Regional Harmonization of Remittance Policies in the Intergovernmental Authority on Development (IGAD)

Kenya

Data and analysis in this report reflect the period up to November 2023

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ABOUT THIS REPORT

This diagnostic report for Kenya forms part of a wider project on harmonizing remittance policies in the Intergovernmental Authority on Development (IGAD) region.

It has been prepared by the United Nations Capital Development Fund (UNCDF) and the IGAD Secretariat, with the objective of improving the IGAD countries' current and ongoing policy and regulatory framework development and other initiatives relating to remittances.

The United Nations Capital Development Fund makes public and private finance work for underserved communities in the world's 46 least developed countries. With its capital mandate and instruments, UNCDF offers last-mile finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's digital agenda for migration and remittances falls within the organization's broader corporate strategy, set forth in 2019, of Leaving No One Behind in the Digital Era. On the other hand, the Intergovernmental Authority on Development (IGAD) is a regional economic community (REC) created by its Member States — Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda — to enhance regional cooperation in the priority areas of food security and environmental protection, economic cooperation, regional integration and social development, peace and security. The founding leaders of IGAD were motivated by a vision where the people of the region would develop a regional identity, live in peace, and enjoy a safe environment, alleviating poverty through appropriate and effective sustainable development programmes.

Remittances can act as a catalyst for sustainable development at the individual, household, community and national levels as a source of greater disposable income for migrant families that can lead to increased consumption and investment. The size and scale of global remittances create the possibility of harnessing these flows through digital channels toward productive investment in health, education and local businesses, thus contributing to the long-term development of countries around the world. An effective policy and regulatory framework that balances innovation and risk will be critical to this transition from cash to digital.

This diagnostic report has been prepared through a desk research review of relevant policies, laws and regulations followed by extensive stakeholder consultations and benchmarking with relevant countries' initiatives, policies, and regulatory frameworks. The authors of this report have prepared a roadmap with a country-level mapping of possible enablers, inhibitors and policy options. It is recognized that implementation of the roadmap requires further engagements with the regulatory and policymaking bodies to determine what options can be taken up.

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ACRONYMS AND ABBREVIATIONS

ACH	automated clearing house
AML/CFT	anti-money laundering/combating the financing of terrorism
API	application programming interface
ATM	automatic teller machine
CDD	customer due diligence
CBK	Central Bank of Kenya
COMESA	Common Market for Eastern and Southern Africa
EAC	East Africa Community
EAPS	East African Payment System
EFT	electronic funds transfer
EFTPOS	electronic funds transfer at point of sale
e-KYC	electronic know your customer
forex	foreign exchange
GDP	gross domestic product
IGAD	Intergovernmental Authority on Development
ILO	International Labour Organization
IMF	International Monetary Fund
KEPSS	Kenya Electronic Payment and Settlement System
KES	Kenyan shilling
KFRA	Kenya Forex and Remittance Association
KYC	know your customer
MFI	microfinance institution
MFS	mobile financial services
MNO	mobile network operator
MRP	money remittance provider
NRB	national registration bureau
NPS	national payment system
POS	point of sale
PSP	payment system provider
QR code	quick response code
REC	Regional economic community
REPSS	regional payment and settlement system
RSP	remittance service provider
RTGS	real-time gross settlement system
SACCO	savings and credit cooperative society
SDG	Sustainable Development Goal
SIM	subscriber identity module
STP	straight-through processing
UNCDF	United Nations Capital Development Fund

COUNTRY CONTEXT

As defined by the International Monetary Fund (IMF)'s Balance of Payments and International Investment Position Manual, 6th edition (BPM6), remittances represent "household income from foreign economies arising mainly from people's temporary or permanent move to those economies. Remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash items sent or given by individuals who have migrated to a new economy and become residents there and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident."[1]. According to the World Bank, US$3,770 million and $4,091 million were sent to Kenya in 2021 and 2022, respectively, comprising some 3.4 percent of the gross domestic product (GDP).[2] In 2022, remittance inflows, as shown on the Central Bank of Kenya (CBK) website, amounted to $4,027,882.34. The outsourcing number of migrants is 0.5 million, around 1 percent of the total population. Officially, Kenya has the highest amount of remittance inflows in the Intergovernmental Authority on Development (IGAD) region despite not having the highest number of emigrants. This could be explained by Kenyan migrants earning more money in their country of destination and sending more to their friends and family back in their country of origin. The average cost of sending remittances to Kenya in Q2 2022 was 8.3 percent of the amount sent. Although this is higher than the Sustainable Development Goal (SDG) global average target of 3 percent and below, it is lower than the average cost of 8.5 percent for sub-Saharan Africa.

Kenyan migrants are numerous and spread across several countries (with a third being in African countries). While exact figures of Kenyan migrants are difficult to estimate, the government's diaspora policy estimates there are about 3 million Kenyan migrants. Migrants transit through Kenya to reach South Africa, the Middle East, North Africa, West Africa, the United States and Europe. The most popular destination for Kenyans is the United Kingdom (29 percent of total migrants), contributing to 26 percent of total formal remittances. However, the highest percentage of remittances (33 percent) is from the United States, which has 26 percent of migrants from Kenya. Kenyan emigrants stand out for being skilled and educated (i.e., professionals, entrepreneurs, domestic workers, students, athletes, etc.) and for working abroad through regular means. The countries and regions they travel to for education and work include Uganda, the United Republic

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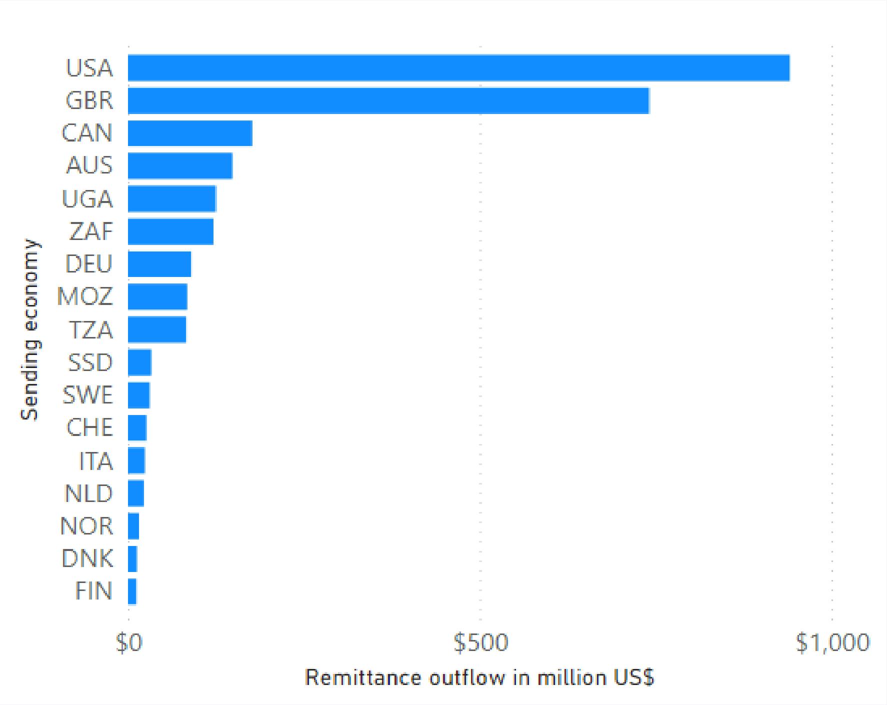
[1] https://migrantmoney.uncdf.org/resources/tools/frequently-asked-questions-faqs-for-the-reporting-and-analysis-of-remittances/#whatare (Accessed on 21/03/2024) ()

[2] Knomad, *Remittances Data*, https://www.knomad.org/data/remittances. (Accessed on 18 September 2022)

of Tanzania, Botswana, Lesotho, South Africa, the United States, Europe, the Arabian Peninsula and the Middle East.[3]

Kenya serves as a destination and transit country for people in mixed migration flows from East Africa, including forcibly displaced migrants, economic and voluntary migrants, and trafficked persons.[4]

Figure 1: Remittance outflow by sending economy 2021



Source: KNOMAD-World Bank, *Remittances*: https://www.knomad.org/data/remittances (Accessed on 18 September 2022)

[3] International Labour Organization, (2020), *An Assessment of Labour Migration and Mobility Governance in the IGAD Region: Country report for Kenya*, https://labordoc.ilo.org/discovery/fulldisplay/alma995100693102676/41ILO_INST:41ILO_V2 . (Accessed on 21 March 2024)

[4] Katrin Marchand, Julia Reinold and Raphael Dias e Silva (2018), *Study on Migration Routes in the East and Horn of Africa*, p. 6 (Maastricht Graduate School of Governance), https://migration.unu.edu/publications/reports/study-on-migration-routes-in-the-east-and-horn-of-africa.html (Accessed on 21 March 2024)

The CBK also noted that in 2022, the largest source of diaspora remittances was from North America (United States and Canada) and Europe[5].

Figure 2a: Migrant stock in destination economies for 2021

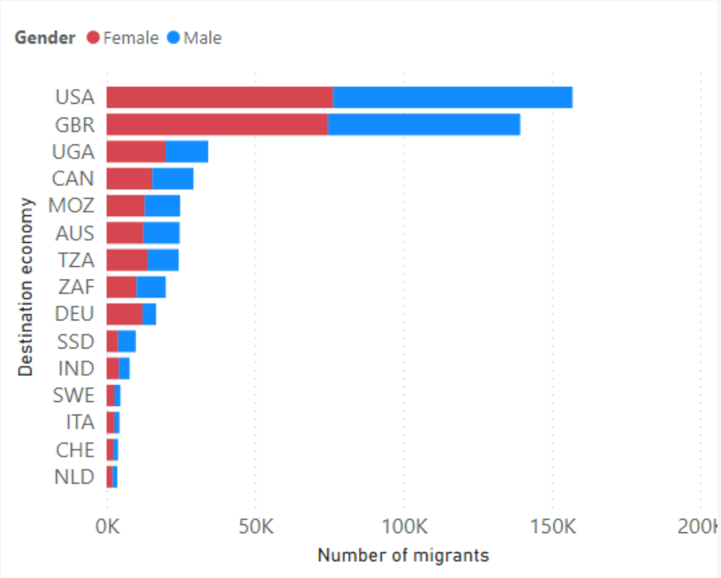
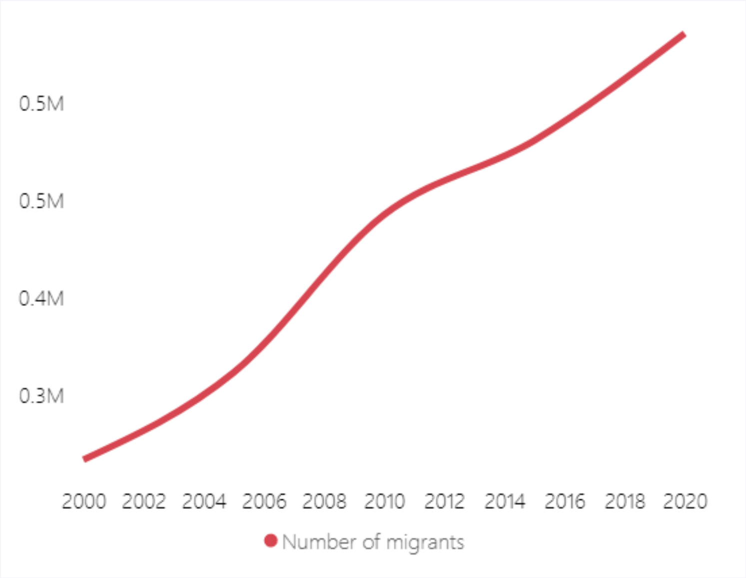


Figure 2b: Migrant stock over time



Source: UNDESA, International Migrant Stock Data (Accessed on 18 September 2022)

[5] Central Bank of Kenya: Bank Supervision Annual report 2022: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf

POLITICAL ECONOMY

Due to the huge sums involved, remittances are recognized in Kenya as valuable contributors to the country's growth and development. Remittances are used for various purposes. Data suggests that households receiving remittances sent from within Africa are more likely to invest the money in education, food or building a new house. In contrast, households receiving remittances from outside Africa invest significantly in businesses.[6]

The Central Bank of Kenya (CBK) actively supports the sector, and the Kenya Forex and Remittance Association (KFRA) advocates the sector's interests for Kenya-based operators. However, key remittance players such as M-Pesa or WorldRemit, among others, are not yet members.[7] The CBK conducts a monthly survey on remittance inflows through formal channels, including commercial banks and other authorized international remittance service providers in Kenya.[8]

Kenya has signed many international and regional bilateral agreements on migration, such as the 1990 International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families, demonstrating the government's commitment to this agenda.[9] The 2013 Money Remittance Regulations are Kenya's supervisory framework for remittance service providers and provide for the creation of outlets and agencies for money remittance operations across the country. Kenya has a well-developed National Payment System (NPS) to support remittances, but regional payment systems with the potential to reduce the costs of intraregional remittances are under-utilized.[10] The CBK released the National Payment Strategy 2022–2025, outlining measures to enhance Kenya's global leadership in digital payments.

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[6] Sonia Plaza, Mario Navarrete and Dilip Ratha, *Migration and Remittances Household Surveys in Sub-Saharan Africa: Methodological aspects and main findings* https://www.knomad.org/publication/migration-and-remittances-household-surveys-sub-saharan-africa-methodological-aspects (Accessed on 18 September 2021)

[7] RemitScope Africa, *Kenya Country Diagnostic* (2021), https://www.ifad.org/de/web/knowledge/-/remitscope-kenya-country-diagnostic (Accessed on 21 March 2024)

[8] https://www.centralbank.go.ke/diaspora-remittances/ (Accessed on 8 November 2023)

[9] IOM, 2018: Migration in Kenya-A Country Profile: https://publications.iom.int/system/files/pdf/mp_kenya_2018.pdf (Accessed on 18 September 2022)

[10] RemitScope Africa, *Kenya Country Diagnostic* (2021), https://www.ifad.org/de/web/knowledge/-/remitscope-kenya-country-diagnostic (Accessed on 21 March 2024)

REMITTANCE'S LANDSCAPE

MARKET

Banks: As of 31 December 2022, the Kenyan banking sector comprised 38 commercial banks, one mortgage finance company, one mortgage refinance company, ten representative offices of foreign banks, three credit reference bureaux (CRBs), eight non-operating bank holding companies, ten digital credit providers (DCPs) and 72 foreign exchange (forex) bureaux. The number of branches increased from 1,459 in 2021 to 1,475 in 2022.[11,12] Out of the 39 banking institutions, 37 were privately owned, while the Government of Kenya had majority ownership in two institutions.

Microfinance institutions: As of 31 December 2022, there were 14 licensed microfinance banks in the country. Among them, two held community microfinance bank licences, while the remaining held nationwide microfinance bank licences. All licensed microfinance banks are privately owned.

Four large microfinance banks have an aggregate market share of 81.9 percent of the microfinance sector. In comparison, seven medium microfinance banks have a combined market share of 16.4 percent, and three small microfinance banks have an aggregate market share of 1.7 percent.[13]

Mobile money operators: The CBK has licensed three mobile money operators (MMOs) under the NPS Act: Safaricom, Airtel Networks Kenya, and Telkom Kenya. As of September 2023, the total registered mobile money accounts was 77.07 million. The total agent cash-in/cash-out volume was 201.58 million.[14] As of 31 March 2023, the mobile phone penetration is 124.5 percent.[15] The penetration level is more than 100 percent owing to the multiple subscriber identity module card (SIM card) ownership across the country. The annual value of transactions via mobile wallets and phones

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[11]Central Bank of Kenya, Bank Supervision Annual Report 2022 https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf (accessed on 7 November 2023)

[12] Central Bank of Kenya, *Bank Supervision Annual Report 2020*, www.centralbank.go.ke/uploads/banking_sector_annual_reports/468154612_2020%20Annual%20Report.pdf. (Accessed on 18 September 2022)

[13] Central Bank of Kenya, Bank Supervision Annual Report 2022 https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf (accessed on 7 November 2023)

[14] Central Bank of Kenya, Bank Supervision Annual Report 2022 https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf (accessed on 8 November 2023)

[15] Communications Authority of Kenya: https://www.ca.go.ke/mobile-subscriptions-hit-66m-march-2023 (accessed on 8 November 2023)

represents around 60 percent of the country's GDP.[16] Several mobile money platforms have achieved international interoperability, allowing Kenyan migrants to conduct financial transactions in Kenya from abroad. Under the 2011 NPS Act and the 2014 NPS Regulations, mobile money transfer operators are authorized as payment service providers (PSPs) in various categories, including electronic retail transfers, small money issuers, e-money issuers, and payment instrument designation.

Non-bank remittance service providers: As of 31 December 2022, the Central Bank of Kenya had licensed 18 MRPs. The MRPs have established a total of 50 outlets, out of which 42 are located in Nairobi and four in Mombasa and Garissa.[17]

Agents: As of 31 December 2022, the MRPs had engaged 59 agents distributed across the country, with 46 percent of them consisting of licensed forex bureaux providing remittance services on behalf of MRPs.[18] As of 31 March 2023, there were 331,065 registered mobile money agents.[19]

PAYMENT INFRASTRUCTURE

Payment system: The participants in the payment systems in Kenya include the CBK, the government, commercial banks, financial institutions, and PSPs. There are two types of NPS in Kenya, namely large-value (wholesale) and low-value (retail) payment systems, based on the throughput in terms of values and volumes processed.

Large-value payment systems: These include the Kenya Electronic Payment and Settlement System (KEPSS), a real-time gross settlement (RTGS) system, meaning that transactions are cleared and settled continuously. Others are the East African Payment System (EAPS) and the Regional Payment and Settlement System (REPSS), whose objectives are to facilitate cross-border payment and settlement within the East Africa Community (EAC) and Common Market for Eastern and Southern Africa (COMESA) regions, respectively. EAPS and REPSS are regional payment systems and are integrated into the KEPSS.

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[16] Central Bank of Kenya, *Mobile Payments*, www.centralbank.go.ke/national-payments-system/mobile-payments/ (Accessed on 18 September 2022)
[17] Central Bank of Kenya: Bank Supervision, Annual Report 2022: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf (accessed on 8 November 2023)
[18] Central Bank of Kenya: Bank Supervision, Annual Report 2022: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf
[19] Communications Authority of Kenya: https://www.ca.go.ke/mobile-subscriptions-hit-66m-march-2023 (accessed on 8 November 2023)

Retail/low-value payment systems: These include payment cards and mobile money transfers. They facilitate e-commerce and commercial activities within the economy. Payment cards include credit, debit and prepaid cards. The final settlement of transactions from these retail systems is channelled through the RTGS, thus enhancing safety and efficiency. The automated clearing house (ACH) in Nairobi is an infrastructure to clear cheques and electronic fund transfers in the country.

Private-owned retail payment systems: Kenswitch is a PSP in the Kenyan market, regulated by the CBK under the NPS law and has been in the market since 2002. Kenswitch facilitates commercial banks, insurance companies and other financial service intermediaries with payment processing across the region. Kenswitch customers use scheme cards to access financial services over the wide network of automatic teller machines (ATMs), agency banking, merchant point of sale (POS), and e-commerce merchant outlets. Kenswitch also offers a range of value-added products and services within the financial payments space. It has 33 members.

Other private retail payment systems include Interswitch Kenya and PesaLink, provided by Integrated Payment Services Ltd (IPSL). Both are international businesses which provide cross-border retail payment services in the countries where they operate. Cellulant is also a major stakeholder in e-payments, providing domestic and cross-border retail payment services.

Personal identification cards: The National Registration Bureau (NRB) is responsible for collecting biometric and biographic information and issuing national identification (NID) cards. The NRB also operates an automated fingerprint identification system that checks for duplicate or multiple registrations. In 2021, Kenya started Huduma Namba, a unique and permanent personal identification number randomly assigned to every resident individual at birth or upon registration and which becomes invalid only upon the individual's death. The Huduma Card is a multi-application electronic payment card based on Mastercard specifications. It combines an international Mastercard payment application, two local payment applications and identification applications, which include biometrics. It is a digital multipurpose identity card that enables individuals to access various government services and use it as a travel document within the East African region. The card has a person's data merged and installed in an electronic chip, eliminating the requirement for other identity document identifiers. Kenyan migrants collect their Huduma Namba cards in their respective registration missions. The existing payment infrastructure in Kenya is not integrated with the identity systems. The Huduma Card is currently being issued by Commercial Bank of Africa (CBA), Diamond Trust Bank (DTB), Equity Bank, and Kenya Commercial Bank (KCB), with no bank charges being allocated to citizens when registering for the smart card. Overall, the ID coverage for adults at or above the mandatory/required age is 93.0 percent for women and 95.6 percent for men (World Bank 2017).[20]

Automatic teller machines: As of 31 December 2022, there were 2,301 ATMs compared to 2,366 in December 2021. The decline is attributed to the adoption of agency and mobile and digital banking.[21]

Point of sale terminals and cards: As of 31 August 2023, there were 54,446 POS machines.[22] Banking networks and transaction infrastructures are not very extensive in rural areas, creating a severe physical access problem for many remittance recipients.

PRODUCTS

Kenya has some of Africa's highest inclusion levels, with eight out of ten adults formally financially included. Overall, access to formal financial services and products improved to 82.9 percent in 2019 from 75.3 percent in 2016. In 2019, 80 percent of women had access to formal financial services compared to 86 percent of men, and 8 percent of women had access to informal financial services compared to 4 percent of men. This growth could be attributed to the introduction of mobile financial services (MFS) in 2007, followed by increased partnerships and innovations such as mobile banking, agency banking, digital finance, and mobile apps.[23] The latest Findex 2021 study indicates that 79 percent of adults aged 15 and over have an account. Seventy-five percent and 83 percent of these are women and men, respectively.[24] Kenyan financial service providers offer various diaspora-focused financial products. However, not many are targeted at beneficiaries. The Equity Bank and Kenya Commercial Bank are some institutions that have developed products to attract savings, investments and insurance. The Kenyan migrants also have savings and credit cooperative societies (SACCOs) offering savings and credit and helping them to invest in Kenya.

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[20] World Bank, (2017): *Global ID Coverage, Barriers and Use by the Numbers: An In-Depth Look at the 2017 ID4D-Findex Survey*: https://documents1.worldbank.org/curated/en/727021583506631652/pdf/Global-ID-Coverage-Barriers-and-Use-by-the-Numbers-An-In-Depth-Look-at-the-2017-ID4D-Findex-Survey.pdf (Accessed on 18 September 2022)

[21] Central Bank of Kenya: Bank Supervision Report 2022: https://www.centralbank.go.ke/uploads/banking_sector_annual_reports/1620216033_2022%20Annual%20Report.pdf (accessed on 8 November 2023)

[22] https://www.centralbank.go.ke/national-payments-system/payment-cards/number-of-atms-atm-cards-pos-machines/ (accessed on 8 November 2023)

[23] FinAccess, *2019 FinAccess Household Survey* (2019), www.fsdkenya.org/wp-content/uploads/2019/04/2019-FinAcces-Report-Web-05-JAN-2020.pdf. (Accessed on 1 March 2022)

[24] World Bank Group: The Global Findex Database 2021: https://www.worldbank.org/en/publication/globalfindex (Accessed on 26 September 2022)

Although the use of informal channels to send and receive money is still high, the remittance landscape is, to a certain extent, digitized, driven by the prevalence of mobile wallets. Kenyan migrants with M-Pesa wallets have access to all the financial services that can be accessed remotely.

ROADMAP

The assessment and stakeholders' consultations have resulted in developing remittance-related enablers, inhibitors and recommendations for reform. Enablers are factors that contribute to the enhancement of remittance flows, while inhibitors are factors that restrict efficient remittance flows, and recommendations are options to improve the current enabling policy, regulatory, and payment infrastructure environment to increase remittance flows. All of these have been categorized under the following five key areas:

Legal and regulatory framework: This includes options for reform relating to authorities, roles, responsibilities, and mechanisms for coordination, including legal and regulatory factors that support cross-border remittances.

Financial and payment system infrastructure: This includes options for reforming policies, standards and rules related to national payment systems, improving the network of access points, promoting access to interoperable systems and platforms, and establishing national ID systems that support e-ID and ID requirements adjusted on a risk basis.

Market practices: This includes options for reforms supporting cross-border remittances, especially on a foreign exchange regime that provides clear guidance and mechanisms to capture remittance-related data at the transaction level, as well as data analysis and sharing.

Customer protection: This includes options for reforms related to data protection, privacy and confidentiality for remittance-related data and relevant components of customer protection laws that guide customer protection and complaints resolution mechanisms for financial services, including cross-border remittances.

Cooperation and collaboration: This includes recommendations on establishing mechanisms and processes to foster coordination between different stakeholders, including through memoranda of understanding and bilateral (or multilateral) agreements; public-private collaboration mechanisms on matters related to the development and implementation of cross-border remittance policies; harmonization of laws and regulations; the establishment of regional bodies to coordinate regional initiatives; and mechanisms for coordinating and implementing policy issues at the regional level. This aspect includes leverage and consistency with other regional and subregional instruments and institutions.

Tables 1–5 present enablers, inhibitors, and recommendations for reform across the five key areas listed above.

LEGAL AND REGULATORY FRAMEWORK

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
The NPS law incorporates the concept of e-money. The 2014 NPS Regulations provide for the non-exclusivity of agents, which has increased financial inclusion for subscribers of the services.	• Limited direct participation of non-bank financial service providers in the payment systems, making them reliant on banks in service provision despite holding a large share of customers' liquidity. The private non-banking sector comprises e-money providers such as mobile money companies, single-purpose stored value cards, e-commerce, aggregators/integrators and remittance companies. • The payment and settlement systems have limitations in terms of operating hours. They rely on batch processing. This does not support the target for 24-hour operations and instant payments and is more challenging when customers from different time zones are involved.	• Consider allowing non-bank RSPs to access the national payment systems without necessarily partnering with banks. Allowing non-banks to access payment systems can improve the efficiency of the retail payment systems by increasing competition that can lower fees and broaden the set of alternatives open to end users. In other situations, non-banks can contribute expertise that the incumbents lack and cooperate with banks to provide innovative services such as mobile payments. • The CBK can undertake policy changes in operating procedures and improve existing payment arrangements to support the requirements of the cross-border payments market aiming at attaining straight-through processing (STP), aligning processes and operating hours across systems.	Short-term: expected to be implemented in the next year
The 2013 e-money regulations provide for the following: (i) the authorization of e-money issuers and the conduct of the business of e-money issuing; (ii) the appointment of agents by e-money issuers and the registration of such agents; and (iii) appropriate measures to protect the interests of the clients of e-money issuers.	• The available regulations lack standardized and transparent licensing criteria for international mobile money transfers (inflowing and outflowing) and outward) and the criteria for securing approval to connect new corridors. • Differences between international and domestic transactions and balance limits for mobile wallets within a country may be an issue. • The regulations lack risk-based transaction limits.	• The CBK can review the mobile money transfer regulations to introduce standardized and transparent licensing criteria for international mobile money transfers (inflowing and outflowing), revise and align the daily and aggregate transaction limits and enhance the process of securing approval to connect new corridors. The regulations can be drafted such that providers could receive general approval for the use of a transaction hub, enabling them to save time when adding new remittance corridors by notifying the regulator of this intention without the need for a separate approval process for each new corridor. Coherence between licensing/market access for mobile money operators under financial services commitments made in trade agreements such as the African Continental Free Trade Agreement (AcFTA) and the EAC will be built on as needed.	Medium-term: expected to be implemented in the next 2–3 years

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
		• The CBK can consider amending e-money regulations to introduce eligibility requirements for e-money issuers to allow tiered know-your-customer (KYC) requirements based on the associated risk. • The CBK can consider amending e-money regulations to allow international fund transfers directly to mobile wallets and allow international partnership agreements to set transaction and balance limits on a case-by-case basis subject to regulatory approval.	
The microfinance regulation law empowers the CBK to regulate deposit-taking MFIs.	• The regulatory framework is silent on RSPs partnering with MFIs to help foster the uptake of migrant financial products.	• The CBK can consider a regulatory framework that encourages and enables RSPs to partner with MFIs to leverage the MFIs' existing distribution networks while taking advantage of the existing payment infrastructure to extend networks into and across rural areas for enhanced distribution channels for inward remittances.	Long-term: not expected to be implemented in the near future
AML/CFT laws and regulations specify the rules and procedures of AML/CFT and conditions for KYC. To implement the law and regulations, Kenya has issued a Guidance Note on Conducting Money Laundering/ Terrorism Financing (ML/TF) Risk Assessment, applicable to all institutions licensed under the Banking Act (Cap.488) and their foreign branches and subsidiaries. The main objective of this guidance is to assist financial institutions in	• The CBK issued guidelines on the proceeds of crime and money laundering (prevention) CBK/PG/08. Among the requirements for individuals to have a relationship with a financial institution is the presentation of an official record capable of establishing the applicant's identity, such as a birth certificate, passport, NID card, driver's licence or other official means of identification as may be stipulated in other regulations. In addition, financial institutions may obtain the address of the current residence confirmed by a referee or a utility bill (i.e., electricity or water bill), employment contract and/or source(s) of income.	• The CBK can improve the guidelines for proportionate customer due diligence (CDD) to implement the already existing AML/CFT laws on risk-based customer supervision so that the market players do not place an unwarranted burden on lower-risk RSPs. Consider guidelines that will clarify that compliance with anti-money laundering/countering terrorist financing (AML/CTF) obligations in the law does not require financial institutions to refuse or terminate business relationships with entire categories of customers that they consider presenting a higher overall money laundering/terrorist-financing risk. The guidelines can also allow for e-KYC to help women and men migrants and their families open bank accounts remotely in their country of origin. As part of the harmonization process, it would be imperative that all IGAD countries undertake a money laundering/terrorist financing (ML/TF) national risk assessment. This will enable member countries to know and understand the level of ML/TF risks in each country.	Short-term: expected to be implemented in the next year

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
conducting a money laundering/ terrorism finance risk assessment.		• Simplify account-opening procedures: Consider account-opening requirements that are not prohibitive. For example, requiring the address of current residence confirmed by a referee or a utility bill (i.e., electricity or water bill) or that the customer presents an employment contract or proof of income may be a disincentive for grants and self-employed individuals in the informal sector. • The CBK can consider introducing guidelines for outreach and education on implementing AML/CFT regulatory frameworks. The guidelines can provide for outreach and educational programmes to raise awareness between the entities and the wider community of the risks associated with money laundering and the financing of terrorism and proliferation and to avoid prohibitive implementation of some legal clauses.	
The operations of non-bank RSPs in Kenya are governed under the 2013 Money Remittance Regulations, which provide for the creation of outlets and agencies for money remittance business across the country to foster access to financial services.	• The establishment of an RSP as a branch of a foreign RSP is not allowed. E-money issuance can only be carried out by a legal person who must be incorporated in Kenya. This limits passporting, which does not enable entities authorized in another country within the IGAD region to conduct business in Kenya through mutual recognition. It may limit RSPs' ease of entry, competition, efficiency, and quality of service to the final customer.	• The CBK can consider introducing mutual recognition criteria in the RSP regulatory framework. A certain level of confidence may be placed on the partner states regulatory regimes such that minimum requirements for operation and supervision are placed on establishing branches and subsidiaries from partner states. In this case, a licence issued by a central bank in one of the partner states is recognized by regulators in all partner states upon simple notification to the supervisory authority. Supervision of the RSP can be mutually agreed upon among the Member States after consultations and harmonized legal and regulatory frameworks defining the roles of the home and host regulators to minimize conflicts.	Short-term: expected to be implemented in the next year

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
Fintechs in the payment space are rapidly growing in the financial sector in Kenya. CBK regulates financial technology (fintech) under the following legislative frameworks: Banking Act, Cap 491, and Prudential Guidelines. National Payments Systems (NPS)Act, 2011, and NPS Regulations, 2014. Central Bank of Kenya Act, 2021 and Central Bank of Kenya (Digital Credit Providers) Regulations, 2022.	• There is a lack of a unified regulatory framework for fintech that could allow market participants to test new financial services or models with live customers, subject to certain safeguards and oversight. • The CBK's limited remittance market support capacity and slow regulatory approval rate may weaken innovations.	• Consider having regulatory sandboxes in place to encourage market entry. This regulatory and authorization framework continues to support experimentation through test and learn. It is a temporary experiment of innovative financial products, services, business models, and delivery mechanisms in the payment systems ecosystem. This framework can be conducive to innovating payment services while ensuring the protection of customers and public interest is upheld. The goal is a new service offering aimed at fintechs and innovation among existing RSPs and (subject to a thorough review) the need to broaden the scope of players authorized to participate in the NPS ecosystem to increase competition and choice.	Medium-term: expected to be implemented in the next 2–3 years

PAYMENT INFRASTRUCTURE

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
MFS (or mobile money) is a trusted channel for receiving remittance transfers because of convenience, speed, security and reduced cost. The 2014 NPS Regulations require payment systems in the country and internationally to enter into interoperable arrangements. There are several switch infrastructure providers in Kenya, including Kenswitch, Interswitch and PesaLink. There are also aggregators like Cellulant.	• Implementing separate infrastructures to cater for MFS from other retail payments presents additional or duplicate costs. • Maintenance costs of the separate infrastructure increase recurring costs. • There are several players in the retail space (Kenswitch, Interswitch, PesaLink), each making considerable capital and operational investments in infrastructure. • QR code-initiated transactions, using either a merchant QR code or a customer QR code, are currently issued by isolated participants. A quick response code (QR code) is a type of barcode that stores information and can be read by a digital terminal, such as a cell phone. • Partial harmonization of common standards for key payment technologies, procedures and security features has led to the duplication of initiatives like the QR code payments from two different PSPs, which are not often compatible. • Although PSP platforms have application programming interfaces (API), they are not necessarily open to third-party systems in the ecosystem. This has the effect of entrenching prominent participants and excluding small participants. The opening of APIs has been bilateral, limiting opportunities for interoperability with new entrants. • The partial interoperability of platforms being implemented in silos means end users have to open multiple user profiles on different platforms. • Electronic funds transfer (EFT) or RTGS does not support the target for 24-hour operations and instant payments and is more challenging when customers from different time zones are involved.	• Consider having an integrated infrastructure in place, interoperable with mobile network operations. • Consider facilitating mobile money providers to work together to reduce the cost of improving the infrastructure. An example is shared telecommunication infrastructure. • Having shared infrastructure for all payment infrastructures could foster product development, as innovators can focus on specific initiatives and avoid some of the capital and operational costs involved with setting up infrastructure independently. • Consider integrating the RTGS systems and retail payment and settlement systems. Like large value payments, retail payments, especially mobile financial services, should be integrated with the RTGS. Enforcement of the 2014 NPS Regulations, which mandates all licensees to comply with international payment systems standards, is essential. Additional guidelines aiming at improving the coordination and/or adoption across the relevant payment systems, as well as rules, procedures and operating hours that support STP, will be a step toward harmonization of regional remittance services. Standardized formats will enable banks and other RSPs to process payment instructions without the need for expensive manual intervention.	Medium- to long-term

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
Kenya has banking networks and transaction infrastructures such as those for ATMs and EFTPOS. Kenya also has an extensive network of banking and mobile money agents country-wide.	• Partial interoperability exists between the different payment systems and many access points. Some depend on existing card schemes, correspondence banking, and bilateral agreements. • A policy to enforce a common standard for integrating access points would simplify the process and encourage innovations.	• Allowing non-bank RSPs to access the payment systems may be one step ahead. Non-bank RSPs can improve the efficiency of retail payment systems by increasing competition. Increased competition can lower fees and broaden the alternatives open to end users. Banks may also respond to the competition with innovations of their own; banks and non-banks may cooperate, exploiting their respective competitive advantages to drive efficiency gains and generate economic benefits for both partners. Competition between non-banks and banks can serve financial inclusion goals. Unbanked individuals may be able to use non-bank services as an alternative to payment instruments offered by banks. In other situations, non-banks can contribute expertise that the incumbents lack and cooperate with banks to provide innovative services such as mobile payments. Some mobile phone operators, for example, have extended basic financial services to sectors of the population that any financial institution did not previously serve. • For outreach to rural areas, leveraging the 900 post offices of Kenya Post can be an option. • The CBK can encourage both banks and non-banks to adopt shared infrastructure to reduce the cost of implementing access points in non-commercial areas in Kenya.	Long-term: not expected to be implemented in the near future
The NPS policy, among others, targets systemic risk reduction to encourage the use of payment systems.	• Fraud, particularly socially engineered fraud and SIM fraud, especially among first-time users, makes the users vulnerable to fraudsters who conduct their criminal activities through socially engineered fraud, SIM card swaps and other means. This undermines the usage rate of the payment systems. Cyberattacks on payment systems	• RSPs can be required by regulations to put in place appropriate governance and risk-management practices to improve the safety and soundness of remittance services and help protect customers. • Introduce a harmonized and coordinated cyber-reporting framework as a step toward collective	Medium-term: expected to be implemented in the next 2–3 years

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
	represent a major threat to the payment systems, both large, retail and cross-border systems. • A lack of harmonized and coordinated cyber-reporting undermines collective efforts to implement sufficient safeguards. Insecure payment systems undermine not only financial system integrity but also undermine national security. • System failures and channel downtime associated with digital payment instruments cause delayed payment, thus affecting customers' willingness to use digital payment services and increasing account dormancy and the dominance of cash, especially for low-value retail payments. Customers lack adequate assurance that payments will reach the intended recipients at the right time, reducing their willingness to use digital payment services.	efforts and sharing of experiences necessary in putting in place sufficient safeguards. • Business continuity plans could be mandatory for all PSPs.	
Acceptable IDs for accessing financial services include (i) a birth certificate, (ii) an NID card, (iii) a driving licence, and (iv) a passport. The NID card (Huduma Namba) is issued under Executive Order No. 1 of (2018) and by the statute law (Miscellaneous Amendments) Act, 2018, Sec 9A.CAP 107. Formulation of Registration of Persons (NIIMS) Regulations, 2020; and Formulation of Data Protection (Civil Registration), Regulations 2020.	• There is partial integration of identification and payment systems, for example, the prepaid card features on Huduma Namba.	• The Identification systems can be integrated with more payment systems. Digital ID is paramount to increasing the uptake of formal financial services. Identifying specific policy interventions to boost the implementation and usage of digital ID is critical to its role as an enabler for remittance services as it supports effective identification and onboarding of customers/user segments, facilitates authentication and verification of cross-border transactions, facilitates effective AML/CFT supervision of cross-border transactions and expands the digital footprint of the underbanked to enable their access to a broader range of financial services. • Harmonization of standard KYC, such as NID cards, can reduce the risks and costs associated with integrating multiple identity management systems.	Long-term: not expected to be implemented in the near future

MARKET ASPECTS

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
Kenya Vision 2030 recognizes that financial literacy and public awareness are key to financial inclusion. As part of the efforts, Kenya conducted a survey (The Diaspora Remittances Survey - DRS), whose report is available on the CBK website. The report contains useful information on migrant destination countries, migrant profiles, remittance channels, including informal channels, and remittance costs.	• Low levels of financial and digital literacy, especially among women, affect customers' ability to use digital payments. This is further exacerbated by complex and non-intuitive steps to effect payments, thereby inhibiting the use of digital payment services. • Customers, especially women, lack the financial literacy to identify and compare alternative remittance services. In 2018, the literacy rate for women in Kenya was 78.1 percent, while for men was 85 percent (World Bank 2018).[25] Lack of financial literacy and awareness limits the accessibility of remittance services, even if the market is potentially competitive. • At the same time, RSPs lack knowledge about the market, such as the size of the market in key corridors. With little knowledge, they regard remittances as unattractive because senders typically have relatively low incomes. Senders find that some services (such as those based on bank accounts) are not readily available to them.	• The government can promote e-payments to reduce transactional costs to customers of financial services. The government's ministries, departments and agencies can also encourage its citizens to electronically pay the government for their taxes, social security contributions and loan payments, health insurance contributions, and licences (driving licences, business licences, etc.). This has the potential to introduce and sustain the unbanked in mainstream banking or regulated systems. This, in turn, can drive down operational costs to operators and, ultimately, a reduction in transactional costs to customers of financial services, including women and men migrants. • The ministries responsible for foreign affairs can hire a liaison officer who will communicate with and inform the diaspora and the associations of women and men migrants on the one hand and the administrations involved in the promotion of investment in the country on the other hand. They should also liaise with RSPs of interest to their country to disseminate literacy courses. • The liaison officer can prepare public education and awareness programmes, particularly for women and men migrants. The education seminars should cover customer-journey mappings, such as steps involved in sending remittances, pre-departure opening of a bank account and/or mobile wallets to be used by the remittance recipients, electronic card security and other important features such as safety, practicality and ease of use and available financial products. The education and awareness initiative should involve the central banks, informing how various payment mechanisms and products can easily be accessed. • The liaison officer should coordinate with embassies and consulates to participate in developing databases, including names, jobs and contacts. Online communication and virtual meetings can be organized to strengthen proximity with migrants	Medium-term: expected to be implemented in the next 2–3 years

[25] World Bank data, 2018: https://data.worldbank.org/indicator/SE.ADT.LITR.ZS?locations=KE&view=chart

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
		in the long term and better understand their concerns and expectations. Networking with non-governmental organizations and associations of women and men migrants abroad will ensure a better channelling of remittances to projects in their country of origin. • The liaison officer can also develop online tools. This makes it possible to network migrant skills abroad to mobilize them for advice, expertise and remittances to their country of origin. • The liaison officer can encourage the entry of new operators into the remittance space. One of the easiest ways to lower transaction costs is to encourage the entry of new legitimate operators in a given corridor and to inform migrants about their ability to choose among existing remittance-transfer mechanisms. This supports increased competition among RSPs, thereby improving efficiency and lowering costs.	
The financial markets have competing service providers.	• Customers cannot migrate their payment history from one payment provider to another. Consequently, individuals are bound to incumbent providers – even when cheaper options exist – as the cost of building a new history with another payment provider is costly and time-consuming. • There is limited competition for merchant acceptance in the mobile money space. This is also due to the limited acceptance of competitor payment instruments.	• The CBK should champion efforts to encourage institutions with extensive branch and agent networks or *de facto* local monopolies (e.g., post offices and major retailers) to apply for licences to offer multiple services, including remittance services. • The CBK can consider maintaining information on its websites that compares the transaction costs charged by various RSPs to increase transparency and competition. The CBK's involvement and support will increase migrants' trust in formal channels.	Medium-term: expected to be implemented in the next 2–3 years
Presence of consulates in major remittance-sending corridors.	• Stringent identification requirements for accessing financial services prevent many women and men, migrants, from using formal remittance channels. Undocumented women and men migrants generally have difficulty accessing many financial services in their destination countries since they do not	• The ministries responsible for foreign affairs can consider issuing consular identity cards to women and men migrants, especially those who do not necessarily have the documentation that RSPs require so that they can use formal remittance channels. Such cards may encourage women and men migrants (regardless of immigration status) to use formal remittance services and open bank accounts. In this endeavour, cooperation with the destination	Medium-term: expected to be implemented in the next 2–3 years

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
	necessarily have the documentation that RSPs require.	government is critical so that the cards may be acceptable to banks and government offices. • The CBK can allow bank accounts to be opened online using consular cards. At the outset, women and men migrants could be given consular identity cards issued by the Ministry of Foreign Affairs and approved by the central bank, deemed compliant with national rules and regulations. The CBK should require that each migrant opens a domestic bank account that facilitates monitoring of financial practices and preventing illegal activities. Opening bank accounts online should be permitted using these consular cards without any additional ID.	
Existence of some partnership arrangements between banks and international money remittance agents to allow the inflow of remittance, including the development of insurance, savings and business and investment bank accounts in multiple currencies.	• There are few options for migrants from the existing products and services beyond savings and credit. In addition, the products and services are designed to target all migrants without specific consideration of the varied needs that men and women migrants have. • RSPs typically focus on providing traditional incentives to drive the market, such as credit extensions, favour for opening a diaspora account, etc., which are mostly non-innovation motivators and do not consider demand-side perspectives.	• Governments, philanthropists and the private sector, including fintechs, can adopt a broader view of how to tap financing for development through remittances by designing various appropriate products that will attract women and men migrants. Women and men migrants' direct investment is potentially valuable. • Financial institutions should also develop a broader range of investment products targeting migrant investors, such as basic low-cost payment accounts and services for retail clients, diaspora micro-saving bonds, endowment accounts, pension schemes and insurance policies, which could then be used for remittances. Kenya has already started specific migrant-linked initiatives, including migrant-targeted infrastructure bonds. In 2017, Kenya launched M-Akiba as the world's first mobile phone-based bond. Despite the broad interest, only 2 percent subscribed to the bond. The bond was relaunched in February 2019 to increase uptake and saw an increased subscription. Initiatives such as these can be further built upon as needed. • Kenya Vision 2030 envisages the development of "an efficient and globally competitive financial services sub-sector", and the 2017 National ICT Masterplan envisages the sector contributing at least 10 percent of GDP. The development of efficient and affordable	Short-term: expected to be implemented in the next year

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
		digital remittances and linked financial products provides an opportunity to meet both these objectives. • A reward system can be adopted to entice further electronic payment use. Rewards can be an effective way to attract women and men migrants or convince existing ones to use a specific payment instrument for their purchases and borrowing. Some reward schemes that could foster financial inclusion among women and men migrants include rewards for using cards and other electronic means of payment.	
The CBK collects inbound remittance data from reports submitted by all permitted/licensed providers. The CBK has introduced a detailed breakdown of the remittances by individual countries from which they were sent. An annual report with a summary of sector performance, which includes a summary of remittance inflow, is also published.	• Remittances still flow through informal channels. • Remittance data sent through formal channels is not disaggregated by sex.	• Develop a remittance transaction reporting system for remittance data collection, analysis, monitoring, and use. This will involve assessing the already existing central bank data collection systems and developing a platform that will define appropriate remittance data architecture, data collection and repository systems, define processes for the data measurement and analytics, and data monitoring and use. • Consider collecting sex-disaggregated data to ensure that the unique needs of women and men migrants are considered during decision-making. • Reliable data on remittances are key both to enhance the accuracy and completeness of balance of payment data to effectively manage issues related to AML/CFT compliance, to understand the true impact of remittances on the economy and to form more effective policy for managing remittances, including policies to incentivize their contributions to the economy. Remittance data collection, analysis, monitoring and use are essential for decision-making processes relating to remittance services. • Given that informal remittances are an important issue for Kenya and several IGAD Member States, it could be useful to develop estimates on the size of informal remittances flows. Digital remittances can reduce the incidence of informal remittance flows.	Short-term: expected to be implemented in the next year

CUSTOMER PROTECTION

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
The 2018 Banking Sector Charter represents a commitment by banking institutions to establish a responsible and disciplined banking sector that is aware of and responsive to the unique socioeconomic realities of the Kenyan people. In addition, in 2016, the Competition Authority of Kenya (CAK) issued an order to financial services providers to fully disclose all applicable charges for transactions delivered via mobile phone before completing the transaction.	• Unexpected charges remain barriers to access and usage of formal financial services. Prices and tariffs of some payment services are relatively high, and others are too complex to be understood by the average customer (e.g., those quoted in mathematical forms such as percentages). • There are provisions in various laws for customer complaint handling mechanisms, but the number of laws addressing customer protection issues and the lack of enforcement mechanisms make this confusing and unclear. Furthermore, no recourse mechanism has been purposely built for digital channels. • Overlap in the legal mandates of different financial customer protection authorities can lead to inconsistent and ineffective supervision. • Kenya lacks a harmonized financial customer protection framework to ensure that data and money are well secured during cross-border transactions, especially regarding cybersecurity and data protection. • Some RSPs do not convey the truth about the speed of services, or customers are not informed when delays occur. Speed depends on messaging and settlement (there is no liquidity provision to the disbursing agent so that pay-out can occur before a settlement is complete). This can	• The CBK may consider developing a harmonized financial customer protection framework to ensure that data and money are secured and to foster customer trust and confidence. These guidelines, which would apply to all RSPs licensed, registered, and supervised by the corresponding authorities, would protect and empower senders and recipients of remittances, especially in the key areas of (i) cybersecurity; (ii) data protection and privacy; (iii) complaints management; (iv) transparency and disclosure; (v) float and agent liquidity management; and (vi) financial education and customer awareness. • **Cybersecurity:** Cybersecurity policies will protect users and data, enabling users to enjoy frictionless and safe money transactions. • **Data protection and privacy:** Legal frameworks can clarify and strengthen data protection regulations, especially from financial and payment data perspectives. This should include how financial, payments and other digital payment data are collected, held, stored, accessed and shared, as well as pertaining to ownership and intellectual property rights, if any, and customer consent and protections. The overall objective should ensure that payment data are used safely and securely to enhance users' privacy and customer-centricity. • **Complaints management:** The guidelines can provide for complaint handling mechanisms and refund procedures. Guidelines should require RSPs to develop a complaints management plan, including the establishment of (i) a separate unit responsible for digital finance and remittance payments, (ii) a manual of operations that clearly explains how customer complaints are addressed and reported, with clear responsibilities for each step of the process, and (iii) appropriate communication channels to address inquiries and complaints from digital finance and remittance customers. If the complaint is not resolved to the customer's satisfaction, an out-of-court	**Medium-term: expected to be implemented in the next 2–3 years**

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
	lead to some intermediary banks holding onto the funds for a period before forwarding them so that they can benefit from the resulting float.	alternative dispute resolution (ADR) mechanism can provide further options for recourse. • **Transparency and disclosure:** The guidelines could require proper disclosure at the advertising, shopping, pre-contractual and contractual stages, and, upon request, in line with Principle 3 of the G-20 High-Level Principles on Financial Customer Protection, which states "all financial customers should be treated equitably, honestly and fairly at all stages of their relationship with financial service providers". Guidelines should also require RSPs to provide information about any other relevant aspects of their service, such as the following: (i) the ability, if any, of the sender to revoke the transfer after it has been paid for; (ii) whether the RSP will inform the receiver when the funds are available; (iii) information about the rights of the customer in the event of any problems (e.g. dispute or error resolution); (iv) the customer's ability to transfer products or services to another provider with reasonable notice; and (v) contact information. • Float and agent liquidity management: The guidelines can also consider introducing a code of conduct on float management because this is an implicit charge. Its effect is that the remittance service is slower, and the intermediary entity earns interest income from the funds. • RSPs could establish financial education programmes for remittance customers to raise awareness of basic information about remittance products and services, including charges and fees.	

COOPERATION AND COLLABORATION

Enabler(s)	Inhibitor(s)	Recommendation(s) for reform	Priority
Membership in various regional economic communities (RECs), including membership of the EAC, COMESA, IGAD, and other international forums such as the Eastern and Southern Africa Anti-Money Laundering Group and the Association of African Central Bank Governors.	• Unharmonized policies, laws and regulations related to cross-border remittance across regional blocks. • Lack of cooperation on AML/CFT measures on cross-border remittance flows among Member States in the region, including sharing information.	• The CBK can spearhead harmonizing remittance regulations within the IGAD region and other corridors. It can be challenging to use regional payment systems if the regulation in each participating system is not harmonized or if operating standards are different. Trade arrangements and financial liberalization commitments, especially those linked to the operation and licensing of financial entities, including RSPs, can be built upon. • Other relevant public authorities can enhance domestic and cross-border regulatory cooperation. This could be done by assessing the existing arrangements and challenges, creating the building blocks of a response to improve the current regional cross-border remittance arrangements and creating a road map of practical steps (with time frames) needed to achieve harmonization. An intended outcome is increased efficiency, affordability and security of intraregional and cross-border fund transfers. • Establish and agree on information exchange procedures that would enhance regulatory cooperation among the regulators within countries and at the regional level on cross-border payment arrangements and financial liberalization commitments, especially those linked to the operation and licensing of financial entities, including RSPs.	Short-term: expected to be implemented in the next year

KEY TAKEAWAYS AND NEXT STEPS

Kenya has well-developed and extensive access points, including highly popular mobile money services. However, for the success of the regional harmonization project, Kenya, like the other IGAD Member States, will need to address some of the gaps identified. UNCDF and the IGAD Secretariat conducted a comprehensive diagnostic for the specific and very important question of optimizing migrant remittances. We recognize that the recommendations also require various levels of effort and timeframes to implement.

We look forward to reviewing this report in detail with key CBK and Government stakeholders and identifying opportunities where UNCDF can provide specific support. Along with consultations to review this report's contents, UNCDF and the IGAD Secretariat will keep Kenyan stakeholders updated about the comprehensive body of work we will be pursuing around migration and remittances. That work includes:

Demand-side research: Despite digital solutions' great potential to improve the lives of migrants and their families, both access and uptake remain a challenge. Many migrants may lack practical access to a digital transaction account (such as a mobile wallet), whether because such services are simply unavailable in the area where the migrant is working or because the migrant lacks the necessary documentation to open such an account, or due to some other external factor. Where access is available, the migrant may lack the necessary digital literacy to know how to register for such an account. Finally, some migrants, even those digitally adept, may not see digital solutions as better than cash-based solutions, which is perhaps not surprising since the use cases for digital remittance channels remain limited to date. Unless human-centred financial product development, focused on the financial needs and mobility considerations of migrants, is responsively designed and supported by the requisite last-mile delivery infrastructure, commercially viable financial inclusion for migrants and their families will not be achieved. UNCDF's demand-side research thus focuses heavily on human-centred design. We anticipate that the learnings from our human-centred design work will be applicable and valuable to the Kenyan context.

Supply-side research: Access and uptake of digital financial services, including remittances, requires a robust and inclusive digital finance ecosystem. Such an ecosystem must ensure the active participation of traditional and non-traditional financial service providers to support commercially viable digital remittance channels. The supply-side assessment work is aimed at reviewing the constraints faced by the providers — agent networks, liquidity management, business models, products, digital infrastructure, etc. — that currently limit their capacity to advance the usage of digital products.

Learning and implementation: In parallel with the roll-out of the research strategy, UNCDF will be pursuing an ambitious capacity-building and learning agenda. We are partnering with leading academic and learning institutions to advance our understanding of shared challenges and opportunities about building enabling ecosystems, pursuing evidence-based decision-making, and designing migrant-centric financial products.

Finally, as we begin collaborating with the CBK to review this report, we also look forward to holistically considering the set of recommendations. The holistic approach is important for several reasons. First, all the work with UNCDF will ultimately support the central bank's efforts to improve remittance flows through regulated channels, giving regulators a more accurate picture of the true balance of payments. At the same time, the work will also advance the financial inclusion of migrants and their families, thereby advancing the financial inclusion agenda for the country as a whole. UNCDF's recommendations in this report form a system, and changes to any single factor will likely cascade through that system. Tackling the diagnostic recommendations systemically, rather than looking at individual recommendations in isolation, will make their inter-dependencies and linkages more visible and align with the country's monetary, financial inclusion, and digitalization agendas and will ultimately create the best path forward.

ABOUT IGAD

The Intergovernmental Authority on Development (IGAD) is one of the eight regional economic communities (RECs) and building blocks for the African Union. IGAD was established in 1996 to supersede the Intergovernmental Authority on Drought and Development (IGADD), which was founded in 1986. The new and revitalized IGAD was launched during the fifth Summit of IGAD Assembly of Heads of State and Government — Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda — held on 25-26 November 1996 in Djibouti. The Summit endorsed the decision to enhance regional cooperation in the priority areas of food security and environmental protection, economic cooperation, regional integration and social development, peace, and security. The founding leaders of IGAD were motivated by a vision where the people of the region would develop a regional identity, live in peace, and enjoy a safe environment, alleviating poverty through appropriate and effective sustainable development programmes.

ABOUT UNCDF

UNCDF mobilizes and catalyzes an increase in capital flows for SDG impactful investments to Member States, especially Least Developed Countries, contributing to sustainable economic growth and equitable prosperity.

In partnership with UN entities and development partners, UNCDF delivers scalable, blended finance solutions to drive systemic change, pave the way for commercial finance, and contribute to the SDGs. We support market development by enabling entities to access finance in high-risk environments by deploying financial instruments, mechanisms and advisory.

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