



Informal remittances

A look at informal remittances across the Kenya – Uganda and Kenya – Tanzania corridors among individuals and MSEs

1

A presentation to the 2022 Remittances household survey questionnaire design workshop in Machakos

November 2022



About FSD Kenya



In 2005, FSD Kenya was constituted as an independent trust. We operate under the supervision of professional trustees with policy guidance from a programme investment committee (PIC).

We work closely with the public sector, the financial services industry, and other partners to develop financial solutions that better address the real-world challenges that low-income households, micro and small enterprises, and underserved groups, such as women and youth, face.

Our current funders are the UK FCDO, the Swedish International Development Cooperation Agency (SIDA), and the Bill & Melinda Gates Foundation.



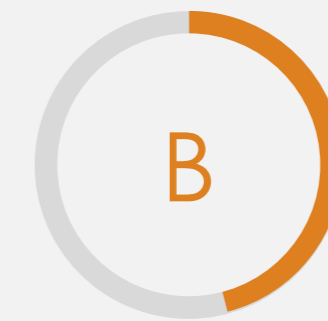
Our work related to remittances

Creating Value through Financial Inclusion
FSD Kenya.



National Payments Strategy

- CBK aims to:
 - Implement a range of measures to facilitate the growth of remittances
 - Ensure that remittances become cheaper, faster, secure and more transparent



Remittances gap analysis

- Identify data gaps
- Identify areas for further intervention



National remittances household survey

- Partnership with CBK and KNBS
- Volumes and usage of remittances in Kenya
- Inform policy decisions and provide market information



SACCOs

- Partnership with IFAD and SASRA
- Research to identify challenges in the market
- Conduct a pilot(s)

FSD Kenya Gap Analysis

An exercise to define FSD Kenya's workplan with regards to improving the remittance market in Kenya



Areas looked at included:

- 1.Data
- 2.Market structure, barriers to entry & competition
- 3.Regulatory barriers & market entry
- 4.Payment system infrastructure
- 5.AML-CFT
- 6.Other areas of specific interest

Interviews with stakeholders to understand gap and define FSD Kenya's prioritised actions & workplan

4

Gaps that FSD Kenya has been working on addressing so far include:

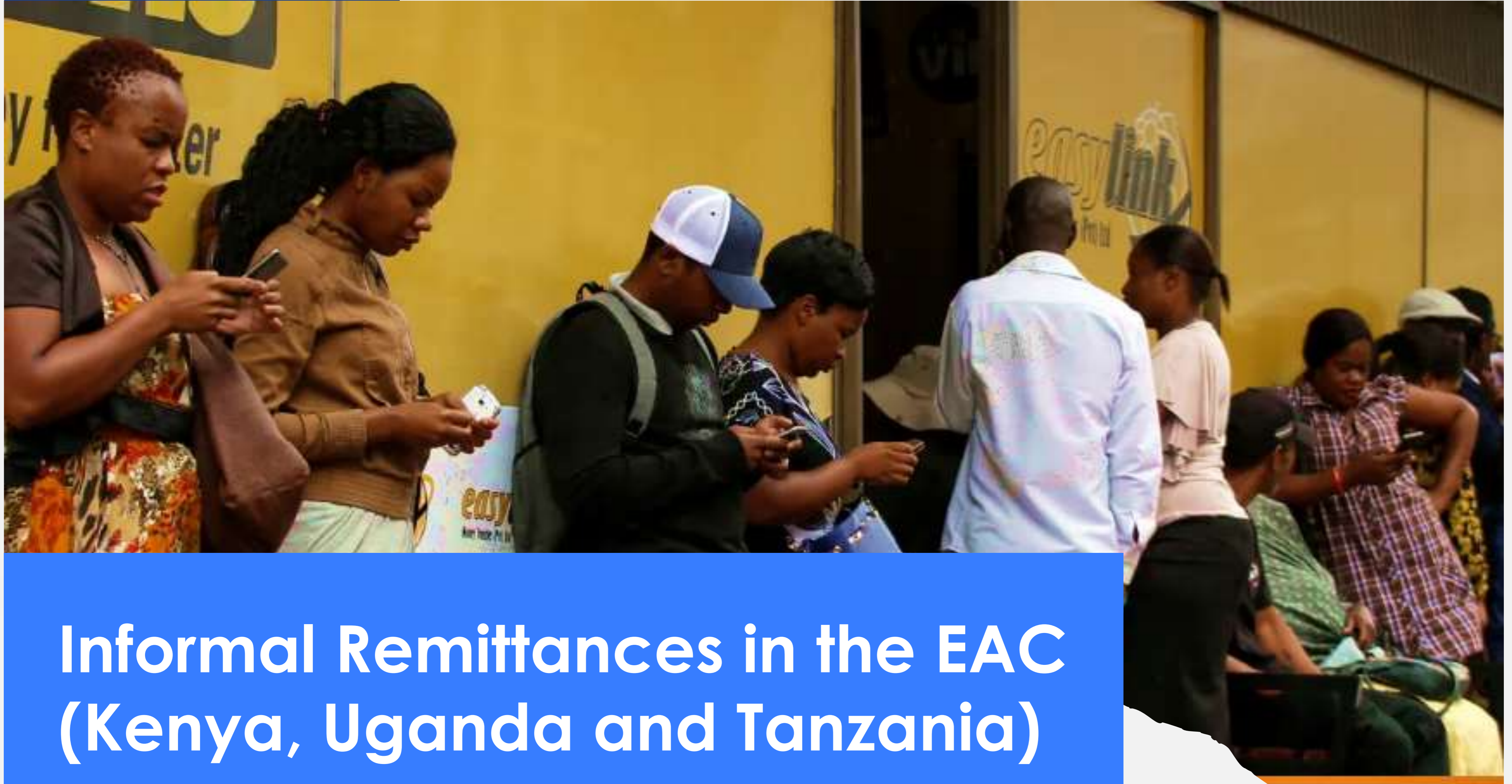
1. Improving data through the CBK/ KNBS/ FSD Kenya survey (forthcoming)
2. Primary research into informal remittances from / to Kenya
3. Improvements in the national payment system through the National Payment Strategy
4. The role of SACCOs in remittances (forthcoming)

Priority Actions (1)

	Area	Potential Priority	Next Steps in Gap Analysis
1 Data			
1.1	CBK's methodology for monthly inbound remittance values and volumes	High – underpins quality of all inbound formal data and subsequent decision making.	Meetings with CBK to understand current formal data collection processes & how recently reviewed data collection. Check with SPs on what they report.
1.2	Monthly formal remittances values and volumes – <u>outbound</u> – broken down by corridor, channel, type of institution etc.	High – underpins all decision making for policy, programmes, and business decisions.	Meetings with CBK to understand current formal data collection processes for outbound and barriers to publishing data.
1.3	Survey data gaps in data and knowledge	High- opportunity to take stock of what we know Vs what we don't.	Obtain all recent and up to date survey reports and data from different stakeholders Review and review against global good practice.
1.4	Informal remittances	High – prevalence unknown. Opportunities to formalise these flows to reduce risk to consumer and identification of illicit flows.	Review existing and planned surveys. Discussions with Kenya Forex and Remittance Association on defining methodology for research.
2. Market Structure, Barriers to Entry & Competition			
2.1	Market structure & competition analysis for inbound and outbound remittances	High – potential to increase competition in the market and identify barriers to entry and growth.	Discussions with the CBK on data availability on the structure of the market (licenced operators, partners and sub-agents), ideally including volumes and values. Barriers to publishing market structure data (Research Department and Supervision Dept.) Identify whether to do whole country assessment by service provider category or whether to focus on specific areas of interest.

Priority Actions (2)

	Area	Potential Priority	Next Steps in Gap Analysis
3. Regulatory Framework and Market Entry Barriers			
3.1	Review of licencing framework to ensure competition	Potentially high	Discussions with CBK Supervision Department Discussions with FinTech companies and hubs (iHub, Nairobi Garage) / CMA Sandbox, SASRA on demand for licencing & barriers.
3.2	Transparency in digital remittance and digital cross-border payment pricing	High - Increase awareness around digital remittance services and competition in pricing.	Discuss with CBK appetite for improving transparency in the market, including CBK making live pricing disclosure mandatory, CBK providing a digital remittance pricing portal. Discuss with RSPs with respect to their capability to provide data and what needed to comply.
4. Specific Areas of Interest			
4.1	Gender Differences in Remittance Senders and Receivers	Potentially high impact for large proportion of the remittance receiving / sending population. Female economic empowerment.	Review initial findings from existing surveys to provide some initial insights into the differences between gender esp. relating to remittances. Discussions with FSD Kenya and CBK specifically on the differences between access to financial services of women in Kenya.
4.2	Remittances to support MSMEs / diasopra investment for M/SME development		Discussion with FSD Kenya around remittances / remittance linked-financial services and diasopra investment. Understand the scope of FSDK's potential future interventions. Present case studies on types of interventions - e.g. Somali AgriFood Fund / WIDU / FIER Bayloan (Mali) Preliminary discussions with Equity Bank, FSDK, M-changa etc to understand challenges to MSME development (what challenges need to be addressed and supported in Kenya) and also existing products and solutions meeting these needs.



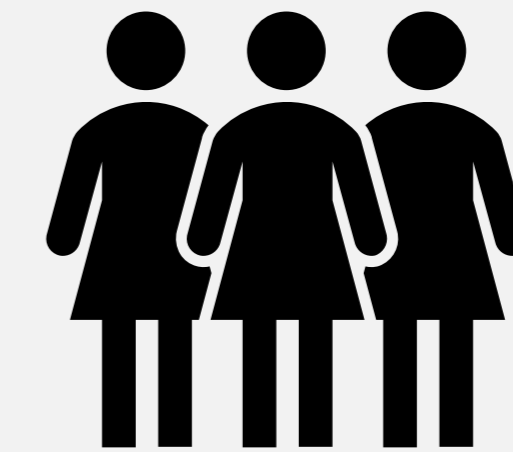
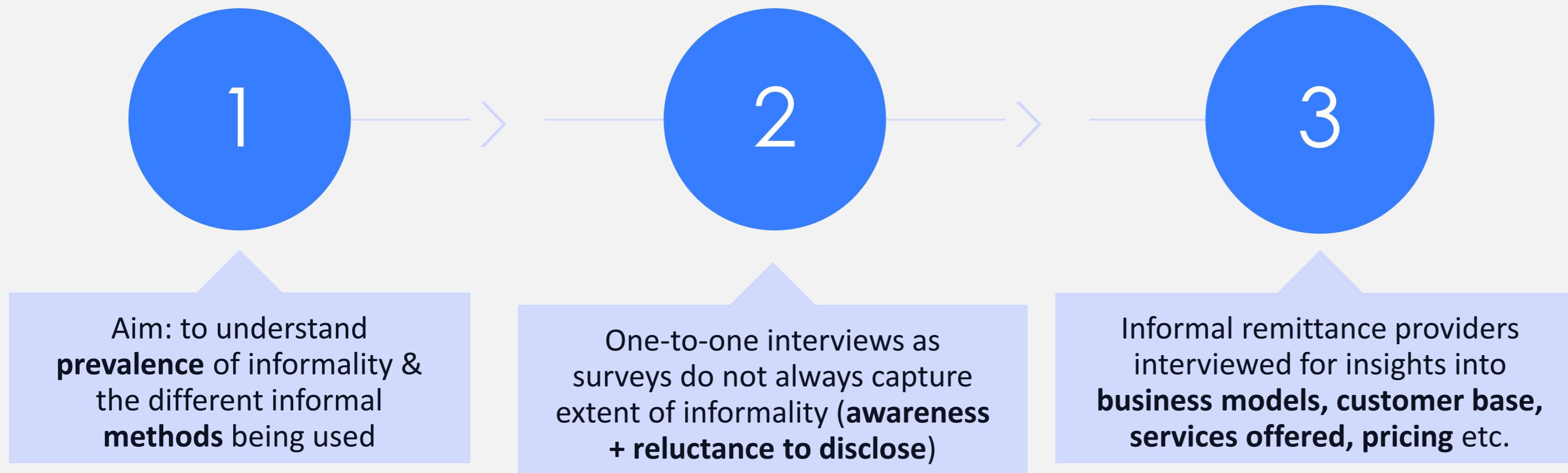
Informal Remittances in the EAC (Kenya, Uganda and Tanzania)

Informal remittances in the EAC

- 10% of the Kenyan diaspora reside in the EAC but formal flows to Kenya only accounted for **2%** of the total in 2020.
- Previous interviews with stakeholders suggested use of informal channels were common within the EAC.
- Informal methods can be under-reported in surveys.
- Understanding the prevalence of informal remittances is important because:
 - 1. Accurate data** on remittance flows shapes public and private sector decision-making
 - 2. Consumer protection** – Money sent through informal channels is not protected against loss or theft; no recourse methods
 - 3. AML-CFT** – Informal channels can be used for illicit purposes and do not meet compliance requirements



Methodology



68 individual remitters



23 MSEs



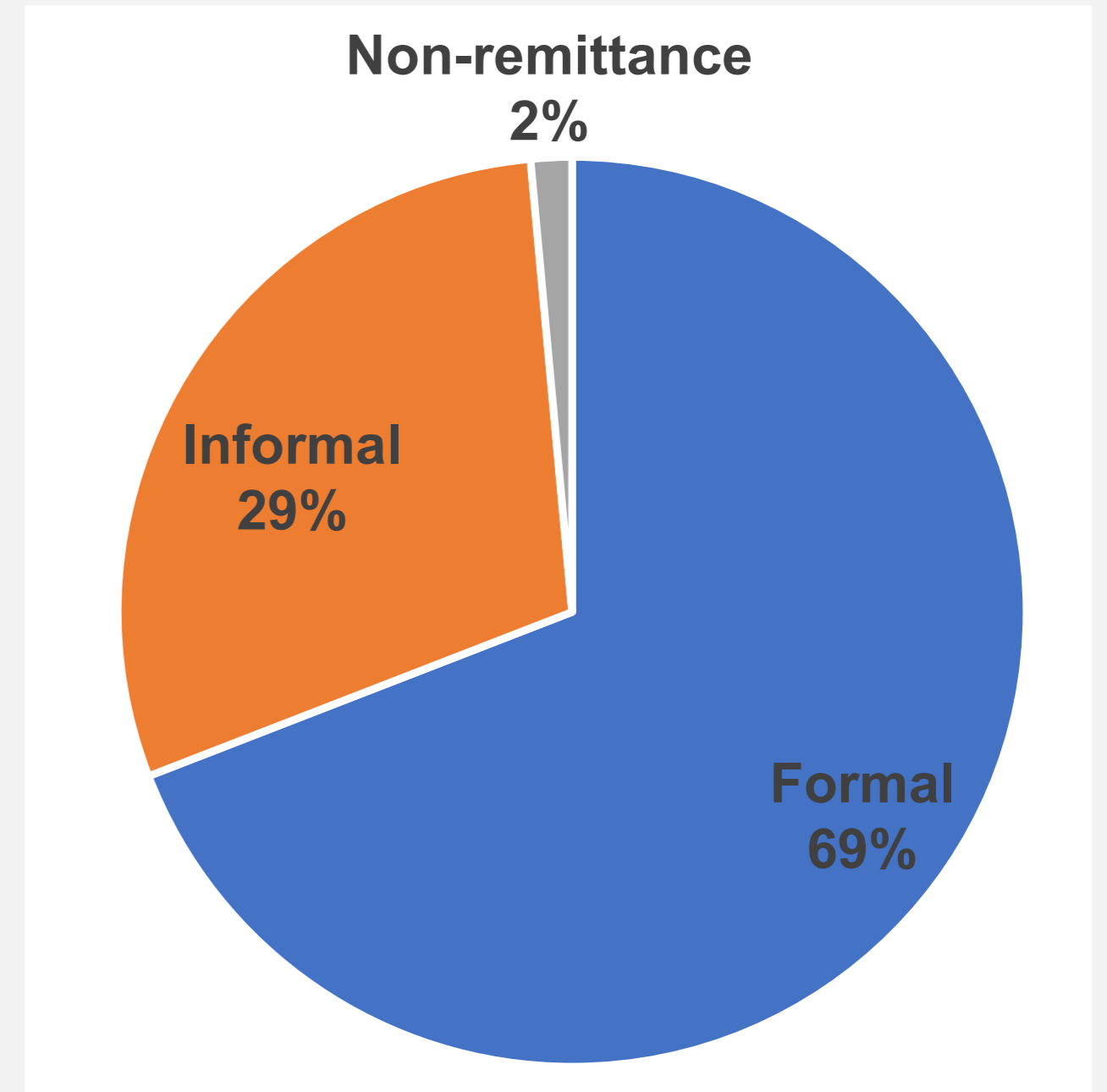
12 informal service providers

Sampling Methodology

- Chain-referral / snowball sampling
- Screened through questions on sending/receiving cross-border transfer in last 12 months
- Individuals segmented by gender, location, age & profession; MSEs by size & location.
- Not statistically representative; data can't be extrapolated

Use of informal varies by corridor

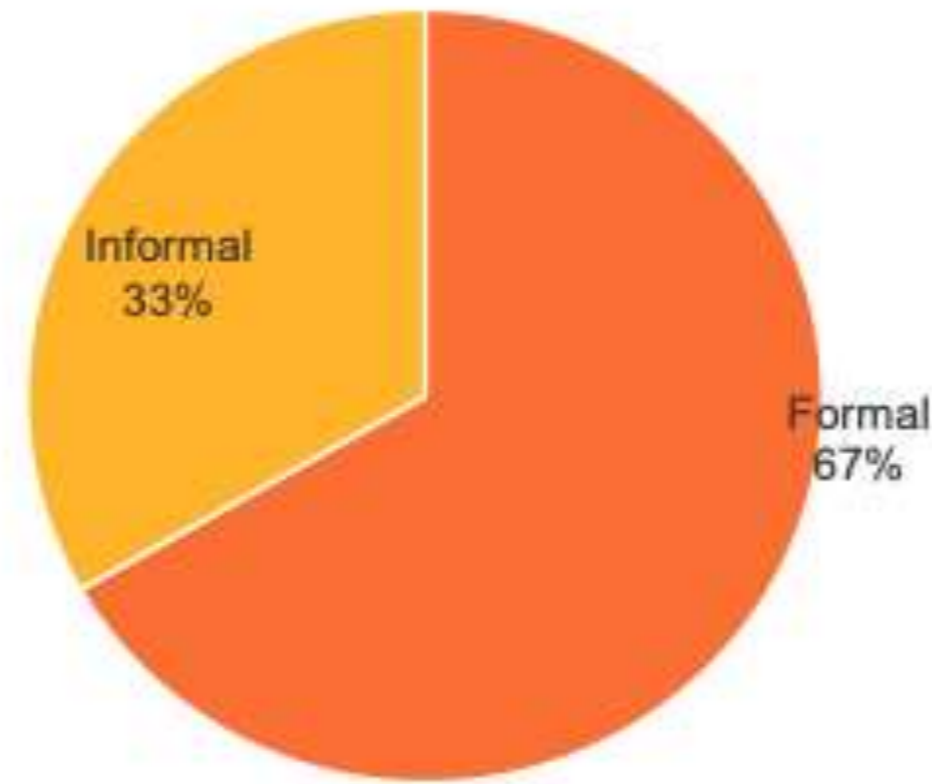
- **70%** of interviewees used formal channels as primary method (n=68)
- But informal channels were available and primarily used by **a third** of respondents
- **Lack of awareness** about whether channel is formal or informal, particularly for digital
- Widespread use of **mobile wallets** and **multiple SIM cards**
- **Access** to formal remittance services is **not a problem** for most (KYC, literacy, costs, proximity)



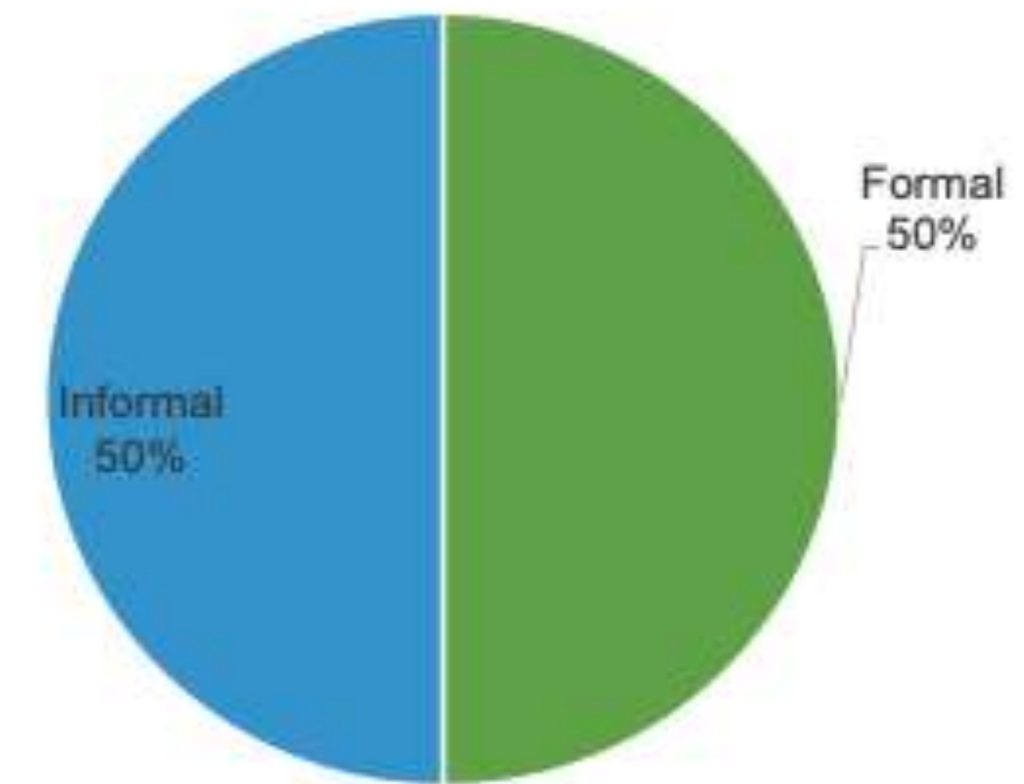
Preferred remittance channel across four corridors in the EAC, n=68

Use of informal varies by corridor

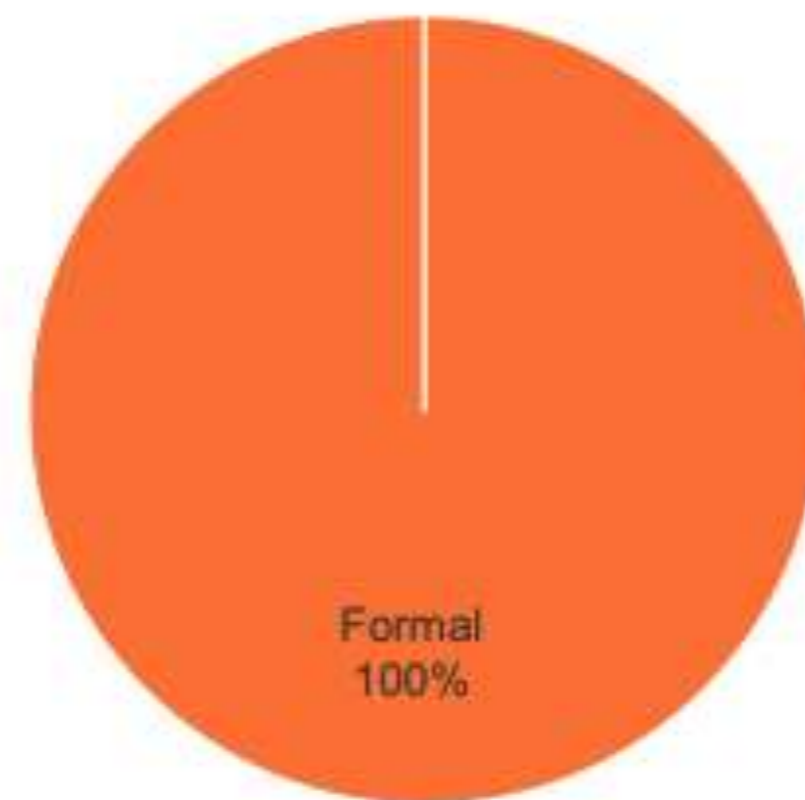
Uganda to Kenya: Use of Formal Vs Informal Remittance Channel as Preferred Option (n=18)



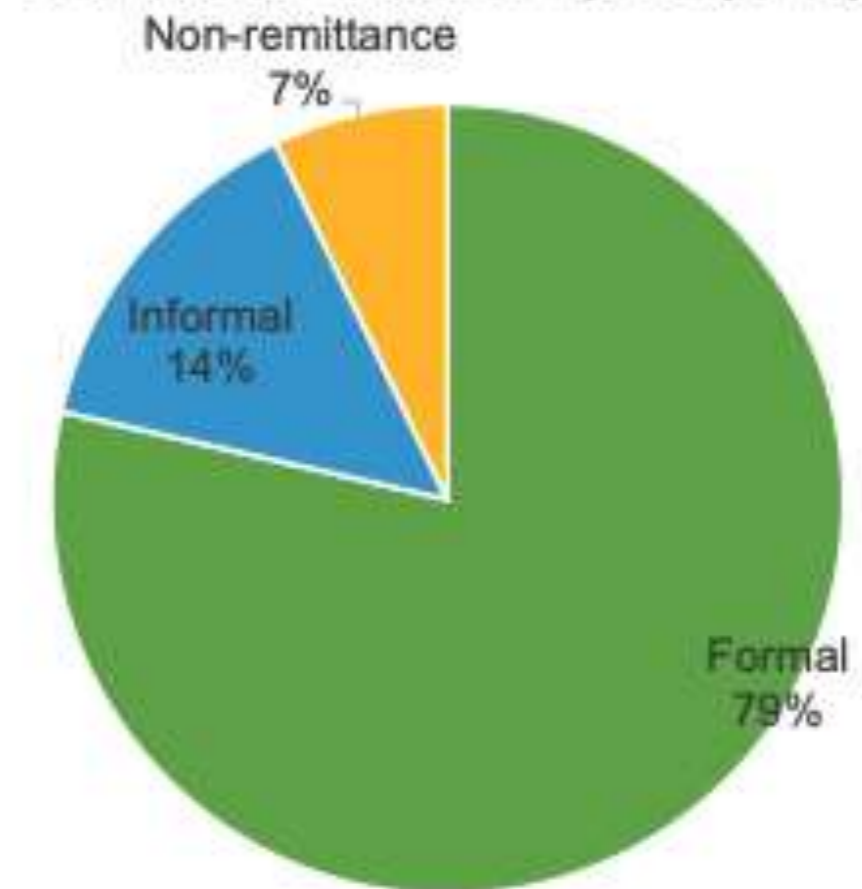
Kenya to Uganda: Use of Formal Vs Informal Remittance Channel as Preferred Option (n=24)



Kenya to Tanzania: Use of Formal Vs Informal Remittance Channel as Preferred Option (n=12)



Tanzania to Kenya: Use of Formal Vs Informal Remittance Channel as Preferred Option (n=14)

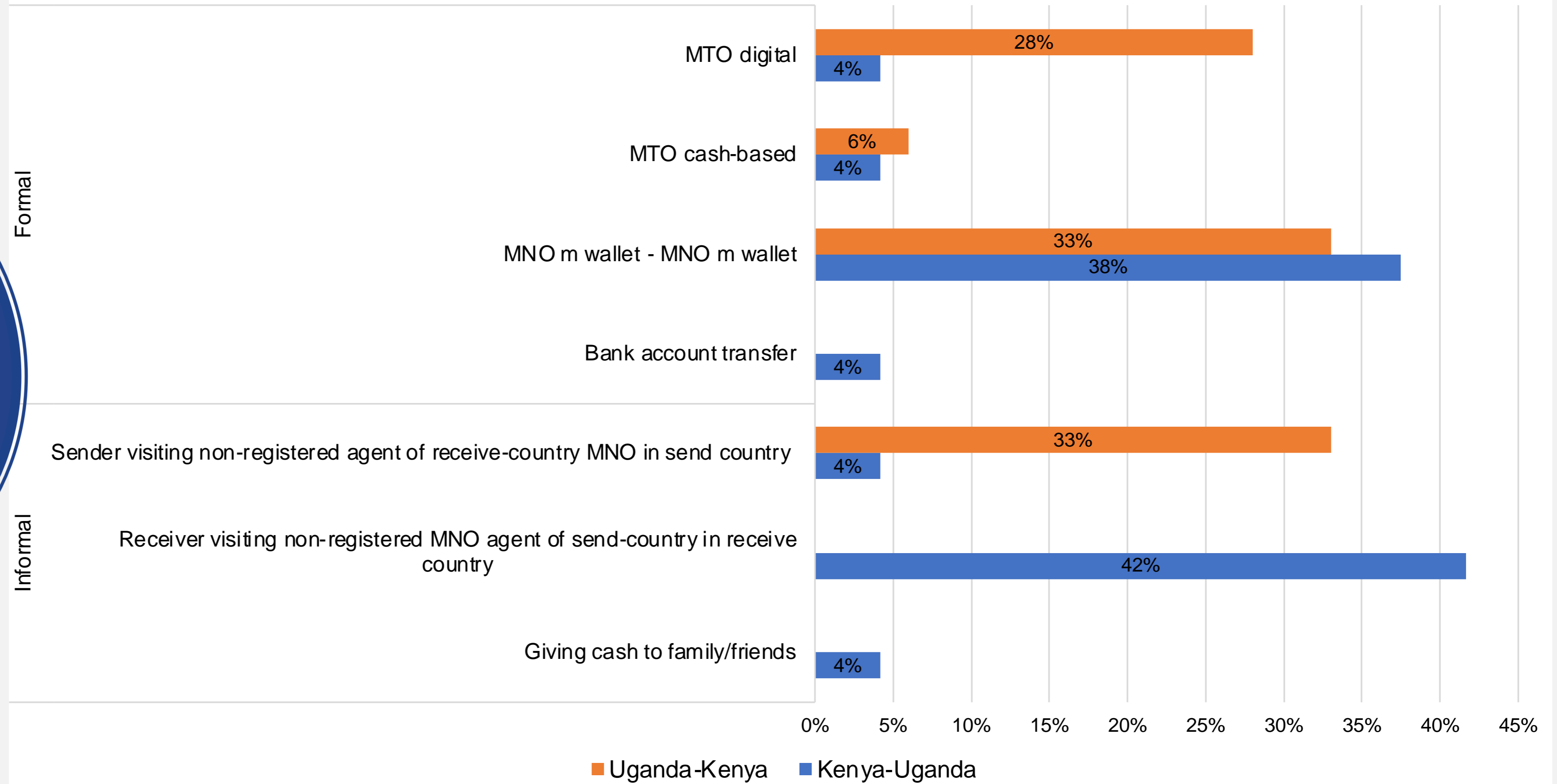


M-PESA agent in Kampala, Uganda



Use of informal varies by corridor

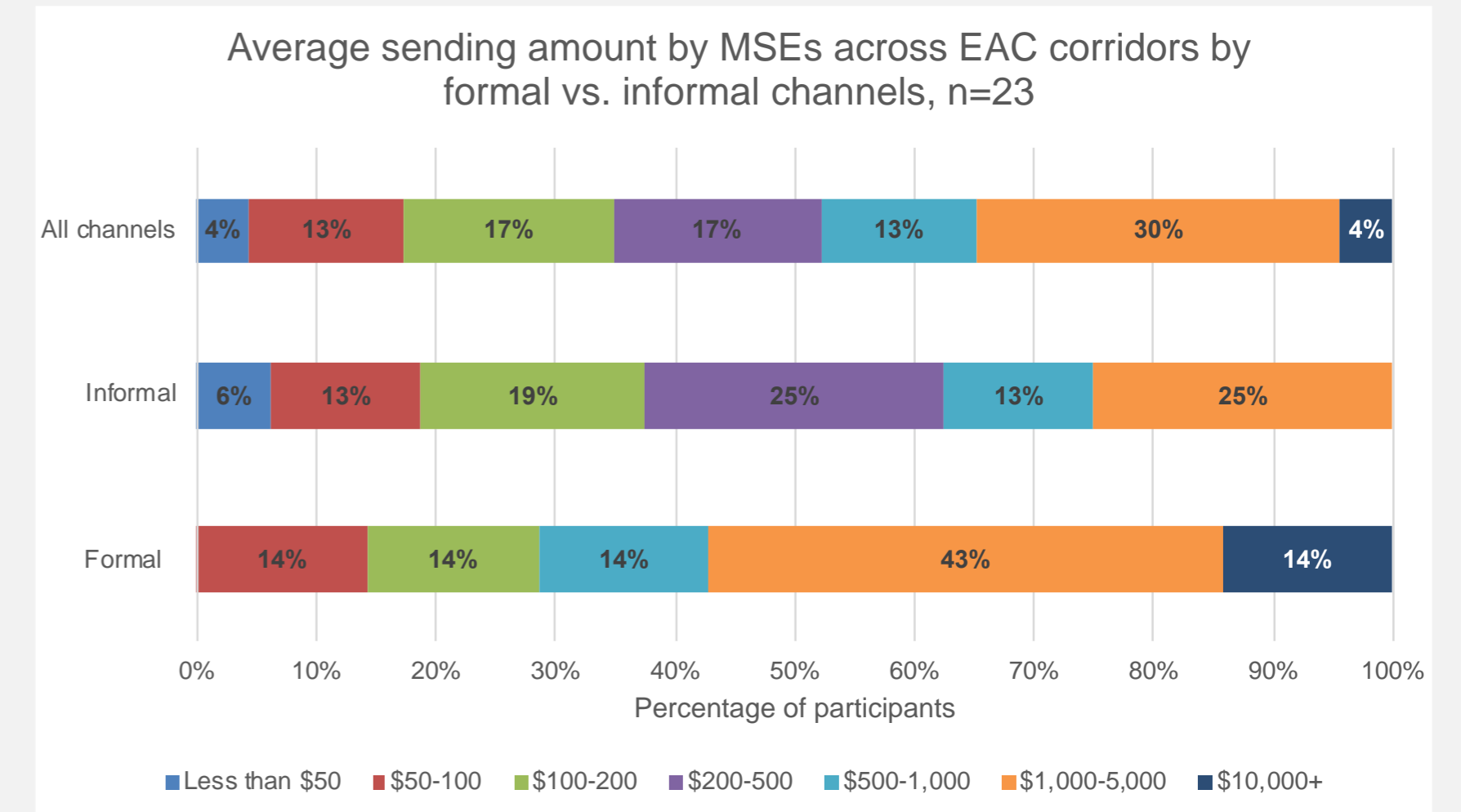
Preferred Channels Used by Individuals Interviewed to Send Money Home in the Kenya to Uganda (n=24) and Uganda to Kenya Remittance Corridors (n=18)



Findings from MSMEs

- High levels of financial inclusion but tended to *only* have bank accounts and mobile wallets in one country (contrast with individuals)
- But informal methods dominate – 70% preference
 - Visiting non-registered send-country MNO agent in receive country is most popular method
- More price sensitive and discerning about sending options
 - Varied method to obtain cheaper fees and better FX rates & to reflect what receive has access to
 - Typically switched between MM (low value payments) and banks (high value payments, given proper documentation and proof of payment security)
- Some MSEs reported that MM was insufficient for trade payments, particularly given daily transaction limits
 - ‘Most mobile money products are not business-focused. The currency exchange can be so high that [it] reduce[s] the profit margin’

Average sending amount by MSEs across EAC corridors, by channel usage, n=23



Findings: Informal Service Providers

Two business models:

1. Unregistered mobile money agents offering cross-border remittances

- Maintain a MM float in different countries and initiate domestic P2P on customer's behalf
- Exchange currency at the border
- Offer services in both directions to balance cash and e-value reserves

2. Informal cash-based remittance services

- Long-distance trucks transporting goods across borders – Carrying cash/MM float and exchanging currency at the border
- Maintain at least one, if not two, physical locations where customers would visit to pay



Recommendations: RSPs

1. Service improvements: Recurrent network outages and amend transaction limits beyond the current USD 1,500 for mobile money. Some FSPs are bringing thresholds below the CBK levels.

2. Customer awareness: Awareness of different services and sending fees and FX margins is low. PSPs can develop targeted awareness programs which address corridor specific gaps such as available cross-border remittance products and services and their functionalities, issue resolution channels, distribution networks, pricing and FX and how to determine formal and informal services.

3. Interoperability: For banks with integration across the region, services are not seamless. Regional, and eventually continental, integration is key to easing and reducing costs of cross-border transfers. MNOs with presence in the EAC countries can leverage provision of cross-border remittances in these countries.

4. MSEs use cross-border payment platforms designed for personal remittances: Designing low- to medium-cost tailored solutions that address their specific needs would add value. Such needs include KYC, transaction limits, product interfaces and costs.

5. Remittance-linked services: There are opportunities to layer remittance-linked services – such as diaspora banking, diaspora investments, seamless payments for utilities, pensions and insurance services – that leverage the high adoption of mobile money in the EAC.

Recommendations: Policy

- 1.Expansion of KEPSS and EAPSS:** As outlined in the National Payment Systems Strategy 2020-2025, efforts to increase usage of the KEPSS and EAPSS would include processing of cross-border transfers through these systems and permitting non-bank PSPs, such as MNOs, to participate at a retail level.
- 2.Consumer Protection:** Support provision of credible price comparison websites where users can see real-time pricing for digital remittance service providers, so they are aware of the different services available and the total pricing (fee + FX) of the services. Enforce price transparency, especially with 'no fee' pricing offers, to indicate that FSPs make money from FX margins and conversions.
- 3.Reporting of informal cross-border transfers:** Although the study findings established higher usage of formal services compared to informal services, the actual sizing of the digital informal market remains unknown as cross-border transactions involving currency exchange are reported as domestic transfers. The CBK could consider extending its reporting to cover such transactions, as they could affect the total value of cross-border transfers.



fsd
Kenya

Contact Us

9-Riverside, Riverside Drive
P.O. Box 11353, 00100 Nairobi, Kenya |
Telephone: +254 20 513 7300
Website: www.fsdkenya.org |

By:
Sarah Hugo, Senior Consultant, DMA Global
Judyth Engel, Independent Consultant
Juliet Mburu, Senior Digital financial infrastructure specialist, FSD Kenya
Lukania Makunda, Research specialist and data lead, FSD Kenya



**Thank You
For your
time!**