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BANKING CIRCULAR NO. 4 OF 2023

**TO ALL CHIEF EXECUTIVE OFFICERS OF COMMERCIAL BANKS,
MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS**

**REPORT ON THE NATIONAL RISK ASSESSMENT (NRA) ON MONEY
LAUNDERING AND TERRORISM FINANCING AND THE MUTUAL
EVALUATION REPORT (MER) FOR KENYA**

1.0 Report on Kenya's National Risk Assessment (NRA) on Money Laundering and Terrorism Financing

Kenya's inaugural National Risk Assessment (NRA) on Money Laundering and Terrorism Financing (ML/TF) was conducted over the period 2020 -2021. The main objective of the NRA was to identify and assess the vulnerabilities, levels and trends of money laundering, and terrorism financing in the country, and to propose measures for mitigating the identified risks.

The NRA was spearheaded by the Taskforce on the National Risk Assessment on Money Laundering and Terrorism Financing (NRA Taskforce), a multi-agency taskforce whose membership comprised of:

- Government authorities: Financial sector regulators, law enforcement agencies other relevant Government agencies/line Ministries.
- Private sector representatives: Commercial banks, microfinance banks, foreign exchange bureaus, money remittance providers and payment service providers. Designated non-financial businesses and professions(DNFBPs) such as casinos and accountants and motor-vehicle dealers.

The Taskforce was chaired by the National Treasury and Planning with the Financial Reporting Centre (FRC) as the National Coordinator supported by a Joint Secretariat comprised of the Central Bank of Kenya and the FRC.

The key outputs of the exercise were:

- i) The NRA report, which details Kenya's overall ML/TF risk landscape and identifies gaps in Kenya's AML/CFT legal and institutional framework. The findings of the report inform potential areas for improvement in Kenya's AML/CFT regime. The NRA Report can be accessed at <https://www.centralbank.go.ke/wp-content/uploads/2023/06/Money-Laundering-and-Terrorism-Financing-National-Risk-Assesstment-Report.pdf>

Key outcomes of the NRA Report were as follows:

- Kenya's overall money laundering threat level was assessed as **Medium** while national money laundering vulnerability was assessed as **Medium High**.
 - In terms of the national money laundering vulnerability, the banking industry was assessed as the sector with the highest impact, largely due to the important role played by banks in the economy. The real estate sector, money remittance providers (MRPs), money network operators (MNOs), legal professionals and motor vehicle dealers were also assessed as posing a medium level of vulnerability to money laundering.
 - The overall terrorism financing (TF) threat in Kenya was assessed as **Medium** and the overall vulnerability for TF was assessed as **Medium-Low**.
- ii) The National AML/CFT Strategy and Action Plan sets out the action items to address deficiencies in Kenya's AML/CFT regime. It assigns implementation responsibilities to the relevant agencies with specific timelines. These include amendments to Kenya's AML/ legal framework and the implementation of measures to mitigate ML/TF risks in various sectors as identified in the NRA report.

2.0 The Mutual Evaluation Report (MER) for Kenya by the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG)

In 2021 and 2022, Kenya underwent an assessment of its Anti-Money Laundering, Combating the Financing of Terrorism and Proliferation Financing (AML/CFT/CPF) assessment regime by the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). A process commonly referred to as Mutual Evaluation (ME). Subsequently, Kenya's Mutual Evaluation Report (MER) was adopted by the ESAAMLG Council of Ministers in September 2022 at its meeting in Livingstone, Zambia, and published on the ESAAMLG website in November 2022.

The MER summarises the status of Kenya's AML/CFT/CPF regime in the country. It covers:

- **Technical compliance:** The extent to which Kenya's legal and institutional AML/CFT/CPF framework complies with global AML/CFT/CPF standards.
- **Effectiveness:** The extent to which Kenya's AML/CFT/CPF operational framework has implemented Eleven Immediate Outcomes (IOs) considered critical to the establishment of an effective AML/CFT regime.
- Provides recommendations on how the country's AML/CFT/CPF regime can be further strengthened.

The MER can be accessed on CBK's website at <https://www.centralbank.go.ke/wp-content/uploads/2023/06/AML-and-CTF-Measures-Mutual-Evaluation-Report-of-Kenya-September-2022.pdf>

Key Findings of the MER

- Kenya has made improvements to its AML/CFT legal and institutional frameworks since the 2011 MER including the establishment of the Asset Recovery Agency (ARA),

enhancing the human and technical resources of the Financial Reporting Centre (FRC), and conducting a national ML/TF risk assessment (NRA).

- Strategic gaps in Kenya's AML/CFT framework relating to terrorism financing, beneficial ownership and new technologies have significantly affected the implementation of preventive measures by financial institutions.
- Commercial banks and microfinance banks have a more developed understanding of ML risks, compared to Non-bank financial institutions (NBFIs) and are implementing mitigation measures commensurate with those risks.
- Terrorism Financing risks were only understood to a limited extent by the financial sector.
- Beneficial ownership requirements are adhered to some extent and a major impediment exists in verifying BO information and measures to determine whether a customer or BO is a PEP are less effective, especially for domestic PEPs.

3.0 Purpose of this Circular

The purpose of this circular is to disseminate the Reports on the National Risk Assessment (NRA) and the Mutual Evaluation (ME) for Kenya to CBK licensees that are reporting institutions under the Proceeds of Crime and Anti-Money Laundering Act (POCAMLA).

Going forward, in an effort to further enhance the integrity of Kenya's financial system, CBK will work closely with its licensees by rolling out various AML/CFT/CPF initiatives geared towards addressing the recommendations of both the NRA and the MER Reports.

All CBK licensees are advised to review both the NRA and MER reports and consider the insights and recommendations relevant to their respective sectors. This includes reviewing their institutional ML/TF risk assessments and updating and incorporating risk-mitigating measures accordingly.

Yours faithfully,



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