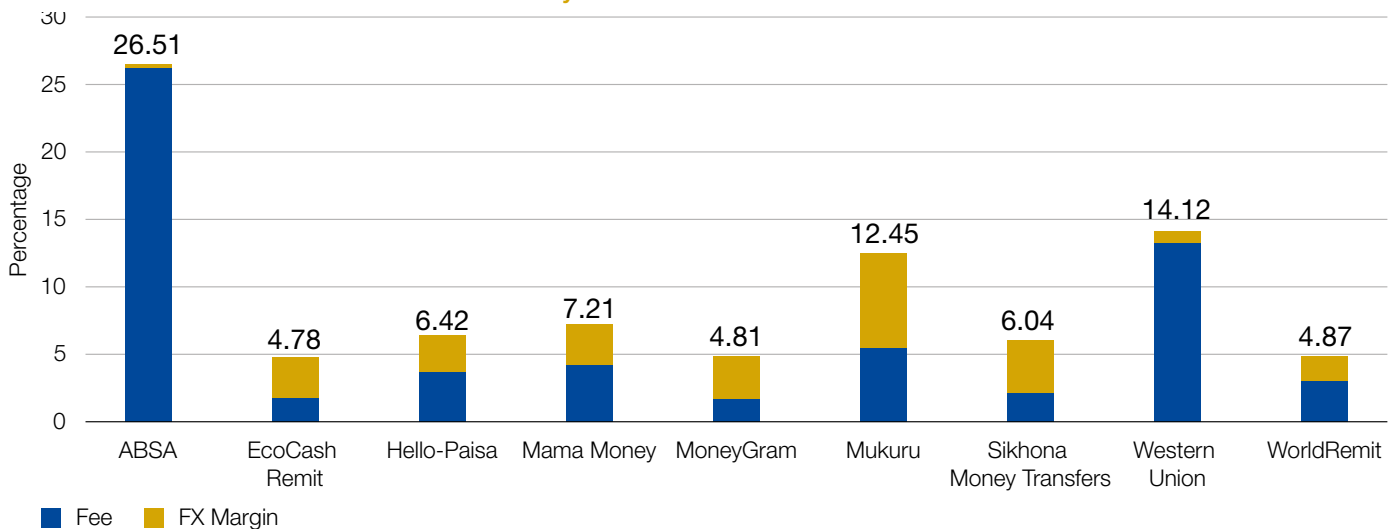


Source: RPW Q4 2020.

## South Africa-Kenya Corridor

- 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 2020, a reported 19,901 Kenyans lived in South Africa, representing 4 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, however in 2022 remittance flows to Kenya from South Africa fell to US\$20 million, representing not even 1 per cent of Kenya’s total inflows. Reasons for this include that pre-COVID there was a strong flow of remittances from South Africa to Kenya, believed to be from Hawala providers and traders who were using Kenya as a transit hub to China, Somalia and the Middle-East. In addition, increased restrictions and removal of visas for migrants going to South Africa reduced the flow of formal transactions.
- South Africa has foreign exchange controls with stringent KYC requirements. The emergence of fintech-led MTOs such as Hello Paisa, Mama Money and Mukuru has shifted the monopoly held by banks and MTOs.
- Mobile money failed to scale in South Africa due to high levels of bank-driven financial inclusion (93 per cent, the 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 anecdotally indicated that Kenyans send money home through Botswana to avoid exchange controls in South Africa (stakeholder interviews, 2021).

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



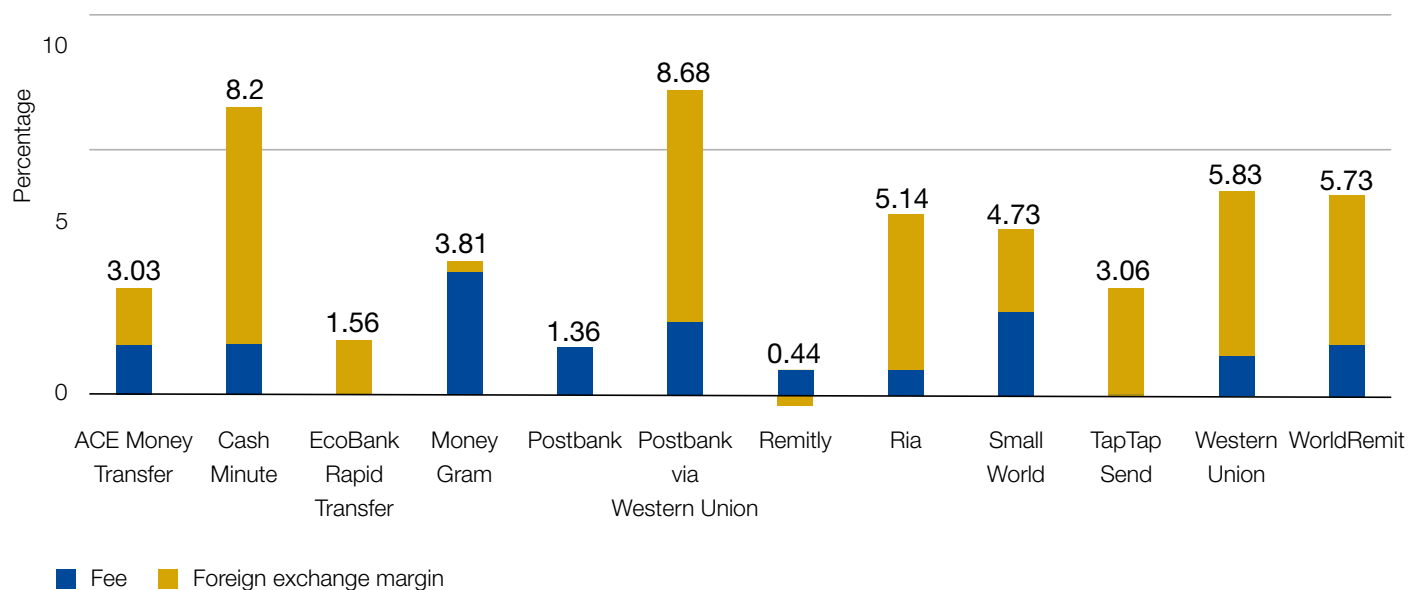
Source: RPW Q4 2020.

At 9.37 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-Kenya Corridor

- Germany has the largest Kenyan diaspora in the EU with approximately 16,678 Kenyans residing there, compared to other EU countries hosting an average of 4,000. According to the CBK, Germany is the largest send market from the EU, with remittances valued at US\$130 million in 2022, 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 4.99 per cent (Q4 2022). Remitly, a fintech based in the United States, is the lowest-priced, charging €0.99 and levying a negative foreign exchange margin (-0.27 per cent) to give a total cost of 0.44 per cent. Western Union bank account transfer offers 0.94 per cent and Ecobank rapid transfer 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 via Germany's Postbank, cash and card. Ecobank's RapidTransfer is also offered from Germany.

Figure 27. Average cost of sending US\$200 by service provider from Germany to Kenya (Q2 2022)



Source: RPW Q4 2020.

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## PRIORITY POLICY ACTION

1. Remittance prices should be reviewed by CBK in comparison to similar services in other receive countries. Discussions should be held with central banks in relevant send countries and with AIR to determine which actions can be undertaken on a corridor basis to encourage appropriate pricing. Dialogue should also be undertaken with RSPs to Kenya to understand pricing policies in relevant send countries. Review pricing and cost structures of cross-border remittance services, especially digital, and ensure they are efficient, in alignment with the 2022–2025 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, in alignment with the 2022–2025 NPS. It is also urged that there be full disclosure 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. All stakeholders should work to streamline mobile money remittance value chains. In particular, RSPs are encouraged to make certain they have the most appropriate solutions for clients as this will lower their overall operating costs. Development organisations and policy makers can provide guidance and examples of best practice to inform and encourage RSPs to make the best decisions.
  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 83.7 per cent of the adult population) with an impressive 66 per cent of consumers using advanced digital financial services (FinAccess 2019). 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 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.*

- An example of such a service is the “Affordable remittances and enhanced financial inclusion for recipients in Kenya” implemented by Credit Bank (CBL), with help from Ria, InterSwitch, Kenya Diaspora Alliance and Nyumbani Mkononi, as part of the PRIME Africa Grant Facility. The project will enhance CBL’s products offer. CBL’s Nyumbani diaspora package (Nyumbani means “at home” in Swahili) will enable Kenyan migrants to be onboarded remotely to banking, investment, international remittances and housing solutions tailored to their needs.
- 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 their transaction history increases their credit score when applying for a loan.

## Case studies on innovation

### 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 to 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; loans; 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.
- KCB agents are present in 11 foreign countries, including seven US states, to facilitate the opening of diaspora accounts. KCB has a presence in Uganda but no agent presence in the other PRIME corridors (South Africa and Germany).

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



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## PRIORITY POLICY ACTION

1. Support more remittance-linked financial services, including insurance, pensions, investments and savings, especially for 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.

### Ministry of Foreign and Diaspora Affairs (MFDA)

- The overall mandate of the Ministry of Foreign and Diaspora Affairs is to manage Kenya's Foreign Policy.
- In 2022, the President Dr. William Ruto created the State Department for Diaspora Affairs to demonstrate the value of Kenyan's abroad. The main aims of the department are to promote continuous dialogue with the Kenyan diaspora, protect their rights and welfare, develop an incentive framework for diaspora remittances, harness savings and mainstream the Kenyan diaspora into the national development process.
- The MFDA is planning the delivery of mobile consular services to the Kenyan diaspora in the US in early 2023.

### 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 implemented by the CBK in February/March 2021 and remittances are included in the National Payment System.
- **Ministry of Foreign and Diaspora 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.
- PRIMEAfrica programme has implemented a number of tangible actions in Kenya, including:
  - Developed a Roadmap to help improve the Kenya Remittances Market. Prioritized areas included: a response to COVID, development of working groups, enhancing data, digitalisation of national payments system, financial inclusion efforts, digitalization of remittances, creating an enabling operating and AML-CFT environment, and addressing informality. The roadmap is a live document and continues to be updated as developments occur.
  - Establishing the National Stakeholder Remittances Network (NSRN). Virtual meetings in 2021 and 2022 have been replaced by in-person meetings for all stakeholders in the market. Membership of the NSRN includes, operators, policy makers and development professionals. The meetings review developments in the market and progress against the roadmap.
    - The NSRN have covered a range of topics such as informal remittance flows in East Africa; Kenya regulatory overview; instant payments; and blockchain.

- Establishing a Community of Practice. The **NRSN Kenya Community of Practice (CoP)** addresses the members' needs for more continuous, specific and in-depth discussion on remittances and its applications. Specifically, it offers an inclusive and collaborative space for its members to exchange practices that promote innovative business models and products, showcase public-private-partnerships and address new trends and market opportunities. In particular, objectives of the CoP are to: connect remittance stakeholders across sectors to facilitate dialogue, exchange knowledge, develop joint initiatives and identify solutions; allow access to a shared repository; update members on data, markets and regulations; and, to enhance company visibility.
- Funded specific actions to improve the market, including:
  - The Remittances Action and Innovation (RAI) programme. The RAI has assisted two organisations to enhance access to their services by helping them to improve their approach to risk management, customer due diligence and KYC. Practical projects have made it easier for customers, especially women, those in rural areas and with low incomes to access formal remittance services. (See Annex 5).
  - Providing grant funds to Credit Bank and its partners (Interswitch, Ria Money Transfer, Kenya Diaspora Alliance and Nyumba Mkononi) for The Affordable Remittances and Enhanced Financial Inclusion Project which will work with community networks and SACCOs to reach Kenyans living in rural areas.<sup>5</sup> It aims to reduce prices and increase financial inclusion by opening over 1,200 new accounts at Saccos.
- IFAD and FSD Kenya are planning a project 'unleash the potential of SACCOs to serve remittance users in rural areas of Kenya' in 2023–2024,<sup>6</sup> with the aim of improving informed public policies and private sector strategies for enhancing the role of SACCOs in delivering remittances to the Kenyan rural population.
- In 2022 IFAD provided the pan-African digital payments aggregator, MFS Africa, with a grant to launch the 'Scaling and leveraging digital international remittances to Ghana, Kenya, Senegal, the Gambia and Uganda' project.<sup>7</sup> For Kenya, the key corridor in this project will be from Germany-Kenya with the aim of enhancing the financial resilience and economic empowerment of remittance recipients through cost-effective digital channelling and safeguarding of remittance flows.
- 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. GFRID will be held in Nairobi in June 2023.
- **Financial Sector Deepening (FSD) Africa**, in partnership with the Centre for Financial Regulation and Inclusion (CENFRI) and DMA Global (DMAG), have developed evidence-based, remittance-related information covering Kenya and other African countries.
- **FSD Kenya** has undertaken research on informal remittance payments between Kenya and Uganda and is supporting the improvement in remittances data in the country.

*The PRIME Africa programme has led to an increased level of activity by development organisations in the Kenya market and there are currently a number of pragmatic actions being undertaken. The CBK plays an active role in supporting the sector, as does the Remittance Association.*

5/ <https://gfrid.org/publications/affordable-remittances-and-enhanced-financial-inclusion-rural-remittance-families/>

6/ <https://gfrid.org/publications/unleash-the-potential-of-saccos-to-serve-remittance-users-in-rural-areas/>

7/ <https://gfrid.org/publications/scaling-and-leveraging-digital-international-remittances-to-ghana-kenya-senegal-the-gambia-and-uganda/>

- **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.
- **The International Organization for Migration (IOM)** has conducted studies on migrant remittances, culminating in publications such the *Send Money and Invest in Kenya Guide*.
- UNCDF is collaborating with the Intragovernmental Authority on Development (IGAD) on a project to harmonize remittance policies in the IGAD region taking into account gender dimensions. The project aims to facilitate the transition of remittances from cash-based to digital channels, and from informal to formal ones – with the ultimate goal of making remittances work better for women and men migrants and their beneficiaries. A diagnostic report has been released in Sept 2022 presenting recommendations in five areas: a) policy, legal and regulatory frameworks, b) payment infrastructure, c) market practices, d) consumer protection, e) cooperation and collaboration frameworks
- **The United Nations' Migration Network (UNMN Kenya)** formed by UN agencies and Civil Society Organisations (CSOs) active on migration, to discuss and exchange on the migration issues (including remittances), with the aim of fostering synergies and collaboration.
- UNMN, in collaboration with **National Coordination Mechanism (NCM)** established within the Minister of Interior Affairs, developed a National Action Plan (NAP) for the Global Compact of Migration (GCM) (2023–2026)

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## 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). Programs aimed at implementing recommendations on price reduction, promoting formal channels and driving financial inclusion would thus be a suitable entry point.
  2. Continue to leverage the National Remittances Stakeholder Network and maximise the impact of the Community of Practice. Coordinate, implement and review Kenya's remittance landscape as well as the implementation of the CBK's National Payment Strategy.
  3. Update the remittances road map with public and private sector consensus and commitment. The implement actions to deliver on the remittances road map
-

# 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:
  5. harmonized templates and reporting across the East Africa
  6. Community (EAC) to facilitate eventual harmonization of regulations under the East African Monetary Union (EAMU);
  7. outflow figures brought to the same level of detail as inflow data;
  8. information portals publicly available for easy access to disaggregated inflow and outflow remittance data to inform business decisions; and
  9. access to market share information of RSPs to enhance transparency in the market.
- 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, as well as in the upcoming National Remittance Household Survey in collaboration with KNBS and FSD Kenya. 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

- 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. Take advantage of the 2023 the Kenya Quick Response Code Standard 2022 to ensure interoperability and, 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).
- Identify and leverage opportunities for cross-border remittance payments and settlement through regional bloc retail payment systems. The Pan-African Payment and Settlement system (PAPSS) 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, for example, for Foreign exchange bureaus, SACCOs and so on, 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 with some service level agreement mechanisms. A tracking system would ensure service providers can adequately plan their market entry.
- Review taxation on mobile money and digital services. An impact assessment should be conducted to determine correlation with informal channels.
- 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.
- 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 to introduce authentication for providers with biometric functionality.

### 4. Remittance market structure

- Remittance prices should be reviewed by CBK in comparison to similar services in other receive countries. Discussions should be held with central banks in relevant send countries and with AIR to determine which actions can be undertaken on a corridor basis to encourage appropriate pricing. Dialogue should also be undertaken with RSPs to Kenya to understand pricing policies in relevant send countries. Review pricing and cost structures of cross-border remittance services, especially digital, and ensure they are efficient, in alignment with the 2022–2025 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.
- It is recommended that pricing for cross-border remittances be transparent, upfront and available online, in alignment with the 2022–2025 NPS. It is also urged that there be full disclosure 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.

- All stakeholders should work to streamline mobile money remittance value chains. In particular, RSPs are encouraged to make certain they have the most appropriate solutions for clients as this will lower their overall operating costs. Development organisations and policy makers can provide guidance and examples of best practice to inform and encourage RSPs to make the best decisions.
- 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.
- 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

- 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, 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 countries). Programs aimed at implementing recommendations on price reduction, promoting formal channels and driving financial inclusion would thus be a suitable entry point.
- Continue to leverage the National Remittances Stakeholder Network and maximise the impact of the Community of Practice. Coordinate, implement and review Kenya's remittance landscape as well as the implementation of the CBK's National Payment Strategy.
- Update the remittances road map with public and private sector consensus and commitment. The implement actions to deliver on the remittances road map.

## 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	<ul style="list-style-type: none"> <li>– Extension of repayment period for personal and household loans</li> <li>– Lowering of the cash reserve ratio (CRR) from 5.25 per cent to 4.25 per cent</li> </ul>	<ul style="list-style-type: none"> <li>– Total loans restructured of KES 844 billion accounted for 29 per cent of the total banking sector</li> <li>– Additional liquidity of KES 35 billion to support the banks as they restructured performing loans</li> </ul>
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	<ul style="list-style-type: none"> <li>– Waiver of mobile money fees for transactions under KES 1,000 (US\$9), interbank transfers and Bank-to-Web and Web-to-Bank banking</li> <li>– Increased daily mobile money transaction limits from KES 70,000 (US\$623) to KES 150,000 (US\$1,345)</li> <li>– 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)</li> <li>– Total monthly limit on mobile money transactions was removed</li> <li>– PSPs and commercial banks directed to eliminate transfer charges between mobile money wallets and bank accounts</li> </ul>	<ul style="list-style-type: none"> <li>– 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</li> <li>– 2.8 million new 30-day active customers using mobile money (CBK National Payment Strategy, p. 47)</li> <li>– The monthly volume of PSP transfers increased by 87% and business-related transactions increased by 82% between February and October 2020</li> </ul>

Source: CBK Annual Report, 2020.

However, from 1st January 23 the CBK re-introduced the charges between mobile money wallets and bank accounts. The new charges are lower than those that applied before.

While COVID-19 adversely impacted people's livelihoods and businesses, mitigation measures enabled the payments ecosystem to protect vulnerable Kenyans, support businesses, and strengthen economic resilience.

## ANNEX 2

### Kenya's National Payment System

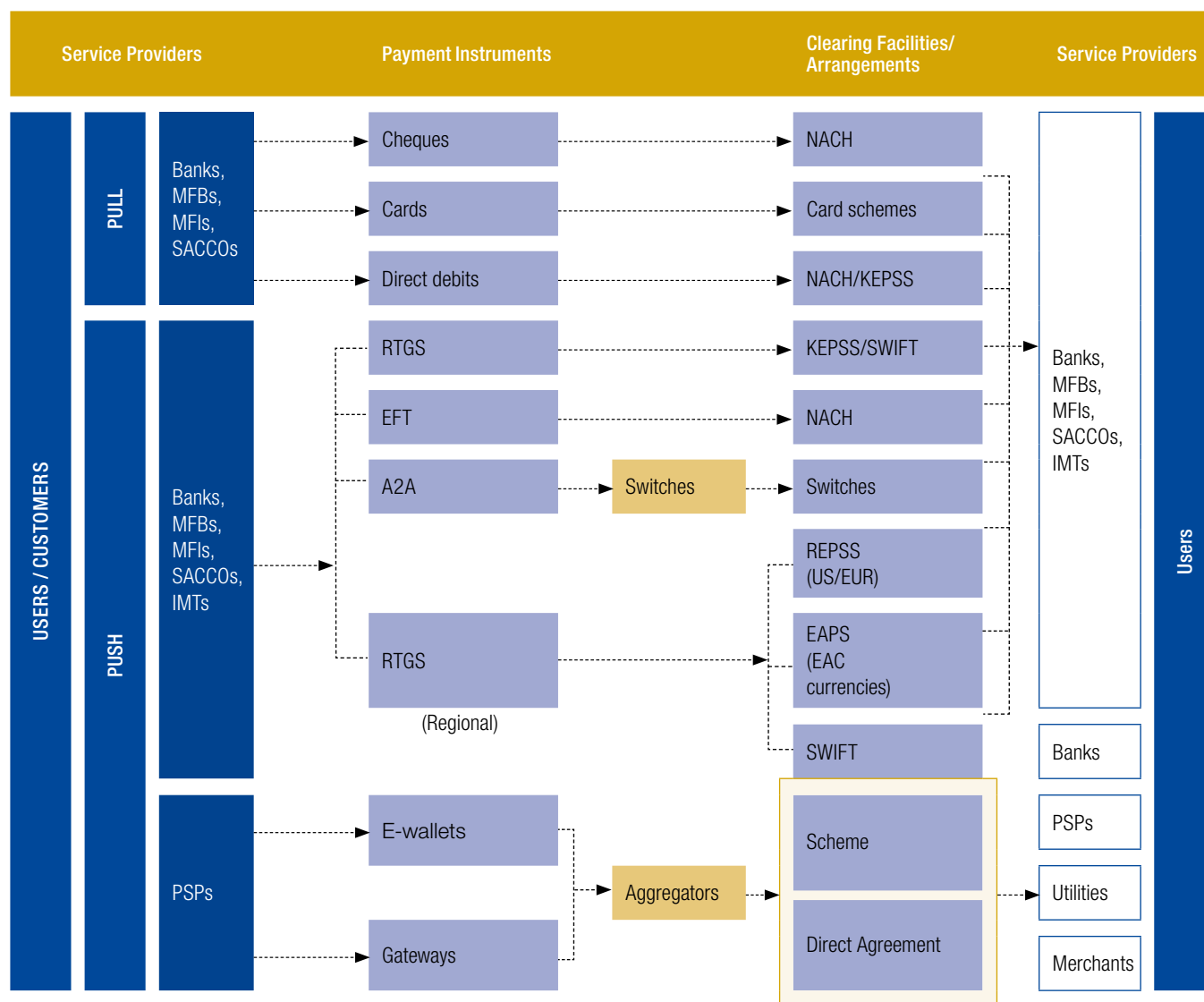
The National Payment System is broadly divided into:

- 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.
- In February 2022, CBK launched the Kenya National Payment Strategy 2022–2025 which has the vision of “a secure, fast, efficient, and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans”. The four key strategic objectives of the NPS are:
  - “To support a payments system that meets the diverse needs of customers, especially with respect to financial inclusion and shared prosperity.
  - To enhance the safety and security of the payments system through the adoption of relevant industry and global standards
  - To support an ecosystem that is anchored on collaboration that produces customer-centric and world-leading innovations.
- To create a supportive policy, legal and regulatory framework that is robustly enforced across existing and emerging players in the payments ecosystem”.

## 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, MasterCard and Visa enabled cards are interoperable and can be used at any member terminal locally 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.** example is Interswitch, a privately owned, Africa-based payments processing company offering a variety of services with specialization in e-commerce payments.

Figure 28. Kenya's national payments landscape



Source: National Payment Strategy 2022–2025, 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

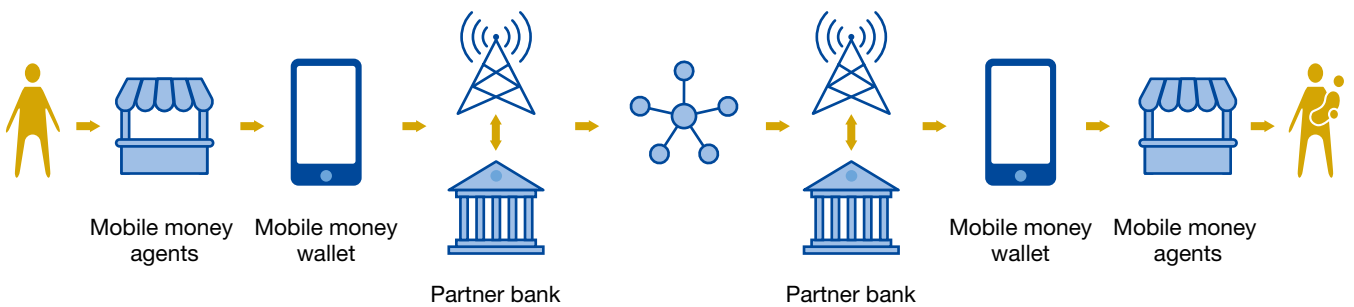
- International aggregators play an important role in connecting RSPs to payout networks across multiple countries. International aggregators serving the Kenyan market include MFS Africa, Thunes, TerraPay and HomeSend.
- Facilitate API integration across RSPs – MMPs, payment card issuers, banks and MTOs, 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.
- 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.

**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 29. 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.
- In 2021 IFAD and Cenfri launched the Remittance Access Initiative (RAI) in PRIME Africa countries. The overall aim of the project is to improve access to cheaper, faster and safer remittance services through ID proofing and related customer due diligence (CDD) and KYC innovations.

**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
<p><b>Source:</b> Regulations and guidelines on AML/CFT, agent banking, payment systems.</p> <p><b>Coverage:</b> Risk-based CDD applies to various financial products and to all FSPs: banks, nonbanks, PSPs.</p>	Discretionary. Regulation allows for a risk-based approach, but no tiers or thresholds.	<p><b>Full CDD/CIV:</b></p> <ul style="list-style-type: none"> <li>– All providers must check and record customer ID card, passport, driver's license or birth certificate.</li> <li>– For a mobile PSP, the SIM card and mobile phone number should be registered.</li> </ul> <p><b>SEPA Direct Debit:</b> Simplified measures are allowed for lower-risk scenarios.</p>	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.



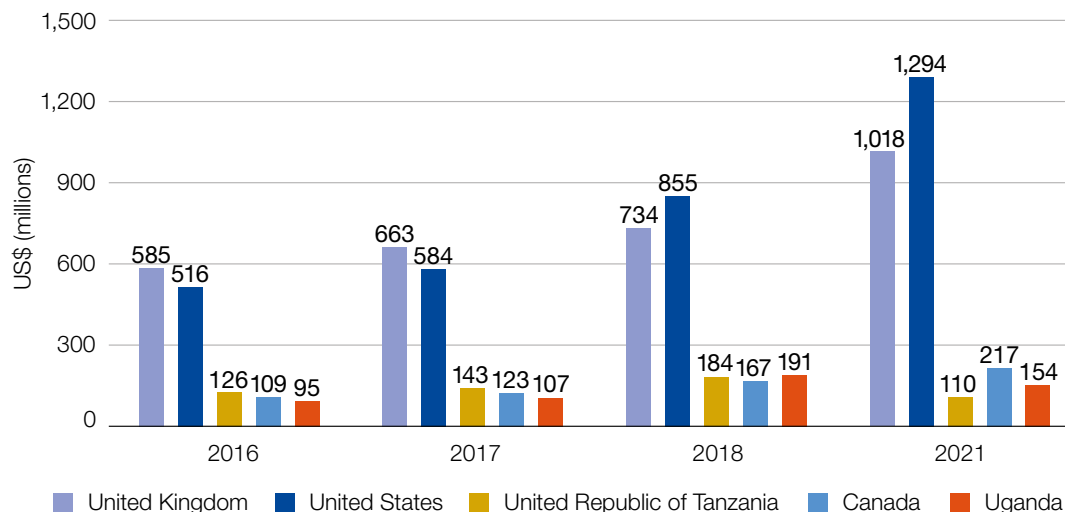
## ANNEX 4

### 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 30. Remittance inflows to Kenya (US\$ million), 2015–2021

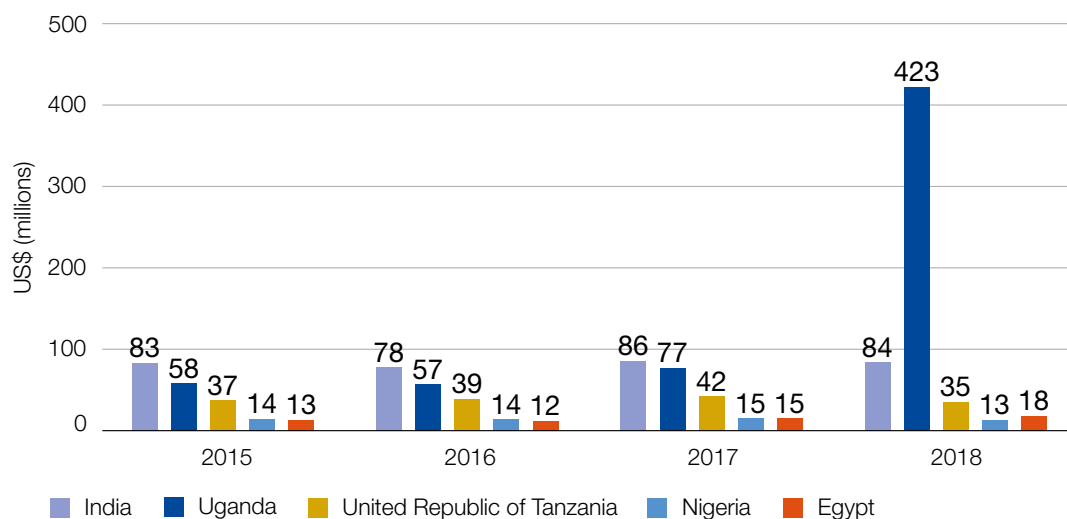


Source: (World Bank, Bilateral Remittance Matrix).

- 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.

**Figure 31. 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). In 2021, the top five receivers were Uganda (US\$321 million), Somalia (US\$235 million), South Sudan (US\$74 million), Tanzania (US\$40 million) and DRC (US\$25 million).

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.

## ANNEX 5

### Further insight into development partners

#### CENFRI

- In 2021 IFAD and Cenfri launched the Remittance Access Initiative (RAI) in PRIME Africa countries. The overall aim of the project is to improve access to cheaper, faster and safer remittance services through ID proofing and related customer due diligence (CDD) and KYC innovations.
  - The target countries are Ghana, Kenya, Morocco, Senegal, South Africa, the Gambia and Uganda. The target audience is remittance-receiving households, especially low-income rural households and women-centre.
  - The project is currently in its mid-term and is expected to finish by the end of 2023.
  - Through innovations on identity and digital financial services, RAI supports RSPs lower remittance costs while simplifying onboarding requirements for low-income, rural and vulnerable families.
  - The project involves providing dedicated capacity building to 14 selected RSPs and allows the private sector to pilot new ways to conduct their CDD and KYC processes.
  - The expected outcomes for this project include increased financial inclusion for low-income, rural households and women; reduced barriers for low-income rural households and women to access formal remittance services; and RSPs reduced their perceived risks for lower income, rural people and women.
  - Results as of early 2023 include the scanning of all licensed RSPs having been carried out; seven country regulatory assessments completed; and nine innovation plans co-created with pre-selected RSPs.

#### MFS Africa

- In 2022 IFAD and the pan-African digital payments aggregator, MFS Africa, launched the 'Scaling and leveraging digital international remittances to Ghana, Kenya, Senegal, the Gambia and Uganda' project.
- The aim of the project is to enhance the financial resilience and economic empowerment of remittance recipients through cost-effective digital channelling and safeguarding of remittance flows.
- For Kenya, the key corridor in this project will be from Germany-Kenya.
- Overall target groups (for the whole project) include 85,800 remittance senders and recipients in selected EU-Africa corridors; 26,000 remittance senders and recipients in selected Africa-Africa corridors; and 34,300 beneficiaries of embedded insurance products.
- The project expects the following results: reducing transfer costs from the EU (managed by MFS Africa) to between 1.8 per cent and 2.2 per cent; 111,800 new remittance senders and recipients and terminate remittances into mobile wallets, it is expected that Kenya will have 10,700 new remittance senders and recipients; and for the MTO-enabled insurance to enhance resilience to at least 22,800 remittance senders in Germany and Italy to receivers in Ghana, Kenya, Senegal and the Gambia.

## CBK and FSD Kenya

- FSD Kenya is partnering with the Central Bank of Kenya and other industry players to implement key initiatives outlined in the NPS. These include:
  - **“Ensuring implementation of full interoperability in the payments industry** – FSD Kenya is working with the industry to develop open and shared agents in the market. This will enable customers of any bank or mobile money provider to get services from any agent thus eliminating the need to seek out their provider’s agent. The initiative is industry-led with updates to the Central Bank of Kenya.
  - **Reviewing the existing legal and regulatory framework** – FSD Kenya has initiated work to support the Central Bank of Kenya to develop a consumer protection framework for digital payments that will help address consumer risk through regulation.
  - **Promoting adoption by the payments industry of best international standards** – In partnership with the Kenya Bankers Association (KBA) and the Integrated Payment Services Limited (IPSL), FSD Kenya supported the industry to increase awareness on the ISO20022 global payments standard in the industry through various workshops. The ISO20022 standard provides rich granular payments data that enables increased efficiency in payments, richer reporting and better security controls. Additionally, FSD Kenya is in the process of supporting the Central bank of Kenya in the development of a standard QR code for the payments industry. This QR code will be used to facilitate merchant payments and will lay the foundations of merchant payment interoperability.”

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## About the authors

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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.

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**For more information, visit:** [www.ifad.org](http://www.ifad.org) | [www.ifad.org/ffr](http://www.ifad.org/ffr) | [www.RemitSCOPE.org](http://www.RemitSCOPE.org)

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### **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

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**For more information, visit:** [www.developingmarkets.com](http://www.developingmarkets.com)

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## About the initiative

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### **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.

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**For more information, visit:** [www.ifad.org/prime-africa](http://www.ifad.org/prime-africa)

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