

TERMS OF REFERENCE

MARKET ANALYSIS: THE ROLE OF SACCOS AS REMITTANCE PROVIDERS

1. BACKGROUND

FSD Kenya 2022-2026 strategy

The Financial Sector Deepening Kenya (FSD Kenya) is an independent Trust dedicated to the achievement of a financial system that delivers value for a green and inclusive digital economy, while improving financial health and capability for women and micro and small enterprises (MSEs). FSD works closely with Government, the financial services industry and other partners to develop financial solutions that better address the real-world challenges faced by low-income households, enterprises and underserved groups such as women and youth. FSD's current strategy (2022 – 2026) sets to contribute to the development of a financial market offering useful, affordable, and trusted financial solutions for Kenyans and Kenyan enterprises, especially for women and micro and small enterprises. The strategy focuses on shifting 3 key functions of the financial market towards more inclusive finance. These functions are effective policy, regulation and vision, open financial market infrastructure and value adding financial solutions. Remittances is recognised as a key enabler to achieving Kenya's long-term development goals as they enable socio-economic growth and transformation of livelihoods through their wide reach, especially to low-income households and rural populations. These flows enable livelihoods to manage day-to-day and increase their resilience through covering medical, educational and housing expenses as well as covering various emergencies such as crop failure and emergency medical treatment. They are also used to start and sustain small businesses.

IFAD and the PRIME - Africa programme

The International Fund for Agricultural Development (IFAD) has an on-going programme, PRIME Africa - the Platform for Remittances, Investments and Migrants' Entrepreneurship, which focuses on seven African countries (including Kenya). The main objectives of PRIME Africa are to support the cost reduction of diaspora remittances, increase digitisation of the international remittances, foster the adoption of remittances formal channels, and increase the financial inclusion use cases through remittances. The project produced a diagnostic on the Kenyan remittance market in 2021, as well as an accompanying roadmap to guide activities to help make improvements to the market. The implementation activities following this include interventions that support both the private and public sector players.

Remittances in the Kenyan context

Remittances are important for Kenya and is an area that has receiving increased attention in recent years. In many ways, Kenya has been seen as the 'poster child of digital diaspora remittances, due, in many ways, to the widespread adoption of mobile money domestically since 2007. Kenya is a net receiver of remittances. According to data from the Central Bank of Kenya (CBK), remittances inflows to Kenya totalled USD 3.7 billion in 2021, accounting for over 3 percent of GDP. Despite the significant contribution of remittances to Kenya's economy, there still exists constraints in the remittance market that are altogether holding back more efficient outcomes for the broader economy and for downstream recipients. Of these, cost continues to be a major barrier with CBK data showing that the average cost of sending remittances was in the range of 4%-6% of the amount sent depending on the remittance corridor. ¹ This is higher than the SDG target of reducing the cost to less than 3% and eliminating remittance corridors with costs higher than 5% by 2030.

¹ CBK Diaspora Remittances Survey, December 2021.

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Beyond costs, other challenges include lack of publicly available data that provide granular and gendered detail relating to size and value of remittance flows, channels used, both formal and informal, senders and recipients demographics and gender, usage of remittance receipts and other data points that would provide a wholesome picture of the remittance market in Kenya. While CBK publishes monthly data on diaspora remittances, it is aggregated, categorises the inflows as per three corridors: North America; Europe; and the rest of the world and only includes remittances sent through formal channels. However, anecdotal evidence suggests that there are large inflows of remittances through informal channels both into and from Kenya which by-pass the formal channels. Additionally, little is known about Kenya as a remittance-sending market.

The role of SACCOs in remittances

Both IFAD, SASRA and FSD recognise the potential role of SACCOs as significant players in the remittances market. There are currently over 500 SACCO pay points countrywide with some of the large SACCOs rivalling commercial banks in terms of asset size and capital base. Whilst SACCOs currently offer remittance services, it is through agency relationships with commercial banks and other PSPs, mainly FinTechs that leverage mobile money services. This is by design as SACCOs currently cannot participate directly in the national payments system and cannot handle forex transactions. The current arrangements have several limitations: (i) they create several intermediary layers which add costs to the transactions thus making it more expensive to the end consumers; (ii) the integrations through partners create multiple points which cause vulnerabilities in terms of system failures and cyber-attacks, and (iii) banks need to get approvals from CBK before partnering with SACCOs which in turn have to get an approval from their regulator, SASRA, before partnering, a burdensome process. These challenges limit the effectiveness of SACCOs as remittance providers. Addressing these challenges has the potential to:

- a. Increase inclusive finance through efficient and effective transfers, including reduced costs.
- b. Reduce the use of informal channels.
- c. Increase networks into rural areas by linking remittances with the financial services used by rural, low-income people such as women.

To get a better understanding of the current and potential role of SACCO as remittance providers, it is imperative to first undertake a review and analysis of the market, policy and regulatory landscape to identify the constraints and opportunities in the remittances market and the SACCO sector and the potential intersections between the two. This would then generate market insights and policy recommendations to enhance the role of SACCOs as remittance providers. FSD Kenya through funding from IFAD and the support of SASRA seeks to recruit the services of two consultants to undertake the market research and analysis (market analyst) and the policy and regulatory review (regulatory consultant). This Terms of Reference is for the **market analysis**. The ideal candidate (the market analyst) must have in depth understanding of Kenya's financial sector landscape especially the SACCO sub-sector, and an understanding of the payments ecosystem in Kenya.

2. OBJECTIVE

To undertake an analysis of the remittances landscape in Kenya and examine the current and potential role of SACCOs as remittance providers from a market and commercial perspective.

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3. SCOPE OF WORK

This work will have 2 key components.

- a. The first component will be a market analysis examining both demand and supply sides. The aim is to understand the current position, underlying dynamics, opportunities and market gaps and prospective constraints to current and future participation of SACCOs as remittance providers. It will draw heavily on existing literature and stakeholder interviews. In contributing to a broader understanding of the drivers of change, the market analysis will encompass the organizational structures and business models that have facilitated the current state of remittances and the role played by SACCOs.
- b. The second component will involve consolidating the research findings and disseminating to relevant stakeholders to inform market, commercial and policy decisions, including for the design and implementation of the proposed Shared SACCO platform².

The specific tasks to be undertaken are:

- 3.1 **Support the design of the National Remittances Household Survey to provide an understanding of the remittance ecosystem from the SACCOs' perspective:** CBK, KNBS, SASRA and FSD Kenya are in the process of undertaking the first national remittances household survey. The market analyst is expected to work closely with the SASRA and FSD Kenya to ensure that indicators/questions relevant to this work are incorporated into the study with the survey findings expected to enrich this work. A draft survey questionnaire has already been designed but further work has been put on hold until further notice.
- 3.2. **Undertake interviews of both Kenyan remittances' senders and recipients:** Working closely with the project team from SASRA and FSD Kenya, undertake interviews with various groups of SACCOs which will include:
 - a) SACCO members who currently receive remittances through SACCOs
 - b) SACCO members who use other operators to receive remittances.
 - c) Rural remittance recipients and senders who are not SACCO members.
 - d) Kenyan migrants abroad (living in the most relevant diaspora destination, USA, UK, Germany, Uganda, etc.) sending cross-border remittances directly into SACCO accounts.

Respondents will be identified through support from SASRA and FSD Kenya leveraging the household survey database, and diaspora associations such as the Kenyan Diaspora Alliance (KDA). The consultant will advise on the best methodology to adopt - individual interviews and/or FGDs – and will focus on the reasons for using, not using or being interested to use SACCOs to send/receive remittances and, for the current SACCO users, their pattern to send/receive remittances and how they combine SACCOs' financial services with remittances. The results will be disaggregated by gender (ensuring women are fairly represented in the sample), location (with a clear focus on rural areas), and the sending countries (including PRIME Africa corridors, namely Germany, South Africa and Uganda).

- 3.3. **Mapping active SACCO remittance models:** As of today, there is no publicly

² The shared SACCO platform (SACCO central) is a proposed SACCOs services model that allows the sharing of services among SACCOs such as having a common MIS, ICT infrastructure, branching operations, ATMs, central liquidity facilities, inter SACCO platform borrowing etc. FSD Kenya is providing technical support in designing this.

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consolidated available information on the number and the location of SACCOs in Kenya that provide remittance services to their members. To respond to this market need, the consultant is expected to undertake the following activities:

- i. Map the (DT and non-DT) SACCOs that have active remittance operations through agency/sub-agency agreements or other types of arrangements that allow members to send/receive money to/from a SACCO account. This will require working with SASRA to explore its database to determine which SACCOs engage in remittances.
- ii. Conduct in-depth interviews with a minimum of 10 identified SACCOs to gather additional details on the partnership models used, with a focus on gathering information on their benefits and challenges.

3.4. Identifying alternative SACCO partners in the remittances value chain to understand:

- i. through which partnership arrangements SACCOs could deliver remittance services at the last mile, especially in rural areas;
- ii. which minimum criteria would be needed at SACCO level to run remittance-related operations proficiently; and
- iii. what are the regulatory breaches that should be clarified or regulatory challenges to be anticipated.

iv.

To gather this, the consultant is expected to identify new partners among stakeholders of the remittance value chain and other players partnering with SACCOs in the field of payment services, IT support, cloud-based banking services, and relevant stakeholders willing to extend or develop their collaboration to the field of remittances. Those potential new partners, including banks, fintechs, IMTOs, MMOs, etc., can be identified through discussions with key informants involved in the remittance value chain or engaged with SACCOs in the provision of payment and IT services. A minimum of 15 of these relevant stakeholders will be interviewed. This includes current and potential SACCOs' operating partners (e.g. Credit Bank, Family Bank, Cooperative Bank, Co-op Consultancy and Bancassurance Intermediary, Eclectics, Interswitch, KWARA, Coretec, Fibo360, Craft Silicon Amtech, Wakandi, Interswitch, Kenyan Fintech Association, Kenya Forex and Remittance Association, Diaspora SACCOs, Tap Tap Send, Send Wave, WorldRemit)

The consultant is expected to develop an inventory of the FinTechs with the capacity to support SACCOs in managing cross-border transfers and of digitizing their core banking services, the main different partnerships they would develop and the potential regulatory challenges they would face.

- ### **3.5. Scoping opportunities on the new "Central Liquidity Facility and Shared Services Platform for SACCOs:**
- Building on the above research, the consultant will be expected to work closely with the FSD identified strategist for this workstream to identify opportunities that will inform the roll out of the SACCO central. This may entail:

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- i. Hold interviews with SASRA (and its partners) to understand how the new Shared SACCO Platform could potentially help in the termination of remittances through SACCOs.
- ii. Set criteria for SACCOs to become members of the shared payment platform.
- iii. Estimate the number of SACCOs that could potentially offer remittances through the platform.

3.6. Consolidation of the findings: The consultant will analyse and compile all the findings from all the research work for dissemination to various stakeholders including a participatory validation workshop detailed below.

3.7. Validation and dissemination of research findings: The consultant will participate in various stakeholder dissemination events. The aim of having these gatherings will be to validate the research findings along with the proposed recommendations, ensuring their alignment and coherence with existing inclusive finance strategies for policy, donors and private sector strategies or regulatory priorities, and will share and disseminate the knowledge generated to a broad group of stakeholders interested in the remittance market through SACCOs to take informed decisions. some of which include:

- Three validation workshops with specified thematic groups
- Validated final report for publication and distribution.
- Industry-level in-person dissemination event as shall be discussed.
- Knowledge dissemination and linkage with the National Remittances Stakeholder's Network's (NRSN's) community of practice (CoP)

4. CONDUCT OF THE WORK

The consultant will be contracted by FSD Kenya who will handle all contractual matters including payments will be handled by FSD Kenya. The market analyst will work alongside two other consultants: a regulatory consultant and a technical lead, both of whom will be contracted separately by FSD Kenya to support other aspects of this work. S/he will report directly to the technical lead while working closely with the project team comprised of FSD Kenya and SASRA staff. Within FSD Kenya, the principal counterparts will be the Research specialist. The role does not require full-time physical presence in the FSD office, but from time to time, in-person meetings will be required. Overall, this work will require a flexible and agile working arrangement to adapt to an operating environment or policy priorities that might change, sometimes on short notice. The consultant **should** ideally be available to immediately respond to data requests.

5. OUTCOMES AND DELIVERABLES

The key outcome sought from this work is insightful and high quality and research outputs that will inform policy and industry to come up with inclusive remittances solutions. The table below specifies the expected deliverables.

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Activity	Deliverable
1. Inception meeting to clearly outline the expectations including defining the methodologies to be adopted, sample sizes and timelines	<ul style="list-style-type: none"> Detailed Implementation plan
2. Inform the design the KNBS/CBK/FSD Kenya national household survey	<ul style="list-style-type: none"> Indicators to support the development of the SACCO remittances ecosystem.
3. Interviews of both Kenyan remittances' senders and recipients as described in task 3.2	<ul style="list-style-type: none"> Sample design Questionnaires/discussion guides Data from the interviews – raw data, transcripts, recordings from interviews Reports summarising the findings, insights and recommendations from the interviews
4. Mapping active SACCO remittance models (task 3.3)	<ul style="list-style-type: none"> Respondents and interview materials Mapping of SACCOs with existing remittances and models they are using.
5. Identifying alternative SACCO partners in the remittances value chain (task 3.4)	<ul style="list-style-type: none"> Inventory of potential partners (e.g. FinTechs) for remittances solutions for SACCOs
6. Scoping opportunities on the new "Central Liquidity Facility and Shared Services Platform for SACCOs (task 3.5)	<ul style="list-style-type: none"> Report summarising remittances opportunities for the SACCO central
7. Dissemination of the outputs above to various stakeholders	<ul style="list-style-type: none"> Consolidated report with all the above outputs ≥ 3 workshops with targeted audiences to validate research findings ≥ 3 webinars. conferences/stakeholder gathering/knowledge exchange. ≥ Summary thematic reports for the websites and distribution at stakeholder events
8. Co-ordinating with the project manager to share progress of the work	<ul style="list-style-type: none"> Input to the progress report to be shared with FSD and IFAD

6. REQUIREMENTS

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Mandatory requirements	
1.	A relevant qualification in social science (minimum bachelor's degree, masters preferred)
2.	Demand-side data and supply-side data expertise, preferably with direct interaction with financial service provider data using SPSS, STATA, R, NVIVO or other applicable statistical packages
3.	Ability to interrogate and triangulate different data types – demand-side, supply-side and real economy data to derive meaningful insights
4.	Ability to visualise data in a compelling way and to communicate data to general as well as specialist audiences
5.	A deep understanding of the remittances and payments ecosystems and value chains (policy and industry stakeholders, channels, solutions etc)
6.	Ability to work independently and deliver against deadlines.
7.	Excellent spoken and written English

7. EVALUATION CRITERIA

Evaluation criteria (provide response in TECH FORM)		
Criteria, sub-criteria, and point system for the evaluation of Technical Proposals		Weighting (%)
1	Experience and qualification of the Consultant (evaluated via forms TECH-2)	
1.1	Track record and reputation for high quality quantitative and qualitative research	15
1.2	Experience in application of analytics and research findings for development, policy and industry	15
1.3	Understanding of the payments and remittance ecosystem	10
	Total Points for this criterion	40
2	Approach and methodology (evaluated via forms TECH-4)	
2.1	Quality and relevance of the proposed approach and methodology	15
	Total Points for this criterion	15
3	Staff schedule, work and deliverable schedule (evaluated via form Tech 6,7 & 8)	
3.1	Distribution of effort across the consultancy period	5
3.2	Availability and responsiveness to deliver the work	5
	Total Points for this criterion	10
4	Key Professional Personnel Qualification for the Assignment Note: Bidders to include CVS using TECH FORM-9 and supporting certifications of ALL KEY PERSONNEL. Bidders to respond in relation to the Key personnel requirement and evaluation criteria in this section	
4.1	Relevant academic qualifications	5
4.2	Expertise and skills of the consultant in data analysis, and applied research for policy and business development	15
4.3	Expertise and skills of the consultant to communicate and disseminate research findings	15

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Evaluation criteria (provide response in TECH FORM)		Weighting (%)
Criteria, sub-criteria, and point system for the evaluation of Technical Proposals		
	Total Points for this criterion	35
	Total Points for the four (4) technical criteria (St)	100
	The minimum technical score St required to pass for financial proposal to be scored is	75
	<p>Financial Evaluation</p> <p>The formula for determining the financial scores is the following:</p> <p>$FS = 100 \times FL / FP$, in which FS is the financial score, Fm is the lowest price and FP the price of the Proposal under consideration.</p> <p>The weights given to the Technical (T) and Financial (F) Proposals are:</p> <p>T = 80% and F = 20%</p>	

8. TIMETABLE

The outputs are expected over a period of 18 months beginning July 2023 and completed in Dec 2024. A summary schedule is included below:

Activity	2023								2024												
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	
Component 1: Diagnostic study																					
1.1	Sub-component - Demand Side Analysis																				
	Demand side analysis - Leveraging Kenya's First National Remittances Household Study																				
1.1.1																					
1.1.2																					
1.1.3																					
1.1.4																					
1.2	Sub-component - Supply Side Analysis																				
1.2.1																					
1.2.2																					
1.2.3																					
1.2.4																					
Component 2 – Validation and dissemination of research findings																					
2.1																					
2.2																					
2.3																					
2.4																					
2.5																					

9. SUBMISSION

Interested bidders should send proposals by email to tenders@fsdkenya.org on or before **June 30th, 2023, at 17:00HRS (EAT)** with the subject line **“REMITTANCE PROJECT MARKET ANALYST”**.

If you have any clarification questions, please email us at tenders@fsdkenya.org no later than 26th June 2023. Responses to clarification questions shall be sent on 28th June 2023.

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FSD Kenya will undertake a due diligence assessment and screening of the preferred Bidder to include reference checks. FSD Kenya will share a Third-party screening questionnaire to aid in processing the assessment and screening. FSD Kenya reserves the right to proceed or reject Bidder(s) depending on the outcome of this assessment and consider the next ranked bidder. The findings of this assessment will be kept confidential and used internally for the purposes of this evaluation.

FSD Kenya reserves the right to accept any tender (s) or to reject all tenders at any time. FSD Kenya also reserves the right to cancel this procurement at any point in time prior to award of the contract.

If you would like to lodge a complaint regarding this procurement process, please write to tenders@fsdkenya.org with the subject **market analyst**. FSD Kenya procurement team will acknowledge receipt of the complaint in writing within three (3) working days.

During the course of this procurement if you come across any issues of bribery, corruption or wrong doing on FSD Kenya part, please feel free to contact Julius Anyega, FSD Kenya Chief Operations Officer at Julius.Anyega@fsdkenya.org or transparency@fsdkenya.org

Tender security is NOT required. Issuance of this request for proposals in no way obligates FSD Kenya to award a contract. Applicants will not be reimbursed for any costs associated with their application.