



CENTRAL BANK OF KENYA

SECOND NATIONAL REMITTANCES STAKEHOLDER NETWORK International Fund for Agricultural Development (IFAD)

Opening Remarks by Dr. Patrick Njoroge
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As Prepared for Delivery

Good morning! I am pleased to be with you this morning and grateful to the organizers for the invitation and for arranging this important virtual meeting. I am informed that the meeting brings together the key players in Kenya's remittance market. More importantly, today's convening provides a platform to share the challenges as well as the opportunities in Kenya's remittances market.

We meet as the dark clouds of the coronavirus (COVID-19) pandemic continue to hover across the world. But the rapid acceleration of digitalization has been the "silver lining narrative" of the pandemic. Remittances have been one of the key beneficiaries of digital transformation as members of the diaspora sent funds to their loved ones back home to ride out the ravages of the pandemic. The diaspora has demonstrated clearly its strong attachment to their home countries during this difficult period.

As you will recall, there were predictions most notably by the World Bank, that remittances to Sub-Saharan African could plummet by over 20 percent. This dire prediction turned out to be inaccurate. Kenya defied this prediction and remittances in 2020 showed a strong growth. Cumulative remittance inflows increased to USD3,094 million in 2020 from USD2,796 million in 2019, an increase of 10.7 percent. Several other countries as diverse as Comoros, Gambia, Mexico and Philippines joined Kenya in bucking the predictions with increased remittances in 2020.

As we applaud this commendable achievement in the remittances space in 2020, we need to reflect on how to maintain and grow the market so as to lift the lives and livelihoods of many in our communities. Quoting Gilbert F. Hounbo, President of the International Fund for Agricultural Development (IFAD), "*It is not about the money being sent home, it is about the impact on people's lives.*" Today's meeting is an apt forum to ventilate these issues and I will highlight three broad themes for our reflection this morning.

First, is the cost of remittances. The Sustainable Development Goals (SDGs) set a target for the cost of remittances of less than 3 percent by 2030. The cost in Sub-Saharan Africa at end 2020 stood at 8.2 percent, while in Kenya this stood at 8.0 percent. This has come down significantly over the last 10 years from over 15 percent. In Kenya's case, the adoption of technology and innovation has brought down the costs significantly. This has been facilitated by the multiplicity of remittance channels and products provided by banks and Money Remittance Providers (MRPs). The integration of mobile phone financial services in the remittance's ecosystem has also lowered costs but more importantly allowed for smaller "bite-sized" remittance tickets. While the progress is commendable, a lot more remains to be done to achieve the SDG target.

Second, what are the opportunities for growth and are they in cross-border payments systems? Looking to the horizon, it will be critical to connect our payment systems across the region. Regional integration will provide the economies of scale that we need to compete effectively as Africa. The connectivity of our payment systems across the region will form the backbone for our vision of the Africa Continental Free Trade Area and closer home, the East African Community. But even as we imagine our cross-border payments systems, we must be alive to the risks. Of prominence in integrated cross border payment systems will be the Anti-Money Laundering (AML)/Combatting Financing of Terrorism (CFT) risk. We must secure our AML/CFT perimeters as we move regionally, and this behooves all players to exercise due care.

Third, a customised approach is required. The remittance market is complex and highly segmented by region and countries. Therefore, policy measures and direct initiatives and interventions should, in large measure, target countries and regions if the flow of official remittances is to be encouraged and increased. We need to analyse each of our remittance corridors, understand the nuances and drivers and develop targeted interventions. We may need to ponder on whether there is room for diplomacy to address the bottlenecks in our different corridors.

As I draw to a close, I would like to emphasize that, beyond supporting consumption in the receiving communities, remittances can play a much bigger role in supporting long-term investments in an economy such as Kenya. Apart from opportunities such as investment in Government securities including our very popular Infrastructure Bonds, the diaspora can participate in direct investment in enterprises especially in sectors that can benefit from the knowledge acquired abroad. This could morph into a driver of growth in the next epoch.

Going forward, and in an effort to reduce the existing gaps and challenges experienced in the Kenya remittances sector, CBK plans to prioritize the following policy actions:

- With the collaboration of the Kenya National Bureau of Statistics (KNBS) and the Ministry of Foreign Affairs, CBK launched the Diaspora Remittances Survey in February 2021. The objective is to collect information on remittance inflows to Kenya that would guide policy formulation. We expect that it will provide insights to identify the challenges in the remittance space and enable us address them. The Survey will close in ten days.
- Improve the dissemination of data for use by analysts and other third parties. This would allow better data analytics and useful market information, including disaggregated remittance inflows, outflows, channel usage and estimates of informal flows.
- Support transition to a fully interoperable payments ecosystem across all channels. This is part of our vision for the next phase of strengthening our National Payments System.

I wish you fruitful deliberations and look forward to the outcomes, which I am sure will push forward the remittances frontier in Kenya and beyond.

Thank You.