5th May, 2023

The GLOCEPS Commentary Today

Transnational Organised Crimes Pillar

KRA goes after mobile banking, what next?

Ida Gathoni

Photo Credit: twitter.com

As the taxman moves to increase tax compliance, mobile money transactions may soon be under the Kenya Revenue Authority's (KRA) surveillance. The move as outlined in the 2023 Budget Policy Statement seeks to give access to and investigate mobile money transactions. The body aims to collect at least KES 3 trillion in taxes as per the 2023/2024 budget proposal.

Since the Covid-19 pandemic, cashless transactions have become the most preferred medium of transaction. Because of this, the amount of money flowing through mobile payment systems such as M-PESA, Airtel Money and Orange Money exploded in the year 2020. Between October to December 2020, MPESA transactions increased by 97% compared to a similar period in 2019. Indeed, banks generated billions by utilising new financial technologies including rejuvenated mobile-banking applications to ensure seamless bank-to-mobile transactions. It became cheaper to conduct bank-mobile money transactions with banks dropping transaction charges. Kenyans actively using mobile money increased by more than 6.2 million during the waiver period.

Beyond the pandemic, the accessibility and convenience of using mobile money over cash continue to support the industry significantly. By the end of 2021, the amount of money transacted on mobile phones was more than half the country's gross domestic product (GDP). Over 80 per cent of these transactions, were carried out on M-PESA. It is under this premise that KRA is looking to gain access to mobile money transaction information. If granted, this access could result in various consequences that the Kenyan financial system will need to tackle.

With increased scrutiny on digital money transfers, Kenyans will revert to a cash-intensive economy, decreasing mobile money subscriptions. As of November 2022, there were 73.12 million mobile money accounts, with the value of transactions standing at KES 7.2 trillion. Moreover, 56.8% of the country's GDP in 2021 was linked to mobile money transactions, making it a focal part of its growing economy. These subscriptions as well as the utility of

Photo Credit: theplatform.co.ke

of mobile banking facilities will drastically decrease as the economy shifts. The country remains pre-disposed to the perils of money laundering with criminal entities using its advanced financial system as a hideout for illicit cash flows. Whereas cashless transactions deter the generation of black money, extensive use of cash facilitates the shadow economy. The fact that cash can be transferred solely between buyer and seller without the need or use of subsidiary service providers also makes it difficult to monitor. Moreover, cash transfers can still be used for big sums of money, making it challenging for the banking system to monitor suspicious activities. In the long run, the move will cause an increase in money laundering activities and a decrease in tax revenue.

Photo Credit: businessdailyafrica.com

Furthermore, the move by KRA is bound to intensify Trade-based money laundering (TBML). This will facilitate the disguising of proceeds of crime through the use of legitimate trade transactions. This practice includes multi-invoicing, under-invoicing, phantom, over and under-shipment. Criminals will consequently be in a position to manipulate the very systems that have been put in place to eliminate fraud to their advantage. Based on this, Kenya is going to experience an increase in the registration of business enterprises. To operate in plain sight, the criminals will establish legal businesses which will submit to the minimum demands of the taxman while continuing to use the same businesses as conduits for the transfer of larger illegal cash flows.

Indeed, tracking mobile money will force criminals to be more creative in terms of methods to

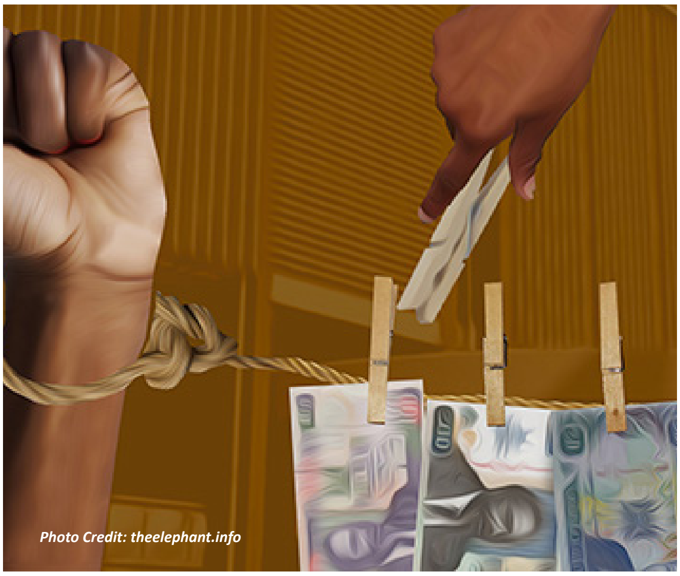

Photo Credit: theelephant.info

move money. There will be an increase in the Money or Value Transfer Systems and Alternative Remittance Systems such as Hawala and currency exchange houses. Because of increased demand, more of these institutions will continue to pop up, further reducing the possibility of tracing and tracking illicit financial flows.

In conclusion, mobile money systems have become conduits for illicit money transfers due to their current intractability. While the move by the KRA intends to improve tax collection, it also borders on encouraging the revival of Kenya's shadow economy while awakening new avenues for money laundering in the country.

Ms Ida Gathoni is the GLOCEPS Resident Research Fellow for Transnational Organised Crimes Pillar.

THE GLOBAL CENTRE FOR POLICY AND STRATEGY
(GLOCEPS)
Research | Knowledge | Influence
Off Kiambu Road, Nairobi Kenya
P.O. Box 27023-00100,Nairobi.
Telephone: 0112401331
Email: info@gloceps.org
Web: www.gloceps.org