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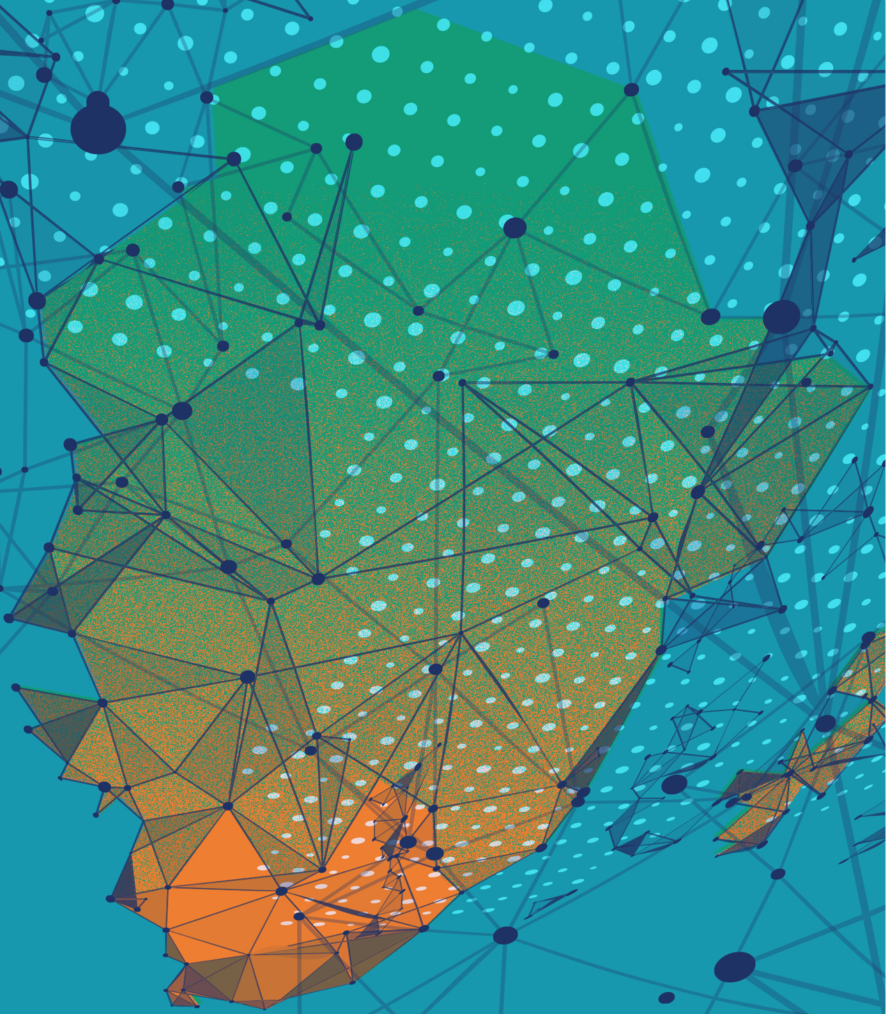

# SOUTH AFRICA TO THE REST OF SADC

## REMITTANCE PRICING

**SOUTH AFRICA TO REST OF SADC REMITTANCE PRICING**

RESEARCH REPORT

**This report was prepared for FinMark Trust by DNA Economics**

# CONTENTS

# LIST OF ABBREVIATIONS

| | |
|---|---|
| **ADLA** | Authorised Dealer with Limited Authority |
| **ASP** | Angolan Special Permit |
| **BLS** | Botswana, Lesotho, Swaziland (eSwatini) |
| **BOP** | Balance of Payments |
| **CBL** | Central Bank of Lesotho |
| **CMA** | Common Monetary Area |
| **DHA** | Department of Home Affairs |
| **DoL** | Department of Labour |
| **FGD** | focus group discussion |
| **LSP** | Lesotho Special Project |
| **MTO** | money transfer operator |
| **SADC** | Southern African Development Community |
| **SARB** | South African Reserve Bank |
| **Stats SA** | Statistics South Africa |
| **TEBA** | The Employment Bureau of Africa |
| **UNHCR** | UN Refugee Agency |

# EXECUTIVE SUMMARY

**Migrant remittances are an important component of the financial inclusion environment, and their importance in supporting incomes of households in countries of origin is substantial. Rising recognition of its importance has led to the inclusion of a remittance pricing target in the United Nations Sustainable Development Goals, as follows:**

> **Target 10.c: By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.** [1]

This report presents the findings from a mystery shopping exercise designed to evaluate the current price of remitting from South Africa to other Southern African Development Community (SADC) nations. However, we also included insights into regional regulatory environments and product innovation currently shaping SA to the rest of SADC cross border remittances market.

## Regulatory and product market developments

Regulation has both intended and unintended consequences on economic behaviour. As such, it is important to ensure that the net effect of regulation is both effective in producing the desired results, and efficient in terms of minimising compliance costs. In remittance markets, a central area of regulatory concern is the prevention of money laundering activity. Remittances are unrequited interpersonal transfers of wealth – the money flows are typically not associated with any particular asset or service changing hands. As such, remittance flows have considerable potential to disguise criminal or terrorist flows of laundered funds.

The implementation of anti-money laundering (AML) regulations has become increasingly rigorous since the 9/11 attacks in the United States. This is reflected in a substantial increase in enforcement actions by, for example, US regulators. Internationally, financial services firms that contravene AML regulations have faced a growing risk of significant financial penalties, as well as the damage to reputation associated with an adverse finding.

These risks have made firms increasingly reluctant to take on clients who are perceived to be high risk, and not profitable. Ideally, AML risk should be assessed on a client-by-client basis. However, in practice, commercial banks seem to find it more cost-effective to distinguish between types of customers, and to de-risk by shedding certain categories of business. [2]

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[1] https://unstats.un.org/sdgs/metadata/?Text=&Goal=10&Target=10.c

[2] Here we use the term de-risk in the sense defined by (Lowery & Ramachandran, 2015), as follows:

"De-risking is a general phenomenon where an organization seeks to limit its exposure to risk by ceasing activities in a wholesale rather than a case-by-case fashion. For example, an international organization could de-risk by ceasing to operate in the Middle-East as a whole. It would not qualify as de-risking if the organization assessed each of its operations in turn and stopped those it considered to pass some risk threshold, even if many of these happened to fall in the same region or sector."

While Financial Action Task Force (FATF) has now "*accepted that financial inclusion and anti-money laundering are "complementary policy objectives*""[3] and that care needs to be taken to manage trade-offs between these objectives, considerable damage has nevertheless already been done to parts of the international financial system. Cross border remittance service providers are frequently perceived as high risk, particularly if they are sending remittances to high-AML-risk destinations. This has resulted in a number of documented instances of de-banking/de-risking of remittance service providers.

In discussions with operators in the SADC money transfer markets, the practical concern that seemed to be driving de-risking behaviour was the desire to protect correspondent banking relationships. Correspondent links with international banks are central to the business model of many banks, as follows:

> *"For many banks, correspondent relationships are crucial for their provision of cross-border services, including payments, foreign exchange and international trade. Furthermore, if a bank wants to settle a transaction in US dollars, they are required to either be domicile in a country hosting one of the few USD clearing houses in the world or need to bank with a correspondent in that country."*[4]

At the same time, issues with the management of these correspondent relationships have been material to a number of recent AML regulatory fines and adverse decisions.[5] There is thus a perception that correspondent relationships are themselves high risk[6], as they expose partners to customers and transactions that have been vetted by the AML practices of the corresponding entity. Thus, a Southern African bank that wishes to protect its correspondent banking relationships in the developed world may find itself subject to de-risking if it ventures into remittance markets, creating an incentive to avoid active marketing of remittance products.

Some of the evidence gathered in this study shows that one major South African bank had in fact scaled back its participation in remittance markets, possibly for precisely this reason. This is understandable given the perceived high AML risk of many countries in the SADC region. While de-risking may be occurring in SADC remittance markets, in South Africa itself its effects appear to have been mitigated by a series of reforms that have lowered barriers to entry into remittance markets. The most significant of these reforms has been the introduction of the authorised dealer in foreign exchange with limited authority (ADLA)[7] licences. There are currently 19 ADLA licencees, and in some cross border remittance corridors, they now complete the bulk of formal remittance transactions.

Discussions with market participants suggested that a number of obstacles still remain as regards the expansion of remittance services from SA to the rest of the SADC region. The view expressed by a number of market operators was that, the SA to rest of SADC remittance market is still largely informal. Therefore, it is important to gain the trust of (potential) customers in order to achieve critical mass via word of mouth.

[3] (Lowery & Ramachandran, 2015)

[4] (Lowery & Ramachandran, 2015)

[5] (Lowery & Ramachandran, 2015)

[6] (Lowery & Ramachandran, 2015)

[7] Please note that a description of the various ADLA categories is shown in Appendix 1

Once trust in a new type of formal financial product was gained, it was then often possible to quickly grow the proportion of formal remittances. Malawi is a recent example of such a switch – the amount of formal remittances from South Africa to Malawi increased by a little over 170% from 2016 to 2018, and the vast majority of this growth was associated with an increase in service provision by ADLA licence holders, and in particular ADLA category 2 licencees – which are essentially non-bank remittances service providers. This is in line with what operator stakeholders reported during the consultation phase of the project. Essentially, consumer confidence in money transfer operators (MTOs) in Malawi is reported to have reached a certain critical mass over the period, resulting in a massive switch from informal to formal remittance methods. The pricing of offerings by the non-bank (ADLAs) providers offers a value proposition that has led to the aforementioned switch from informal to formal remittances service providers between 2016 and 2018.

## SADC remittance trends

Table 1 shows the change in formal remittance flows over the period 2016 to 2018. As the product eligibility (introduction of ADLA) issues in remittances are being addressed, one would expect to see a large increase in the value of formal remittance flows over the period. This is likely to be what has driven the 141% increase in formal remittance volumes in Lesotho, for example, where the rapid success of the new Shoprite product has massively increased formalisation of the market. Large increases in the value of remittances sent to the DRC and Malawi are also encouraging, although in the case of the DRC this may be driven by larger numbers of migrants achieving refugee status, rather than changes in the regulation of the financial sector itself.

**Table 1:** Outbound remittance flows over the period (ZARmillion – formal only, unadjusted SARB data)

| | 2016 | 2017 | 2018 | Change 2016 to 2018 |
|---|---|---|---|---|
| **Angola** | 15,58 | 11,71 | 10,98 | –29,5% |
| **Botswana** | 252,99 | 256,05 | 288,83 | 14,2% |
| **Comoros** | 1,31 | 1,74 | 2,62 | 100,4% |
| **DRC** | 102,10 | 146,84 | 196,51 | 92,5% |
| **Lesotho** | 258,03 | 395,20 | 622,11 | 141,1% |
| **Madagascar** | 26,97 | 25,30 | 29,14 | 8,1% |
| **Malawi** | 841,97 | 1 580,41 | 2 352,21 | 179,4% |
| **Mauritius** | 192,70 | 247,73 | 272,74 | 41,5% |
| **Mozambique** | 453,89 | 455,44 | 601,65 | 32,6% |
| **Namibia** | 256,83 | 253,79 | 239,81 | –6,6% |
| **Seychelles** | 26,15 | 32,83 | 34,90 | 33,5% |
| **Eswatini** | 94,11 | 98,77 | 111,13 | 18,1% |
| **Tanzania** | 165,94 | 189,16 | 205,57 | 23,9% |
| **Zambia** | 420,80 | 463,55 | 491,72 | 16,9% |
| **Zimbabwe** | 4 656,24 | 4 091,84 | 3 174,89 | –31,8% |
| **Total** | **7 765,61** | **8 250,36** | **8 634,81** | **11,19%** |

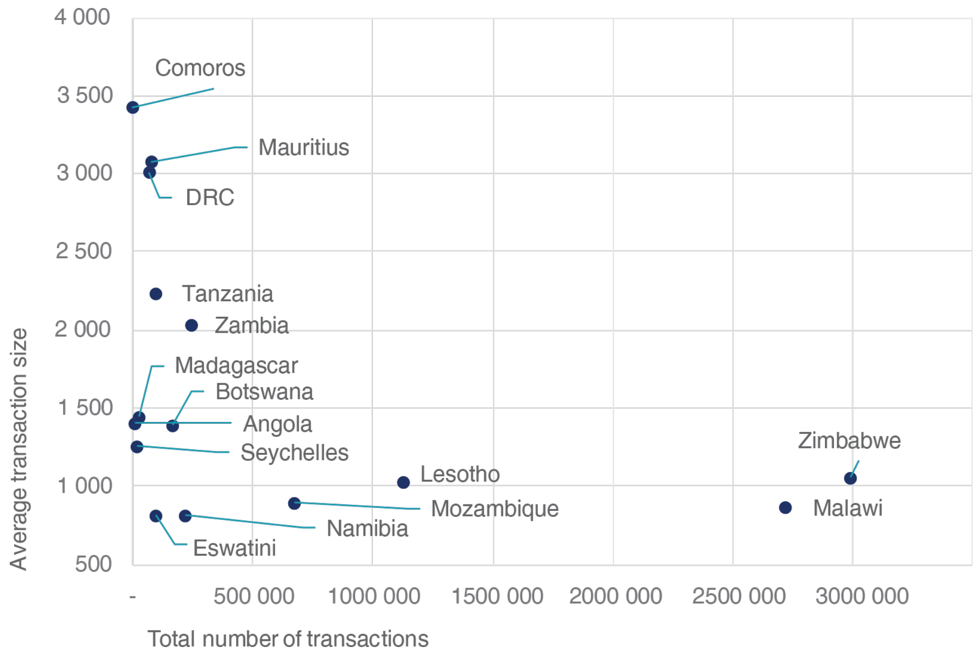
**Source:** SARB response to FinMark data request

However, it is also notable that remittance values have decreased in some corridors, which suggests that access to finance issues are not improving in all corridors. For example, the size of formal remittances to Angola is not only tiny, it has also significantly dropped since 2016. Zimbabwe has the highest number of SADC migrants in South Africa but the value of flows via formal channels (from SA) to Zimbabwe dropped by 31.8% between 2016 and 2018 due to continued foreign exchange market challenges, introduction of bond notes from late 2016 and recent currency shortages. Essentially, driving customers towards informal (cash based) remittances providers rather than the formal channels which are subject to regulations.

In addition to cited increases in the value of formal remittances, we have also observed a reduction in the average value sent per transaction, as this would indicate that low-income individuals are finding formal remittance products more affordable.

Figure 1 illustrates the average transaction size against the total number of transactions per country. As can be seen, there does appear to be a relationship between average transaction size and the number of transactions – countries with a very large number of transactions, such as Zimbabwe, Lesotho and Malawi, have small average transaction sizes, whereas those with fairly large average transaction sizes also have fairly few transactions. Where transaction volumes are very high and transaction values are low, this provides good circumstantial evidence that formal remittance services are fairly accessible. Considering the increase in use of formal channels and decrease in average transaction values (especially in the high volume countries such as Lesotho and Malawi), one can assert that access to formal cross border remittances is increasing due to increased competition and as we will subsequently show, lower pricing.

**Figure 1:** Average transaction size and total number of transactions, 2018 outbound remittances




**Source:** SARB response to FinMark data request, own calculations. Includes tourism and EFT payment adjustments, as well as Shoprite Lesotho data

### Mystery shopping price comparison

We conducted a mystery shopping exercise in late 2019, assessing remittance prices from South Africa to 11 other SADC countries. To assess pricing in the commercial bank-led cross border payments products, it was necessary to complete real transactions in order to get prices; for all non-bank based transactions it was possible to get binding quotes from service provider websites and in some cases, actual transactions was completed. Exchange rate margins were estimated by comparison to a reference interbank exchange rate.

Table 2 shows the results of the mystery shopping exercise. It includes a simple arithmetic average price estimate for each category of licencee (where Authorised Dealers are commercial banks and the ADLAs are non-banks), and a weighted average price for each country (with the weights being determined based on the proportion of volume remitted to each country by that category of licencee). From the table, it is immediately apparent that remittance costs to the CMA countries are extremely low, regardless of transaction size. For the rest of the sample, costs for a USD200 transaction are between 7.5% and 11.2% of transaction value, but for a USD55 transaction, the variance is much more marked, between 9.6% and 25.6% of transaction value. The results of the mystery shopping exercise were unfortunately insufficient to calculate prices for Angola, Comoros, Mauritius and Seychelles.

**Table 2:** Remittance prices per licence category, and weighted remittance price per country

| | Authorised dealer | ADLA category 2 | ADLA category 3 | ADLA category 4 | Weighted price |
|---|---|---|---|---|---|
| **USD55 transaction size** | | | | | |
| **Angola** | | | | | |
| **Botswana** | 36.5% | 10.6% | 4.8% | 7.0% | 20.3% |
| **Comoros** | | | | | |
| **DRC** | 34.7% | 10.1% | 5.6% | 13.3% | 15.4% |
| **Lesotho** | 1.0% | 10.0% | | | 3.5% |
| **Madagascar** | 34.4% | | | | 25.6% |
| **Malawi** | 34.8% | 10.4% | 4.8% | 9.2% | 9.6% |
| **Mauritius** | | | | | |
| **Mozambique** | 42.6% | 10.5% | 5.0% | 9.6% | 14.6% |
| **Namibia** | 1.0% | 10.0% | | | 5.7% |
| **Seychelles** | | | | | |
| **eSwatini** | 1.0% | 0.0% | | | 0.9% |
| **Tanzania** | 34.9% | 0.0% | 6.0% | 10.1% | 13.2% |
| **Zambia** | 36.3% | 10.5% | 5.1% | 10.9% | 14.6% |
| **Zimbabwe** | 35.6% | 10.6% | 6.8% | 7.9% | 13.6% |
| **USD200 transaction size** | | | | | |
| **Angola** | | | | | |
| **Botswana** | 12.1% | 10.7% | 4.8% | 7.0% | 11.1% |
| **Comoros** | | | | | |
| **DRC** | 10.3% | 10.1% | 5.8% | 5.6% | 8.4% |
| **Lesotho** | 0.3% | 10.0% | | | 2.9% |

| | | | | | |
|---|---|---|---|---|---|
| **Madagascar** | 10.1% | | | | 7.5% |
| **Malawi** | 10.5% | 10.2% | 4.8% | 9.2% | 9.4% |
| **Mauritius** | | | | | |
| **Mozambique** | 13.1% | 11.9% | 5.0% | 9.6% | 11.2% |
| **Namibia** | 0.3% | 10.0% | | | 5.4% |
| **Seychelles** | | | | | |
| **eSwatini** | 0.3% | 0.0% | | | 0.3% |
| **Tanzania** | 10.5% | 0.0% | 6.0% | 10.0% | 7.5% |
| **Zambia** | 12.0% | 10.5% | 5.1% | 6.6% | 10.7% |
| **Zimbabwe** | 11.3% | 10.6% | 6.5% | 7.9% | 10.5% |

**Source:** Own calculations

It is notable that Malawi has the lowest transaction price for a USD55 transaction, outside of the CMA countries. Malawi is experiencing massive growth in formal remittance volumes, which is likely to be associated with this competitive pricing result.

Table 3 shows the regional average price, calculated in a number of ways. The average prices shown are simple arithmetic averages, while weighted prices are weighted by the relative volume of transactions formally remitted to each of the 11 countries for which we could derive weighted prices. We have also stripped out the CMA countries, as they have very different pricing results. In fact, with a weighted average price for a USD55 transaction of 3,5%, the CMA must be considered to be one of the lowest cost remittance-receiving environments in the world. Excluding the CMA, weighted remittance prices for the rest of the SADC region are around 9,5% for USD200, or 11,2% for USD55.

**Table 3:** Regional average prices 2018, weighted and unweighted

| | USD55 | USD200 |
|---|---|---|
| **Average prices** | | |
| **SADC total** | 12,5% | 7,7% |
| **SADC total, excluding CMA** | 15,9% | 9,5% |
| **CMA only** | 3,4% | 2,9% |
| **Weighted average prices** | | |
| **SADC total** | 11,2% | 9,5% |
| **SADC total, excluding CMA** | 11,9% | 10,0% |
| **CMA only** | 3,5% | 2,9% |

**Source:** Own calculations

We then repeated the weighting exercise using World Bank data for Q3 2019, for USD200 transactions. The results are shown in Table 4, which also includes the same data as generated by our mystery shopping exercise, for easy comparison. As can be seen, the World Bank weighted price is well above our estimates for almost all countries (the only exception is Malawi). In fact, for the region as a whole, the unweighted World Bank average remittance price is almost twice that as was found by our mystery shopping exercise. While the ADLA category 2 price estimates match up quite well, and there are moderate differences in prices for ADLA 3 and ADLA 4, the biggest discrepancies being in AD prices, in particular for CMA countries.

**Table 4:** Comparison of World Bank weighted prices with own mystery shopping exercise, USD200

| USD200 | Authorised dealer | ADLA category 2 | ADLA category 3 | ADLA category 4 | Weighted price |
|---|---|---|---|---|---|
| **World Bank, Q3 2019** | | | | | |
| **Angola** | 21,4% | | | | 21,4% |
| **Botswana** | 24,8% | 10,0% | 4,2% | 9,7% | 21,6% |
| **Lesotho** | 17,5% | 10,0% | 0,7% | | 16,0% |
| **Malawi** | 23,2% | 10,0% | 3,6% | 9,0% | 9,2% |
| **Mozambique** | 22,1% | 11,7% | 4,2% | 16,4% | 15,1% |
| **Eswatini** | 17,5% | | | | 17,5% |
| **Tanzania** | 20,2% | | 4,9% | 13,0% | 12,2% |
| **Zambia** | 23,1% | 10,2% | 4,2% | 9,9% | 17,2% |
| **Zimbabwe** | 20,1% | 10,3% | 3,4% | 9,0% | 10,7% |
| **Unweighted average (excluding Angola)** | | | | | **14,9%** |
| **2019 mystery shopping** | | | | | |
| **Angola** | Not available | | | | |
| **Botswana** | 12,1% | 10,7% | 4,8% | 7,0% | 11,1% |
| **Lesotho** | 0,3% | 10,0% | | | 2,9% |
| **Malawi** | 10,5% | 10,2% | 4,8% | 9,2% | 9,4% |
| **Mozambique** | 13,1% | 11,9% | 5,0% | 9,6% | 11,2% |
| **Eswatini** | 0,3% | | | | 0,3% |
| **Tanzania** | 10,5% | | 6,0% | 10,0% | 7,5% |
| **Zambia** | 12,0% | 10,5% | 5,1% | 6,6% | 10,7% |
| **Zimbabwe** | 11,3% | 10,6% | 6,5% | 7,9% | 10,5% |
| **Unweighted average (excluding Angola)** | | | | | **8,0%** |

**Source:** World Bank, mystery shopping exercise

The reasons for the differences between our findings and the World Bank can be a mixture of the of the following:

- the World Bank not weighting its pricing,
- potential misrepresentation of the pricing within the CMA (treated as foreign transactions for the pricing exercise, whereas in practice they are priced like domestic (on-us) transactions), and
- the World Bank methodology not entailing actual transactions being made but the phoning of remittance service providers to request information on prices8.

## Conclusion

The large volume of low-value remittances to support vulnerable households in the SADC region are enormously important to those who receive them. The SA to the rest of SADC remittance markets illustrate both the pitfalls of regulation that is not sensitive to the needs of remittance markets, and the potential to trigger rapid growth and formalisation when regulation gets the balance right (and when the private sector steps up to the opportunity offered by regulators and vigorously competes for clients). The data illustrates that each country pair has unique characteristics and needs, and the process of formalising these markets will need to be rolled out on a country-pair by country-pair basis. Lessons learned in promoting formal remittances in success stories like Lesotho and Malawi should be considered for adoption in other corridors in the region.

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8 https://remittanceprices.worldbank.org/en/methodology

# 1. INTRODUCTION

**Migrant remittances are an important component of the access to finance environment, and their importance in supporting incomes in highly impoverished migrant-sending communities is substantial. Rising recognition of its importance has led to the inclusion of a remittance pricing target in the United Nations Sustainable Development Goals, as follows:**

> **Target 10.c: By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.**[9]

In order to achieve this goal in SADC remittance markets, a number of preconditions will need to be met. In no particular order, they include the following:

- Competitive remittance markets with multiple service providers
- Reduced regulatory compliance costs and barriers to entry in remittances
- Innovation and investment to address logistical barriers to remittance payments, especially in poor, rural remittance-receiving destinations
- The ability to create confidence and convert customers from existing informal methods to formal remitting techniques.

The primary purpose of this report is to conduct a mystery shopping exercise to evaluate the current price of remitting from South Africa to other SADC nations. However, we will also include insights from a recent process of interviewing formal remittance service providers in South Africa, as regards their perception of regional regulatory environments and product innovation.

[9] https://unstats.un.org/sdgs/metadata/?Text=&Goal=10&Target=10.c

# 2. SITUATIONAL ASSESSMENT

## 2.1 International AML regulatory environment

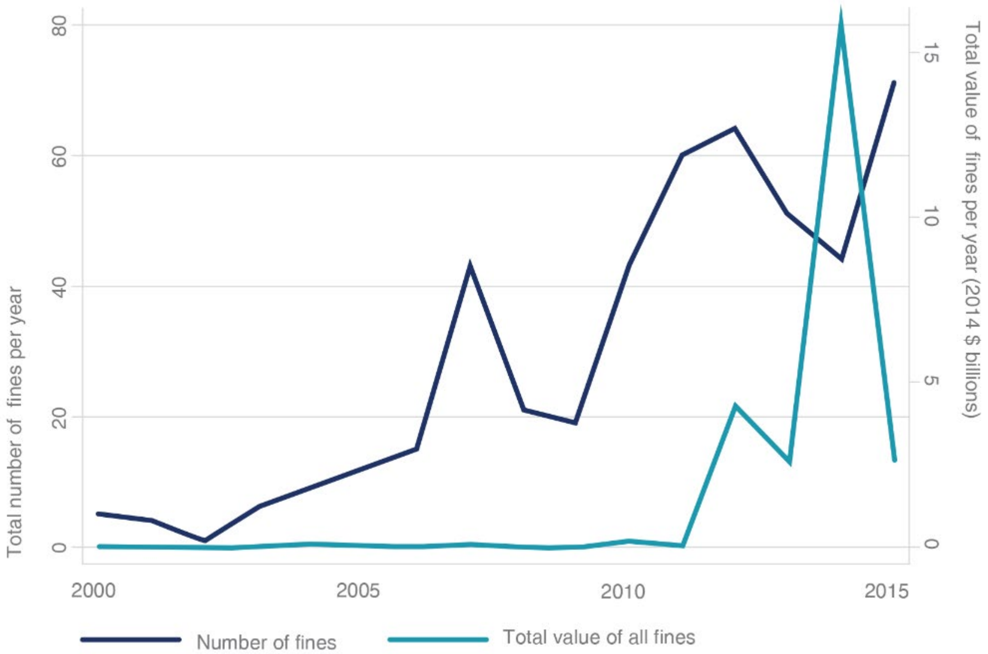
Regulation has both intended and unintended consequences on economic behaviour. As such, it is important to ensure that the net effect of regulation is both effective in producing the desired results, and efficient in terms of imposing costs that are as small as possible. In remittance markets, a central area of regulatory concern is the prevention of money laundering activity. Remittances are unrequited interpersonal transfers of wealth – the money flows are typically not associated with any particular asset or service changing hands. As such, remittance flows have considerable potential to disguise criminal or terrorist flows of laundered funds.

At the same time, however, remittances also provide essential income support for some of the poorest and most vulnerable members of society, and their role increases in importance as social or economic unrest destabilises other sources of income and forces migration. As such, from a policy perspective there is a clear imperative to enable access to remittance services to keep the money flowing to purchase food, pay school fees and finance small-scale productive activities in migrant-sending areas.

The regulation of remittance markets thus needs to balance these two objectives: achieving a reasonable level of protection against money laundering activities while improving access to services for the most vulnerable. There is, however, evidence that this balance has not been achieved in many jurisdictions.

The implementation of AML regulations has become increasingly rigorous since the 9/11 attacks in the United States. This is reflected in the substantial increase in enforcement actions by, for example, US regulators, as shown in Figure 2. Internationally, financial services firms that contravene AML regulations thus have faced a growing risk of significant financial penalties, as well as the damage to reputation associated with an adverse finding.

**Figure 2:** AML-related enforcement actions by US regulators, 2000-2015




**Source:** (Collin, Cook, & Soramäki, 2016)

These risks have made firms increasingly reluctant to take on clients who are perceived to be high risk, particularly if they are also low reward. Ideally, AML risk should be assessed on a client-by-client basis. However, in practice banks seem to find it more cost-effective to distinguish between types of customers, and to de-risk by shedding certain categories of business.[10] The AML framework initially put in place by FATF did not sufficiently recognise the potential for these kinds of unintended consequences. As per Lowery ad Ramachandran (2015), FATF "*analysis is largely confined to the formal financial sector, reflecting FATF's mandate, and therefore does not include a consideration of risk mitigation in the economy as a whole. The evaluation framework also does not include a consideration of the efficiency of enforcement, aiming to assess risks averted but not costs to the economy*."

While FATF has now "*accepted that financial inclusion and anti-money laundering are "complementary policy objectives*,""[11] and that care needs to be taken to manage trade-offs between these objectives, considerable damage has nevertheless already been done to parts of the international financial system. Remittance service providers are frequently perceived as high risk, particularly if they are sending remittances to high-AML-risk destinations.

[10] Here we use the term de-risking in the sense defined by (Lowery & Ramachandran, 2015), as follows: "De-risking is a general phenomenon where an organization seeks to limit its exposure to risk by ceasing activities in a wholesale rather than a case-by-case fashion. For example, an international organization could de-risk by ceasing to operate in the Middle-East as a whole. It would not qualify as de-risking if the organization assessed each of its operations in turn and stopped those it considered to pass some risk threshold, even if many of these happened to fall in the same region or sector."

[11] (Lowery & Ramachandran, 2015)

This has resulted in a number of documented instances of debanking of remittance service providers, as follows:

- **"USA**
  - 2011 – Sunrise Community Bank closes all Somali MTO accounts
  - 2014 – North Dakota Bell State Bank closes many MTO accounts
  - 2015 – Merchants Bank of California closes all Somali MTO accounts
- **UK**
  - 2012 – HSBC withdraws from the remittance sector
  - 2013 – Barclays closes over 90% of MTO accounts
- **Australia**
  - 2015 – Westpac withdraws from the remittance sector"[12]

The financial logic of de-risking may mean that low-income consumers are particularly vulnerable to debanking. As per Barr et al (2018):

> *"Those most vulnerable in the de-risking cycle are the low margin customers, not necessarily high-risk, high-value customers. This is because risky customers that generate substantial fees often prove more attractive than less profitable customers with lower risk, even when the high-risk customers require expensive monitoring."*[13]

In countries where this kind of de-risking has taken place in remittance markets, it has likely resulted in a reduction in levels of competition, which may eventually affect the price levels for remittance services. Small remittance firms are likely to be perceived as riskier than more established firms, which implies that new entrants to markets may feel the effect of this disproportionately.[14] Ultimately, de-risking may also result in a reduction in the transparency of remittance markets, as follows:

> *"Anecdotal evidence suggests that many remittance firms are using third parties, including bulk currency exchange providers, to settle accounts. As these transactions are aggregated at a high level, they inevitably make due diligence work more difficult. MTOs may also be seeking banking services at lower tier banks with less robust compliance procedures. In extreme cases, such as Somalia, there are reports that some remitters are resorting to moving cash physically across borders, leading to transparency concerns. Industry bodies report that some MTOs may even disguise the true nature of their operations from banks in order to remain banked, reducing transparency further."*[15]

[12] Text excerpted from a graphic in (Lowery & Ramachandran, 2015)
[13] (Barr, Gifford, & Klein, 2018)
[14] (Lowery & Ramachandran, 2015)
[15] (Lowery & Ramachandran, 2015)

### 2.1.1 De-risking in SADC markets

The impact of AML regulation is felt most severely by countries that are flagged by FATF as high risk. For example, one study found that being added to the FATF greylist reduced the number of payments sent to a country by the rest of the world by between 7-10%.[16] Of the 12 countries currently on the greylist, two are from SADC (Botswana and Zimbabwe).[17]

In discussions with operators in the SADC money transfer markets, the practical concern that seemed to be driving de-risking behaviour was the desire to protect correspondent banking relationships. Correspondent links with international banks are central to the business model of many banks, as follows:

> *"For many banks, correspondent relationships are crucial for their provision of cross-border services, including payments, foreign exchange and international trade. Furthermore, if a bank wants to settle a transaction in US dollars, they are required to either be domicile in a country hosting one of the few USD clearing houses in the world or need to bank with a correspondent in that country."*[18]

At the same time, issues with the management of these correspondent relationships have been material to a number of recent AML regulatory fines and adverse decisions.[19] There is thus a perception that correspondent relationships are themselves high risk,[20] as they expose partners to customers and transactions that have been vetted by the AML practices of the corresponding entity. Thus, a Southern African bank that wishes to protect its correspondent banking relationships in the developed world may find itself threatened with de-risking behaviour if it ventures into remittance markets, creating an incentive to avoid active marketing of remittance products.

In the interview process, we did hear anecdotal evidence that one major South African bank had in fact scaled back its participation in remittance markets, possibly for precisely this reason. This is understandable given the perceived high AML risk of many countries in the SADC region. As shown in Table 5, a number of SADC countries receive relatively high rankings on the Basel AML Index (with high-ranking countries having higher risk levels). While South Africa itself receives a relatively low ranking, Mozambique is the most risky country rated, and Zimbabwe and Tanzania are in the top 20 riskiest countries. It should be noted that only the six SADC countries shown in Table 5 are included in the index.

**Table 5:** Basel AML Index, SADC members

| | Ranking | Score |
|---|---|---|
| **Mozambique** | 1 | 8,22 |
| **Zimbabwe** | 13 | 6,87 |
| **United Republic of Tanzania** | 17 | 6,63 |
| **Angola** | 24 | 6,33 |
| **Botswana** | 56 | 5,46 |
| **South Africa** | 84 | 4,83 |

**Source:** (Basel Institute on Governance, 2019)

[16] (Collin, Cook, & Soramäki, 2016)
[17] http://www.fatf-gafi.org/countries/#other-monitored-jurisdictions
[18] (Lowery & Ramachandran, 2015)
[19] (Lowery & Ramachandran, 2015)
[20] (Lowery & Ramachandran, 2015)

While de-risking may be occurring in SADC remittance markets, in South Africa itself its effects appear to have been mitigated by a series of reforms that have lowered barriers to entry into remittance markets. These reforms, the most significant of which being the introduction of the authorised dealer in foreign exchange with limited authority (ADLA)[21] licences, have been discussed most recently in the 2016 FinMark Trust report, entitled *Cross-border remittances*. In the following section, we will review recent data from the South African Reserve Bank (SARB) on the value and volume of formal cross-border remittances.

## 2.2 Review of SARB data

For this research report, SARB provided FinMark with a dataset tracking formal remittances on a per country basis over the period 2016 to 2018. This data covered four balance-of-payments (BOP) components as follows:

- BOP category 401 – Gifts
- BOP category 416 – Migrant worker remittances (excluding compensation)
- BOP category 417 – Foreign national contract worker remittances (excluding compensation)
- Cross-border bank card transactions by individuals (withdrawals from South African bank accounts by private individuals in other SADC countries).

The inclusion of cross-border card transactions means that for the first time the formal data provided by SARB can be regarded as a fairly complete representation of the total value of formal remittances from South Africa to the rest of SADC (after some adjustments for tourism receipts, EFT transactions and mineworker remittances, which are detailed in the companion piece of research, *SADC Remittance Values and Volumes*). As can be seen in Table 6, in 2018 a total of R9.3 billion was formally remitted from South Africa to the region, of which 34% flowed to Zimbabwe and 25% to Malawi.

[21] Please note that a description of the various ADLA categories is shown in Appendix 1.

**Table 6:** Formal outbound remittances from South Africa to SADC per country, 2018

| | 2018, ZARmillion | % of total |
|---|---|---|
| **Angola** | 11,0 | 0,12% |
| **Botswana** | 230,9 | 2,47% |
| **Comoros** | 2,6 | 0,03% |
| **DRC** | 196,8 | 2,11% |
| **Lesotho** | 1 317,1 | 14,10% |
| **Madagascar** | 30,6 | 0,33% |
| **Malawi** | 2 353,1 | 25,18% |
| **Mauritius** | 233,4 | 2,50% |
| **Mozambique** | 601,7 | 6,44% |
| **Namibia** | 323,1 | 3,46% |
| **Seychelles** | 15,7 | 0,17% |
| **Eswatini** | 154,4 | 1,65% |
| **Tanzania** | 206,1 | 2,21% |
| **Zambia** | 492,4 | 5,27% |
| **Zimbabwe** | 3 174,9 | 33,98% |
| **Total** | **9 343,9** | **100,00%** |

**Source:** SARB response to FinMark data request. Adjusted to compensate for tourism transactions, Shoprite Money Transfer to Lesotho, and EFT payments to all CMA countries. However, it excludes estimates of deferred pay for mineworkers to Lesotho and Mozambique. See detail on methodology in Appendix 1 of the companion research entitled SADC remittance values and volumes, 2018

It is not surprising to find that Zimbabwe dominates regional remittance flows, given the size of the Zimbabwean diaspora. It is also revealing to look at the change in remittance flows over the period as shown in Table 7. (Note that this does not include the adjustments made to the data in Table 6, and thus not all country data match.) If access to finance problems (for example, entry barrier due to customer due diligence laws) in remittances are being addressed, one would expect to see a large increase in the size of formal remittance flows over the period in which the problems are resolved. This is likely to be what has driven the 141% increase in formal remittance volumes in Lesotho, for example, where the rapid success of the new Shoprite product has massively increased formalisation of the market. Large increases in the value of remittances sent to the DRC and Malawi are also encouraging, although in the case of the DRC this may be driven by larger numbers of migrants achieving refugee status, rather than changes in the regulation of the financial sector itself (given the small size of formal remittances to the Comoros, the large increase seen should probably not be over-interpreted).

**Table 7:** Outbound remittance flows over the period (ZARmillion – formal, unadjusted SARB data)

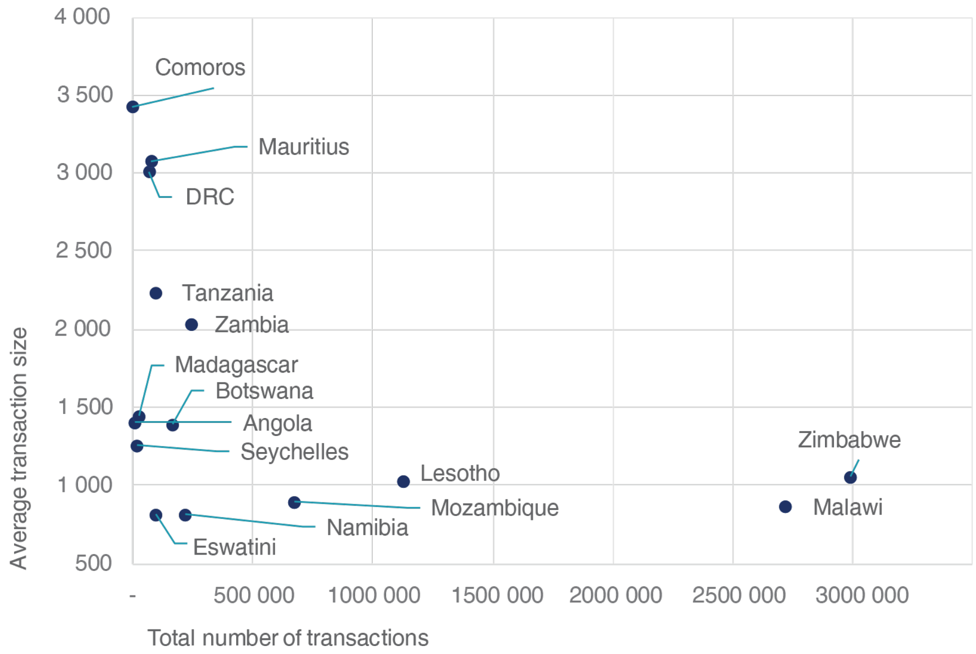
| | 2016 | 2017 | 2018 | Change, 2016 to 2018 |
|---|---|---|---|---|
| **Angola** | 15,58 | 11,71 | 10,98 | –29,5% |
| **Botswana** | 252,99 | 256,05 | 288,83 | 14,2% |
| **Comoros** | 1,31 | 1,74 | 2,62 | 100,4% |
| **DRC** | 102,10 | 146,84 | 196,51 | 92,5% |
| **Lesotho** | 258,03 | 395,20 | 622,11 | 141,1% |
| **Madagascar** | 26,97 | 25,30 | 29,14 | 8,1% |
| **Malawi** | 841,97 | 1 580,41 | 2 352,21 | 179,4% |
| **Mauritius** | 192,70 | 247,73 | 272,74 | 41,5% |
| **Mozambique** | 453,89 | 455,44 | 601,65 | 32,6% |
| **Namibia** | 256,83 | 253,79 | 239,81 | –6,6% |
| **Seychelles** | 26,15 | 32,83 | 34,90 | 33,5% |
| **Eswatini** | 94,11 | 98,77 | 111,13 | 18,1% |
| **Tanzania** | 165,94 | 189,16 | 205,57 | 23,9% |
| **Zambia** | 420,80 | 463,55 | 491,72 | 16,9% |
| **Zimbabwe** | 4 656,24 | 4 091,84 | 3 174,89 | –31,8% |
| **Total** | **7 765,61** | **8 250,36** | **8 634,81** | **11,19%** |

**Source:** SARB response to FinMark data request

However, it is also notable that remittance values have decreased in some corridors, which suggests that access to finance issues are not improving in all country pairs. For example, the size of formal remittances to Angola is not only tiny but has also significantly dropped since 2016. The small decrease in formal remittances to Namibia is also discouraging. Finally, continuing market issues in Zimbabwe relating to the introduction of bond notes from late 2016 and recent currency shortages are probably driving the decrease in values in that market.

In addition to large increases in the value of formal remittances, another indicator of success in solving access to finance problems in remittances is arguably a reduction in the average value sent per transaction, as this would indicate that low-income individuals are finding formal remittance products more affordable. In Figure 3, we plot average transaction size against the total number of transactions per country. As can be seen, there does appear to be a relationship between average transaction size and the number of transactions – countries with a very large number of transactions, such as Zimbabwe, Lesotho and Malawi, have small average transaction sizes, whereas those with fairly large average transaction sizes also have fairly few transactions. This second group includes a number of the small island states, which arguably display this pattern because they have relatively few citizens in South Africa. It also includes larger countries with significant numbers of migrants though, most notably the DRC, but also Tanzania and Zambia.

**Figure 3:** Average transaction size and total number of transactions, 2018 outbound remittances

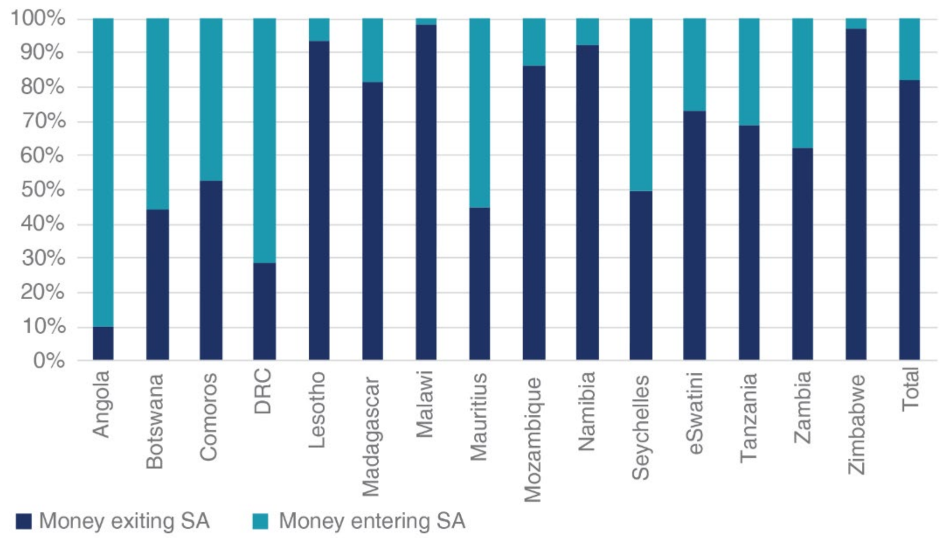



**Source:** SARB response to FinMark data request, own calculations. Includes tourism and EFT payment adjustments, as well as Shoprite Lesotho data

Where transaction volumes are very high and transaction values are low, this provides good circumstantial evidence that formal remittance services are fairly accessible. For countries such as the Seychelles and Mauritius, which have quite high average incomes per capita, larger average transaction sizes may simply reflect wealthier remitters. However, for lower income countries such as the DRC, Tanzania and Zambia, a more likely explanation for the pattern of very few but large transactions is that barriers to using formal remittance products are high, and as a result only the wealthy are succeeding in surmounting them.

The SARB dataset included information on inbound remittances as well as remittances from South Africa into the region. Figure 4 provides an indication of the pattern of remitting by country. As can be seen, a number of countries in the region send as much or more remittances by value into South Africa, than receive formal remittances from South Africa. It is also noticeable that the two countries that have the lowest proportion of money sent from South Africa, namely DRC and Angola, are reported to have highly informal remittance markets, and in Figure 3 are shown to have both high transaction values and a small absolute number of transactions.

**Figure 4:** Pattern of remitting – funds exiting versus entering South Africa




Source: SARB response to FinMark data request, own calculations

The picture created by analysis of this data is thus of a region in which problems of access to remittance services are being resolved, but only in some countries. However, when examined over a longer period of time, it is possible to see evidence of considerable progress in formalising remittance flows in the region.

Table 8 compares the (unadjusted) dataset received from the SARB for this exercise, with an earlier dataset obtained in 2012. As the dataset from 2012 does not include card transactions, to aid comparability we have excluded card transactions from the 2019 data. As can be seen, over the period 2005 through 2018, excluding card transactions, the volume of formal remittances sent from South Africa to SADC countries increased by more than 2 000%, from R268 million in 2005 to R6 757 million in 2018. The only country to experience a nominal decrease in formal remittances in that period was eSwatini, but as more than half of Swazi remittances travel via card transactions, this result should not be over-interpreted. While Mozambican remittances increased by 46% from the beginning to the end of the period, they seem to have peaked in 2016, and were lower in 2018 than they were in 2007, which is troubling.

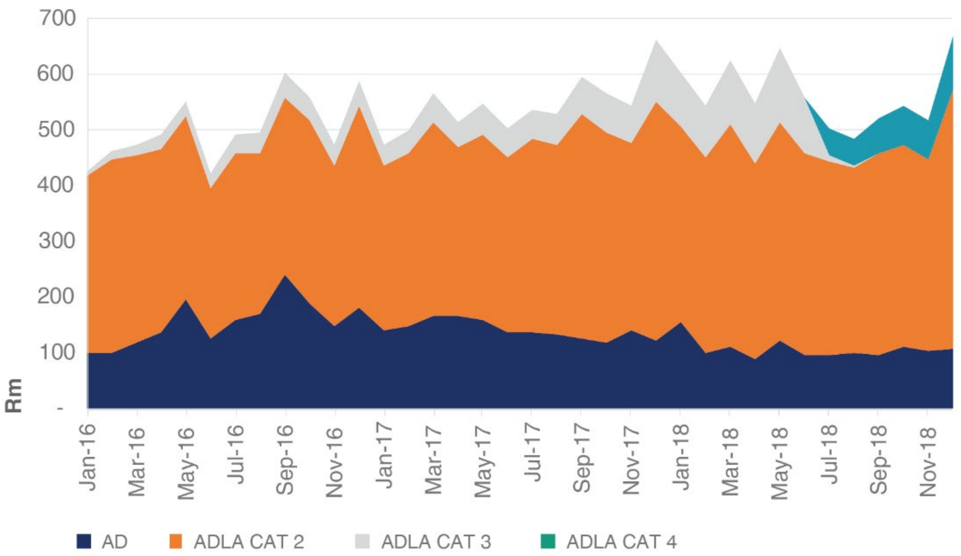
**Table 8:** Formal remittances into SADC from South Africa over time (ZAR million – formal, unadjusted SARB data)

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | - | 2016 | 2017 | 2018 | % increase 2005–2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Zimbabwe** | 12,47 | 9,29 | 11,56 | 34,46 | 173,27 | 282,89 | - | 4 407,49 | 4 075,82 | 3 173,72 | 25 352% |
| **Malawi** | 22,63 | 32,19 | 43,65 | 59,20 | 49,32 | 48,01 | - | 800,27 | 1 521,69 | 2 275,56 | 9 957% |
| **Lesotho** | 12,38 | 5,68 | 20,83 | 12,14 | 4,09 | 8,42 | - | 121,86 | 245,97 | 461,21 | 3 627% |
| **Zambia** | 15,79 | 26,15 | 29,91 | 60,39 | 74,38 | 77,68 | - | 160,38 | 194,46 | 211,84 | 1 242% |
| **Mozambique** | 98,59 | 97,78 | 149,37 | 158,59 | 151,66 | 157,97 | - | 184,69 | 67,66 | 144,12 | 46% |
| **Mauritius** | 8,71 | 9,01 | 12,44 | 30,01 | 66,13 | 58,51 | - | 89,20 | 128,33 | 138,55 | 1 490% |
| **DRC** | 4,90 | 3,54 | 13,24 | 17,58 | 18,97 | 20,98 | - | 54,24 | 80,45 | 118,37 | 2 316% |
| **Botswana** | 24,06 | 33,55 | 64,43 | 98,96 | 125,16 | 296,84 | - | 90,82 | 80,60 | 95,66 | 298% |
| **Tanzania** | 13,93 | 20,35 | 20,42 | 28,02 | 33,11 | 37,42 | - | 57,67 | 86,33 | 90,05 | 546% |
| **Namibia** | 4,85 | 11,01 | 17,66 | 28,39 | 24,94 | 41,92 | - | 21,68 | 23,59 | 31,48 | 549% |
| **Seychelles** | 0,39 | 0,17 | 0,41 | 2,44 | 1,09 | 3,02 | - | 6,07 | 7,83 | 9,21 | 2 270% |
| **Angola** | 3,70 | 9,20 | 11,46 | 3,87 | 12,08 | 9,57 | - | 6,22 | 4,80 | 4,16 | 12% |
| **eSwatini** | 46,09 | 19,27 | 18,54 | 11,86 | 19,22 | 25,11 | - | 20,97 | 6,08 | 2,86 | –94% |
| **Total** | **268,48** | **277,19** | **413,91** | **545,90** | **753,42** | **1 068,33** | **-** | **6 021,55** | **6 523,61** | **6 756,77** | **2 417%** |

**Source:** SARB response to FinMark data request in 2012 and 2019, own calculations. Does not include SARB data on cross-border bank card transactions by individuals, and thus is not directly comparable to other tables.

There is thus evidence that the series of regulatory reforms undertaken over the last decade or so have had tangible effects on the formalisation of remittance markets in the region. Much of this change is attributable to the introduction of ADLA licences. The greatest change however seems to have come with the original ADLA innovation itself. As can be seen from Figure 5, relatively small shifts have been seen between licence categories in the last three years. The category 4 licences, for example, seem to have simply taken over the volumes of the category 3 licences, rather than triggering new growth.

**Figure 5:** Remittance values by license category, Rm




**Source:** SARB response to FinMark data request, own calculations

Note: AD – authorised dealer; ADLA CAT – authorised dealer in foreign exchange with limited authority category

Data is unadjusted, and excludes card transactions, which comprised 22,4% of total transactions by value in 2016, 20,8% in 2017 and 21,6% in 2018.

Viewed as a whole, this data suggests that, while substantial success has been achieved in formalising parts of the SADC remittance markets, growth in formalisation in many country pairs has stalled. Product and regulatory innovations, such as the Shoprite remittance channel, have the potential to improve formalisation levels further, but will probably need to be pursued on a country-by-country basis going forward.

### 2.2.1 Remittance patterns by gender

The SARB dataset included information on the gender of remittance senders, although only for BOP categories 401: Gifts; 416: Migrant worker remittances (excluding compensation); and 417: Foreign national contract worker remittances (excluding compensation). This large dataset of roughly 405 000 inward remittance transactions and 16,9 million outward transactions thus provides useful insights into how formal remittance patterns differ by gender, across countries in the region.

Table 9 shows what proportion of remittances into and out of South Africa were sent by females, by total value sent, for the period 2016–2018. As can be seen, for the region as a whole only 27,5% of remittances sent out of South Africa and 34,6% of remittances sent into South Africa are sent by females. This is consistent with a male-dominated pattern of economic migration, with the higher proportion of male migrants then also sending more remittances by value. The share of female remittances in the region is highest for Namibia, which is the only country that approaches remitting parity.

**Table 9:** Proportion of remittances sent by females, 2016–2018; and average annual number of transactions by females

| | % remittances sent by females | | Average annual number of remittance transactions | |
|---|---|---|---|---|
| | **Remittances out of SA** | **Remittances into SA** | **Remittances out of SA** | **Remittances into SA** |
| **Angola** | 29,6% | 38,3% | 58 | 1 983 |
| **Botswana** | 36,3% | 33,7% | 4 732 | 13 526 |
| **Comoros** | 17,5% | 32,3% | 26 | 74 |
| **DRC** | 24,7% | 39,0% | 4 242 | 16 095 |
| **Lesotho** | 40,7% | 37,6% | 128 417 | 1 232 |
| **Madagascar** | 32,4% | 18,6% | 271 | 93 |
| **Malawi** | 13,8% | 27,1% | 216 788 | 869 |
| **Mauritius** | 34,4% | 28,8% | 889 | 3 238 |
| **Mozambique** | 18,9% | 34,0% | 8 183 | 2 078 |
| **Namibia** | 46,8% | 46,8% | 634 | 224 |
| **Seychelles** | 19,4% | 42,5% | 49 | 923 |
| **eSwatini** | 14,4% | 22,7% | 115 | 836 |
| **Tanzania** | 34,3% | 32,3% | 4 232 | 2 386 |
| **Zambia** | 34,6% | 35,1% | 21 098 | 10 685 |
| **Zimbabwe** | 31,2% | 36,1% | 1 176 815 | 8 534 |
| **Grand Total** | **27,5%** | **34,6%** | **1 566 550** | **62 777** |

**Source:** SARB response to FinMark data request

Note: Data does not include adjustment for tourism activity, mineworkers' remittances and EFT payments.

In 11 of the 16 countries, females make up a greater share of inward remittances than outward remittances. To speculate, this could be consistent with a pattern of females remitting to support dependent students in South Africa. However, more research would be needed to confirm the origins of this remitting pattern.

Table 9 also shows the average annual number of remittance transactions by females for the period 2016 to 2018. A much greater volume of females is remitting out of South Africa than into South Africa, and 75% of such outward remittance transactions are being made by Zimbabwean females. The largest number of females remitting into South Africa, on the other hand, are based in DRC (26%) and Botswana (22%). On a number of country pairs, the total number of remittance transactions made by females is less than a thousand in a year, or in some cases below one hundred.

Table 10 shows average transaction sizes by country and gender for remittances into and out of South Africa. What is immediately apparent is that migrants in South Africa remitting to the rest of SADC on average remit very similar amounts, regardless of gender. On a country-by-country basis there is considerable variation – for example, female migrants from Madagascar remit 148% as much as males per transaction, while Swazi migrant females send home only 26% as much as men per transaction. However, for the region as a whole, females send home 99% as much as males per transaction.

**Table 10:** Transaction sizes by gender, 2016-18

| | Remittances out of SA (ZAR) | | Remittances into SA (ZAR) | | Female's transaction size as % males | |
|---|---|---|---|---|---|---|
| | Transaction size – female | Transaction size – male | Transaction size – female | Transaction size – male | Remittances out of SA | Remittances into SA |
| **Angola** | 25 715 | 22 213 | 21 884 | 27 154 | 116% | 83% |
| **Botswana** | 6 514 | 5 092 | 8 060 | 15 016 | 128% | 52% |
| **Comoros** | 5 025 | 4 177 | 7 100 | 8 868 | 120% | 50% |
| **DRC** | 4 882 | 3 804 | 8 727 | 10 744 | 128% | 81% |
| **Lesotho** | 874 | 986 | 8 266 | 16 989 | 89% | 37% |
| **Madagascar** | 9 058 | 6 105 | 12 026 | 32 429 | 148% | 33% |
| **Malawi** | 953 | 898 | 8 936 | 17 082 | 106% | 62% |
| **Mauritius** | 45 154 | 57 312 | 25 356 | 46 483 | 79% | 57% |
| **Mozambique** | 1 943 | 1 656 | 12 346 | 23 205 | 117% | 54% |
| **Namibia** | 14 527 | 11 345 | 38 146 | 34 988 | 128% | 205% |
| **Seychelles** | 29 803 | 55 458 | 13 999 | 18 127 | 54% | 62% |
| **eSwatini** | 11 633 | 45 067 | 9 278 | 38 518 | 26% | 15% |
| **Tanzania** | 6 322 | 4 857 | 11 095 | 23 049 | 130% | 42% |
| **Zambia** | 2 805 | 3 053 | 8 719 | 14 871 | 92% | 54% |
| **Zimbabwe** | 1 030 | 1 138 | 4 623 | 6 926 | 91% | 68% |
| **Grand Total** | **1 111** | **1 126** | **9 694** | **15 929** | **99%** | **58%** |

**Source:** SARB response to FinMark data request

Note: Data does not include adjustment for tourism activity, mineworkers' remittances and EFT payments.

A much more marked gender difference is seen for remittances into South Africa. Although we have already seen that females send proportionately more into South Africa than they do out of South Africa, the transaction size of females into South Africa is much smaller than males (only 58%). Again, the sources of this differential are not known and would need additional research to uncover.

### 2.2.2 Perceptions of SADC regulatory environment

The SARB data clearly illustrates that there are substantial differences between remittance formalisation performances between the various countries of SADC. During interviews with remittance services providers, qualitative discussions were held as regards the perception of the SADC regulatory environment, which helped shed light on potential issues in the region.

On the whole, there was consensus between operators that the quality of the regulatory environment varies substantially across SADC. Specific comments were made on the regulatory environments of several countries, as follows:

- **Angola:** Regulations in the remittance environment are viewed as very restrictive, with transaction limits apparently placed on both senders and recipients. Forex shortages are reported.
- **Botswana:** The existence of licence categories tailored to different types of remittance service providers makes market entry easier.
- **Lesotho:** The regulator is perceived to be slow to respond to requests.
- **Mauritius:** The regulator is perceived as fair, and the existence of licence categories tailored to different types of remittance service providers is helpful.
- **Madagascar:** Regulations restrict outbound remittances.
- **Malawi:** Good experiences are reported with rapid turnover from the regulator as regards the operator licensing processes. Malawi is starting to implement stricter reporting requirements for remittance service providers.
- **Mozambique:** Multiple sources report that the regulator is very slow to process new licence requests. The fact that there are no separate licence categories for different types of remittance service providers increases barriers to entry in this market, which is further entrenched by the existence of exclusive relationships between many existing service providers.
- **eSwatini:** The regulator is perceived as being particularly slow to process licensing applications, which can take years to finalise.
- **Zambia:** Transaction limits on inbound remittances are constraining, but it is useful to have more licence categories tailored to remittance service providers.
- **Zimbabwe:** The regulator is perceived to value the macroeconomic role played by remittance receipts[22] and is quite responsive to the needs of the market. For example, exceptions have been made for remittance providers as regards currency regulations, in order to deal with ongoing currency shortages.

A number of more general observations were also made. Regulations in Francophone countries in general were perceived to be prohibitive, with requirements for remittance operators of a similar level of complexity as needed to achieve banking licences. The regulators of countries in the common monetary area are also perceived to largely follow the lead of the SARB in regulatory matters. Operators suggest that there is also increasingly a move to strengthen know-your-customer regulations for remittance recipients in a number of countries in the region.

[22] Remittances comprise 25% of Zimbabwe's total foreign currency receipts. Reserve Bank of Zimbabwe Annual Report 2017

In terms of money laundering issues, respondents suggested that the extremely small average transaction sizes in many SADC markets reduce the risk of abuse. However, some respondents do suggest that there is fairly widespread evidence of money laundering activity in the region. It was suggested that the key diagnostic feature of the money laundering scheme would be a remittance service provider who offered an exchange rate better than the prevailing market rate. Laundering money often costs 20–30% of the value of the funds, and thus an exchange rate that is too good to be true is simply part of the costs of the scheme. Interestingly, a number of focus group participants were aware of such schemes with implausibly good exchange rates. This is discussed further in the companion report, *SADC remittance values and volumes, 2018*.

A number of operators also noted that there was a prevalence of informal but fairly organised, *hawala*-type systems on a number of remittance channels. Many of these informal operators offer a good quality of service at a low price, and thus are a substantial source of competition for formal operators. The DRC was frequently mentioned as a country corridor dominated by such unlicensed but competitive and credible operators, and this was borne out by the focus group discussions.

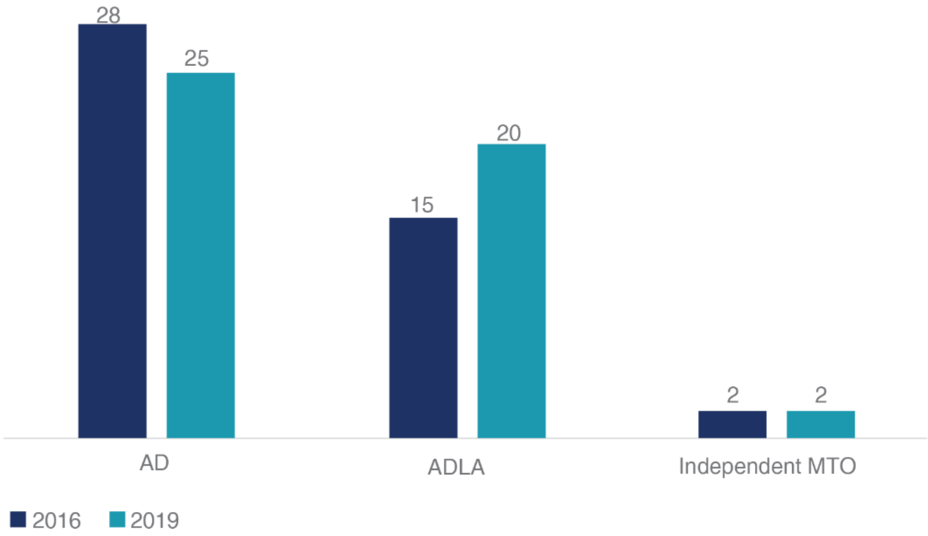
## 2.4 Product market developments

The total number of remittance service providers operating in South Africa increased slightly from 45 in 2016 to 46 in 2019. However, those that are licensed and registered in South Africa are currently 44, excluding Western Union and MoneyGram. There are two types of remittance service providers in South Africa, namely Authorised Dealers (AD) and Authorised Dealers with limited authority (ADLAs).

Analysis shows that the number of ADs offering foreign exchange and remittance services decreased from 28 in 2016 (SARB, 2016) to 25 in 2019 (SARB, 2019). The decrease was a result of exit from the market by the Bank of Baroda, Canara Bank, Hongkong and Shanghai Banking Corporation Limited and the South African Bank of Athens Limited; while Grobank entered the market. The number of ADLAs increased from 15 to 20 over the period 2016 to 2019. There was an exit from the market by Ace Currency Exchange (Pty) Ltd in March 2019.[23]

[23] See SARB Exchange Control Circular No. 14-2019

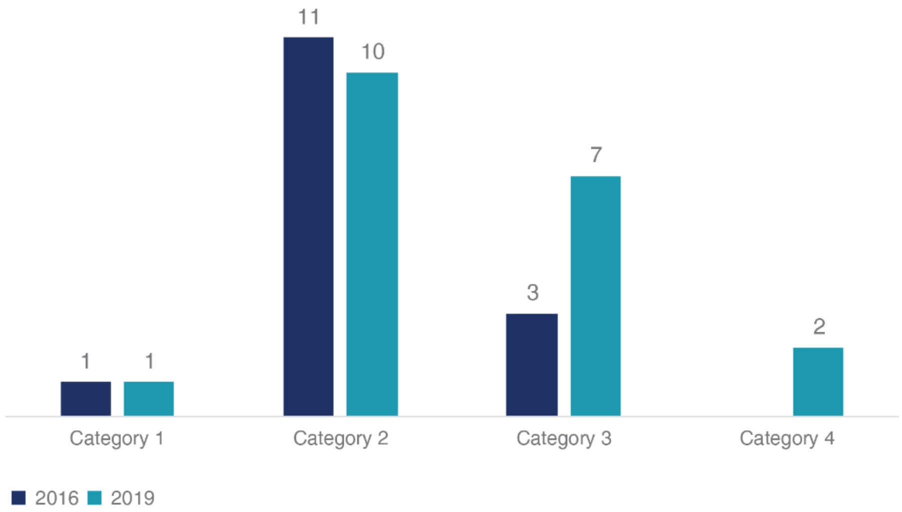
**Figure 6:** Number of remittance service provides, 2016–2019




**Source:** Own analysis based on (SARB, 2016) and (SARB, 2019)

The increase in ADLAs was a result of entry into the market by six category three ADLAs. Five of these six are operating as independent money transfer operators (MTOs),[24] while the last is a value transfer service provider.[25] Entry into this market is shown in Figures 7 and 8.

**Figure 7:** ADLAs by category of licence




**Source:** Own analysis based on (SARB, 2016) and (SARB, 2019)

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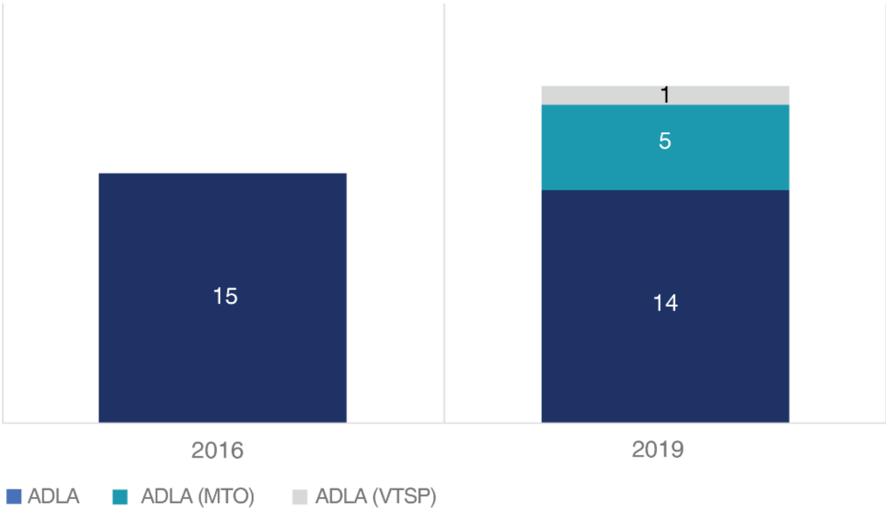
[24] Cassava Fintech (Pty) Ltd, Shoprite Money Transfers (Pty) Ltd, Southeast Exchange Company (South Africa) (Pty) Ltd, Terra Payment Services South Africa (RF) (Pty) Ltd, WorldRemit South Africa (Pty) Ltd

[25] Kawena Exchange (Pty) Ltd

**Figure 8:** Entry into the market by MTOs* and a VTSP*




**Source:** Own analysis based on (SARB, 2016) and (SARB, 2019)

* MTO is an ADLA operating as a Money Transfer Operator; VTSP is an ADLA operating as a Value Transfer Service Provider

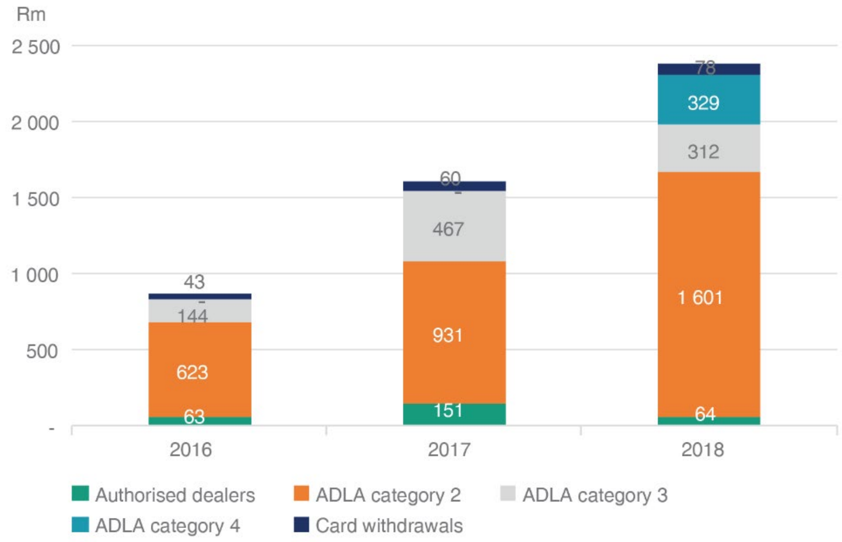
Discussions with market participants suggested that a number of obstacles still remained as regards the expansion of remittance services in the region.

Next, we discuss three key challenges, namely difficulties experienced in developing consumer trust, financial system infrastructure issues, and macroeconomic instability.

**Consumer trust**: The view expressed by a number of market operators was that, in remittance markets that are still largely informal, it was important to try to gain the trust of a certain critical weight of consumers. Once that trust in a new type of formal financial product was gained, it was then often possible to quickly grow the proportion of formal remittances.

Figure 9 illustrates what this switch looked like in the Malawian market. As can be seen, the amount of formal remittances from South Africa to Malawi increased by a little over 170% from 2016 to 2018. The vast majority of this growth was associated with an increase in service provision by ADLA licence holders, and in particular ADLA category 2 licencees. This is in line with what operator stakeholders reported during the consultation phase of the project. Essentially, consumer confidence in MTOs in Malawi is reported to have reached a certain critical mass over the period, resulting in a massive switch over to formal remittance methods. It is also likely associated with good formal remittance pricing offers, which we will discuss more in section 3. In the associated *SADC remittance values and volumes, 2018*, we further estimate that these trends have resulted in a large decrease in the proportion of informal remittances on this corridor, from around 85% to as little as 7%.

**Figure 9:** Growth in Malawian formal remittances by service provider type




**Source:** SARB data, own calculations

While substantial success has been achieved in Malawi, in other countries a number of barriers still exist, as regards gaining consumer trust. In the Mozambican market, for example, low levels of financial literacy were identified as impeding the expansion of formal remittance services in the region, as they slowed down the speed at which consumers learned of new products. The DRC and Angola were most often referred to as being dominated by informal remittances, but for somewhat different reasons. While there is a lack of trust in the financial system in both countries, the Angolan formal remittance market is further impeded by restrictive regulations, while in the DRC the prevalence of cheap and efficient informal service providers slows the growth of formal services. The introduction of new, competitively priced products is probably also key to inducing this kind of switch to formal markets.

**Infrastructure issues**: The nature of infrastructure issues vary by country. In Zimbabwe, the continuing financial crisis appears to be affecting the stability of the payments system. Bank-to-bank transactions are prone to failure.[26] In Mozambique, the availability of physical banking outlets was cited as being poor. In the DRC, there were general problems with the telecoms and transport infrastructure, attributable to the vast size of the country and its troubled political situation.

**Macroeconomic instability**: The cash crisis in Zimbabwe has affected formal remittance systems. Some remittance service providers have received regulatory exemptions allowing them to import hard cash (dollars and rands) into Zimbabwe to ensure that remitters are able to receive their funds in cash. Doing so increases the cost of doing business to service providers, but is critical to allow transactions to be completed at all. In Angola, the recent decrease in oil prices has led to macroeconomic instability and a currency devaluation, which has made consumers prefer holding money in hard currencies, and as such has affected the remittance payment system.

[26] Personal experience of co-author

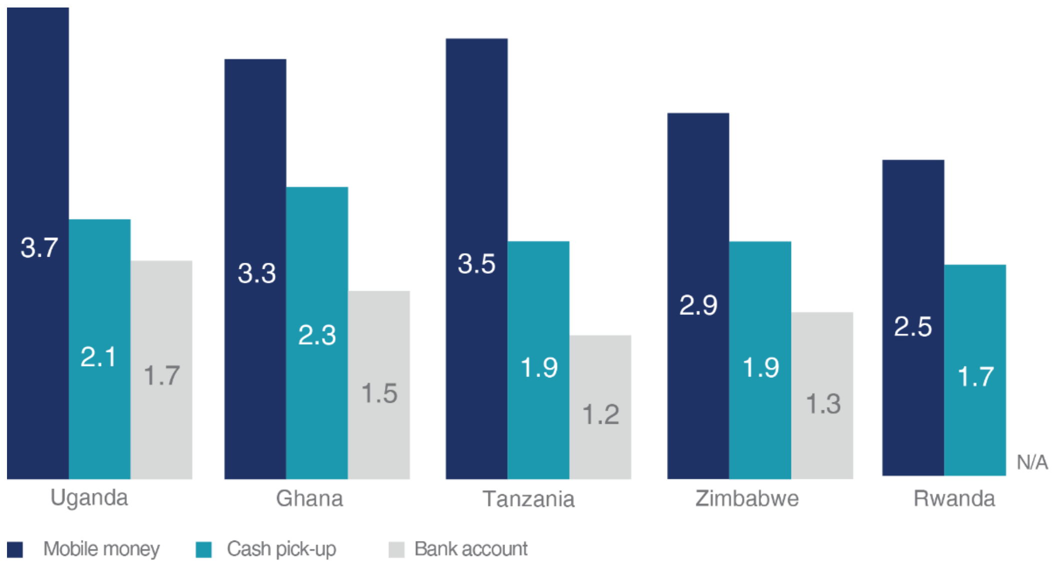
### 2.4.1 Product innovation

As competition on the South Africa-SADC remittance corridors has intensified, remittance service providers have been introducing innovative solutions to both reduce the costs of remittances, reach out to the informal market and increase customer convenience by reducing the distance to the pay-out point. These innovations have mostly manifested themselves in the linking of remittances payments to mobile money products, which directly address the accessibility issues faced by many remittance recipients, and also often offer e-wallet functionality. There has also been innovation in goods remittance products. We briefly discuss these below.

#### 2.4.1.1 Mobile remittance services and e-wallets

Where they are introduced, mobile remittance services have proven potential to reduce remittance costs and increase the transparency of pricing. Using a variety of different technical models, remittances offered on mobile networks also have the ability to leverage mobile network coverage to reach remote rural areas beyond the reach of traditional financial services. Because money is delivered to the consumer's device, the indirect remittance costs associated with travelling to collect money are also reduced. For these reasons, mobile remittances have arguably become an important lever for financial inclusion.[27] As shown in Figure 10, a study of remittances in Africa shows that, in markets where mobile transactions are available, they are often gaining prominence.

**Figure 10:** Average number of transactions per WorldRemit user by pick-up method (monthly)




**Source:** (Naghavi & Scharwatt, 2018)

[27] (Naghavi & Scharwatt, 2018)

In Zimbabwe, in addition to launching its own remittance product,[28] Ecocash has partnered with a number of remittance service providers such as Cassava[29] and Mama Money[30] to enable funds to be transferred into the recipient's mobile account. Similarly, in Malawi WorldRemit launched an instant overseas remittance product that pays funds into the Airtel Money account.[31] However, the success of mobile money in Zimbabwe has been hampered by cash shortages. Due to these cash shortages, macroeconomic instability and misaligned exchange rates, remittance recipients prefer products that enable them to withdraw their funds in hard currency. To overcome these obstacles, some remittance service providers have had to import hard currency from South Africa into Zimbabwe to ensure that remittances will be paid out in cash.

#### 2.4.1.2 Goods remittance services

Although traditionally dominated by informal service providers, goods remittance services are also offered by some formal remittance service providers. The type of goods remitted is generally influenced by the nature of market failures in the receiving countries. For instance, in Zimbabwe, basic goods are in short supply, while building material is in short supply and expensive in Mozambique. As a result, basic commodities constitute the bulk of goods remitted to Zimbabwe, while building materials are more important in Mozambique. Kawena has been in this market for some time, while Hello Paisa has recently entered it. We summarise value remittance products by these companies below.

##### Kawena Distributors

Kawena Distributors (Kawena) offers a purely goods remittance product in Mozambique, and a combination of goods and cash remittance products in Zimbabwe. Kawena has been offering services to Mozambican migrants for over 30 years. Kawena Distributors has multiple sales points across South Africa. These sales points are used by customers to order goods (commonly building materials), which can be collected in Mozambique from Kawena collection points. Alternatively, the goods can be directly delivered to the remitter's home address.

Collection points are Kawena's warehouses, and the customer has three years' grace to collect building materials from date of purchase.[32] This service is provided with the perspective that customers require enough time to purchase the essential building materials prior to undertaking actual construction. Kawena also has walk-in retail and agricultural goods stores in Mozambique. On the goods remittance product, there are no direct fees, and thus the cost of remitting is presumably covered by a margin on the price of goods remitted.

[28] See https://www.econetwireless.co.za/southafrica/southafrica.html accessed on 3 October 2019
[29] See https://www.cassavaecocash.co.za/ accessed on 3 October 2019
[30] See https://www.mamamoney.co.za/ecocash/ accessed on 3 October 2019
[31] See https://www.worldremit.com/da/news/worldremit-launches-mobile-money-transfers-to-malawi accessed on 3 October 2019
[32] https://www.kawena.co.za/kawena-about-us/, accessed 4 October 2019

In Zimbabwe, Kawena operates in partnership with OK Zimbabwe Limited at their chain of stores. This is a more recently launched business. Money sent home can be collected "in Bond Notes, goods from OK Zimbabwe or the option of loading their value onto a Money Wave Card, giving the family members the freedom to spend that value anywhere in Zimbabwe that accepts electronic payment methods."[33] Again, there are no direct transaction costs charged to remit, which suggests that the cost of remitting is covered by a margin on the goods sold, or the exchange rate margin on money remitted.

### Hello Paisa's Malaicha product

In April 2019, Hello Paisa introduced a remittance product for Zimbabwean remitters based in South Africa. The product, which is called 'Malaicha,' requires the use of the Malaicha App, or sign up by dialling a USSD code, *130*43556#.

The Malaicha App allows users to buy groceries and goods online in South Africa and have these goods delivered in Zimbabwe within 24 hours. Collection points are based in Harare, Bulawayo, Gweru, Mutare and Masvingo. The Malaicha App can be used by previously registered Hello Paisa customers. New customers must sign up as new users on the Malaicha App. Once a customer has finished placing an online order for the goods to be remitted, they should pay at any of the Hello Paisa pay-in centres across the country. The cost of remitting is 30% of the value of the goods being remitted, excluding VAT. All costs are paid for by the sender.

[33] https://www.kawena.co.za/kawena-kawena-distributors/, accessed 4 October 2019

# 3. REMITTANCE PRICES

**The World Bank tracks global remittance prices on a quarterly basis, and its database shows that remittance prices in sub-Saharan Africa have fallen substantially over the last 11 years, from a high of 14% of the value of a transaction in 2008 to the September 2019 level of 9,01% (assuming transaction size of USD200, simple average of all sampled service provider costs). However, the World Bank data suggests that sub-Saharan Africa remains the most expensive region to remit in the world, and is substantially more expensive than the global average of 6,84%.[34]**

The manner in which the World Bank collects its data is not perfectly suited to African conditions. The most obvious issue is that the average remittance transaction in the sub-Saharan region is likely well below USD200. The *Cross-border remittances* research conducted for FinMark in 2016 estimated that a more realistic regional average was in the region of USD55. In addition, the World Bank data is not weighted by the importance of the remittance channel concerned, but instead uses a simple arithmetic average of all prices collected. Low-volume, high-price channels may thus distort the average price.

Finally, two pieces of pricing research previously commissioned by FinMark Trust[35] have both found regional transaction prices to be lower than World Bank prices. The *Cross-border remittances* research conducted for FinMark in 2016 examined prices in the DRC, Lesotho, Mozambique and Zimbabwe, and found that on average prices were substantially lower than those collected by the World Bank. A further 2017 FinMark study[36] of remittance pricing in Zimbabwe, Mozambique and Lesotho also found that prices were much lower than those found by the World Bank – 6,7% for a USD200 transaction, compared to a finding of 14% for the World Bank and 8,5% for the *Cross-border remittances* study, on the same corridors.

Our review of regional remittance prices will build on these previous pieces of research, in order to further clarify the true pricing environment for remittances in SADC. Below we detail our methodology and findings.

[34] (World Bank, 31 September 2019)
[35] (FinMark Trust, 2016); (Mela, Hajat, & Mogadime, 2017)
[36] (Mela, Hajat, & Mogadime, 2017)

## 3.1 Mystery shopping methodology

As in previous studies, we have estimated remittance prices for transaction sizes of approximately USD200 and USD55. We focused on the price of remitting from South Africa to all other SADC countries. We sampled prices from the following firms:

- **FNB:** In order to obtain banking remittance prices, we found it necessary to actually complete transactions. FNB was chosen as the banking service provider example because one of the researchers held an FNB account. The sample size was limited by the difficulty of obtaining recipient banking details necessary to complete a transaction. Transactions were completed for 11 countries. The completed transaction was for R200, and then the exchange rate achieved on that transaction was used to extrapolate costs for a R850 (roughly USD55) and R3 100 (roughly USD200) size transaction.
- **Hello Paisa:** A member of the research team held an account at Hello Paisa and obtained quotes from the mobile application. A quote was obtained for each available receiving option (i.e. cash, bank account or mobile).
- **Mama Money:** Quotes were obtained from the online interface.
- **Mukuru:** Quotes were obtained from the online interface.
- **Shoprite:** A visit to a Shoprite Money Market facility confirmed the price of remitting to Lesotho. Other prices were obtained by registering for a Shoprite Financial Services account and obtaining quotes from that interface. A quote was obtained for each available receiving option (i.e. cash, bank account or mobile).
- **WorldRemit:** Quotes were obtained from the online interface. A quote was obtained for each available receiving option (i.e. cash, bank account or mobile).

We also attempted to obtain quotes for MoneyGram. MoneyGram has a relationship with FNB and thus, given that a researcher held an FNB account, we expected to be able to complete MoneyGram transactions. However, in practice, all MoneyGram transactions are completed in cash, and require the recipient to visit the branch to collect the money. In addition, recipient details must be identical to those in the identification document presented (for example, including middle names) or the transaction will fail. These obstacles prevented us from completing such transactions.

Remittance fees usually comprise both a direct transaction fee and an exchange rate margin. We found that the service providers sampled were transparent as regards the transaction fee, so it was easy to record this amount. Exchange rate margins, however, posed more of a problem. The *Cross-border remittances* research conducted for FinMark in 2016 summarises the difficulties well:

> *"Whilst fees are usually transparent, true exchange rate margins are not; there is no disclosure of the rate at which the currency was purchased by the provider and no information to determine the basis used by providers to mark-up currency. Providers have various practises in this regard; some peg the currency at a fixed rate over the course of a specified trading period, whilst others allow the rate to vary in line with the prevailing exchange rate, irrespective of what they actually paid for the currency. Whilst this report has used the spot rate as quoted by Google as the basis on which to calculate margin, in reality MTOs themselves receive currency already marked up by Authorised Dealers, and are therefore unlikely to be able to purchase currency at the base rate. Therefore the margins as calculated are notional rather than real."*[37]

The World Bank methodology uses the interbank exchange rate as a reference rate, with the difference between the interbank rate and the exchange rate on the transaction then calculated as the notional exchange rate margin. We also used this approach. Our data source for these rates was https://www.xe.com/.

Ideally, all mystery shopping transactions should be conducted on the same day (or if possible, simultaneously). This is because the interbank market itself will fluctuate over time, and the spread between buy and sell rates will be affected by market liquidity, which can fluctuate materially even during the day. In practice we did not achieve this, and prices were collected over a range of dates from August through December 2019. The bulk of prices, however, were collected in the period 27 November to 1 December 2019.

### 3.1.1 Findings – exchange rate margins

Table 11 shows the calculated exchange rate spreads by firm and by country. As can be seen, the unweighted average for the region as a whole is 2,66%. On average, the largest exchange rate margin is charged by Shoprite Financial Services, which is not unexpected given that this product offering does not include any direct transaction fees. The smallest margin is charged by WorldRemit. Mozambique seems to experience the largest exchange rate margins in the region.

[37] (FinMark Trust, 2016)

**Table 11:** Average exchange rate margins, non-CMA countries

| | FNB | Hello Paisa | Mama Money | Mukuru | Shoprite Financial Services | World-Remit | Unweighted average |
|---|---|---|---|---|---|---|---|
| **Angola** | | | | | | 1,30% | 1,30% |
| **Botswana** | 2,95% | 1,98% | | 0,62% | 4,74% | 1,31% | 2,15% |
| **Comoros** | | | | | | 1,88% | 1,88% |
| **DRC** | 1,14% | 1,95% | | 5,29% | 4,73% | 1,68% | 2,63% |
| **Madagascar** | 0,89% | | | | | −0,25% | 0,32% |
| **Malawi** | 1,29% | 0,45% | 2,95% | 0,21% | 4,73% | 1,38% | 1,76% |
| **Mauritius** | | | | | 4,81% | 1,18% | 2,99% |
| **Mozambique** | 1,99% | 8,70% | 5,39% | 6,20% | 4,79% | 1,71% | 4,88% |
| **Seychelles** | | | | | | 1,91% | 1,91% |
| **Tanzania** | 1,35% | 6,07% | 3,99% | | 5,08% | 1,98% | 3,44% |
| **Zambia** | 2,81% | 1,75% | 3,20% | 0,46% | 4,81% | 1,31% | 2,35% |
| **Zimbabwe** | 2,08% | 0,60% | 2,17% | 0,60% | 8,51% | 1,31% | 2,06% |
| **Unweighted average** | **1,81%** | **2,72%** | **3,54%** | **2,23%** | **5,11%** | **1,45%** | **2,66%** |

Source: Mystery shopping exercise, own analysis

### 3.1.2 Findings – direct transaction fees

Table 12 shows the average direct transaction fees by firm and country. The unweighted direct transaction fee for the sample is 7,7% for a USD55 transaction and 4,6% for a USD200 transaction. FNB has the most expensive transaction fees for the USD55 transaction, and by a considerable margin. On the USD200 transaction, though, Mukuru is slightly more expensive.

**Table 12:** Average direct transaction fees

| | FNB | Hello Paisa | Mama Money | Mukuru | Shoprite Fin Services | Shoprite Money Transfer | World-Remit | Unweighted average |
|---|---|---|---|---|---|---|---|---|
| **USD55 transaction size** | | | | | | | | |
| **Angola** | | | | | | | 3,5% | 3,5% |
| **Botswana** | 33,5% | 5,0% | | 10,1% | 0,0% | | 3,5% | 9,3% |
| **Comoros** | | | | | | | 5,0% | 5,0% |
| **DRC** | 33,5% | 11,8% | | 4,8% | 0,0% | | 5,0% | 10,3% |
| **Lesotho** | 1,0% | | | 10,0% | | 2,4% | 5,0% | 4,6% |
| **Madagascar** | 33,5% | | | | | | 5,0% | 19,3% |
| **Malawi** | 33,5% | 10,0% | 5,1% | 10,1% | 0,0% | | 3,5% | 8,1% |
| **Mauritius** | | | | | 0,0% | | 5,0% | 2,5% |
| **Mozambique** | 40,6% | 0,0% | 5,1% | 5,1% | 0,0% | | 3,5% | 5,8% |
| **Namibia** | 1,0% | | | 10,0% | | | 5,0% | 5,3% |
| **Seychelles** | | | | | | | 5,0% | 5,0% |
| **eSwatini** | 1,0% | | | | | | | 1,0% |
| **Tanzania** | 33,5% | 5,0% | 5,1% | | 0,0% | | 5,0% | 7,3% |
| **Zambia** | 33,5% | 11,8% | 5,1% | 10,1% | 0,0% | | 4,0% | 8,4% |
| **Zimbabwe** | 33,5% | 8,0% | 5,1% | 10,0% | 0,0% | | 3,5% | 8,3% |
| **Average, USD55** | 25,3% | 7,9% | 5,1% | 8,8% | 0,0% | 2,4% | 4,2% | 7,7% |
| **USD200 transaction size** | | | | | | | | |
| **Angola** | | | | | | | 3,5% | 3,5% |
| **Botswana** | 9,2% | 5,0% | | 10,0% | 0,0% | | 3,5% | 5,2% |
| **Comoros** | | | | | | | 5,0% | 5,0% |
| **DRC** | 9,2% | 3,2% | | 4,8% | 0,0% | | 5,0% | 4,4% |
| **Lesotho** | 0,3% | | | 10,0% | | 0,6% | 5,0% | 4,0% |
| **Madagascar** | 9,2% | | | | | | 5,0% | 7,1% |
| **Malawi** | 9,2% | 10,0% | 5,0% | 10,0% | 0,0% | | 3,5% | 5,9% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Mauritius** | | | | | 0,0% | | 5,0% | 2,5% |
| **Mozambique** | 11,1% | 0,0% | 5,0% | 5,0% | 0,0% | | 3,5% | 2,8% |
| **Namibia** | 0,3% | | | 10,0% | | | 5,0% | 5,1% |
| **Seychelles** | | | | | | | 5,0% | 5,0% |
| **eSwatini** | 0,3% | | | | | | | 0,3% |
| **Tanzania** | 9,2% | 5,0% | 5,0% | | 0,0% | | 5,0% | 4,3% |
| **Zambia** | 9,2% | 3,2% | 5,0% | 10,0% | 0,0% | | 4,0% | 4,3% |
| **Zimbabwe** | 9,2% | 8,0% | 5,0% | 10,0% | 0,0% | | 3,5% | 5,6% |
| **Average, USD200** | | | | | | | 3,5% | 3,5% |

**Source:** Mystery shopping exercise, own analysis

Note: Direct transaction fees refer to all transaction fees explicitly charged for, but excludes exchange rate margin.

While some service providers keep their direct fees fairly constant across the region, for others there is material variation by country. What is particularly noticeable in the FNB data is the pricing advantage enjoyed by the CMA countries (Lesotho, Namibia and eSwatini), whose transaction fees are many times lower than the rest of the region. This pricing advantage is further reinforced by the fact that no currency exchange takes place on these transactions, and thus no exchange rate margin is taken.

### 3.1.3 Findings – total remittance costs

Please note that, for completeness, we have included a table with the total cost of remitting by country and by service provider as Appendix 2. In this section we will instead calculate average remittance costs by type of licence held by the remittance service provider, using weighted rather than simple averages to get a more accurate sense of per country and regional remittance prices.

In order to derive a weighted price, we first had to find a method for estimating the relative importance of remitting methods in each country. To do this we turned to the SARB database, which provided detail on the volumes of remittances sent by each type of AD or ADLA category. Table 13 shows the proportion of remittances (by volume remitted) sent by licence type in each country. As can be seen, in 11 of the 15 countries, ADs (in effect, licensed banks) move more than 70% of remittances by volume. In high-volume markets like Zimbabwe and Malawi, however, the bulk of remitting has shifted to ADLAs. These proportions can then be used to weight the prices derived in the mystery shopping exercise.

**Table 13:** Proportion of remittance outflows per licence type by transaction volume, 2018

| | Authorised dealer | ADLA category 2 | ADLA category 3 | ADLA category 4 | Total |
|---|---|---|---|---|---|
| **Angola** | 82.5% | 17.0% | 0.0% | 0.5% | 100.0% |
| **Botswana** | 37.6% | 60.3% | 1.2% | 0.9% | 100.0% |
| **Comoros** | 83.7% | 16.3% | 0.0% | 0.0% | 100.0% |
| **DRC** | 21.9% | 37.8% | 18.6% | 21.6% | 100.0% |
| **Lesotho** | 72.7% | 27.3% | 0.0% | 0.0% | 100.0% |
| **Madagascar** | 74.3% | 25.7% | 0.0% | 0.0% | 100.0% |
| **Malawi** | 0.2% | 74.4% | 12.0% | 13.4% | 100.0% |
| **Mauritius** | 91.2% | 8.8% | 0.0% | 0.0% | 100.0% |
| **Mozambique** | 14.6% | 62.8% | 8.0% | 14.6% | 100.0% |
| **Namibia** | 47.4% | 52.6% | 0.0% | 0.0% | 100.0% |
| **Seychelles** | 88.0% | 12.0% | 0.0% | 0.0% | 100.0% |
| **Eswatini** | 93.5% | 6.5% | 0.0% | 0.0% | 100.0% |
| **Tanzania** | 23.7% | 14.9% | 29.5% | 31.9% | 100.0% |
| **Zambia** | 16.0% | 83.0% | 0.5% | 0.4% | 100.0% |
| **Zimbabwe** | 12.7% | 81.8% | 5.1% | 0.4% | 100.0% |
| **Total** | **12.4%** | **73.7%** | **7.7%** | **6.3%** | **100.0%** |

**Source:** SARB data (unadjusted), own calculations

In order to use the SARB data as weights for the mystery shopping data, we had to group the mystery shopping data by licence categories as well. The licence categories of the sample firms are as follows:[38]

- Authorised dealer: FNB
- ADLA category 2: Mukuru
- ADLA category 3: WorldRemit and Shoprite
- ADLA category 4: Hello Paisa and Mama Money

An average price estimate could then be generated for each licence category, using the results of the mystery shopping exercise, and weighted by the remittance volumes shown above.[39] The results are shown in Table 14 for USD55 and USD200 transactions. It is immediately apparent that remittance costs to the CMA countries are extremely low, regardless of transaction size. For the rest of the sample, costs for a USD200 transaction are between 7.5% and 11.2% of transaction value, but for a USD55 transaction, the variance is much more marked, between 9.6% and 25.6% of transaction value. The results of the mystery shopping exercise were unfortunately insufficient to calculate prices for Angola, Comoros, Mauritius and Seychelles.

[38] Please note a description of each licence category is shown in Appendix 1.

[39] Mathematically, this is done by multiplying the weight for the category by the price for the category, and then adding the four products together. So, for example, the weighted price for a USD55 transaction for Botswana is derived as follows:
Weighted price = (37,6% × 36,5%) + (60,3% × 10,6%) + (1,2% × 4,8%) + (0,9% × 7,0%) = 20,3%

**Table 14:** Remittance prices per licence category, and weighted remittance price per country

| | Authorised dealer | ADLA category 2 | ADLA category 3 | ADLA category 4 | Weighted price |
|---|---|---|---|---|---|
| **USD55 transaction size** | | | | | |
| **Angola** | | | | | |
| **Botswana** | 36,5% | 10,6% | 4,8% | 7,0% | 20,3% |
| **Comoros** | | | | | |
| **DRC** | 34,7% | 10,1% | 5,6% | 13,3% | 15,4% |
| **Lesotho** | 1,0% | 10,0% | | | 3,5% |
| **Madagascar** | 34,4% | | | | 25,6% |
| **Malawi** | 34,8% | 10,4% | 4,8% | 9,2% | 9,6% |
| **Mauritius** | | | | | |
| **Mozambique** | 42,6% | 10,5% | 5,0% | 9,6% | 14,6% |
| **Namibia** | 1,0% | 10,0% | | | 5,7% |
| **Seychelles** | | | | | |
| **eSwatini** | 1,0% | 0,0% | | | 0,9% |
| **Tanzania** | 34,9% | 0,0% | 6,0% | 10,1% | 13,2% |
| **Zambia** | 36,3% | 10,5% | 5,1% | 10,9% | 14,6% |
| **Zimbabwe** | 35,6% | 10,6% | 6,8% | 7,9% | 13,6% |
| USD200 transaction size | | | | | |
| **Angola** | | | | | |
| **Botswana** | 12,1% | 10,7% | 4,8% | 7,0% | 11,1% |
| **Comoros** | | | | | |
| **DRC** | 10,3% | 10,1% | 5,8% | 5,6% | 8,4% |
| **Lesotho** | 0,3% | 10,0% | | | 2,9% |
| **Madagascar** | 10,1% | | | | 7,5% |
| **Malawi** | 10,5% | 10,2% | 4,8% | 9,2% | 9,4% |
| **Mauritius** | | | | | |
| **Mozambique** | 13,1% | 11,9% | 5,0% | 9,6% | 11,2% |
| **Namibia** | 0,3% | 10,0% | | | 5,4% |
| **Seychelles** | | | | | |
| **eSwatini** | 0,3% | 0,0% | | | 0,3% |
| **Tanzania** | 10,5% | 0,0% | 6,0% | 10,0% | 7,5% |
| **Zambia** | 12,0% | 10,5% | 5,1% | 6,6% | 10,7% |
| **Zimbabwe** | 11,3% | 10,6% | 6,5% | 7,9% | 10,5% |

**Source:** Own calculations

It is notable that Malawi has the lowest transaction price for a USD55 transaction, outside of the CMA countries. Malawi is experiencing massive growth in formal remittance volumes, which is likely to be associated with this competitive pricing result.

Table 15 shows the regional average price, calculated in a number of ways. The average prices shown are simple arithmetic averages, while weighted prices are weighted by the relative volume of transactions formally remitted to each of the 11 countries for which we could derive weighted prices. (These remittance values are for the year 2018, and are shown in Table 7. Angola, Comoros, Mauritius and Seychelles are omitted from the weighting exercise.) We have also stripped out the CMA countries, as they have very different pricing results. In fact, with a weighted average price for a USD55 transaction of 3,5%, the CMA must be considered to be one of the lowest cost remittance-receiving environments in the world. Excluding the CMA, weighted remittance prices for the rest of the SADC region are around 9,5% for USD200, or 11,2% for USD55.

**Table 15:** Regional average prices 2018, weighted and unweighted

| Average prices | USD55 | USD200 |
|---|---|---|
| **SADC total** | 12,5% | 7,7% |
| **SADC total, excluding CMA** | 15,9% | 9,5% |
| **CMA only** | 3,4% | 2,9% |
| **Weighted average prices** | | |
| **SADC total** | 11,2% | 9,5% |
| **SADC total, excluding CMA** | 11,9% | 10,0% |
| **CMA only** | 3,5% | 2,9% |

**Source:** Own calculations

We then repeated the weighting exercise using World Bank data for Q3 2019, for USD200 transactions. The results are shown in Table 16, which also includes the same data as generated by our mystery shopping exercise, for easy comparison. As can be seen, the World Bank weighted price is well above our estimates for almost all countries (the only exception is Malawi). In fact, for the region as a whole, the unweighted World Bank average remittance price is almost twice that as was found by our mystery shopping exercise. While the ADLA category 2 price estimates match up quite well, and there are moderate differences in prices for ADLA 3 and ADLA 4, the biggest discrepancies being in AD prices, in particular for CMA countries.

**Table 16:** Comparison of World Bank weighted prices with own mystery shopping exercise, USD200

| USD200 | Authorised dealer | ADLA category 2 | ADLA category 3 | ADLA category 4 | Weighted price |
|---|---|---|---|---|---|
| **World Bank, Q3 2019** | | | | | |
| **Angola** | 21,4% | | | | 21,4% |
| **Botswana** | 24,8% | 10,0% | 4,2% | 9,7% | 21,6% |
| **Lesotho** | 17,5% | 10,0% | 0,7% | | 16,0% |
| **Malawi** | 23,2% | 10,0% | 3,6% | 9,0% | 9,2% |
| **Mozambique** | 22,1% | 11,7% | 4,2% | 16,4% | 15,1% |
| **Eswatini** | 17,5% | | | | 17,5% |
| **Tanzania** | 20,2% | | 4,9% | 13,0% | 12,2% |
| **Zambia** | 23,1% | 10,2% | 4,2% | 9,9% | 17,2% |
| **Zimbabwe** | 20,1% | 10,3% | 3,4% | 9,0% | 10,7% |
| **Unweighted average (excluding Angola)** | | | | | **14,9%** |
| **2019 mystery shopping** | | | | | |
| **Angola** | Not available | | | | |
| **Botswana** | 12,1% | 10,7% | 4,8% | 7,0% | 11,1% |
| **Lesotho** | 0,3% | 10,0% | | | 2,9% |
| **Malawi** | 10,5% | 10,2% | 4,8% | 9,2% | 9,4% |
| **Mozambique** | 13,1% | 11,9% | 5,0% | 9,6% | 11,2% |
| **Eswatini** | 0,3% | | | | 0,3% |
| **Tanzania** | 10,5% | | 6,0% | 10,0% | 7,5% |
| **Zambia** | 12,0% | 10,5% | 5,1% | 6,6% | 10,7% |
| **Zimbabwe** | 11,3% | 10,6% | 6,5% | 7,9% | 10,5% |
| **Unweighted average (excluding Angola)** | | | | | **8,0%** |

**Source:** World Bank, mystery shopping exercise

The reasons for the differences between our findings and the World Bank can be a mixture of the following:

- the World Bank not weighting its pricing,
- potential misrepresentation of the pricing within the CMA (treated as foreign transactions for the pricing exercise, whereas in practice they are priced like domestic (on-us) transactions), and
- the World Bank methodology not entailing actual transactions being made but the phoning of remittance service providers to request information on prices[40].

[40] FMT completed actual transactions for the mystery shopping process.

# 4. CONCLUSION

**The large volume of low-value remittances to poor families in the SADC region are enormously important to those who receive them. Care must be taken to regulate financial markets in a way that is sensitive to the needs of remitters, and is not dominated by the sometimes more urgent and high-profile world of AML regulation.**

The remittance markets of SADC illustrate both the pitfalls of regulation, which is not sensitive to the needs of remittance markets, and the potential to trigger rapid growth and formalisation when regulation gets the balance right (and when the private sector steps up to the opportunity offered by regulators and vigorously competes for clients). The data illustrates that each country pair has unique characteristics and needs, and the process of formalising these markets will need to be rolled out on a country-pair by country-pair basis. Lessons learned in promoting formal remittances in success stories like Lesotho and Malawi should now be rolled out to the rest of the region.

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# APPENDIX 1: ADLA CATEGORIES

A number of different types of licences are issued by the SARB to remittance service providers. Roughly two dozen banks are authorised dealers in foreign exchange. There are also a number of other financial institutions that are authorised dealers with limited authority (ADLAs).

For reference, this is how the SARB describes each of the four ADLA licence categories:[41]

- ADLA category 1: Travel-related transactions only
- ADLA category 2: Travel-related transactions and certain prescribed single discretionary allowance of R1 million per applicant within the calendar year and money remittance services in partnership with external money transfer operators
- ADLA category 3: Independent money transfer operator or value transfer service provider, facilitating transactions not exceeding R5 000 per transaction per day within a limit of R25 000 per applicant per calendar month
- ADLA category 4: A combination of the services provided by categories 2 and 3.

As at September 2019, there were 25 authorised dealers, one ADLA 1 licencee, ten ADLA 2 licencees, six ADLA 3s and two ADLA 4s. The dataset we received from the SARB did not contain any remittance data for ADLA 1, which is consistent with the licence restrictions on ADLA 1s (travel-related transactions only). The identity of the various licencees is shown in Table 17.

**Table 17:** Authorised dealer licencees by category, September 2019

| Authorised Dealer |
|---|
| ABSA Bank Limited |
| Albaraka Bank Limited |
| Bank of China Johannesburg Branch |
| Bank of India |
| Bank of Taiwan South Africa Branch |
| Bidvest Bank Limited |
| BNP Paribas SA – South Africa Branch |
| Capitec Bank Limited |
| China Construction Bank, Johannesburg Branch |
| Citibank, N.A., South Africa |
| Deutsche Bank AG, Johannesburg Branch |
| FirstRand Bank Limited |
| Grobank Limited |
| Habib Overseas Bank Limited |
| HBZ Bank Limited |

[41] (SARB, 2019)

| |
|---|
| HSBC Bank plc – Johannesburg Branch |
| Investec Bank Limited |
| JPMorgan Chase Bank (Johannesburg Branch) |
| Mercantile Bank Limited |
| Nedbank Limited |
| Sasfin Bank Limited |
| Société Générale |
| Standard Chartered Bank – Johannesburg Branch |
| State Bank of India |
| The Standard Bank of South Africa Limited |
| Restricted Authorised Dealer |
| African Bank Limited – Sections B.4(B) and B.16 |
| Discovery Bank Limited – Sections B.4(B) and B.16 |
| **ADLA Category 1** |
| Imali Express (Pty) Limited |
| **ADLA Category 2** |
| Forex World (Pty) Limited |
| Global Foreign Exchange (Pty) Limited |
| Inter Africa Bureau de Change (Pty) Limited |
| Interchange RSA (Pty) Limited |
| Master Currency (Pty) Limited |
| Mukuru Africa (Pty) Limited |
| Sikhona Forex (Pty) Limited |
| Tourvest Financial Services (Pty) Limited |
| Tower Bureau de Change (Pty) Limited |
| Travelex Africa Foreign Exchange (Pty) Limited |
| **ADLA Category 3** |
| Cassava Fintech (Pty) Limited - MTO |
| Kawena Exchange (Pty) Limited - VTSP |
| Shoprite Money Transfers (Pty) Limited - MTO |
| Southeast Exchange Company (South Africa) (Pty) Limited - MTO |
| Terra Payment Services South Africa (RF) (Pty) Limited - MTO |
| WorldRemit South Africa (Pty) Limited - MTO |
| **ADLA Category 4** |
| Hello Paisa (Pty) Limited |
| Mama Money (Pty) Limited |

**Source**: (SARB, 2019)

# APPENDIX 2: TOTAL REMITTANCE PRICES BY SERVICE PROVIDER

The following table shows the total cost of remitting by country and by service provider. In effect, we have added the price margins shown in Table 11 and Table 12 together.

**Table 18:** Total remittance prices by service provider and country

| | FNB | Hello Paisa | Mama Money | Mukuru | Shoprite Financial Services | Shoprite Money Transfer | World-Remit | Average |
|---|---|---|---|---|---|---|---|---|
| **USD55** | | | | | | | | |
| Angola | | | | | | | 4,80% | 4,80% |
| Botswana | 36,47% | 6,98% | | 10,74% | 4,74% | | 4,81% | 11,42% |
| Comoros | | | | | | | 6,88% | 6,88% |
| DRC | 34,67% | 13,75% | | 10,13% | 4,73% | | 6,68% | 12,91% |
| Lesotho | 1,00% | | | 10,00% | | 2,35% | 5,00% | 4,59% |
| Madagascar | 34,41% | | | | | | 4,75% | 19,58% |
| Malawi | 34,82% | 10,45% | 8,01% | 10,31% | 4,73% | | 4,88% | 9,87% |
| Mauritius | | | | | 4,81% | | 6,18% | 5,49% |
| Mozambique | 42,58% | 8,70% | 10,46% | 11,27% | 4,79% | | 5,21% | 10,65% |
| Namibia | 1,00% | | | 10,00% | | | 5,00% | 5,33% |
| Seychelles | | | | | | | 6,91% | 6,91% |
| eSwatini | 1,00% | | | | | | | 1,00% |
| Tanzania | 34,88% | 11,07% | 9,06% | | 5,08% | | 6,98% | 10,76% |
| Zambia | 36,34% | 13,51% | 8,27% | 10,51% | 4,81% | | 5,31% | 10,77% |
| Zimbabwe | 35,61% | 8,60% | 7,24% | 10,64% | 8,51% | | 4,81% | 10,40% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Average | 27,11% | 10,66% | 8,61% | 11,01% | 5,11% | 2,35% | 5,67% | 10,35% |
| **USD200** | | | | | | | | |
| Angola | | | | | | | 4,80% | 4,80% |
| Botswana | 12,14% | 6,98% | | 10,62% | 4,74% | | 4,81% | 7,35% |
| Comoros | | | | | | | 6,88% | 6,88% |
| DRC | 10,33% | 5,18% | | 10,12% | 4,73% | | 6,68% | 6,98% |
| Lesotho | 0,27% | | | 10,00% | | 0,65% | 5,00% | 3,98% |
| Madagascar | 10,08% | | | | | | 4,75% | 7,41% |
| Malawi | 10,48% | 10,45% | 7,96% | 10,25% | 4,73% | | 4,88% | 7,65% |
| Mauritius | | | | | 4,81% | | 6,18% | 5,49% |
| Mozambique | 13,12% | 8,70% | 10,40% | 11,20% | 4,79% | | 5,21% | 7,69% |
| Namibia | 0,27% | | | 10,00% | | | 5,00% | 5,09% |
| Seychelles | | | | | | | 6,91% | 6,91% |
| eSwatini | 0,27% | | | | | | | 0,27% |
| Tanzania | 10,55% | 11,07% | 9,00% | | 5,08% | | 6,98% | 7,71% |
| Zambia | 12,01% | 4,97% | 8,21% | 10,49% | 4,81% | | 5,31% | 6,62% |
| Zimbabwe | 11,27% | 8,60% | 7,19% | 10,63% | 8,51% | | 4,81% | 7,69% |
| **Average** | **8,75%** | **8,02%** | **8,55%** | **10,97%** | **5,11%** | **0,65%** | **5,67%** | **7,21%** |

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Sanofi House, Second Floor,
44 on Grand Central Office Park,
2 Bond Street, Grand Central
Ext 1, Midrand

Tel: +27 11 315 9197
Fax: +27 86 518 3579
info@finmark.org.za
www.finmark.org.za