

## **PASSING THE BUCK**

# **Money Transfer Systems: The Practice and Potential for Products in Kenya**

**Kamau Kabbucho, Cerstin Sander and Peter Mukwana**

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***List of Acronyms***

ATM	Automated Teller Machines
BIMAS	Business initiatives and Management Assistance Services
CBK	Central Bank of Kenya
EBS	Equity Building Society
ECLOF	Ecumenical Church Loan Fund
EFT	Electronic Funds Transfer
EMO	Express Money Order
FGD	Focus Group Discussions
GDP	Gross Domestic Product
IMF	International Monetary Fund
KCB	Kenya Commercial Bank
KES	Kenya Shilling (see also KSh)
KPOSB	Kenya Post Office Savings Bank
K-REP	Kenya Rural Enterprise Program
KSh	Kenya Shilling (see also KES)
KTDA	Kenya Tea Development Authority
MFI	Microfinance Institutions
MTS	Money Transfer Service
NBFI	Non-Bank Financial Institutions
NGO	Non-Governmental Organisations
NPS	National Payment System
OMO	Ordinary Money Order
OMOs	Interstate Money Orders
POS	Point of Sales
POSTA	Postal Corporation of Kenya
PRA	Participatory Rapid Appraisal
PSC	POSTA Speed Cash
RTGS	Real Time Gross Settlements
SACCO	Savings and Credit Cooperatives
SMEP	Small and Micro enterprise Development Programme
TT	Telegraphic Transfer
UAE	United Arab Emirates.
WU	Western Union

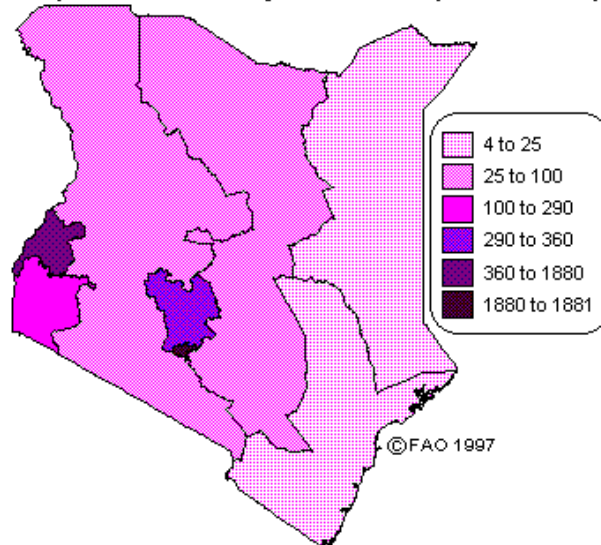
**MAPS of Kenya**



Source: World Factbook  
<http://www.cia.gov/cia/publications/factbook/geos/ke.html>

- Total population (1999): 29 549 000 inhabitants
- Active population (1995): 13620 000 inhabitants
- Rural active population (1995): 78% of active population
- Population annual growth rate (1988-99): 3.09%
- Life expectancy (1989-94): 59 years

**Population Density of KENYA (inhab./km<sup>2</sup>)**



Source: FAO / World Bank

<http://www.fao.org/WAICENT/faoinfo/economic/giews/english/basedocs/ken/kenpop1e.stm>

# Passing The Buck

## Money Transfer Systems: The Practice and Potential for Products in Kenya

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### Executive Summary

This study aimed to identify the range of money transfer services operating in Kenya and how businesses and individuals, especially low-income earners use them. These include formal, semi-formal and informal services to send or receive payments or remittances domestically, within the East African region, or internationally. The study analyses service features and gaps so as to gauge the opportunities and also the criteria for developing money transfer products and services in the microfinance industry.

### Background

Sending or receiving money for either payment of salaries, settlement of business transactions, payment of school fees, or for family support is common both for businesses and individuals. It requires efficient, reliable and affordable money transfer services whereby money can be deposited in one location and withdrawn in another in both urban and rural areas.

Structural weaknesses in the financial industry in Kenya, however, limit the access to money transfer services, especially in rural areas and for low-income people. This because banks are concentrated mainly in urban centers and have conditions that constitute barriers to the use of their services; also because the cancellation of services such as the telegraphic transfers by the Kenya Postal Corporation have left fewer service options.

This study set out to identify the range of money transfer services which operate in Kenya. We wanted to know how businesses and individuals, especially low-income earners, use these formal, semi-formal and informal services to send or receive payments or migrant remittances. This complements an earlier study on money transfer systems in Tanzania and Uganda.<sup>1</sup> The team used *MicroSave*'s qualitative research methods with in-depth interviews and focus group discussions with service providers and with users, particularly in the low-income segment.

### Summary of Findings

#### *Who Provides Money Transfer Services and How Do They Do It?*

Money transfer services (MTS) are offered by formal providers (e.g. commercial banks or the Kenya Postal Corporation (POSTA)), by semi-formal providers (e.g. courier or bus companies), and by informal services or means (e.g. by bus conductors or friends).

Generally, commercial banks are the major players in money transfer business in Kenya, servicing mainly large users and, to a smaller extent, low-income users. Among the commercial bank instruments, telegraphic transfers, electronic funds transfers and bank drafts are typically used for large value transfers, as they offer the cheapest service for the transfer of large amounts. In addition, bank cheques are the preferred and often required means of payment for school fees. Western Union and similar services in Kenya, most of which operate through commercial banks, are used almost exclusively to receive money rather than send it.

For small amounts, entrepreneurs and individuals typically use either informal means or a post office service, the latter especially if it is a domestic transfer. Domestically and within the region, bus and courier companies have also emerged as service providers who transport the money.

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<sup>1</sup> Sander et al., 2001

### **Who Uses Money Transfer Services and For What Purposes?**

Users can be classified by transfer volumes. The large scale users are government departments, NGOs, farm produce marketing agencies, corporations, and cooperatives who use the formal banking system for transfers of large amounts to meet payments of salaries and transfer operational funds, for instance. The small and medium scale users comprise individuals and entrepreneurs. They transfer funds to purchase items, pay school and examination fees, or to support family or the construction or maintenance of a home.

### **How often are Transfers Made and What Volumes are Involved?**

Frequencies vary depending on seasonal needs. Transfers for school fee payments follow the school term calendar with payments at the beginning of every term: in January, May and September. Remittances from family members working in urban areas and abroad for purposes of family support are regular and often monthly. Other transfers follow the festive seasons and peak at Christmas and around other official holidays.

The volumes of transfer vary widely depending on the purpose and the means of the transfer. Among the low-income users, remittances for family support range between KShs. 500 and 10,000 per month; school fees range between KShs. 10,000 and 50,000 per term; while for business settlements typical amounts vary from KShs. 100,000 to 200,000. Large users, such as NGOs, large scale buyers of farm produce or government departments, transfer amounts in the range of millions of Kenya Shillings per week.

### **What are the Costs of Transfers?**

The costs of transfers vary depending on the amounts sent, the instruments used and also the destination. Fees range from less than 1% to 35% of the amount being transferred. It is cheaper to transfer large amounts than small amounts for both local and international transfers. For small amounts, the fee as percentage of amount sent can be higher than 35% due to the high minimum fees charged for every transfer while for very large amounts the percentage can be lower than 1% of the value. Banks, for instance, charge a minimum fee of KShs. 1000 to KShs. 1,500 for sending up to KShs. 500,000; for amounts higher than KShs. 500,000 they charge a constant 0.3%. Western Union followed by MoneyGram and commercial banks are the most expensive means for local and international transfers. POSTA is the cheapest for local and regional transfers for transfer amounts up to KShs. 30,000.

### **What are the Risks and Problems of Transfers?**

Users reported that individuals carrying money on themselves or sending drivers and conductors are susceptible to highway robberies and thefts while money sent through friends and relatives is sometimes misused and at times never reaches its destination. Money sent through letters and parcels of the courier companies may be stolen. Banks were considered fairly reliable although bank cheques and drafts can sometimes be forged. Money sent through Western Union and MoneyGram arrives reliably and on time but recipients often suffer forex losses due to fluctuations of exchange rates. Problems associated with the formal and semi-formal systems, especially outside Nairobi, include delays and long queues, network limitations, insolvency of branches, unreliable communication and misdirected parcels.

### **What are the Opportunities for MFIs?**

The review of the supply and demand sides reveals service gaps, inefficiencies, and unmet demand, particularly among the low-income population and microentrepreneurs or small traders. This suggests a potential market niche for MFIs who target this clientele with their loan products.

The study concludes that while there is a potential niche for MFIs, it is not an easy market to get into, and harder for international than for domestic transfers. An MFI should be institutionally very strong and ideally a licensed bank, as otherwise regulatory and capacity issues could easily prevent a successful implementation of a money transfer service.

## **Structure of the Report**

Chapter 1 provides a brief background and objectives of the study including the research design and methodology. This is complemented by contextual information on the Kenyan economy and financial sector as a backdrop to a review of the available money transfer services. Chapter 2 looks at the supply side of money transfer services: who provides money transfer services and what are typical transaction values, frequencies and fees. Chapter 3 looks at the demand side of money transfers: who uses money transfer services, for what purposes, and what are the costs and risks involved. The study concludes with an outlook on potential market opportunities for microfinance services and summarizes criteria for product design.

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### **INTRODUCTION**

#### **Background and Objectives**

Public offices, businesses, households and individuals need to make or receive payments. Efficient and affordable money transfer and payment services are an important financial service most people require, including those who do not typically use financial or banking services.

In Kenya, commercial banks and post offices have been the main formal providers of money transfer and payment services. Despite the network of formal providers throughout the country, however, rural areas and client segments such as low-income earners tend to be badly serviced or excluded. In the urban centers where formal financial institutions are concentrated, these largely target the corporate sector and high-income individuals and exclude low-income earners through conditions such as high minimum balances for account opening, high minimum deposits, and high fees for transactions.

The availability of financial services has suffered a setback since the mid-nineties. Commercial banks have closed down less-profitable branches especially in rural areas. The post offices, with the single largest network of offices and often the only choice for much needed basic financial services, withdrew their telegraphic money transfer service. This has left many rural and low-income people with few if any formal service alternatives, especially for domestic money transfers.

For international transfer, the situation is slightly different. In the past five years, a number of institutions targeting mainly low-income earners have entered the transfer business. Money transfer services (MTS) providers such as Western Union and MoneyGram have entered the market and signed up primarily banks as agents. These service primarily the urban centers, fees are relatively high, and the vast majority of transactions are funds received.

Such gaps left by formal providers have typically been bridged by informal means and services. These include transporting the money oneself or sending it with a friend or through an unlicensed service. These have increased and changed over time as electronic and mobile communication has facilitated transaction. More recently, bus and courier operators have joined with money transport services.

This study aimed to find out what money transfer services operate in Kenya and who uses them. It highlights service features and gaps based on which it discusses the potential for microfinance institutions as a service provider and identifies opportunities and criteria for developing money transfer products.

#### **Research Design and Methodology**

The research included data collection in Nairobi and peripheral towns within a radius of eighty kilometers from the city center. Care was taken to ensure that information was representative of the urban, semi-urban and rural settings. Interviewees included microfinance clients, other micro and small business owners, managers of medium and large businesses operating at national and regional levels, senior officers of government departments, and NGOs as users of transfer services and with service providers such as banks, courier and bus companies, and forex bureaus.

Primary research was conducted with 11 service providers and 106 users in individual interviews and focus group discussions (FGD) using a standard interview guide. The qualitative research techniques are based on



*MicroSave*'s market research tools (see [www.MicroSave.net](http://www.MicroSave.net)). FGDs were supplemented by a number of Participatory Rapid Appraisal (PRA) tools. The matrix below provides a summary of the techniques and tools that were employed in the research.

Secondary data sources used included a review of marketing materials for different financial services, policy documents, and statistics from Ministry of Finance and Planning and the Central Bank of Kenya as well as other relevant documents.

Techniques	Reason for choice of the technique/tools	No. of sessions	No. of participants	
			Male	Female
In-depth Individual Interviews	In-depth Individual Interviews were used to obtain a deeper understanding of the salient features of the money transfer services. They were also useful in validation of data collected by other tools.	11	9	3
Focus Group Discussion	Focus Group Discussions allowed the collection of detailed information using a standard Question Guide that took care of key areas of interest. The tool facilitated an in-depth examination of issues through the dynamics of peer-group discussions. This technique was supplemented by the use of Financial Sector Trend Analysis, Financial Services Matrix, and Cash Mobility Mapping.	4	13	35
Financial Sector Trend Analysis	The tool was used to obtain an understanding of the different financial services in existence, their use over time and why they are used. The tool can highlight competition in the market from the users' point of view.	2	1	18
Financial Services Matrix	The Financial Services Matrix was used to gain an understanding of the key socio-economic groupings/categories and which Financial Services each category uses for money transfer and why.	1	5	4
Cash Mobility Mapping	Cash Mobility Mapping was useful in identifying key sources of cash and their uses. The tool also allows for discussion for directions of cash movement and elicits indications of the volumes involved.	2	7	11
	<b>Total</b>	<b>20</b>	<b>35</b>	<b>71</b>

### Kenya's Economic and Financial Sector Context

A brief discussion of Kenya's recent economic performance and its financial sector serve as a backdrop to the review of money transfer service providers, users and uses.

#### *Macro-economic Environment*

Kenya's recent economic performance has deteriorated significantly compared to previous decades: the GDP growth rate declined from 2.4% in 1997 to minus 0.2% in 2000 (the lowest since independence); the domestic savings ratio declined from a high of 10.5% in 1997 to 6.5% in 2001; and investments declined from 18.5% in 1997 to 14.5% in 2001 (see Table 1).

One of the major consequences of these declines is the rise of poverty in Kenya leading to, among other effects, an inability to afford existing financial services at costs that banks find profitable. The other consequence is the closure of rural branches of major banks due to what banks considered low business volumes and high costs of maintaining the branch offices. Available statistical data for the past 5 years shows that banks consistently reduced their networks from 695 branches in 1997 to 494 in 2001 (see Table 2).

**Table 1: Selected Economic and Demographic Indicators (1997 – 2001)**

Indicator	1997	1998	1999	2000	2001
GDP Growth Rate	2.4	1.8	1.4	-0.2	1.2
Per capita income (US\$)	327	325	322	314	311
Average Annual Inflation	11.2	6.6	5.7	10.0	5.8
Domestic Savings Ratio % of GDP at Market Prices	10.5	9.8	10.9	7.4	6.5
Domestic Investment to GDP % of GDP at Market Prices	18.5	17.4	16.2	15.4	14.5
Population in millions	28.1	28.8	29.5	30.2	30.8
Population Growth Rate	2.5	2.4	2.2	2.1	2.1

Source: Central Bureau of Statistics. Kenya Economic Survey, 2002

**Table 2: Branch Network of the Banking Industry**

Province	1997	1998	1999	2000	2001
Central	113	114	79	65	69
Coast	86	77	80	71	69
Eastern	60	60	36	31	35
Nairobi	195	199	189	179	192
N. Eastern	5	5	5	4	4
Nyanza	69	70	46	39	40
Rift Valley	139	139	75	61	67
Western	28	28	20	15	18
<b>Total</b>	<b>695</b>	<b>692</b>	<b>530</b>	<b>465</b>	<b>494</b>

Source: Central Bank of Kenya - Bank Supervision Annual Report, 2001

### **Poverty**

At a per capita income of US\$311, Kenya still remains one of the poorest countries in the world, with the majority of Kenyans living on less than one dollar a day. This is supported by a study of the Ministry of Finance and Planning carried out in 1997 to determine the incidence of poverty and another by Tegemeo Institute in 1998<sup>2</sup> to determine the sources of household incomes for rural people. Using a poverty line of a modest KShs. 1,239<sup>3</sup> (US\$16.5) per month for rural areas and KShs. 2,648 (US\$35) per month for urban areas to demonstrate the proportion of Kenyans who are unable to afford minimum basic human needs, the Ministry of Finance and Planning found that 13.3 million (47% of the total population) were very poor. Out of this group, 11.4 million people (40.5% of the total population or 80% of very poor people) lived in rural areas.<sup>4</sup>

### **Migrant Remittances**

One of the direct consequences of rural poverty is the inability of rural people to afford basic food and non-food items, such as school and hospital fees, and their continuous reliance on the support of family members working in urban areas and outside the country. The study by Tegemeo Institute showed that a third of the

<sup>2</sup> Argwings-Kodhek, 1998

<sup>3</sup> Average Exchange Rates: 1997 was KES 75 =1 USD; 2003 is KES 77=1 USD

<sup>4</sup> Poverty in Kenya Vol.1. Incidence and Depth of Poverty

households receive remittances to support their financial needs<sup>5</sup>. Assuming that the same proportion applies to the current total rural population, then 30% of the rural population or approximately 5 million rural people, rely on some form of money transfer systems for receiving remittances from family members and relatives working elsewhere.

There is no reliable data on international remittances to Kenya or of remittance flows within the country. International remittance flows through formal channels, typically recorded as part of the Balance of Payment Statistics submitted to the IMF, are not available for Kenya. Occasionally newspaper articles report figures, such as the Daily Nation of 4<sup>th</sup> April 2003 quoting Prof. Peter Anyang Nyong'o, Minister for Finance and Planning, stating apparently based on statistics of transfers through Western Union that Kenyans in the United Kingdom send more than KShs. 50 billion to Kenya every year, while those in Germany remit up to KShs. 30 million a month. In addition to the international flows, domestic flows of remittances are very common and largely unrecorded as they are not specifically tracked.<sup>6</sup>

### ***Financial Environment***

Kenya's financial sector comprises a wide range of well-developed financial institutions with fairly extensive branch networks (Table 3). These are described briefly by type of institution followed by a summary on the national payment system as a key backbone system for money transfers

**Table 3: Kenya Financial Sector Composition**

<b>Institutions</b>	<b>Numbers</b>
Commercial Banks	45
Non-Bank Financial Institutions (NBFIs)	13
Mortgage Finance Companies	2
Building Societies	4
Insurance Companies	47
Hire Purchase Companies	57
Savings and Credit Cooperatives	2,670
NGO/ Micro Finance Institutions	Over 86

Source: Payment System in Kenya. Central Bank of Kenya Website – [www.centralbank.go.ke](http://www.centralbank.go.ke)

### ***Commercial Banks***

In Kenya, commercial banks operate under the Banking Act of 1995 and are regulated and supervised by the Central Bank of Kenya. This also places restrictions on the types of services banks can offer and imposes limits on risks a bank can take with its capital.

The five largest commercial banks in Kenya are Kenya Commercial Bank, Barclays Bank, Standard Chartered Bank, Cooperative Bank and National Bank of Kenya; they dominate the banking system with 300 of the total of 494 branches and accounting for 72.1% of the total deposit base of KShs. 344 billion<sup>7</sup>. The majority of the 494 branches are concentrated in the major urban areas (Nairobi, Mombasa, Kisumu, Nakuru and Eldoret).<sup>8</sup> Commercial bank products in Kenya are fairly standard in nature and include: savings

<sup>5</sup> Institute of Economic Affairs: Kenya at the Crossroads, Scenarios for our Future

<sup>6</sup> This study aimed to look at money transfers more generally, rather than remittances more specifically. The focus was on identifying the services available and what people use, why, and with what experiences. Only secondarily did the study attempt to gauge the volumes, and did so more as typical amount transferred per transaction and the frequency of transactions. This in part because there is a reluctance to provide financial information, especially by service providers but also by senders/receivers of transfers; and in part also because the sample of interviewees is not sufficiently large so as to draw conclusions on volumes. On international remittances, see studies such as Orozco, 2003, or Sander, 2003 and 2003a.

<sup>7</sup> as at the end of June 2002; Central Bank of Kenya Annual Report July 2001 – June 2002

<sup>8</sup> see also annex 7 for a listing of the banking network

accounts, current accounts, credit or debit cards, and money transfer services catering mainly for corporate clients and high-income individuals.

In recent years, commercial banks have invested significantly in products that require high levels of automation and expensive equipment for online transfers and home banking. Services such as ATMs, different card products, branchless banking and online transfers greatly improve the efficiency of banks; at the same time the required initial investment is high and has increased costs to the client. Factors such as the locations of bank networks, minimum balance requirements, and levels of automation are among the main factors which limit the access of low-income people to bank services.

### ***Kenya Post Office Savings Bank (KPOSB)***

Kenya Post Office Savings Bank (KPOSB) was established by the Kenya Government in 1978 and operates under the Kenya Post Office Savings Bank Act, which guides its activities and the services it can provide. The institution is entirely owned by the Government. Its main objective is to mobilize savings for national development. Under the KPOSB Act, KPOSB can only mobilize savings and has a variety of products for this purpose.

KPOSB's head office is in Nairobi with five regional offices in Nyeri, Mombasa, Kisumu, and Nakuru. The bank operates through close to 500 outlets representing the widest reaching national network. These include 58 branches and sub-branches countrywide as well as an agency agreement with the Postal Corporation of Kenya (POSTA) to offer services through 356 post office and 99 postal agents.

KPOSB's two major services are savings accounts and money transfer. KPOSB has account transfer services which reach post office outlets. In addition it has established an agency relationship with Western Union for local and international money transfers and offers this through its branches. These services make KPOSB one of the major competitors in the money transfer market.

For savings it offers a wide range of savings accounts that are very popular because of the low opening and low minimum balances as well as equally low transaction costs. Its share of the deposit market, however, is far lower than that of the commercial banks which is in part due to its popularity with small savers. In December 2001, KPOSB's total deposits stood at KShs. 7.1 billion, roughly 2% of the total deposits in the banking sector.<sup>9</sup>

### ***Postal Corporation of Kenya***

Postal Corporation of Kenya (POSTA) is a non-financial institution operating under the Postal Corporation of Kenya Act 1998 with the primary mandate of Postal and mail services. It is fully owned by the Government. As at the end of 2002, it had a total of 874 branches and sub-branches throughout the country and reaching almost every village. POSTA and KPOSB have an agency relationship where the latter uses the staff and the offices of the former for money transfers and other services. The two institutions combined have the largest branch network in Kenya with the best potential capacity for money transfers in the country. POSTA's postal and mail services are accessible and affordable for all classes of people and are very popular among the low-income earners due to the low fees, also for money transfer services. Yet they are also known for unreliability, inefficiency, and delays.

### ***Building Societies***

There are four building societies registered in the country with Equity Building Society (EBS) and Family Finance Building Society leading in the provision of micro-finance services, including money transfer services. Building societies operate under the Building Societies Act but a series of amendments to this Act,

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<sup>9</sup> note that KPOSB is not part of the commercial banking sector

such as the Finance Bills of 1998 and 1999, have harmonised it with the Banking Act. This brought the Societies under the regulation and supervision of the Central Bank of Kenya in the same way as commercial banks. They can now provide a wide range of banking services, including microfinance, and are a service link in money transfer for the Savings and Credit Cooperatives (SACCOs), commodity boards and marketing agencies. Building societies do not have widespread branch networks as compared to commercial banks and the Post Office. Equity Building Society, for example, has thirteen branches most of which are in one province of Kenya. The Societies target mainly small savers and borrowers who are attracted by low minimum balances and low charges for maintaining accounts.

### ***Foreign Exchange Bureaus***

Currently there are 40 foreign exchange bureaus registered and operating in the country and regulated under the Banking Act. The majority of these (88%) are based in Nairobi. Their main business is in currency exchange and only a few extend other services. The majority operates a single bureau typically in city centers or airports and a very few of them have branches in other East African countries.

### ***Savings and Credit Cooperatives***

SACCOs are major players in the Kenyan financial market now reaching an estimated 2.9 million Kenyans in the low-income segment of the market. They are member-owned and managed institutions with two main products: savings and loans. A survey of the official microfinance market in 1999 estimated that out of the total credit (KShs. 24.6 billion) provided by 16 major providers, SACCOs provide 89.4%, making them more important players than commercial banks and microfinance institutions (MFIs). SACCOs are, however, limited to doing business with their members and can only provide money transfer services through a cheque arrangement with the Co-operative Bank of Kenya.

### ***Microfinance Institutions***

In 1998, there were over 86 organisations providing microfinancial services in Kenya.<sup>10</sup> These included commercial banks, building societies and SACCOs. There are six major NGO microfinance institutions which provide primarily credit services: Kenya Women Finance Trust, Faulu Kenya, Wedco, Small and Micro enterprise Development Programme (SMEP), Business Initiatives and Management Assistance Services (Bimas), and Ecumenical Church Loan Fund (ECLof). These institutions are concentrated in Nairobi, the Mount Kenya and Western regions of Kenya and operate mainly in urban areas with very limited rural outreach. Their current outreach and client base cannot reliably be established, however figures from 1999 indicate that these institutions were reaching 85,703 active loan clients and had mobilized KShs. 748,161 from their members. In relative terms they are not yet one of the major players in the provision of microfinance services in Kenya and still have to overcome several constraints, among them a legal framework that limits the kind of activities in which they can engage, including money transfers. The government is however currently in a consultative process with MFIs on a regulatory structure and the draft bill has already been submitted to the Minister of Finance for action.

### ***The National Payment System<sup>11</sup>***

The Central Bank of Kenya (CBK) considers money transfer services as part of the National Payment System (NPS). An efficient national payment system is essential for enabling businesses and households as well as public offices to take care of their commercial, official, and personal transfers or payments.

CBK is the main regulator for financial service providers and regulates the national payment system, seeking to protect it against systemic risks at the level of commercial banks and other non-bank formal financial

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<sup>10</sup> Aleke Dondo. The Status of Microfinance in Kenya. K-Rep Occasional Paper Series.

<sup>11</sup> This section draws on "Payment System in Kenya" Central Bank of Kenya website [www.centralbank.go.ke](http://www.centralbank.go.ke)

institutions.<sup>12</sup> Outside the regulatory framework of CBK, both semi-formal and informal systems for money transfer or payments thrive and serve many poor and low-income people in urban and rural areas but also other segments of the population as well as businesses, as this survey found.

In 2001, the Central Bank initiated a five-year programme to modernize the National Payment System. Aside from technological advancement, this has necessitated a major review of the legislative framework within which it can be actualized. The Central Bank is already exploring the need for an explicit legal framework to support the payment systems modernisation process with specific regard to Electronic Funds Transfer (EFT), E-Banking, E-money schemes and products. Already, the Evidence Law has been amended to make electronic data admissible in courts of law, further augmenting the existing Law of Contract while the Bill of Exchange Act has been amended to provide for electronic clearing of cheques. Other regulatory rules and guidelines which are in place but for which legislation is being considered include 'Prudential Guidelines on Money Laundering' and 'Standard Rules' for a common shared ATM and Point of Sales (POS) called KENSWITCH. KENSWITCH is already in operation and has as its target to provide shared ATM/POS to some 20 smaller banks in the country.

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<sup>12</sup> Kenya has no law that explicitly and exclusively deals with payment systems, of which money transfer is an essential component. However, in its current form, the Central Bank of Kenya (CBK) Act, as amended in 1996, gives the Bank powers to oversee and regulate the payment systems. Section 4A of the Central Bank of Kenya Act provides that the bank shall 'promote the smooth operations of payments, clearing and settlement systems'.

## **MONEY TRANSFER SYSTEMS, PRODUCTS AND THEIR PROVIDERS: A SKETCH OF THE SUPPLY SIDE**

Money transfer services in Kenya are provided by a variety of institutions and individuals. At one end of the spectrum are individuals using the very informal and basic systems of transfer such as physical transport of cash themselves or through relatives and friends. At the other end are the modern commercial banks using state-of-the-art technology of electronic fund transfer systems. Along the spectrum exist a range of services of varying degrees of sophistication, including semi-formal providers.

This section provides a brief description of categories of transfer systems and services. This is followed by an overview of the providers and products in each category. These are then explored in more detail in sequence of the overview (Table 4).

### ***Formal System***

The formal system includes commercial banking institutions regulated by the Central Bank of Kenya and other formal institutions set up under various acts of parliament to carry out services of which money transfer is a component. They include all commercial banks, non-bank financial institutions such as KPOSB, building societies, foreign exchange bureaus and non-financial formal institutions such as Kenya Postal Corporation. Also part of this are agency agreements between Kenyan banks, NBFIs, or forex bureaus with local and international money transfer operators such as MoneyGram and Western Union.

### ***Semi-Formal System***

The semi-formal system includes formal institution providing money transfers services outside the regulatory mechanisms of the Central Bank of Kenya. These are not specifically licensed to transfer money nor do they typically require such a license. Courier companies such as Securicor Courier and bus companies such as Akamba belong to this group. These and other companies, for instance BusStar and Scandinavian Bus Companies, carry out transfers or transport money as a result of opportunities presented by the absence of cheap, fast and reliable transfer services. They have the infrastructure, network, and opportunity to respond to the vast demand for transfer services, especially of low value amounts.

### ***Informal Systems***

The informal system comprise individuals, friends and relatives as well as drivers and conductors of buses and *matatus* (local share taxis) carrying out money transfers often more as a favor than as a business. It involves physical transport of cash carried oneself from one place to another or using others to either transport or transfer money without expecting immediate returns.

**Table 4: Overview of Money Transfer Systems, Products and Their Providers**

<b>System &amp; Provider</b>	<b>Products</b>	<b>Main Service Focus</b>
<b>Formal System</b>		
Commercial Banks	Mail transfers, cheques, telegraphic transfers, Electronic Funds Transfers (EFT), Intra-branch / branchless banking Direct Debits, Credit/Debit Cards	Both domestic and international money transfers involving large and small amounts for business and remittances.
KPOSB	Western Union	Both domestic and international money transfers involving large and small amounts for business and remittances.
Cooperative Bank	MoneyGram	Mainly international transfers involving large and small amounts.
Building Societies	Inter-Bank and intra-bank connectivity, Telegraphic Transfers (TT) and Electronic Funds Transfers (EFT)	Local transfers for payments of employee salaries and proceeds to tea and coffee farmers; or international transfers through KCB, Barclays Bank and Citibank using their local branch networks, SWIFT systems and foreign correspondence banks.
Post offices	Ordinary Money Orders (OMO) Express Money Orders (EFT) Postal Orders POSTA Speed Institutional Money Order Agency Service International Money Account	Generally smaller amounts both within the country and in the East African region; mostly used by parents in payment of school fees for their children.
Forex Bureaus	Orion, Crown, and Continental have money transfer services; some other bureaus are said to be part of informal networks, often referred to as 'Hawala' networks	
<b>Semi-Formal System</b>		
Bus companies Courier companies	Letters, parcels and money delivery	Most of the overland bus and courier companies do not accept liability for transfer of money but are aware that they are popularly used to transfer undeclared amounts of money; however, Scandinavia Bus Company officially transfers money in East Africa and charges per amount sent.
Savings and Credit Cooperatives (SACCOs)	Money transfers via account transfers or cheques through Cooperative Bank or building societies; for Matatu SACCOs through matatu drivers	SACCOs can send or receive transfers through their connection with Cooperative Bank or building societies; there is also a service by Matatu SACCOs which transfer money on their up-country routes and charge per amount sent; in principle, all services should be available to members only



**Table 4 (continued)**

<b>Informal Systems</b>		
Carrying physically by self, friends, and by conductors and drivers of Matatu (share taxis) and buses In-kind transfer by purchase of goods for resale	Money and goods delivery	This is an arrangement based on trust. Small amounts of money are involved. There are no fees but social costs – e.g. reciprocal responsibility; in-kind / carrying goods – mostly used by market vendors as a precaution against robbers.
Informal service providers or networks (e.g. ‘Hawala’ style networks)	Forex bureaus, shop- or business owners, informal agents (e.g. in ethnic communities such as Somalis in parts of Nairobi)	Serve business people, individuals, ethnic communities as part of a trust relationship, often better terms on forex rates and transfer fees, and servicing locations the formal system does not reach

**The Formal System**

**Commercial Banks**

The main bank transfer instruments in the Kenyan commercial bank sector include credit transfers, bank cheques/drafts, ordinary cheques, direct debits and ATM cards. The main bank instruments are described in the text and a summary of their fees and service constraints provided in Table 5.

Banks effect the transactions for credit transfers by using mail, telephones or telegrams and electronic connections. *Electronic funds transfers* (EFTs) and *telegraphic transfer* (TTs) are faster and more reliable than *mail transfers* which require a physical movement of mail from the issuing bank to the paying bank and to the clearing house before payment can be effected. It can take up to two weeks to realize payment when using mail transfer; transfers can be immediate or within one day when using EFTs and TTs, respectively. Due to the high level of intra-bank connections, banks use more of EFTs and TTs to effect faster movement of funds and less paper work. For inter-bank transfers using TTs and EFTs, fax, telegraphic, or electronic arrangements have to be made with key local and international correspondent banks.

*A bank cheque or draft* is an instrument generally drawn by a bank in order to settle third party obligations. Regular customers of the bank may also purchase bankers cheques at a commission to make payments for business or personal transactions, e.g. school fees. This instrument is cheaper for account holders than for non-account holders.

Bank customers with current accounts may use *ordinary cheques* to transfer funds. Cheques need to be deposited into an account and cleared which can take between three and ten days, depending on the remoteness of the destination branch. Plans are underway for Real Time Gross Settlements (RTGS) in which banks will replace the physical movement of cheques with digital images to realize immediate value and instantaneous crediting and debiting of payees and payers.

**Table 5: Bank Instruments, Timeframe for Realisation of Value and Fees in (KShs.)**

<b>Instrument</b>	<b>Fees (in KShs.)</b>	<b>Realisation of Value (in days)</b>	<b>Constraints/Problems</b>
<b>Electronic Funds Transfers:</b> Uses an automated system networked between the head office of the bank and its various branches.	0- 500	Instant	High cost of investment in equipment and operating systems; requires automation of the system; requires an account with correspondent bank.
<b>Telegraphic Transfers:</b> Uses wire transfers between the sending bank and the correspondent bank.	0.2% - 0.5% of transfer value; minimum fee of 1,000 and maximum of 7,500.	1-2 days	High cost of investments; requires automation of the system; requires telephone and telegraphic arrangements with the correspondent bank.
<b>Mail Transfers:</b> Involves physical movement of mail from the issuing bank to the paying bank and the clearing house.	600 plus POSTAge	Up to 14 days	Very slow
<b>Bank Cheques and Bank Drafts:</b> Transfer instruments drawn by a bank for settling third party obligations.	600 - 650 for customers; 1,250-1,500 non-customers (0.3% minimum)	3 working days after deposit	Forgery
<b>Ordinary Cheques</b>	350-370 per cheque book (approx. Kshs.12 per cheque leaf)	3-10 working days after deposit subject to remoteness of sender / receiver	Forgery; slow and requires the payee to maintain a current account and cheque book.
<b>Direct Debits:</b> Uses Standing Orders to make regular payments to third parties with accounts at the same bank.	165-450	Instantaneous debit to the payee and credit to the person making the payment.	Requires the payee to have an account with the bank

*Direct debit* is a system where customers issue “Standing Orders” to their bank to make regular or recurrent payments to third parties with accounts. There is instantaneous debit to the payee and credit to the receiver. Individuals or companies use it for payments of salaries, loans, or utility bills, among others.

Of the various instruments discussed, electronic transfers, telegraphic transfers and bank cheques are typically used. These instruments require high investment in equipment, telephone lines and security systems for their operation as well as inter-bank and intra-bank networks. Specifically, EFTs and TTs need systems that scramble and unscramble codes that safeguard against interference in transit.

It is very difficult to reliably establish the volume of funds passing through commercial banks due to the paucity and unreliability of information. Volumes are clearly substantial, however, as, for example, government labour costs including salaries, house allowances and other emoluments pass from the treasury

to employees through the banking sector. Annual statistics show government spending on labor costs as KShs. 25.9 billion in the 1996/7 fiscal year, 33.7billion (1997/8), 31billion (1998/9) and 35.3billion (2000) -- presumably all passing through the banks. For cheques, central bank figures in 2001 put the average daily volume of cheques cleared through the Nairobi Clearing House at 50,000 cheques valued at KShs. 10.5 billion.

### ***KPOSB/Western Union***

All the main accounts of Kenya Postal Savings Bank (KPOSB) can be used for money transfer because customers can access their deposits or encash instruments from any branch of the bank. This tends to be the main domestic transfer mechanism with KPOSB. For international transfers, Western Union is the main mechanism, as KPOSB is not part of SWIFT or other networks. Western Union and KPOSB have an agency arrangement for money transfers which covers international and also domestic transfers, though the latter is not much used.

With Western Union transfers, both payments and withdrawals can be made at any designated branch. The recipient has to know the sender, source country and the approximate amount sent as well as present the identification specified by the sender.

Data on the value and numbers of transaction is not available as this is commercial information that banks typically do not want to publicize. Incoming transfers, however, account for over 95% of all transactions. Outgoing transfers are very limited.<sup>13</sup>

According to KPOSB there is no risk associated with Western Union transfers although they conceded that occasional problems can arise in the course of effecting transfers or issuing payments. This tends to occur when the receiver's name is significantly misspelled or they do not know the secret code for identification. At times language is a barrier, for instance if the staff member and customer do not speak the same local language or with refugees as clients. In these cases the receiver cannot be paid immediately and this leads to the perception that the institution is unwilling to pay. Previously, KPOSB had also experienced cash flow problems at some service points rendering it unable to pay immediately and creating anxiety for the receivers; these have apparently been rectified.

Western Union, however, faces stiff competition on the domestic as well as the international transfers. Internal competition arises from KPOSB's own passbook accounts as holders use them to transfer money domestically. Competitor services include MoneyGram, PoaPay, commercial banks and foreign exchange bureaus like Orion, Continental and Crown which offer transfers within East Africa. Dalsan and Kaah Express, two remittance companies involved in international transfers, capture primarily the Somali market. Newer entrants, such as Tumaleo, introduced in 2002, are also part of a growing competition for the international market. Other competition includes postal money orders and also informal services.

### ***Kenya Postal Corporation (POSTA)***

Kenya Postal Corporation is a leading money transfer institution in Kenya. It has three main money transfer instruments: Ordinary Money Orders (OMO), Express Money Orders (EMO), and Interstate Money Orders (IMO), also known as POSTA Speed Cash (PSC). Interstate Money Orders can be used within East Africa. All the instruments are based on the OMO although the EMO are faster than the OMOs as they promise overnight delivery. A description of the instruments and the fees is given in Table 6.

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<sup>13</sup> One major branch in Nairobi averages about 40 to 50 customers per day sending between KShs. 5,000 to 10,000 per customer or KShs500,000 per day in the branch.

**Table 6: POSTA Instruments and Fees**

<b>Instrument</b>	<b>Descriptions and users (perspectives of POSTA)</b>	<b>Limits allowed per instrument</b>	<b>Fees</b>
<b>Ordinary Money Orders</b>	Individuals and parents transferring small amounts for school fees and upkeep; Support for relatives; or for domestic needs.	Maximum KShs 35,000	Between KShs 42 for amounts below KShs 500 to KShs 657 to send amounts of 30,000 to 35,000
<b>Express Money Orders</b>	These are basically ordinary money orders but are faster and delivered overnight. They replaced telegraphic money orders and are used by individuals, parents and businessmen requiring overnight delivery. <sup>14</sup>	Maximum KShs 35,000	Express costs KShs 57 and KShs 662 for similar amounts as above
<b>Interstate Money Orders or POSTA Speed Cash</b>	These are money orders valid within the East African countries and are used by businessmen who require overnight transfers in East Africa for purchases or settlements.	Maximum KShs 30,000	POSTA Speed costs KShs 125 to send amounts below KShs 600 and KShs 925 to send KShs 25,001 to 30,000.
<b>Institutional money order / Ordinary Money Orders for schools</b>	These are ordinary money orders but are specifically aimed at schools. The schools collect and list all the money orders they receive and present the list to POSTA for payment in one cheque. This aims to reduce clearing and cheque costs for both parents and schools as there are no extra costs for upcountry cheques.	No limits	Same as ordinary money orders

Money orders are an instrument of choice for low-income earners given the comparative advantages POSTA has for this segment of the market in terms of outreach and costs. It has a wide branch network that reaches remote rural centers making it one of the most accessible institutions in Kenya. Transfer amounts typically range between KShs. 10,000 and KShs. 35,000.

According to POSTA management, the institution faces the challenge of competition from the private sector providers such as banks, courier and bus companies as well as individuals and bus/matatu conductors. POSTA has been unable to keep up with the technological advancements in the money transfer business. Its major challenges are to automate its transfer system and to shed the image and tradition of a government facility. Clients perceive its staff as being inefficient, unfriendly, and likely to steal their money as survey respondents reported.

#### ***Cooperative Bank of Kenya/MoneyGram***

MoneyGram has an agency relationship with the Co-operative Bank of Kenya for its money transfer services. MoneyGram and Western Union operate very similar systems with a central database linking all the agents. The money is transferred immediately and can usually be paid at the receiving end within about 10 minutes of deposit. Payment is made on identification and presentation of a secret reference number. It is a secure, reliable, convenient and fast way of transferring money overseas.

<sup>14</sup> Telegraphic Money Orders were instant delivery and mostly same-day service. Telegraphic money orders were withdrawn when charges by Telkom Kenya, which owned the telegraph machines and system, became too expensive for the service.

It costs an average of US\$20 to send every US\$200 for amounts below US\$2,500 and US\$30 to send every US\$300 for amounts above US\$2,500. According to Cooperative Bank, the system is risk-free and since inception has not had any incident of fraud. The bank handles about 6,000 transactions per month with individual average transactions ranging between US\$2,000-US\$4,000.

### ***Forex Bureaus***

Money transfer is not the core business of Forex Bureaus and to offer the service legally they require special authorisation by the Central Bank of Kenya. Some of the major forex bureaus involved in money transfers in Nairobi include Orion, Continental and Crown Forex Bureaus. To make a transfer, the money is deposited locally at one of the forex bureaus and then paid in another country on identification of the payee. Parents and business people who trade regionally use the services of these bureaus to transfer school fees or funds for businesses. While the bureaus were unwilling to disclose the volume of transfers they handle, indications were that this averages US\$ 20,000 per bureau daily for transfers within East Africa.

### **Somali Community and Remittances**

Kenya is home to a large community of Somalis with very active formal and informal remittance systems. It is estimated that, the flow of remittances to Somalis in Kenya in 2000 was approximately US\$4 million a month and the flow from abroad to Somalis in Ethiopia, Somalia and Kenya combined was between US\$60 and US\$90 million. These remittances are monthly support for families and investments in housing, land, business and trade. Remittances for family support are usually between US\$100-US\$500 per month; for investments they average around US\$100,000 and are one-off transactions while transfers for conducting trade are over US\$500,000.

There are at least eight remittance companies operating internationally and many smaller ones operating inside and outside Somalia. In early 2001, a leading international remittance company, Al-Barakaat ceased operations as their accounts in the US were closed down due to an alleged association with terrorism and money laundering. This left eight companies: Amal Express, Al-Mustafqbal, Barwago Financial Services, Cidgal, Dalsan, Dahabshiil, Kaah Express, Salama Money Express and Towfiq; of these, Dalsan and Kaah Express have their headquarters in Nairobi, Kenya.

While many operate as legitimate companies, there are also informal agents operating in a similar fashion, but often without adequate accounts or records. There are many informal reports of radio telephone, mobile phone, and email based money transfer operators, especially in the Nairobi neighbourhood of Eastleigh which is home to many Somalis (and is also known as ‘Mogadishu of Nairobi’).

The informal system is based on trust and confidence of customers. Transfers are made similar to how other money transfer businesses operate, such as Western Union. Funds are paid to an agent on one end in one country or region together with fees and a message is dispatched to another agent in a different country or region and accounts are settled often without requiring the physical movement of currency.

Source: Omer, Abdusalam (2002): Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala), UNDP Somalia, draft report; and conversations with stakeholders.

### **The Semi-Formal System**

#### ***Courier and Bus Companies***

There are over 62 courier companies registered under the Communication Commission of Kenya. The ones most frequently mentioned by the interview respondents were Akamba Bus Courier Service and Securicor Courier. Courier companies are not official money transfer agents but they transport undeclared money as parcels as part of their legitimate courier business. Both the Akamba and Securicor Courier Services are widely used by the survey respondents to send or receive money despite the risks of losing money in transit

without the likelihood of compensation or recourse to claim, as senders must declare to the contrary that they have not enclosed money in the parcels. Clients opt to use this method of transfer despite the risks in part due to few options of safe, fast and reliable transfer services and due to the good experience with this service.

While this system is outwardly risky, respondents expressed great confidence in it. Both the users and the providers said that there were hardly any losses or thefts that were known to have occurred. The two courier companies, Akamba and Securicor unofficially admit that money transfer is an important and significant component of their courier business. This is reflected also in the security arrangements they put in place. Both use tamper-proof sealed envelopes and reportedly take drastic actions against any of their staff that may be suspected of tampering with mail.

#### Securicor Courier:

Securicor Courier operates a mail service that transfers about 10,000 to 13,000 items per day excluding large parcels. The mail items originate mostly from Nairobi but volume has been decreasing considerably. This is due in part to the growth in e-mail traffic.

The minimum charge for mail transfer service is five times that of POSTA -- KShs. 105 compared to POSTA's KShs. 21. Some informal providers charge as low as KShs. 10 per mail transfer.

A manager of Securicor reported that he is aware the company transfers money through its mail system. The company in fact registered an increase in their mail service following the removal of POSTA's telegraphic money order, which was a fast, affordable and efficient money transfer service.

*"We one time received a parcel from Kisumu which had been declared as spare parts. The recipient on receiving it at our counter tore it open in our presence and in there was a small box filled with sand and in the middle of the sand was an envelop with a bundle of US Dollars – probably not less than \$20,000". Akamba staff member*

Securicor also used to operate a money transfer service but closed it down in December 2002 due to high administrative costs relative to the low amounts transferred through the system. The company charged KShs. 200 as a tariff for transferring KShs. 3,000 plus KShs. 150 for every additional KShs. 2,000. The amounts typically sent ranged between KShs. 3,000 and KShs. 15,000. However, only about 10% of the transactions involved amounts above KShs. 10,000 making the unit costs of transfer very high and the business unviable.

Today, the company has other options in money transfer business. Securicor Security Services, a department of Securicor Courier is allowed under the Communications Act to transport cash and provide security. For this reason it is sometimes commissioned by large companies to pay their casual employees through *wage packeting* and to transport large volumes of cash for business people from their premises to their banks. In wage packeting, the wage for all employees that receive pay in cash is paid to Securicor which in turn packets it in sealed envelopes per individual earnings and pays out to the individuals. Wage packeting is mainly used by organisations that pay many employees in cash and do not want to handle the cash themselves. In such cases, Securicor transfers cash physically from the banks to the pay points under their cash-in-transit security arrangements.

### **Akamba Bus:**

Akamba Bus Company has one of the largest network of passenger routes in Kenya and the East Africa region. Like Securicor Courier, the company does not officially operate money transfer services. However, it too provides money transport through its letter and parcel services. Their service has gained a reputation for affordability, reliability, efficiency and accessibility. As such, it is a major unofficial money transfer system in Kenya and regionally. It is popular especially with low-income people, small scale entrepreneurs, parents and students. Financial Sector Trend Analysis with microenterprise clients ranked Akamba as very popular this year due to its reliability in transferring money to different destinations such as Dar Es Salaam, Tanzania, and Kampala, Uganda. Parcels arrive on average overnight and the service is widely used for sending money for school fees, family support, and settling business obligations. Some survey respondents reported that they use Akamba because it is safe in handling parcels and a receipt is issued making it easy to follow up in the event that the parcel does not reach the addressee. A manager with the company reported that many individuals no longer bother to hide the fact that they are sending or receiving money and even reveal to the staff when expected money has arrived or not arrived.

Amounts typically transferred could not be ascertained since there is no record of the money contained in the parcels. Interviews revealed that Nairobi is the highest destination and origin of letters and parcels followed by Kisumu and Kakamega. Outside Kenya, Kampala is the highest origin and destination of parcels followed by Dar Es Salaam. The cost of sending the parcel is calculated according to weight. On average, Akamba handles about 700 to 800 letters and 200-300 parcels per day; during peak times this can climb to over 1,000 letters and over 400 parcels, such as during school opening seasons, Christmas or end of month periods when employees get paid.

### ***Matatu SACCOs and Buses***

Passenger transport services such as those operated by Matatu savings and credit co-operatives (SACCOs), and by individual upcountry bus and minibus operators, have also entered the money transport market. Among the Matatu SACCOs and bus operators the following are key players: 2NK ('To Nyeri and Karatina') which operates the route Nanyuki-Nyeri-Karatina-Kerugoya, Nissan Services on the Nairobi-Kajiado-Namanga-Arusha-Emali routes, BusStar Ltd. operating on the Voi-Mombasa-Molo-Eldoret-Kitale-Webuye routes, Chania Travellers and Lake Naivasha Shuttle services.

These Matatu SACCOs and buses offer consumers an easy and quick way to send money to any of the rural centers along these passenger routes. The SACCOs often 'regulate' (without formal mandate) the routes where their members operate and offer to physically transport the money. The sender declares the money to the receiving office and a receipt is issued. The money is put in an envelope, clearly addressed, and handed over to any of the drivers who signs for it. The sender has to communicate with the addressee to notify him/her of the money sent and the password. The money is claimed from the office of destination. The charges range between KShs. 30 and 100 per KShs. 1,000 sent (3-10%) depending on which Matatu SACCO is used. The cost is somewhat arbitrary and depends on individual negotiation. Transfer volumes through the Matatu SACCOs could not be ascertained from the owners or their agents.

## **The Informal System**

### ***Informal Systems of Shops or Businesses***

Some businesses offer money transfer services informally whereby some are 'agents' as part of an informal transfer network often referred to as 'Hawala'. Others operate it as a 'sideline' to their regular business and based on personal or professional relationships with other traders in money sending or receiving locations. In most cases these networks are based on socio-cultural or ethnic groups where trust and social enforcement are strong – for instance, within the African-Indian business communities or among Somalis (see also text

box on ‘Somali Community & Remittances’). Especially for international transfers for business and personal purposes, these services are estimated to handle a substantial volume and value of funds.

### ***‘Assistance’ Arrangements***

Traders and other wealthy or salaried individuals in rural areas such as teachers and civil servants have often been used by friends and relatives in urban centers to advance cash to families in need. Such advances are then settled the next time the ‘sender’ and the ‘payer’ meet. With the introduction of mobile phones respondents indicated a limited use of the phone in making such arrangements. There is no direct cost and indirect costs are for anything to keep the relationship going. This sometimes becomes reciprocal in nature with each party taking some responsibility to do likewise at some stage.

### ***Self, friends and relatives***

Carrying cash on oneself or having relatives or friends carry it is still a very common means of money transfer by everyone. Businessmen/women who prefer to take advantage of any business opportunity that comes their way mainly carry cash themselves. However, due to increased risks of losing money to highway robbers and pickpockets, or the risk of diverting the use of money to unplanned purchases, people tend to use banks more. Senders of small amounts often use friends or relatives to transfer such limited amounts which are usually for emergencies or consumption.

### ***In-kind***

In-kind transfers instead of money are goods for consumption, such as food. Business people also sometimes carry goods rather than money. Market vendors reduce the amounts carried physically by buying goods for resale, partly for fear of losing money to robbers on highways and partly in the hope of realizing a small profit. It is a fairly common practice among women petty traders.

### **Money Transfer Fees**

The fees charged by the formal system (commercial banks, Western Union, MoneyGram, and POSTA) are in the form of set tariffs or fees. Much of the informal system does not use set fees and depends on the agreement between the user and the service provider.

For regional and international transfers, the fee as a percentage of the transfer value ranges between 3% and 30%. The most expensive means of transfer for all amounts transferred is Western Union, followed by banks and MoneyGram. The cheapest means of transfers are interstate money orders offered by the post office for amounts up to KShs. 30,000 and limited to the East Africa Region. It is generally cheaper to transfer large amounts of money than small amounts by all means, except for the limits imposed on money orders. Transfers of large amounts of money by telegraphic and electronic systems is cheapest and incurs charges of a maximum of 0.3% of the value.

For local transfers, the fees range between 1% and 30%. For amounts between KShs. 1,000 and KShs. 100,000, banker’s cheques are the most expensive means of transfers followed by telegraphic transfers and money orders. It is cheaper to use ordinary money orders and express money orders for amounts between KShs. 1,000 and KShs. 35,000. As the limit per money order is KShs. 35,000, a sender has to buy separate money orders for amounts above this limit making the cost of transfer more expensive than banks. For amounts above the KShs. 35,000, telegraphic transfers are again the cheapest option.

The cost tables below provide an indication of costs of sending money locally, regionally and internationally using various instruments of transfers. It is, however, difficult to compare services across the providers as the targeted users are different and the geographical locations of the services differ. The graphs visualize the cost information as percentages of amounts sent.



**Table 7: Transfer Fees**

Service	Providers	Fees (KShs. )
Formal System	Commercial Banks	<p><b>Domestic Transfer</b></p> <p><u>Electronic Funds Transfers (EFTs)</u> 0-500</p> <p><u>Telegraphic Transfers (TTs)</u> 0.2%-0.5% or minimum 1,000 and maximum 5,000</p> <p><u>Mail Transfers</u> 650</p> <p><u>Bank cheques</u> per cheque 600 - 650 (for customers), and 1,250-1,500 (for non-customers) for amounts below 500,000. Beyond 500,000 the charges are a constant 0.3% of the value or 0.3%min</p> <p><u>Ordinary Cheques</u> 350-370</p> <p><u>Direct debit</u> 165-450</p> <p><b>International Transfers</b></p> <p><u>Telegraphic transfers</u> 0.25%- 0.3% of value subject minimum of 1200 maximum of 6,500</p> <p><u>Traveler’s cheques</u> 50 per leaf 1% of value 250 minimum</p> <p><u>Swift charges</u> 0.2% - 0.3% of value - min 1,500, max 7,500</p>
	Post Office	<p><u>Ordinary money order</u> 42 for amounts below 500 And 657 for amounts of 30,000 -35,000</p> <p><u>ExpressMoney Order</u> charges are 57 for amounts less than 500 and 662 for amount up to 30,000</p> <p><u>POSTA Speed Cash</u> 125 for amounts below 600 and 925 for amounts between 25,001- 30,000.</p>
	Western Union	minimum 1,150 for amounts up to 7,000
	MoneyGram	minimum 924 for amounts up to 7,700
	Tumaleo	<u>Tumaleo</u> 10% of value
	Dalsan/Kaah	<u>Dalsan/Kaah Express</u> commission of 5 to7%
Forex Bureau	\$10 fee	
Semi-formal System	Securicor Courier	<u>Securicor Courier</u> a minimum of 105 per letter
	Akamba	<u>Akamba</u> letters and parcels below 10kg: 100 and 180 respectively
	Bus-Star	<u>BusStar</u> 30 for every Ksh. 1,000
	Scandinavian	<u>Scandinavian</u> 400 for every Ksh. 10,000
	Matatu SACCOs (e.g. 2NK)	<u>Matatu SACCOs</u> the prices are negotiable but range from Ksh.50 – 100 per Ksh. 1000
Informal System	Individual bus/mini bus conductors	<u>Individual bus/mini bus</u> operators have no system and no standard charges; fees are all negotiable and service based on personal trust/relationship
	Friends and relatives	<u>Friends/relatives/businessmen</u> no fee, no standard system; token of appreciation or future reciprocity
	Business people / informal networks (e.g. Hawala)	<u>informal networks</u> typically earn their revenue on forex, some charge additional fees at a low percentage cost
	Self	<u>Self</u> main cost is transport

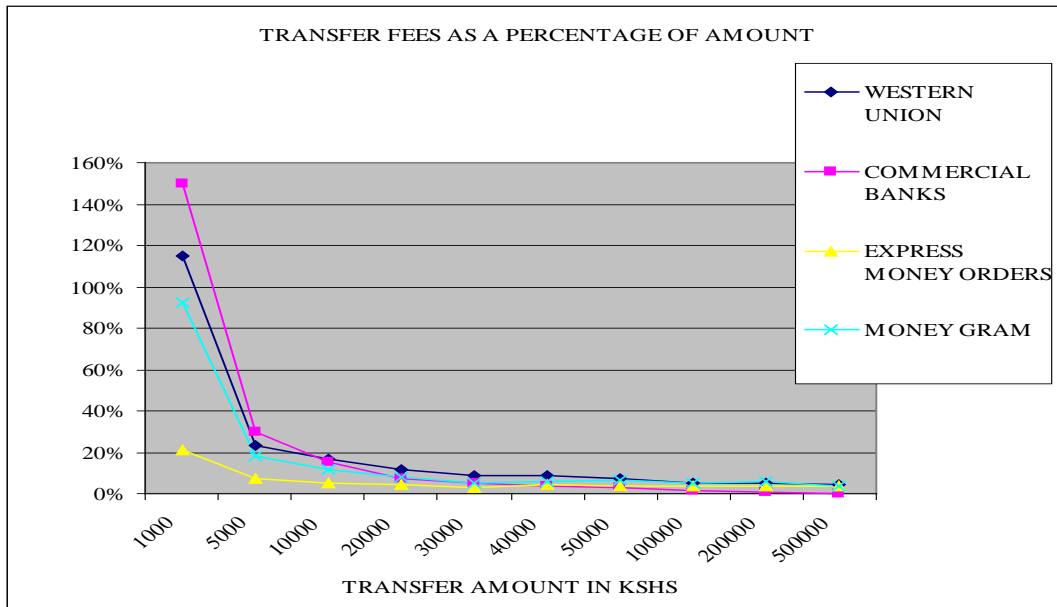
**Table 8: Illustrative Cost Tables for Regional and International Transfers (KShs)**

PROVIDER	1,000	5,000	10,000	20,000	30,000	40,000	50,000	100,000	200,000	500,000
Western Union	1,150 115%	1,150 23%	1,700 17%	2,250 11.3%	2,650 8.8%	3,600 9%	3,650 7.3%	5,150 5.1%	10,100 5.1%	21,000 4.2%
Commercial Banks (SWIFT/Telegraphic transfers)*	1,500 150%	1,500 30%	1,500 15%	1,500 7.5%	1,500 5%	1,500 3.8%	1,500 3%	1,500 1.5%	1,500 0.75%	1,500 0.3%
Express Money Orders (POSTA Speed Cash – Interstate)**	210 21%	380 7.6%	535 5.4%	890 4.5%	925 3.1%	1,780 4.5%	1,815 3.63%	3,630 3.63%	7,260 3.63%	18,150 3.63%
Money Gram	924 92.4%	924 18.5%	1,155 11.6%	1,540 7.7%	1,540 5.1%	2,310 5.9%	3,080 6.2%	5,390 5.4%	11,550 5.8%	19,250 3.9%

\* Banks charge between 0.25% and 0.5% for telegraphic and SWIFT transfers with a minimum fee of 1,500 and a maximum of 7,500. For values above 500,000, the transfer fee is 0.3% of value sent.

\*\* The maximum amount of money that can be sent through POSTA for interstate transfers is KShs. 30,000. However larger amounts can be sent as several orders and are costed here as such .

**Graph 1: International Transfer Fees**



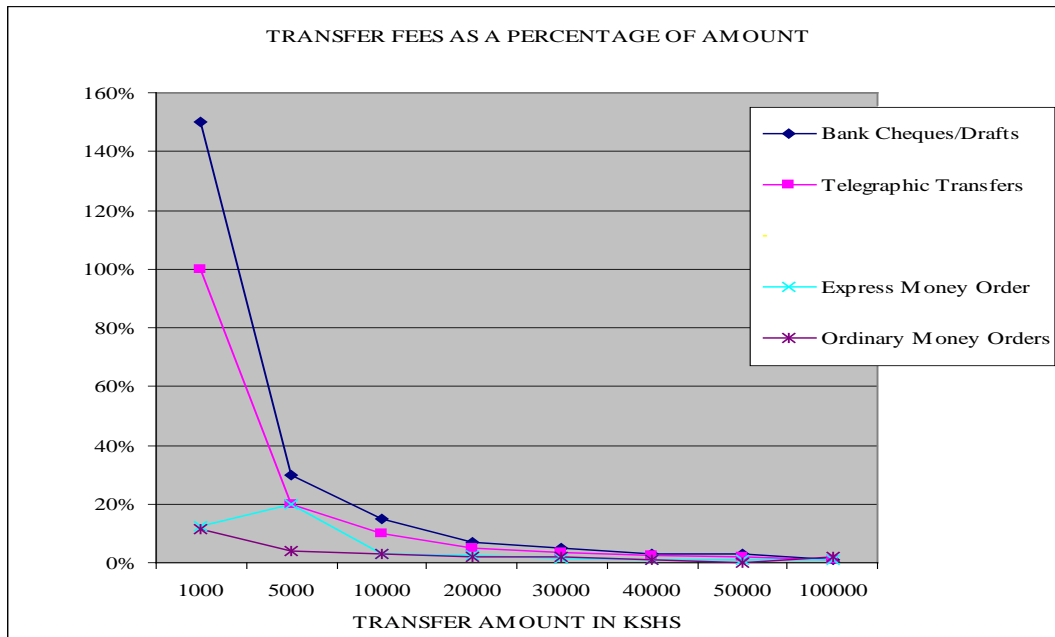
**Table 9: Cost for Sample Domestic Transfers**

TRANSFER INSTRUMENT	1,000	5,000	10,000	20,000	30,000	40,000	50,000	100,000
Bank Cheques/Drafts*	1,500 150%	1,500 30%	1,500 15%	1,500 7%	1,500 5%	1,500 3%	1,500 3%	1,500 1%
Telegraphic Transfers**	1,000 100%	1000 20%	1,000 10%	1,000 5%	1,000 3.3%	1,000 2.5%	1,000 2%	1,000 1%
Express Money Order	126 12.6%	217 20%	299 3%	483 2.4%	436 1.5%	735 1%	919 1%	1,838 1%
Ordinary Money Orders	114 11.4%	209 4.2%	295 3%	441 2.2%	617 2%	882 1%	1,177 0%	2,354 2%

\* Customers are charged KShs. 600 to 650 and non-customers are charged 1,250-1,500 per cheque or 0.3% minimum. The maximum value of 1,500 is used here.

\*\* Commercial banks charge between 0.2 and 0.5% of the value sent or a minimum of 1,000 and a maximum of 5,000. The minimum KShs. 1,000 is used here.

**Graph 1: Domestic Transfer Fees**



## MONEY TRANSFER USERS AND USES - A SKETCH OF THE DEMAND SIDE

### Users and Uses

The main users of money transfer services are government departments and non-governmental organisations, donor and development agencies, farm produce and marketing agencies and other large businesses, and individuals. The most common purposes for transfers are salaries and pensions, operations and programme costs, loan capital (on lending) funds, school and examination fees, payments of proceeds from sale of farm produce, family support and generally purchases and settlements. Table 10 provides an overview of users, uses and amounts typically transferred.

**Table 10: Overview of users, uses and typical volumes of money transferred**

Users	Providers	Uses	Typical amounts
Government departments; companies	Commercial banks	Salaries, pension, gratuities and operational funds	Tens of millions of Ksh.
NGOs and international agencies	Commercial banks or own cash transport by staff	Staff salaries and program and operational expenses	Tens of millions of Ksh.
Business people	Commercial banks; Postal Corporation; Western Union; Physical transfers	Commercial business; small-scale businesses; Western Union mainly for receiving funds; purchases etc.	For commercial businesses, tens of thousands to several million KShs.
Individual persons/parents/student /employees in urban centers	Postal Corporation/ courier companies/bus companies, Western Union; informal services (carrying oneself or sending through others)	Family support, school fees and payment of professional examinations	-Family support and school fees range from KShs. 5,000 – 50,000; -Physical transfers and in-kind transfers are typically for amounts below KShs. 10,000.
Small-scale traders	informal services (carrying oneself or sending through others);carrying merchandise for resale and in-kind transfers	Operations of small-scale businesses;	for small-scale businesses, up to KShs. 200,000

### Values and Frequency

The value of transfers for large scale users are in the range of tens of millions of shillings and amounts of between KShs. 1 million and KShs. 5 million are quite common. For other users, the value of transfer varies widely depending on the purpose and the means of transfers. Remittances for family support are usually between KShs.5,000 to 10,000 per month; for school fees transfers range between KShs.10,000 and 50,000 per term while for business settlements it is usually KShs. 100,000 to KShs. 200,000, although individual transactions can be lower. Cash amounts carried physically by friends and relatives tend to be less than KShs. 5,000 while transfers through bankers’ cheques and POSTA tend to be higher; for the latter fee charges are up a maximum of KShs. 30,000 and 35,000, respectively, subject to the service chosen.

The frequencies of transfers depend on the purpose for which transfers are made. Transfers for school fee payments have to be made at the beginning of every term, i.e. January, May and September. Remittances from family members working in urban areas and abroad for purposes of family support are regular and are typically made at the end of every month. Transfers also follow the festive seasons and peak before Christmas or other official holidays when relatives send money home for celebrations or when business people transfer money for purchases of additional stocks. Transfers for salaries are monthly, while that of development funds follow individual donor or project calendars.

## Users and Instruments Used

### *Large Scale Users*

Large scale users include Government Departments, NGOs, farm produce marketing agencies and SACCOs. These mainly use formal institutions especially commercial banks. However, many NGOs and other development agents operate in locations beyond the bank networks and have to enter into arrangements to physically transfer the money to these sites from the nearest formal outlets. For reasons of security none of the institutions interviewed was willing to disclose these arrangements. Among the farm produce marketing agencies, the Kenya Tea Development Authority is among the main clients of transfer services for payments to smallholder farmers (see text box for further detail).

**Kenya Tea Development Agency (KTDA)**, the body in charge of marketing and selling tea on behalf of farmers, transfers an average of Kshs. 0.5 billion to some 460,000 small holder farmers every month as payment for green leaf collected through tea factories. This represents about 10% of the total dues to the farmers. The balance of the proceeds from the actual sale of processed tea is paid as annual bonuses. Payments are made through commercial banks, building societies, tea factories and Tea SACCOs of the farmers' choice. KTDA issues a diskette with payee details and a lump sum cheque drawn on Kenya Commercial Bank to the specified financial institution which in turn transfers the payments to individual farmers through its respective branch network. KTDA does not incur any costs through such transfers but the farmers pay the financial institutions a fee Kshs. 50 to 100.

Where farmers are paid through their commercial bank accounts, KTDA prefers to use EFT, which is cheap (Ksh. 25 per transaction), secure, and with no limitations. While KTDA finds EFT risk free, it experiences difficulties if a farmer closes their account without informing them and the payment has to be retrieved from the bank. Some of the banks are slow in refunding this money. Delays due to long queues, network limitations and automation of the systems are some of the main constraints that the Agency and the farmers face in transferring money through the banks. Transfers through building societies and SACCOs, in which farmers have membership and/or accounts, have proven to better meet the needs of the farmers at no additional costs to KTDA. These institutions provide the farmers also with other financial services that include loans on the security of the payments.

Figures for December 2002 indicate that KTDA paid KShs. 537.7 million through formal institutions distributed as follows: commercial banks KShs. 100.3 million, SACCOs KShs. 289.4 million, building societies KShs. 68 million and tea factories KShs. 80 million.

### *Parents and guardians*

Parents and guardians pay school fees mainly by bank drafts, money orders (for local transfers), and Western Union for international transfers. Both public and private sector schools and colleges are fee-paying and this generates huge seasonal demand for money transfers. Most of this demand is met through the formal sector because of schools' requirements that fees be paid by bankers' cheques, money orders or directly into school bank accounts.

Respondents indicated that the middle and upper income people including academics and professionals mostly use Western Union, as do many refugees, mainly from Sudan and a few from Somalia. Due to its availability in many countries, Western Union is the provider of choice for most senders of remittances from overseas.

### *Individuals*

Individuals remit funds for family support, domestic needs and for emergencies through formal, semi-formal and informal means. Carrying the money oneself is still a very common practice. A few cases were reported of individuals who have made arrangements with friends or 'wealthier' persons – traders, teachers, civil servants or any person

*“I just call my friend and instruct him to pay a specified person. These days I don't have to travel home to take money to my mother... he just does it for me. Next time he is in town we settle our books”* said one of the traders at Wakulima market.

considered ‘liquid’ – who they can call on to give their relatives money, to be paid later. There are a number of people who use this method to remit money to their relatives or friends. This works in cases of trusted relationships. Some respondents indicated, however that friends and relatives are no longer reliable and said: “Two years back, you could still trust someone to deliver the money, then poverty increased and people failed each other. Today we have moved from sending someone to doing it yourself. You cannot trust anybody, not even your own brother”. According to one interviewee those used now have had their integrity observed over time and found to be trustworthy.

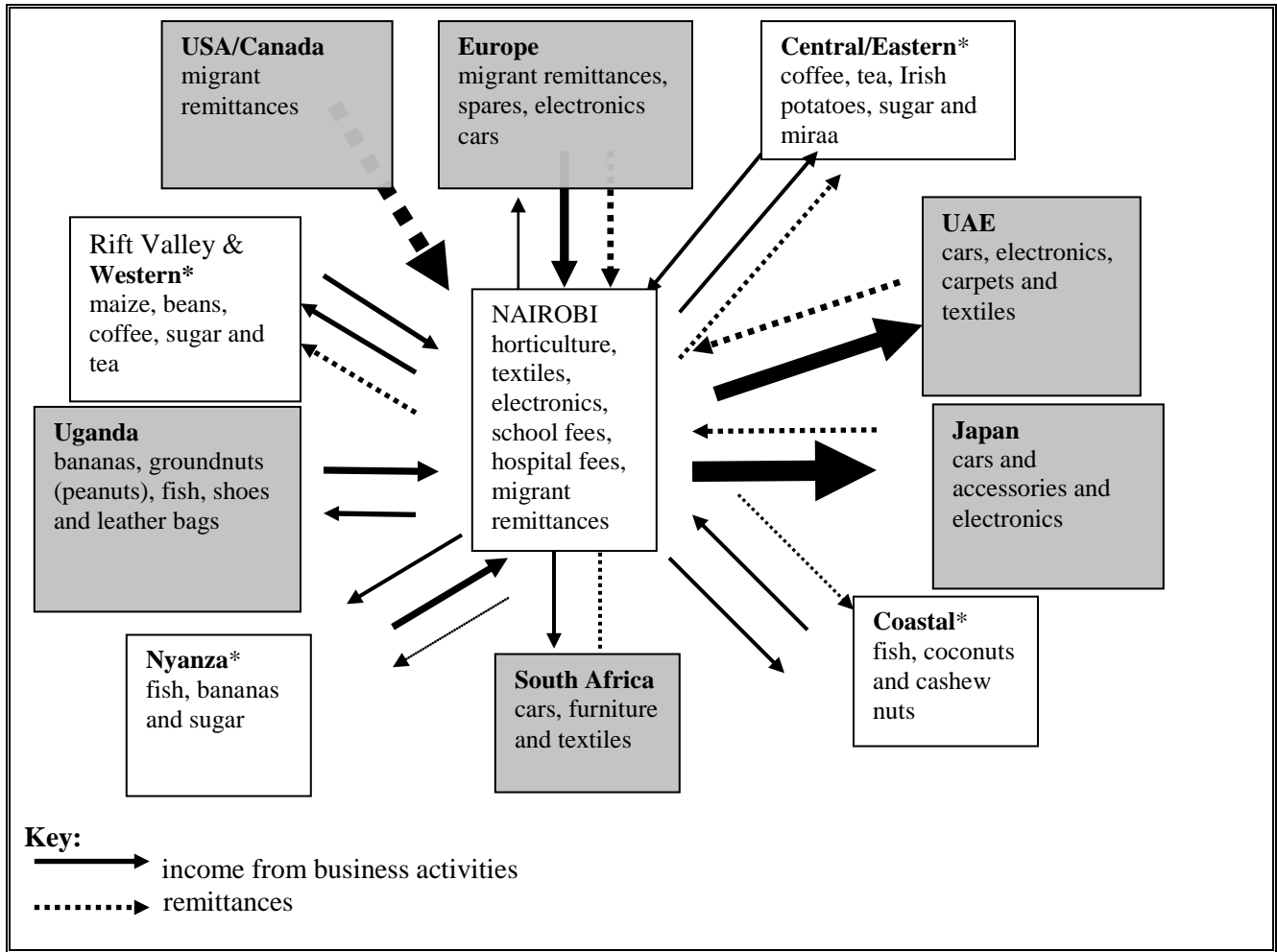
### ***Business people***

Business people often need to move money both within and outside of the country. This category comprises people at all levels – from small-scale market stallholders, retail consumer shop operators through to corporate import and export companies. The cash mobility mapping done in Nairobi shows the main international trade routes such as Uganda (Kampala), United Arab Emirates (Dubai) and Japan. Nairobi also serves as the hub for most of the trading activities internally with activities at different major towns like Nakuru, Eldoret, Nyeri and Mombasa (see Cash Mobility Map).

People trade in different goods, such as agricultural produce, electrical appliances, textiles and spares. Given the various types of businesses, the choice of money transfer method depends on factors such as the amount to be moved, the cost, speed required, and destination. Most traders interviewed needed fast means to enable them to take advantage of business opportunities, which require quick decisions and payment. Thus they would rather carry money physically on themselves than have to wait for a few days to have a cheque cleared in the banking system. Car dealers reportedly carry thousands of dollars physically to Japan or Dubai in order to bargain and make better deals on a cash basis.

*“I sent my cousin to deliver Ksh 4,000 to my daughter in a Polytechnic in Nairobi. On the way this guy used the money and my daughter almost failed to register for her examinations had I not called somebody I knew in Nairobi who bailed her out. In all these I suffered three things: Lost Kshs. 4,000, broken relations and stress”* reported one respondent in Gikomba Market in Nairobi.

**Cash Mobility Map of Nairobi**



\* For destinations/regions within Kenya, businessmen, especially those operating primarily within the country and the region, prefer using Bus Companies like Akamba and Scandinavia apart from carrying the money physically.

**User Perspectives**

Respondents recommended that banks improve on their branch network in the rural areas, and especially individual inter-bank networks, in order to speed up transfers. They also recommended that, since physical transfers are a major means of transfers, security along highways could be improved so as to reduce the level of highway robberies and hijackings.

**Bank Instruments**

The survey results indicate that, in general, commercial banks are still the most popular providers of money transfer services followed by the Kenya Postal Corporation, Western Union, courier companies, and foreign exchange bureaus - in that order. Users of EFTs and TTs find the services fast, efficient and reliable as value is realized either immediately or the following day. Although bank cheques are expensive, parents or guardians and business people who use them to settle low value third party obligations perceived them to be safe and reliable. Institutions with home banking facilities prefer the use of EFT due to its low cost especially in making high value transfers. It cost Ks. 25 per transaction. Table 11 provides an overview of bank instruments and user perspectives.

**Table 11: Bank Instruments and User Perspectives**

<b>Instrument</b>	<b>Perspectives</b>
<p><b>Electronic Funds Transfers:</b> Uses an automated system networked between the head office of the bank its various branches.</p>	<p>- Fast and reliable especially for banks with home banking facilities; - Safe and cheap for transferring large volumes (CBK encourages its usage for high value payments); - Internal connectivity enables account accessibility from any branch</p>
<p><b>Telegraphic Transfers:</b> Uses telephone system and telegraph machines between the sending bank and the correspondent bank.</p>	<p>Fast, safe and reliable.</p>
<p><b>Bank Cheques and Bank Drafts:</b> Transfer instruments drawn by a bank for settling third party obligations.</p>	<p>Fairly cheap for large volumes, widely accepted and safe, Costly for small volumes</p>
<p><b>Direct Debits:</b> Uses Standing Orders to make regular payments to third parties with accounts in the same bank</p>	<p>Useful for making recurrent payments e.g. salaries, loans, insurance etc.; Safe and cheap.</p>

**Western Union**

Survey respondents perceive Western Union to be a system for the rich. Low-income people use it mainly for receiving rather than sending funds. Respondents in individual interviews expressed satisfaction with the efficiency of delivery of payments and with the system of identification that did not rely on a receiver’s identification documents. They, however, expressed concern with the long waiting time to send money. Post Bank staff attributed such delays to slow telephone lines and inefficient equipment at the head office as all transfers out of the country must pass through the head office.

**Postal Services (POSTA)**

According to the survey respondents, POSTA is no longer reliable. Discussing the services with a group in Gikomba, an open air market within the city, for instance, indicates that POSTA was considered more reliable five years ago when people trusted it to deliver which today is no longer the case. Apart from thefts, respondents also reported that in rural areas, POSTA offices sometimes have liquidity problems and are only able to pay in small installments. One has to give notice to withdraw large sums of money and it may take up to two weeks for the money to become available. In addition, delays caused by poor infrastructure inhibit the communication from the office to the payee about the arrival of money. According to respondents, POSTA is only used because they are required to pay school fees using money orders.

*“Today, you send to your child and after three weeks, the child is sent home because the money never arrived. And you will never get it back. It is stolen.”* said one POSTA client.

Respondents still consider POSTA best placed to meet their needs due to its wide outreach capacity and its affordability. They recommended that POSTA should increase its efficiency and modernize its communication systems in order to improve its services to its customers. Many respondents associated the ‘lack of seriousness’ on the part of the POSTA with it being a government institution, which makes its staff indifferent to market or client needs. According to the customers, the employees are sluggish and create delays and long queues. The limitation on amounts sent through their system is another constraint to people who wish to transfer more than the maximum of KShs. 35,000 per transaction. Traders, businessmen and self-employed entrepreneurs trading within East Africa would wish to use the services of the POSTA since it is the cheaper means to move money around, but cannot do so due to the value limits. POSTA also lacks state of the art communication and other equipment and systems that could improve speed, security, and volumes of transactions.



**Akamba and Securicor Courier**

These services are considered to be efficient, safe and affordable. One respondent, for instance, mentioned sending US\$1,700 to Kampala by Akamba by paying KShs. 350 for the parcel. The money was received in Kampala at 11am the following day.

Users concurred that when there are accidents or robberies, they can lose their money. Problems also arise where Akamba offices are very far from the mail recipients forcing users to travel long distances to receive the parcel. However, users did not have complaints of thefts by Akamba staff.

**Physical Carrying of Money by Oneself or by Friends and Relatives**

Despite the many risks and problems associated with this method, it remains the preferred choice for many people, both poor and rich. For people with transfer destinations in remote rural areas, it is often the only means available. However, many respondents in this survey were aware of the risks and expressed a sense of frustration with the lack of reliable alternatives. They viewed carrying money themselves as having become increasingly very risky. A similar sense of frustration was observed in talking about the use of friends and relatives. According to one respondent, those used to send money now have had their ‘integrity observed over time’ and have been found to be trustworthy.

**Risks, and Problems in Money Transfers**

The product review and client feedback highlight that there are different problems and risks associated with each means of transferring money (see Table 12 for a quick overview). Means typically used by large scale clients of formal services, such as EFTs and TTs, are considered as risk free. The highest levels of risks and problems are associated with physical transfers. These range from highway robberies, accidents and thefts to misuse of money by friends and relatives. Forgeries, fraud and theft are risks also related to bank and Postal transfers, especially for bank cheques and Postal orders. The removal of money from parcels sent in envelopes is a risk with courier and bus companies that carry money through their delivery system.

Apart from the risks, each system has a number of problems that impede the use of the transfer system. They include delays in transferring value and long queues to send/receive payment, high costs of transactions, cumbersome and long identification procedures, network limitations and illiquidity of POSTA branches and unreliable communication systems. Money transfer services such as MoneyGram and Western Union involve foreign exchange losses due to lower exchange rates paid for money sent through.

*“You keep your money on you and you get beaten and robbed in broad daylight. You leave your money behind and you risk losing it in frequent mysterious fires”*  
said one respondent.

In general, the formal sector is not easily accessible for low-income users. It is highly concentrated in urban areas (see Annex 7 for an overview of the bank network) and the cost of sending money is very high for low values which are typically associated with low-income earners. Coupled with this is the sophistication of office structures, intimidating environments and language barriers due to the exclusive use of English in official forms. These deficiencies have continued to push the clients further away from the formal to the semi-formal and informal systems.

Alternative providers of transfer services such as courier companies and bus or matatu drivers and conductors are known to be fast, efficient and reliable, and have succeeded in areas where the formal is not so successful. However, these systems are not foolproof and still have to meet some standards acceptable in the industry. Their prices are not standard, their networks are limited, their systems are not transparent and many courier and bus companies do not have risk management strategies for money lost through their systems since officially they do not transfer money.

**Table 12: Overview of Risks and Problems in Money Transfers**

Means of Transfer	Users	Risks	Problems
Bank transfer	Government departments, companies, NGOs and international agencies, business people	Fraud and forgery	Delays in clearing banker’s cheques, long queues, network limitations, insolvency of branches, high cost for non-account holders, insolvency of branches; banks are suspicious of large amounts due to control policies concerning money laundering and terrorist financing
Dedicated money transfer services, e.g. Western Union	Relatives working overseas, parents and guardians	Leakage of password	High costs of service; misspelled names; when there are differences in expected amounts; cash-flow problems of agents; problems with communication or data lines
Postal services	Employees in urban centers, relatives and guardians, parents and students	Theft by staff	Liquidity problems of offices and agencies; reputation as a government facility; unreliable communication network; old equipment and facilities; competition from the private sector; weakness in marketing; poor services; limited amounts that can be transferred through the system
Courier companies	Business people, parents and guardians, students, small-scale traders	Money taken from parcels; highway robberies; misdirected parcels or delays	None reported
Bus companies	Traders, parents, guardians, employees in urban centers,	Loss of money, accidents, misdirected parcels and delays	None reported
Physical transfer	Traders, NGOs, individuals	Highway robberies, accidents and thefts	Time spent in transferring money physically and cost of transport is high; trivial expenditures on unplanned items
Relatives and friends	Individuals, parents, guardians, employees in urban centers	Misuse of money sent by relatives, dishonesty	Delays in sending the money to its destination, diversion of money for personal use
Matatu drivers and bus conductors	Individuals in urban centers, students, traders, workers and employees in urban centers	Highway robbery and thefts	Delays in case of accidents or mechanical problems; diversion of money to self use and repayment in small installments or not at all
Prominent businessmen	Relatives, friends and businesspeople locally and abroad	Transaction not honoured; business contact no longer available (e.g. closed)	Loss on forex rates; delays in receiving money due to cashflow problems

## **UNMET DEMAND AND OPPORTUNITIES FOR MFIS IN MONEY TRANSFER SERVICES**

The findings indicate that there is an unmet demand for efficient, reliable and affordable money transfer services. This is signaled by the common use of informal means, closure or deterioration of previously well used services which have left a gap, and also by new entries into the market. The latter include courier or bus companies such as Securicor Courier, Akamba, and matatus which have taken the opportunity to serve domestic and intraregional markets. They offer fast, efficient and affordable services and they have no limits to the amounts sent. Their staff is friendly and the environment within which they operate is not intimidating. These alternative systems, however, provide the service as a side activity to their core business and reach only users within the confines of their networks.

Microfinance institutions (MFIs) have increasingly been discussed as potential service providers or points of sale for existing money transfer products. MFIs would seem to provide a good potential for reaching a low-income market segment using their existing outreach and institutional capacities to provide money transfer services. Money transfer could constitute a complementary product to their existing services. The experience of other types of providers in the market shows that the service can be very profitable when taken to scale. An inter-MFI network, for instance, could enable MFIs to provide money transfer service with a substantial outreach and institutional capacities to realize economies of scale and scope. Such an option does not exist today because the MFI industry still comprises of individual players with no clearly defined or accepted standards. This makes it difficult to share information or link system.

For MFIs to step into this market opportunity has significant challenges as some other providers who have tried have discovered. While most MFIs have reasonable capacity in managing microlending products, the requirements for a money transfer product are quite different, for instance in terms of systems, capacities, cash floats and liquidity management. Some of these challenges are highlighted here. The regulatory and capacity issues related to MFIs were discussed in the earlier study looking at money transfers in Tanzania and Uganda and are not repeated here.

### **Challenges for MFIs in Entering the Money Transfer Market**

#### **Cash flow and Liquidity Management**

One reason cited for why buses and courier companies only transport money but do not operate as money transfer companies was a lack of capacity to manage cash. As pay-in and pay-out points as well as timing for money transfers are typically not balanced for a service location, sufficient floats and regular cash transfers to have sufficient funds on hand are essential to provide an efficient and reliable service. This can be a difficult and expensive ‘juggling’ act, especially for MFIs who typically do not have access to the central bank’s cash depots dotted around the country.

#### **Value and volume of transfers**

While the total value of transfers may be significant, each individual transaction of a typical MFI client would be of a small amount and destinations for transfers could vary. Securicor Courier Company, for instance, closed its money transfer service as it was too costly for them for this reason. One strategy could be to identify major hubs for sending and receiving funds and limiting the service to those locations, though the most competitive providers tend to be those with a strong network.

### Network of outlets

The most successful providers of money transfer services are those with relatively large national and regional networks of branches or outlets which are already in place for their core businesses. The money transfer service is an add-on product which benefits from this network at marginal additional cost.

### Technology

Efficient and reliable communications and computer systems, including MIS, are essential in operating a money transfer service. This in part because speed and reliability are key product features for entering the market. Bus and courier companies, for instance, have become popular because of their ability to provide overnight or even same day physical transfer of money. On the other hand, POSTA lost significant business when it withdrew its telegraphic money orders that could provide same day or overnight delivery. To be competitive, an MFI wishing to enter the market would need to have the capacity and systems to provide either electronic or, at a minimum, telegraphic or fax transfer, and provide consistent service.

Service opportunities for MFIs exist, especially in the domestic transfer market and by targeting certain payments, such as school fees. MFIs will, however, need to take a ‘hard look’ at their capacity and market to determine whether money transfer is a competitive service they could offer successfully and sustainably. Such a review should build on the findings of this report and consider the potential of the local market for the MFI. It should include common aspects of market research for product development in areas such as:

- *Market potential for money transfer services:* This will include estimation of current demand, the total potential demand and future demand to know whether the business will continue to grow and selecting target markets for entry;
- *Legal and regulatory environment:* This will involve analyzing the legal and regulatory environment in order to identify which services the MFIs can offer and which ones they cannot and what alliances they can create to achieve the same objectives;
- *Pricing:* This will involve analysing competitors prices, looking at set-up and operational costs and designing pricing strategies that would contribute profits;
- *Understanding the risks:* including the risks of theft, fraud and fire in the process of transfers and how to mitigate these risks;
- *Managing the service:* Requires infrastructure, staff, Management Information Systems and perfect flow of information from the sending points to receiving points;
- *Marketing strategies for the service:* This would include identifying and designing entry points into the market.

A microfinance institution with the above information will then have to make choices based on whether the market potential and legal framework are favorable, whether the risks can be mitigated, whether the institution is “ready” and whether forecast revenues can make the institution break even. They should ask these six essential questions before setting about new product development:<sup>15</sup>

1. *Motivation:* Are we starting product development to make our MFI more market-driven?
2. *Commitment:* Are we setting about product development as a process?
3. *Capacity:* Can our MFI handle the strains and stresses of introducing a new product?
4. *Cost Effectiveness and Profitability:* Do we fully understand the cost structure of our products?
5. *Simplicity:* Can we refine, repackage and re-launch existing product(s) before we develop a new one?
6. *Complexity and Cannibalisation:* Are we falling into the product proliferation trap?

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<sup>15</sup> For more on guiding questions for assessing money transfer service options and product development see also Sander et al., 2001. For detailed guidance on the product development process see *MicroSave*'s tools and studies, such as Wright, Graham A.N., “Market Research and Client Responsive Product Development”, *MicroSave*, 2001 – available on the *MicroSave* website under *MicroSave* Studies section. ([www.MicroSave.net](http://www.MicroSave.net))

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*MicroSave* has a range of market research and product development toolkits and materials. Publications are available at <http://www.MicroSave.net>

## Annexes

### Annex 1. KENYA POST OFFICE SAVINGS BANK (WESTERN UNION) TRANSFER TARIFFS

Principal Charge		Charge
FROM	TO	
0	7,750	1,150
7,751	15,550	1,700
15,551	23,300	2,250
23,301	31,100	2,650
31,101	38,850	3,200
38,851	48,550	3,600
48,551	58,300	3,650
58,301	77,700	4,050
77,701	116,550	5,150
116,551	136,000	6,000
136,001	155,400	7,000
155,401	194,250	8,550
194,251	233,100	10,100
233,101	271,950	11,650
271,951	310,800	13,200
310,801	349,650	14,750
349,651	388,500	16,300
388,501	427,350	17,900
427,351	466,200	19,450
466,201	505,050	21,000
505,051	543,900	22,550
543,901	582,750	24,100
582,751	621,600	25,650
621,601	660,450	27,200
660,451	699,300	28,750
699,301	738,150	30,300
738,151	777,000	31,850
777,001	815,850	33,750

Note: For each 10,000 or fraction thereof over 815,850 add 400.00 to the rates.

**Annex 2: POSTA MONEY TRANSFER TARIFFS**

<b>Value of Order</b>	<b>Express</b>	<b>Ordinary</b>
Not exceeding 500	57.00	42.00
501 – 1000	126.00	114.00
1001 - 3000	183.00	174.00
3001 – 5000	217.00	209.00
5001 – 10,000	299.00	295.00
10,001 – 20,000	483.00	441.00
20,001 – 30,000	636.00	617.00
30,001- 35,000	662.00	657.00

**Annex 3: POSTA SPEED CASH (INTERSTATE MONEY ORDER)**

<b>Value of Order</b>	<b>Express</b>
501 - 600	125.00
601 - 700	155.00
701 – 800	170.00
801 – 900	190.00
1001 – 2000	210.00
2001 – 3000	240.00
3001 – 4000	275.00
4001 – 5000	330.00
5001 – 6000	380.00
6001 – 7000	400.00
7001 – 8000	430.00
8001 – 9000	450.00
9001 – 10,000	535.00
10001 – 12000	555.00
12001 – 15000	635.00
15001 – 20000	770.00
20001 – 25000	890.00
25001 – 30000	925.00



**Annex 4. COOPERATIVE BANK MONEYGRAM**

Transfer Amount (U.S.D)	(KSHS)	Commission	KSHS)
0 – 100.00	0-7700	12	924
100.01 – 200.00	7701-15400	15	1155
200.01 – 400.00	15401-30800	20	1540
400.01 – 600.00	30801-46200	30	2310
600.01 – 800.00	46201-61600	40	3080
800.01 – 1,000.00	61601-77000	50	3850
1,001.01 – 1,200.00	77001-92400	60	4620
1,200.01 – 1,500.00	92401-115500	70	5390
1,500.01 - 1,800.00	115501-138600	80	6160
1,800.01 – 2,500.00	138601-192500	100	7700
2,500.01 – 5,000.00	192501-385000	150	11550
5,000.01 – 7,500.00	385001-577500	250	19250
7,500.01 – 10,000.00	577501-770000	300	23100

**Annex 5: AKAMBA BUS COMPANY (all major towns of Kenya)**

Transfer of Parcels in Kg	
0 - 10kg	180
11 - 20kg	200
21 - 30kg	250
31 - 40kg	270
41 - 50kg	300
51 - 60kg	360
61 - 70kg	420
71 – 80kg	480
81 – 90kg	540
91 – 100kg	600

**Annex 6: SCANDINAVIAN BUS COMPANY**

Network	Transfer Amounts in KShs.	Fees
Nairobi Mwanza Kampala Dar –Es- Salaam	Below 10,000	400
	10001 – 20,000	800
	20001 – 30,000	1200
	30001 – 40,000	1600
	40001 – 50,000	2000
	50001 – 60,000	2400
	60,001 –70,000	2800
	70,001 – 80,000	3200
	80,001 – 90,000	3600
90,001 – 100,000	4000	

## Annex 7: BANK BRANCHES IN KENYA

Note: The location listing is in alphabetical order and the primary cities and district capitals are highlighted. There are 48 banks in Kenya, 32 listed with their branch networks here. The remaining banks not included in this table are all based in the capital city (Nairobi) and listed as part of the legend (see next page).

LOCATION	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32				
Bomet	x																																			
Bungoma	x		x						x	x																										
Busia	x									x																										
Eldoret	x	x	x						x	x											x															
Embu	x		x						x									x																		
Kisii	x		x						x	x																										
Limuru	x		x							x																										
Mavoko	x																																			
Garissa	x		x																																	
Homabay	x		x						x																											
Kakamega	x	x	x																																	
Kapsabet	x		x																																	
Karatina	x																																			
Kehancha	x																																			
Kericho	x	x	x							x																										
Kiambu	x	x	x						x																											
Kisumu	x	x	x				x		x																											
Kitale	x	x	x																																	
Kitui	x																																			
Lodwar	x																																			
Machakos	x	x	x						x																											
Malindi	x																																			
Meru	x	x	x						x	x								x																		
Mombasa	x	x	x	x		x	x	x	x		x	x	x	x	x	x		x	x		x		x													
Murang'a	x		x						x																											
Nairobi	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	
Naivasha	x		x																																	
Nakuru	x	x	x						x	x												x														
Nanyuki	x	x	x																																	
Nyahururu	x								x																											
Nyeri	x	x	x						x	x																										
Ruiru	x									x																										
Siaya	x																																			
Thika																																				
Vihiga	x																																			
Voi	x		x																																	
Webuye	x																																			

### **KEY TO THE TABLE**

1 Kenya Commercial Bank	14 Habib Bank Zurich	27 Daima Bank Ltd.
2 Standard Chartered Bank	15 Middle East Bank	28 Guilders Int. Bank Ltd
3 Barclays Bank of Kenya	16 Banque Indosuez	29 Imperial Bank
4 Bank of India	17 Dubai Bank of Kenya	30 National Industrial Credit
5 Bank of Baroda	18 Consolidated Bank of Kenya	31 Ambank
6 Commercial Bank of Africa	19 Biashara Bank	32 Girobank
7 Habib Bank	20 Credit Bank Ltd.	
8 Prime Bank	21 Transnational Bank	
9 Co-operative Bank	22 Chase Bank	
10 National Bank of Kenya	23 Stanbic Bank Of Kenya	
11 First American Bank of Kenya	24 CFC Bank	
12 Algemene Bank Nederland	25 Eurobank (collapsed)	

The remaining banks not included in this table are all based in the capital city (Nairobi), and are listed below:

33 Akiba Bank
34 Habib African Bank Ltd.
35 Prudential Bank Ltd.
36 Equitorial Commercial Bank
37 Paramount Universal Bank
38 Paramount Bank
39 City Finance Bank
40 First National Finance Bank
41 Fina Bank Ltd.
42 Victoria Commercial Bank
43 Guardian Bank
44 Southern Credit Banking Corporation
45 Fidelity Bank
46 Commerce Bank
47 Diamond Trust Bank Kenya Ltd.
48 Charterhouse Bank Ltd.

## Annex 8. Money Transfer Network of Select Key Service Providers in Kenya

Note: The location listing is in alphabetical order and the primary cities and district capitals are highlighted.

Location	WESTERN UNION	POSTA SERVICES	BUS COMPANIES			MONEYGRAM (see Co-operative Bank)	BRANCHES OF THE MAJOR COMMERCIAL BANKS					
			AKAMBA	SCANDI-NAVIAN	BUSSTAR		KCB	BARCLAYS	CO-OPERATIVE Bank	STANDARD	NBK	
BONDENI	x	x										
BUNGOMA	x	x					x	x	x			x
CHAANI	x	x										
DOCKS	x	x										
ELDORET	x	x			x		x	x	x	x		x
EMBU	x	x					x	x	x			
GARISSA	x	x					x					
HOMA BAY	x	x					x	x	x			
KABARNET	x	x					x					
KAKAMEGA	x	x					x	x		x		
KAPSABET	x	x					x	x				x
KENYATTA	x	x										
KERICHO	x	x					x	x	x	x		x
KERUGOYA	x	x					x	x	x			
KIAMBU	x	x					x	x	x	x		
KISII	x	x					x	x	x			x
KISUMU	x	x					x	x	x	x		x
KITALE	x	x			x		x	x		x		
KITUI	x	x	x				x	x				x
LIKONI	x	x					x					
LIMURU	x	x					x					
MACHAKOS	x	x	x				x	x	x	x		
MADARAKA	x	x										
MALINDI	x	x					x	x		x		
MERU	x	x					x	x	x	x		x
MOMBASA	x	x	x		x		x	x	x	x		x
MTOPANGA	x	x										
MTWAPA	x	x					x					
MURANG'A	x	x					x	x	x			
MWINGI	x	x					x					
NAIROBI	x	x	x	x	x		x	x	x	x		x
NAIVASHA	x	x					x	x				
NAKURU	x	x					x	x	x	x		
NAROK	x	x					x					
NGONG	x	x										
NYAHURURU	x	x					x	x	x			
NYALI	x	x										
NYERI	x	x					x	x	x	x		
RUIRU	x	x					x					x
THIKA	x	x					x	x	x	x		x
UKUNDA	x	x										
VOI	x	x			x		x					