International Labour Organization | Global Centre on Digital Wages for Decent Work

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Digital wages for decent work in Kenya

A rapid assessment

Key points

- Kenya has an established digital payments ecosystem, but innovations have evolved more rapidly than the regulatory framework
- Digital wage payments are predominant among permanent workers in the tea and cut-flower sectors, but many casual and outsourced workers are still paid in cash
- Workers that receive digital wage payments report benefits in terms of financial inclusion, wage protection and women empowerment
- Issues of cost, security, and transparency in digital wage payments concern both workers paid digitally and in cash
- SMEs, outsourcing agencies and smallholder farmers face challenges and need better suited solutions and training to transition to digital wages
- Reduced transaction costs, interoperability between financial service providers and increased consumer protection could strengthen digital wage payments

Introduction

Digital wage payments have become a usual means for workers to receive wages globally. According to *The Global Findex Database 2021*, 70% of wage earners were paid digitally – through bank accounts, mobile money wallets or prepaid cards. The result represents a substantive increase from the 55% recorded in 2014 when data on digital wage payments was first collected [1]. Kenya ranks high among developing countries in the Findex Database, with 78% of wage earners receiving their wages digitally.

Long-term efforts to digitize payments using mobile money have enabled widespread account ownership and helped promote the transition to digital wage payments in the country. According to the Global Findex Database 2021, 60% of wage earners in Kenya receive wages into mobile money accounts.

Nonetheless, there are still challenges for workers paid in cash to transition to digital wage payments, as well as issues of responsible implementation of digital wage payments that require proper consideration [2]. When implemented responsibly, digital wages can benefit

[1] Demirgüç-Kunt, A., Klapper, L., Singer, D. and Ansar, S., 2022. *The global FINDEX database 2021: Financial inclusion, digital payments, and resilience in the Age of COVID-19.* World Bank.

[2] Responsible digital payment payments adhere to UN Responsible digital payment principles and respect workers' rights in accordance with national laws and regulations and internationally recognized human rights, including fundamental principles and rights at work and relevant international labour standards. For more information on responsible digital wage payments, see the ILO Brief on Promoting Responsible Digital Wage Payments.

workers and enterprises and contribute to public policy aims. Digital wages have the potential to promote efficiency, growth, transparency, improved working conditions, and access to services and markets. The transition also has the potential to allow workers, particularly the most vulnerable, to have greater control over their wages and access formal financial services. However, the transition from cash to responsible digital wages brings challenges for enterprises, workers, regulators and the financial sector, including limitations in financial infrastructure and the need for enterprises and workers to adopt new systems and tools.

The ILO's Global Centre on Digital Wages for Decent Work and Regio Trade carried out a rapid assessment to analyse the potential for responsible digital wage payments in Kenya. The study focused on the tea and cut-flower sectors, which are the two largest exporters of goods in the country, but that still have many workers paid in cash. The assessment consisted of a desk review and secondary data analysis; interviews with key informants, including from government institutions, financial service providers, industry associations and employers' and workers' organizations; interviews with a sample of enterprises and focal group discussions with workers. Data was collected from 18 enterprises of different sizes in the cut flower (11 enterprises) and tea sectors (7 enterprises), in the regions of Naivasha, Baringo, Kericho, Kiambu, Trans Nzoia. The assessment also includedocus group discussions with 140 respondents, of whom 123 were workers (primarily casuals and seasonal workers), with the rest coming from the trade union movement. Sixty-two percent of the focus group participants were women[3].

The digital transformation of the financial sector in Kenya has been largely documented, but this assessment is one of the first specifically dedicated to exploring the prospects for responsible digital wage payments in the country. The assessment brings together different points of view to support efforts for the digital and financial inclusion of workers still paid in cash, as well as insights on gaps and good practices that can inform employers, financial service providers and the government to ensure that the digital wage payments' transformation is implemented in a responsible manner.

Key findings

Kenya has an established digital payments ecosystem, but innovations have evolved more rapidly than the regulatory framework

The digital transformation of payments has been a priority for the government of Kenya since the implementation of the mobile phone payment system M-Pesa, in 2007. The rapid growth of innovations in digital payments that followed the introduction of M-Pesa counted with private investments and government support. The government's early digital strategy and the lessons learnt in the country's transition to digital payments has positioned it as a case study for developing nations on the road towards digitization.

From the perspective of the enabling digital environment, initiatives such as the Digital Economy Blueprint and the Kenya National Digital Masterplan 2022-2032, from the Ministry of of Information Communications and Technology (ICT), are relevant strategies for promoting digital infrastructure, government services, user skills and the development of innovations and digital businesses. From the perspective of digital payments, the regulatory landmark is the National Payment System Act, 2011, which established the framework for the regulation and supervision of the payment system in Kenya, instituting the authority of the Central Bank of Kenya (CBK) to supervise service providers and tackle issues of consumer protection. More recently, CBK has launched the National Payments Strategy 2022 – 2025, with the objective of establishing, regulating and supervising an efficient payment and settlement system.

The national Vision 2030 plan, updated during the Covid-19 pandemic, gathers flagship programmes and projects, many of which are related to the promotion of the digital economy. The plan monitors the progress of strategies regarding investments in information technology and digital infrastructure, the use of digital platforms in e-commerce and delivery of public services, as well as the utilisation of mobile money. During the pandemic, Kenya

[3] Focus groups were purposely constituted on the basis of gender and mode of payment. Workers were divided into cash-paid and digitally-paid and subsequently separated into men, women and mixed groups.

determined the waiver of inter-network mobile money service fees, a decision that had a substantive impact on the number of mobile money users. M-Pesa reached 30 million registered users, as well as 260,000 agents and 492,000 merchants in March 2022.

> As a leader in digitising payments among developing countries, Kenya has been providing valuable lessons to other members of the Alliance who are digitising their payment ecosystems. More than fifteen utility entities from nine countries for instance benefitted from Kenya's experience in digitizing utility bill payments in 2019
>
> ▶ Representative, Better than Cash Alliance

Despite the government's efforts, Kenya still faces challenges to build an inclusive digital payment ecosystem. As the country's Vision 2030 strategy recognizes, there are significant disparities in access to digital finance according to gender, literacy levels, occupation and region. A significant proportion of the population does not have access to broadband, 4G and related services. Digital payments are costly for vulnerable groups and their usage of additional financial services is limited. There is a need to expand financial services to excluded groups at reasonable costs, regulate service providers that are currently outside the reach of CBK, and address issues of interoperability, data privacy and cybersecurity.

> The country's digital finance policy framework is not evolving at the same rate as the digital wage landscape's innovations, problems, and opportunities. This can be a deterrent to full-scale adoption of digital wages.
>
> ▶ Representative, County Government

Given the widespread use of mobile money accounts among wage earners, transaction costs of mobile money service providers and interoperability with other financial institutions are matters that require attention. Efforts to integrate mobile money service providers to the common transaction switch, known as Pesalink, are critical to reduce costs for users. Regarding issues of transparency, the Competition Authority of Kenya has mandated mobile money service providers to disclose their transaction costs since 2016.

On the labour and social protection areas, the legislation explicitly mentions digital methods for wage payments and there are efforts to expand access to social security coverage through digitization, such as Haba Haba (see Box 1), but there are relevant gaps to address. The Employment Act 2007 requires that wages be paid in full and in legal tender (Kenya Shillings) during the working hours at or near the place of work on agreed pay day in cash, cheque, money order or directly deposited in the worker's bank account. But apart from bank transfers, the Employment Act does not contemplate new forms of digital wages (mobile wallets, pre-paid cards), an aspect that is perceived by employers' organizations and trade unions as a limitation to the promotion of responsible digital payment of wages. Adjustments to the regulation are particularly pressing, considering that most wages in Kenya are paid into mobile money accounts, as noted, regardless of the regulatory gaps.

▶ **Box 1: Increasing Social Security coverage through the digital payment of contributions**

Launched in 2019, Haba Haba (or "bit by bit", in Swahili) is a National Social Security Fund programme designed to expand coverage to the informal sector.

Paying a minimum of USD 0.18 per day, members of Haba Haba gain access to retirement benefits, medical coverage, loan facilities and welfare benefits.

Haba Haba is a digital service that allows members to use their mobile phones to register to the programme, make contributions (using M-Pesa) and access benefits.

Source: National Social Security Fund

Digital wage payments are predominant among permanent workers in the tea and cut-flower sectors, but casual and outsourced workers are often paid in cash

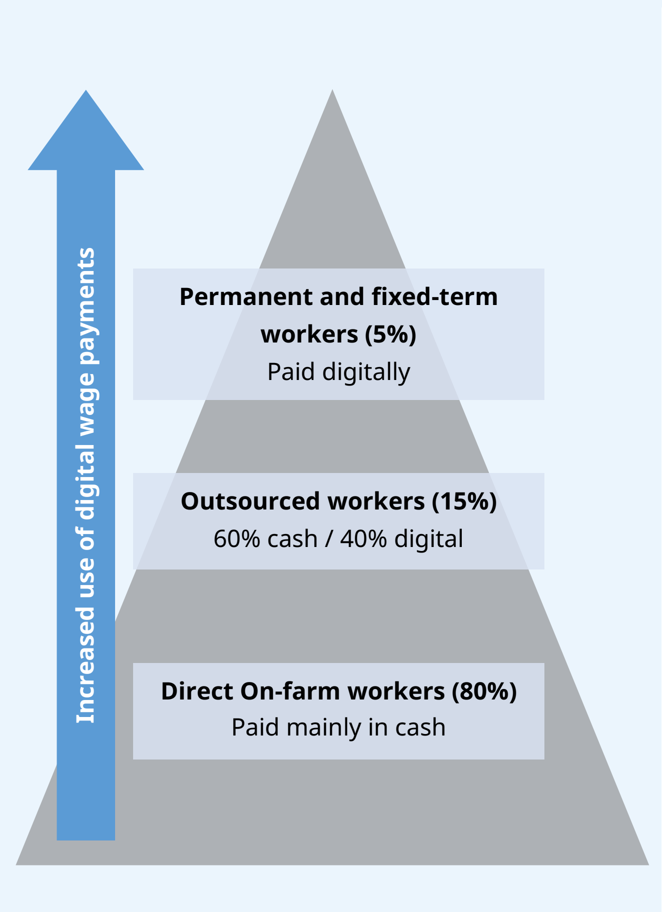
The tea and cut-flower sectors are important drivers of economic activity in Kenya, notably for their importance as export goods. The tea value chain is organized around two main institutions, the Kenya Tea Development Agency (KTDA) and the Kenya Tea Growers' Association (KTGA). KTDA is owned by approximately 600,000 smallholder farmers and counts with 70 factories for processing the tea. KTGA is owned by 45 larger tea estates and has 17 factories. Together, KTDA and KTGA employ more than 22,000 permanent workers and hundreds of thousands of fixed-term, casual and outsourced workers for seasonal jobs during harvest. The cut-flower sector employs an estimate of 500,000 workers, 20% of them directly on the flower fields, with permanent contracts. There are also fixed-term and seasonal workers, but the practice of outsourcing is not as common in the cut-flower sector. The Kenya Flower Council (KFC) organizes 92 certified members who represent 80% of the national production of roses and summer flowers.

The Employment Act 2007 recognizes different categories of employees and has different approaches to defining them, such as by nature and length of the employment engagement. It includes casual workers, who are engaged for no longer than 24 hours at a time; part-time workers; full-time employees; workers paid by piece; and probationary contracts. Workers with permanent contracts and fixed-term contracts (typically hired seasonally for 3 to 6 months) are mostly formalized and paid digitally. But outsourced casual labourers and direct on-farm workers, which are the majority of workers, are more often informal and paid in cash (see Figure 1).

Outsourced workers are temporary, seasonal, or casual workers hired through intermediary agencies. The practice of outsourcing has a unique contracting, management and payment process. The user enterprise (typically a tea farm or factory) does not issue a contract since the work relationship is directly with the intermediary agency. Payment method varies according to the type of contract and among the different agencies, but it is estimated that around 60% of them are still paid in cash.

There are relevant differences between the two sectors. The cut-flower sector has made significant efforts to hire workers on permanent or fixed-term contracts and to move towards digital wage payments. Currently, there is minimum outsourcing of casual labourers in the sector. For the tea sector, however, workers are most usually outsourced, and only permanent workers are hired directly. Also, smallholder farmers in the tea sector typically hire workers for specific tasks, without a contract, and paid on a piece-rate at the end of the workday. These direct on-farm workers represent the majority of workers in the tea sector and are usually informal and paid in cash.

▶ **Figure 1: Participation of workers according to nature of contract and payment method**



The unstable contracts and lower wages received by casual, outsourced and direct on-farm workers are a challenge to their transition to digital wage payments. There are significant issues on responsible practices, such as lack of contracts or payslips, especially for those paid daily on piece-rates, limited social security coverage and participation in trade unions.

Workers that receive digital wage payments benefit from financial inclusion, wage protection and women empowerment

Focus groups were purposely constituted based on gender and mode of wage payment. Workers were selected among the enterprises interviewed in the tea and cut-flower sectors, divided into cash-paid and digitally paid and subsequently separated into men, women and mixed groups. Around two-thirds of workers participating in the focus group discussions are satisfied with receiving their wages digitally. Efficiency, safety and accuracy of the wage payments are some of the benefits noted by participants, as well as access to additional financial services, such as savings, loans and salary advances (see Box 2). The majority of participants find it easier to manage wages by better monitoring expenses when paid digitally and have been able to save. All the respondents report borrowing money occasionally, either from financial institutions, mobile platforms or friends and relatives.

▶ **Box 2: SACCO's salary advance service**

Saving and Credit Cooperative Organisations, or SACCOs, are cooperative financial institutions frequently used by workers to receive digital wage payments in the flower sector in Kenya.

The salary advance is an additional financial service that the SACCO offers to workers. It allows them to access part of their wage before payment date, without the typical loan requirements, such as collateral.

To access the service, workers need the approval from their Human Resources managers, who inform the SACCO of the amount of the advance.

The SACCO transfers the resources to the workers' designated accounts, and, on payday, a repayment and service fee are deducted from their wage payment transfer.

Popular among workers, the SACCO's salary advance service is considered as a "refuge" (*nikilemewa, nakimbia Sacco*) in times of financial adversity.

In terms of usage, only 25% cash out all their wages on pay day, while the other 75% keep part of it in the bank account. Money can be accessed through withdrawals at the bank branch and bank agent or electronically transferred to a mobile money wallet. Cash is still necessary to pay for roughly half of the expenses, mostly for food and transportation. However, the use of mobile money is widespread among participants, with 65% of workers owning a mobile money account and using it for different transactions: airtime purchase payment of utility and shopping bills, rent, grocery bills, and school fees.

> When my salary is deposited to my bank account, I can access it directly on my M-Pesa. I don't remember when I last went to the bank.
>
> ▶ Supervisor, cut-flower sector

For women workers, who represent the majority of the workers in the tea and cut-flower sectors, there are indications of the positive impact of wage digitization on issues of safety, control over earnings and empowerment. Women workers report fears of theft on payday and of harassment from family members as points of concern when paid in cash. Even so, some women workers also note challenges regarding mobile phone and bank account ownership since they share them with family members. The desk research and key informant interviews suggest the need to work with employers and financial service providers on supporting women workers to own mobile phones, providing digital literacy, establishing recourse mechanisms, designing better tailored products for women and disaggregating data to generate gender-sensitive evidence on user cases.

> I have endured embarrassment and suffered the abusive behaviour of my husband who would snatch my cash. He would sometimes disappear for weeks, leaving us with no money for food after taking my pay. With salary to my mobile wallet, it is secure, and I feel safer.
>
> ▶ Female worker, [cut-flower sector]

Issues of cost, security, and transparency in digital wage payments are concerns for workers

Based on the focus group discussions, workers paid digitally and in cash have concerns related to the charges of financial service providers, perceived as high and lacking transparency, as well as on issues of security and liquidity. From the perspective of workers already receiving digital wage payments, one-third of the participants in the focus group discussions prefer to be paid in cash because of costs. They usually bear the transaction costs themselves and report high charges for withdrawals and elevated fees just to keep their accounts active. Lack of transparency on the fees and arbitrary deductions raised questions of trust. Participants were also concerned with fraud when operating digital accounts, such as phishing requests, and with the limited liquidity of bank or mobile money agents, who may not have the cash for them to withdraw wages around payday.

> I was paid Ksh. 18,000 into my bank account. When I went to the bank, I had Ksh. 1,400 deducted. This amount can run my household for one week.
>
> Male worker, hired through an outsourcing agency

For workers paid in cash, notably outsourced and on-farm casual workers, there are several challenges regarding the transition to digital wage payments. Casual workers paid in cash that participated in the focal group discussions consider that accessing their wages digitally would mean incurring withdrawal charges which they perceive to be very expensive compared to their wages. Also, the irregularity of payments is an obstacle for casual workers to keep active bank accounts. Participants in the focal group discussion considered that there should be some regularity and a minimum threshold per wage payment to justify being paid digitally.

> Being paid via M-PESA or through the bank only means incurring more costs on my side during withdrawal and the payment I am receiving is very little, therefore I do not wish to be paid digitally.
>
> Worker, paid in cash.

National identity documents are also a challenge to wage digitization in the tea and cut-flower sectors in Kenya. According to the 2021 FinAccess Household Survey, more than 2.4 million people in the country, mostly women in the rural sector, lack civil identity documents and are thus prevented from opening a bank account, since it is a prerequisite for registration.

SMEs, outsourcing agencies and smallholder farmers need better solutions and training to transition to digital wages

The lessons learned from the transition to digital wage payments in the cut-flower sector, which is more advanced than the tea sector, recommend adopting a gradual approach capable of tailoring solutions for enterprises and workers. Large companies have invested resources and time in digitizing permanent workers' wages. But small and medium size enterprises (SMEs), outsourcing agencies and smallholder farmers may face obstacles such as limited access to computers, internet connection and corporate bank accounts, as well as the need to make irregular wage payments of small value that require more efficient and lower cost payroll solutions. Also, these smaller enterprises are typically in the informal sector, which accounts for 85% of the economy in Kenya, and their workers are not registered. Responsible digital wage payments could thus help leverage the registration of workers, benefiting from digital and simplified alternatives such as the Haba Haba programme of the National Social Security Fund.

Since the solutions used by larger enterprises are not necessarily suitable to other enterprises in the cut-flower and tea sectors, the assessment registered case studies that could be used by SMEs, outsourcing agencies and smallholder farmers, depending on the size of their payroll and operations, as well as the regularity of their wage payments. More complex 'on-premise' payroll systems usually require a corporate bank account, computer servers, dedicated internet connection, automated time and attendance systems with biometric identification and training for workers and Human Resources managers and clerks. But the assessment also identified a simplified on-line payroll solution that seems more suitable to smaller enterprises (see Box 3).

▶ Box 3: WinguBox main features and operational requirements

Wingubox has been providing a payroll software solution since the 2010s. Their software offers effective management of payroll and human resources, catering to various employment types, including permanent employees, casual employees, independent Contractors, and interns. Wingubox's primary features and operational requirements include:

• **Cloud-Based:** Wingubox adopts a cloud-based approach for its software service, ensuring accessibility without the need for installation.

• **Internet Connectivity:** Thanks to its cloud-based nature, the system can be accessed from any device as long as there is an internet connection.

• **Flexible Billing:** Wingubox operates on a subscription basis with flexible billing options, including monthly, quarterly, half-yearly, and yearly plans. This flexibility is designed to accommodate the needs and budgets of both SMEs and MSMEs at large.

• **Cost Range:** The pricing for Wingubox varies, ranging from monthly rates of USD 7 to USD 91, depending on a company's specific requirements.

For companies that manage casual employees, Wingubox offers the flexibility to handle casual payments on a daily, weekly, bi-weekly, or monthly basis. This flexibility streamlines financial management, ensures compliance with statutory requirements, and enhances overall convenience for the company.

Reduced transaction costs and interoperability between financial service providers could strengthen the use of digital wage payments

From the perspective of financial service providers, innovations, investments and an enabling regulatory environment for interoperability could support broader adoption of digital wage payments in Kenya by addressing challenges related to access and transaction costs. The preference for mobile banking over other forms of digital payments in the country brings to light concerns regarding interoperability. Achieving easier and cheaper transactions between traditional banks and mobile money services still is a key challenge. Mobile money services such as Mpesa and real-time payment services company (Pesalink) represent an important opportunity for digital wage payments because workers are already accustomed to using the services. According to a satisfaction survey from the Kenya Bankers Association in 2021, 58.4% of consumers preferred mobile services in Kenya. However, they are still considered expensive and a wider adoption depends highly on reducing costs. The waiver of transfer fees and the growth of digital payments during the Covid-19 pandemic, with more vendors accepting them, is a good example of the potential for digital wage payments in Kenya.

> There is a need to ensure partnerships exist in the value chain so that the end user doesn't feel there is a lot of cost they are incurring and still prefer the cash payment.
>
> ▶ Financial service provider

Financial industry associations have been advocating for advances in interoperability and an open-banking strategy that would allow for large and small financial service providers to share infrastructure and services for data interoperability. It could help reduce fragmentation of switch operators and dependency on the dominant M-Pesa platform for mobile money. It is expected that partnerships among providers along the payments value chain could allow for reducing the cost of transactions, thus enhancing its potential for digital wage payments.

> Enterprises [especially SMEs] lack the competency to determine how and where to start. They are not clear on where to get guidance on digital wage payment solutions.
>
> ▶ Operations Manager, Kenya ICT Action Network (KICTANET)

Beyond tackling the issues of access and cost, financial service providers also need to better tailor their products and services to low-income workers receiving wages. There is a need to develop specific options for savings and loans for wage earners, with more competitive and transparent conditions and prices. On the consumer protection level, financial service providers consider that the issues of trust also reflect the low level of financial and digital literacy among workers and have been investing to improve redress mechanisms. Additionally, existing financial services to enterprises could be improved, but their onboarding into digital wage payments depends mostly on developing their technical capacities to select the appropriate wage payment platform and changes in management.

Conclusion

The findings of the assessment suggest that digital wage payments are not a novelty in the tea and cut-flower sectors in Kenya. In recent years, the tea sector for instance has incrementally digitized wage payments for its permanent workers. Payroll staff was trained on the digital payment process, enterprises trained workers on digital wages and banks trained workers on financial literacy with attention to savings. Time and cost issues were a challenge, but the overall process resulted in greater efficiency and transparency, as well as increased productivity and workers' trust. The pathway to further advancing digital wage payments in Kenya should benefit from the learnings of the tea sector experience.

A more comprehensive adoption requires tackling challenges of policy and regulation, digital infrastructure, transaction costs of financial service providers, technical capacities of enterprises and workers, types of employment contracts and labour management practices. Particular attention and support should be given to employers that outsource casual workers, which should be encouraged to employ them directly or to enhance the monitoring and compliance of intermediary agencies. Direct on-farm workers in tea sector are also a critical group that could benefit from the promotion of digital wage payments.

This brief is based on the rapid assessment on digital wages for decent work in Kenya, conducted by a research team from Regio Trade led by Joseph Mulupi, with technical inputs from Valerie Breda, Mansour Omeira, Isaac Kiema Muema and Andrej Slivnik.

The ILO's Global Centre on Digital Wages for Decent Work promotes the transition to responsible digital wage payments through multi-country interventions, research, knowledge management and advocacy. The Global Centre is an initiative of the ILO's Social Finance Programme.

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