Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | FINANCIAL INCLUSION, INFRASTRUCTURE & ACCESS

The Market for Remittance Services in Southern Africa

WORLD BANK GROUP

© 2018 The World Bank Group

1818 H Street NW
Washington, DC 20433
Telephone: 202-473-1000
Internet: www.worldbank.org
All rights reserved.

This volume is a product of the staff and external authors of the World Bank Group. The World Bank Group refers to the member institutions of the World Bank Group: The World Bank (International Bank for Reconstruction and Development); International Finance Corporation (IFC); and Multilateral Investment Guarantee Agency (MIGA), which are separate and distinct legal entities each organized under its respective Articles of Agreement. We encourage use for educational and non-commercial purposes.

The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Directors or Executive Directors of the respective institutions of the World Bank Group or the governments they represent. The World Bank Group does not guarantee the accuracy of the data included in this work.

Rights and Permissions

The material in this publication is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. The World Bank encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly.

All queries on rights and licenses, including subsidiary rights, should be addressed to the Office of the Publisher, The World Bank Group, 1818 H Street NW, Washington, DC 20433, USA; fax: 202-522-2422; e-mail: pubrights@worldbank.org.

This publication was produced with support from the UK Department for International Development.
Photo Credits: IFC/World Bank Photo Libraries, and Shutterstock

TABLE OF CONTENTS

LIST OF MAP

LIST OF TABLES

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House
AD	Authorized Dealer
ADLA	Authorized Dealer with Limited Authority
AML	anti-money laundering
ATM	automated teller machine
BIS	Bank for International Settlements
CCBG	SADC Committee of Central Bank Governors
CDD	customer due diligence
CFT	Combating the Financing of Terrorism
CPMI	Committee on Payments and Market Infrastructures
CPSS	Committee on Payment and Settlement Systems
EFT	electronic funds transfer
FICA	Financial Intelligence Centre Act
FDI	foreign direct investment
FSB	Financial Stability Board
GDP	gross domestic product
GPs	CPMI-World Bank General Principles for International Remittances Services
IMF	International Monetary Fund
KYC	Know Your Customer
MNO	mobile network operator
MTO	money transfer operator
POS	point of sale
PSDG	World Bank Payment Systems Development Group
PSMB	Payment Scheme Management Body
RCH	regional clearing house
RPW	remittance prices worldwide
RSP	remittance service provider
RTGS	real time gross settlement
SADC	Southern African Development Community
SIRESS	SADC Integrated Regional Settlement System
SWIFT	Society for Worldwide Interbank Financial Telecommunication
US$	United States dollar


COTONA
SCALAZA
Ex: FAZAL
TOUT PAIEMENT DOIT
EFFECTUER A LA CAISS
MERCI
ETO AMIN NY CAISSE
NO FANDOAVAM-BOLA
MISAOTRA
TOMPOKO

ACKNOWLEDGMENTS

This report has been prepared by the Payment Systems Development Group at the World Bank, Finance and Markets Global Practice. Technical guidance and leadership were provided by Marco Nicolì. The lead author was Nomsa Kachingwe, with substantial contribution from Emily Kaput. Inputs were provided by Gunhild Berg, Carlo Corazza, Isaku Endo, Seymour Fortescue, Uzma Khalil, and Alice Zanza. The team would like to thank the peer reviewers, Massimo Cirasino and Marek Hanusch, for their insightful comments on the report, and Paul Noumba for overall guidance.

The team extends thanks to the colleagues who have contributed to the country assessments throughout the years: Nana Yaa Boakye Adjei, Carlo Corazza, Isaku Endo, Alana Fook, Seymour Fortescue, Nomsa Kachingwe, Marco Nicolì, and Alice Zanza.

This report would not have been possible without the inputs and cooperation of representatives from the SADC regulatory authorities, government agencies, and private sector institutions in the countries that participated in the remittance market assessments. The team would like to express its gratitude to each of them.

The team wishes to thank the UK Department for International Development for the support provided for this publication.

Lastly, we thank Nancy Morrison for editing this publication and Aichin Lim Jones for design and production services.


KWACHA
MD 4664420 C
K5
BANK OF ZAMBIA
50
FIFTY K
50
KWACHA
KASUNGU NATIONAL PARK
RESERVE BANK OF MALAWI
RESERVE BANK OF MALAWI
BANKI FOIBEN'I MADAGASIKARA
FIVE NAIRA
STATE OF ERITREA
Legal tender of Eritrea
50
EH0258980
CENTRAL BANK OF KENYA
SHILINGI HAMSINI
LEGAL TENDER FOR FIFTY SHILLINGS
FIRST PRESIDENT OF KENYA
MZEE JOMO KENYATTA
FOR THE BOARD OF DIRECTORS
GOVERNOR
MEMBER
SOUTH AFRICAN RESERVE BANK
GOVERNOR
20
20
Legal tender of

EXECUTIVE SUMMARY

Remittances are an important source of income for households in the Southern African Development Community (SADC), as well as a crucial source of foreign exchange for countries in the region. In 2016, an estimated US$575 billion in remittances was received worldwide, of which US$2.5 billion was received by households in SADC countries.[1] These remittance inflows account for a sizeable proportion of GDP and, after foreign direct investment (FDI), are the largest source of foreign currency for countries the region.[2] Remittances therefore have the potential to contribute to economic development and poverty reduction in SADC—by enabling low-income households to meet day-to-day consumption needs, invest in better health care and education, and grow their businesses and communities.

Despite the relatively large inflows of remittances to SADC, the cost of sending money to and within the region is significantly higher than other regions in the world. The average cost of sending US$200 to SADC countries was 12.64 percent in Q1:2018, compared to the global average cost of 7.13 percent.[3] Sending money from South Africa to other SADC countries is even more expensive, averaging 17.08 percent in Q1:2018.[4] Relative to the low incomes of migrant workers, such high costs can be prohibitive. Consequently, remittances within SADC are often channeled through unregulated or informal channels, such as transport companies, hawala operators, or carried in hand by friends and family. While unregulated channels may be more convenient and affordable, they do present risks to both consumers and the financial system.

To address the high cost of remittances globally, the World Bank has been involved in a number of initiatives aimed at improving the efficiency and safety of the market for remittances. In 2007, the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements (BIS) and the World Bank published the General Principles for International Remittance Services, aimed at providing guidance on developing safe and efficient remittance services. In 2009, the G-8 established the "5x5 objective," to reduce the cost of remittances by 5 percentage points within 5 years. In 2015, the United Nations (UN) adopted the Sustainable Development Goals (SDGs); SDG 10.c aims to reduce to less than 3 percent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 percent.

At the regional level, the SADC Committee of Central Bank Governors (CCBG) has led several initiatives aimed at enhancing the regional payment system infrastructure, also with a focus on reducing the cost of remittances within the region. In 2009, the CCBG established the SADC Payment System Integration Project with the objectives to:

- Harmonize the legal and regulatory framework to facilitate regional clearing and settlement arrangements
- Implement an integrated regional cross-border payment settlement infrastructure
- Implement an integrated regional cross-border, post-trade clearing infrastructure

1 Annual estimates from World Bank Annual Remittances Data (updated as of April 2017). http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data.
2 World Bank (2011).
3 World Bank, Remittances Prices Worldwide (RPW), 2018.
4 World Bank, Remittances Prices Worldwide (RPW), 2018.

- Establish a cooperative oversight arrangement based on the harmonized regulatory framework for regional cross-border payment and settlement among member countries.

To date, notable achievements have been made in the development and modernization of the regional payment and settlement systems. These include the launch of the SADC Interbank Regional Settlement System (SIRESS) in 2013, the development of a model law for national payment systems, and the ongoing implementation of a Regional Clearing House (RCH) to promote efficient, low-cost cross-border retail payments, including mobile money and remittances.

Based on the General Principles for International Remittance Services, the World Bank has undertaken assessments of the market for remittances in nine SADC countries. Between 2011 and 2017, the Payment Systems Development Group (PSDG) of the World Bank conducted remittance market assessments in Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe. Drawing on these assessments, this report provides an overview of the key issues and challenges in the market for remittances in SADC.

This report highlights that in addition to the high cost of remittance services, several constraints continue to impede efforts to improve the market for remittances in SADC. On the demand side, low levels of financial inclusion, coupled with limited consumer awareness of regulated remittance services and a lack of identification (ID) documentation, has resulted in limited usage of regulated channels for remittances. FinMark Trust (2015) estimates that 25 percent of adults in SADC reported using regulated remittance services, while 8 percent reporting using informal channels such as friends and family. Research conducted by the World Bank (2011) further suggests that close to 80 percent of migrants in South Africa sent money home—largely to other African countries—via informal channels. While in recent years the emergence of new digital remittance services has begun to shift remittance flows toward regulated channels, the volume of remittances flowing through regulated channels in the region remains limited, with implications for achieving economies of scale.

Supply-side constraints, such as legal and regulatory restrictions, limited competition, and bottlenecks in the payment system, are key challenges facing the remittances market in SADC. The legal and regulatory requirements in some countries have created barriers to entry for money transfer operators (MTOs) and other innovative remittance service providers (RSPs), as well as raised barriers to access for consumers, particularly where onerous Know-Your-Customer (KYC) requirements are imposed. In addition, the presence of exclusivity conditions in some countries, and the lack of fair and equitable access to the payments system infrastructure for MTOs and non-bank RSPs, have limited competition. Finally, bottlenecks in the national and regional payment systems infrastructure, including lack of interoperability of payment networks and instruments and inadequate coverage of remittance service access points in rural and remote areas, continue to constrain the efficient provision of remittance services to consumers.

Notwithstanding these challenges, several new and innovative MTOs are emerging in a few remittance corridors in SADC. Leveraging new technologies, MTOs have begun offering innovative mobile and online-based remittance services, placing competitive pressure on incumbent MTOs, particularly in the South Africa–Zimbabwe and South Africa–Lesotho remittance corridors. Scaling up these new services, encouraging widespread consumer uptake, and promoting an enabling environment for innovation will be crucial to further reducing the cost of remittances in the region.

This report proposes actions that should be considered by both public authorities and RSPs to achieve sustained reduction in the cost of remittances and to improve the quality of remittance services in SADC. Table ES1 provides a summary of the key recommendations that, if implemented, could have significant impact on the market for remittances in SADC. The SADC CCBG and other relevant bodies, including the SADC Banking Association Payment Scheme Management Body (PSMB), are well-positioned to play a leading role in guiding the implementation of these recommendations, as well as other ongoing initiatives in the region.

Table 1. Recommendations to Improve the Market for Remittance Services in SADC

Component	Recommended Action	Responsible Entities
Legal and regulatory framework	Apply the regulatory framework for remittance services in a proportionate manner to reduce the compliance burden for RSPs, and to ensure that a level playing field is created for all types of RSPs.	Public authorities (national and SADC levels).
Oversight and supervision	Build staff capacity within oversight and supervisory authorities. Undertake peer-to-peer learning among relevant regulatory authorities to share best practices on supervision of RSPs.	Public authorities (national and SADC levels).
Consumer protection	Define the framework for financial consumer protection and dispute resolution. Clarify consumer protection responsibilities of RSPs. Provide guidance to improve transparency of pricing for remittance services.	Public authorities (national and SADC levels).
Financial inclusion and financial awareness	Continue efforts to encourage awareness and uptake of transactional accounts and electronic payment instruments linked to remittance services.	Public authorities (national and SADC levels).Remittance service providers.
Payment systems infrastructure	Continue efforts to enhance SIRESS and integrate automated clearing houses (ACHs) in the region. Develop incentives to encourage expansion of access points to rural and remote areas.Facilitate interoperability in national and regional payment system.	Public authorities (national and SADC levels).Remittance service providers.
Competition	Restrict or ban exclusivity conditions. Ensure fair and equitable access to the payment system and market infrastructure for RSPs.	Public authorities (national and SADC levels).Remittance service providers.
Data and research	Improve the quality of data and statistics on remittance trends in the region. Undertake research on usage of unregulated and informal remittances services.	Public authorities (national and SADC levels).Remittance service providers.
Coordination	Create a forum for dialogue and coordination of initiatives between RSPs and public authorities within SADC.	Public authorities (national and SADC levels).Remittance service providers.


CK YOUR CHANGE
FORE YOU LEAVE,
PACK R17-00
RAINBOW-CHICKEN
PORTIONS 2KG
@ R45-00
R15-00

INTRODUCTION

Remittances have the potential to make a significant contribution to poverty reduction and economic development in SADC. World Bank (2011) research shows that remittances raise incomes, and enable households to increase consumption as well as invest in better quality health care and education. Household surveys conducted as part of the Africa Migration Project in 2009 also find that remittance inflows in Africa, in particular, tend to support investments in land, housing, and agricultural equipment.[4] Recent research by Hanush and Vaaler (2015) further shows that remittances can boost new businesses, especially in countries where access to capital is constrained. Remittances therefore have the potential to play an important role in alleviating poverty and supporting economic development in the region.

Remittance flows to households in SADC countries amounted to US$2.5 billion in 2016, out of a total US$575 billion received worldwide.[6] Considering unrecorded remittance flows—through both regulated and unregulated channels—the true volume of remittance flows to SADC countries is likely to be considerably higher than indicated by official estimates. For several countries in SADC, the bulk of remittances originate from other countries within the region, most notably South Africa. Official estimates indicate that approximately 29 percent of migrants residing in South Africa are from other SADC countries,[7] suggesting that South Africa is an important "source country" for remittances in the region.

Despite the relatively large flows of remittances to and within SADC, the costs of sending money to SADC countries are among the highest in the world. The average cost of sending US$200 to SADC countries was estimated to be 12.64 percent, compared to the global average cost of 7.13 percent in Q1:2018.[8] Sending money from South Africa to other SADC countries is even more expensive: the average cost to send US$200 from South Africa to other SADC countries was 17.08 percent in Q1:2018, with costs ranging from 13.47 percent in the South Africa–Lesotho corridor to 20.49 percent in the South Africa–Angola corridor.

Recognizing the importance of remittances for socioeconomic development, global policy makers and development partners have undertaken several initiatives to reduce global remittance costs. In 2007, the Bank for International Settlements' Committee on Payment and Settlement Systems (CPSS)—now the Committee on Payments and Market Infrastructures (CPMI)—and the World Bank published the General Principles for International Remittance Services to provide guidance on developing safe and efficient remittance services (see Box 1). In 2009, the G-8 established the "5x5 objective," an initiative aimed at reducing the global average cost of remittances by 5 percentage points within 5 years. The objective was confirmed by the G-20 in 2014, and a new objective to reduce the cost of remittances to 3 percent was adopted in the 2030 United Nations Sustainable Development Goals (SDG 10.c).

[5] World Bank (2011).
[6] Annual estimates from World Bank Annual Remittances Data (updated as of April 2017), http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data.
[7] This figure is likely an underestimation, as a large number of migrants residing in South Africa may be undocumented or may choose not to reveal their migrant status. FinMark Trust (2015) estimates that there could feasibly be up to 4 million migrants in South Africa, of which upwards of 55 percent are from SADC countries.
[8] This is calculated as the average cost to send US$ 200, as reported by the World Bank Remittances Prices Worldwide database.

Box 1. The CPMI-World Bank General Principles for International Remittance Services

General Principle 1: Transparency and Consumer Protection
The market for remittance services should be transparent and have adequate consumer protection.

General Principle 2: Payment System Infrastructure
Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

General Principle 3: Legal and Regulatory Environment
Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

General Principle 4: Market Structure and Competition
Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

General Principle 5: Governance and Risk Management
Remittance services should be supported by appropriate governance and risk management practices.

Roles of Remittance Service Providers and Public Authorities

A. The role of remittance service providers. Remittance service providers should participate actively in the implementation of the General Principles.

B. The role of public authorities. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

Source: CPMI-World Bank (2007).

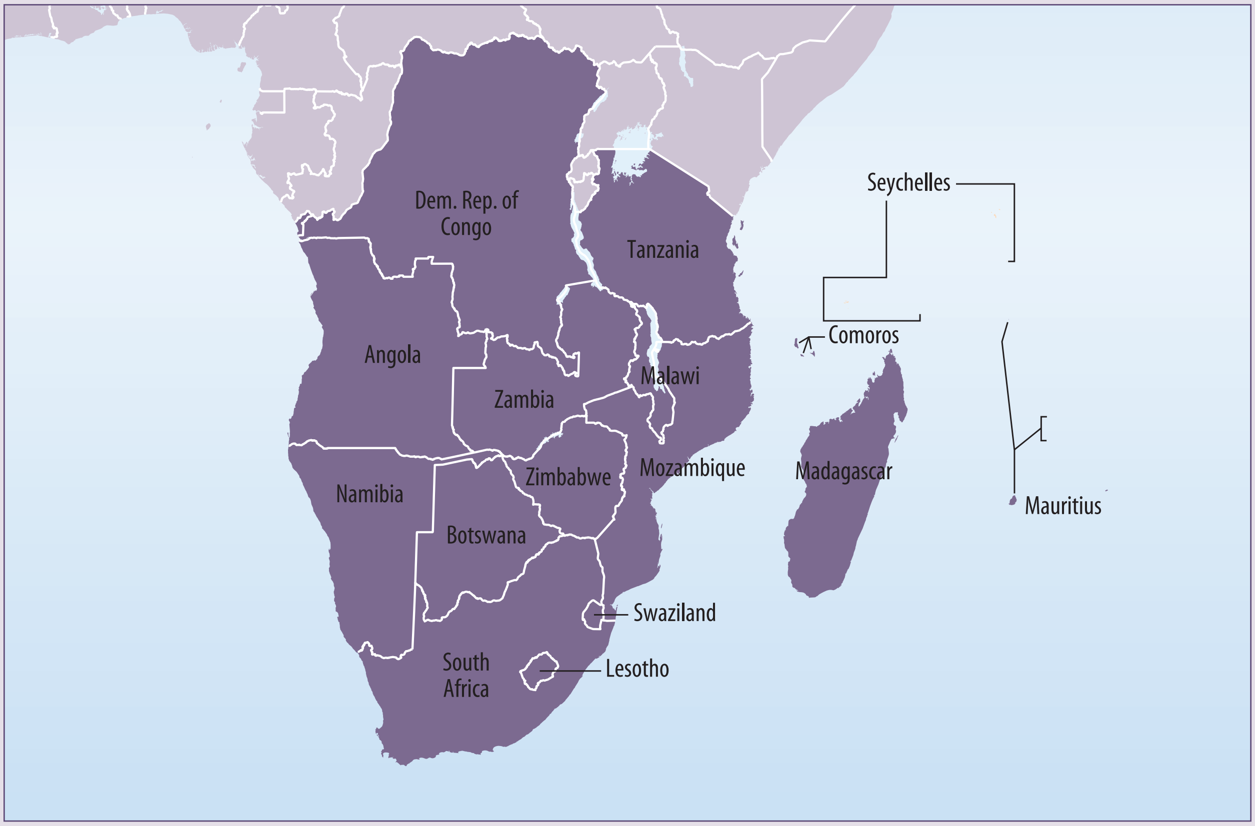
At the regional level, the SADC Committee of Central Bank Governors (CCBG) was established to promote cooperation among central banks in the region, as well as to coordinate initiatives aimed at improving the regional financial system, including for remittances. The CCBG leads various initiatives driven by subcommittees in the areas of banking supervision, financial markets, and payment systems, among others. Under the payment systems subcommittee, the SADC Payment Systems Project was launched in 1995 in recognition of the importance of payment systems in supporting economic activity and development. Notable achievements of the SADC Payment Systems Project have included the launch of the SADC Interbank Regional Settlement System (SIRESS) in 2013; the establishment of a SADC Banking Association Payment Scheme Management Body (PSMB)—under the SADC Banking Association—comprising representatives of all banks that are participating in SIRESS; the development of a model law for national payment systems; the establishment of a regional payment systems oversight body, as well as the ongoing implementation of a Regional Clearing House (RCH) to promote efficient, low-cost, cross-border retail payments, including mobile money and remittances.

Drawing on World Bank assessments of remittance markets in several SADC countries, this report provides an overview of the key issues and challenges facing the remittances market in the region. Since 2011, the World Bank has undertaken remittance market assessments, based on the CPMI-World Bank General Principles for International Remittance Services, in nine SADC countries: Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, Tanzania, Zambia, and Zimbabwe. This report highlights the key issues and challenges facing the remittances market in SADC, focusing on the payment system aspects of remittances, and drawing on the findings of the World Bank assessments in the nine countries. High-level recommendations on actions that can be taken to reduce the cost and improve the market for remittances are also proposed. The report begins with an overview of remittances in SADC in the next section. The key issues and challenges are discussed in the third section. The fourth section concludes with high-level recommendations for both public authorities and remittance service providers (RSPs).

OVERVIEW OF MIGRATION AND REMITTANCES IN THE SADC REGION

SADC was established in 1992 with a focus on strengthening regional integration and cooperation for socioeconomic development in Southern Africa. The regional community is comprised of 15 Southern African member countries: Angola, Botswana, Democratic Republic of the Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe (see Map 1).

Map 1. Southern African Development Community (SADC) Countries



Note: At the time of compiling this report, Comoros was not a SADC member and for this reason it has not been covered in the analysis.

The SADC region has a long history of migration, with many SADC migrants choosing to settle in South Africa. Migration to and from SADC countries is driven by a number of factors, ranging from a lack of economic opportunities to political instability in home countries. As indicated in Table 2, South Africa hosts a sizeable number of migrants from other SADC countries, with SADC migrants comprising close to 50 percent of total migrants in South Africa. Zimbabwe has the highest number of migrants living in South Africa, followed by Mozambique, Lesotho, and Namibia. SADC countries with the least number of migrants residing in South Africa include the Democratic Republic of Congo, Tanzania, Mauritius, Seychelles, and Madagascar.

Table 2. SADC Migrant Population in South Africa, 2017

Country of Origin	Number of Migrants	Percent of Total Migrant Population in South Africa
Zimbabwe	649,385	16%
Mozambique	381,386	9%
Lesotho	312,537	8%
Namibia	174,043	4%
Malawi	102,327	3%
Zambia	92,075	2%
Swaziland	87,362	2%
Botswana	69,160	2%
Angola	65,716	2%
Congo, Democratic Republic	50,340	1%
Tanzania	15,823	0%
Mauritius	14,043	0%
Seychelles	1,098	0%
Madagascar	707	0%
Total	**2,016,002**	**49.94%**

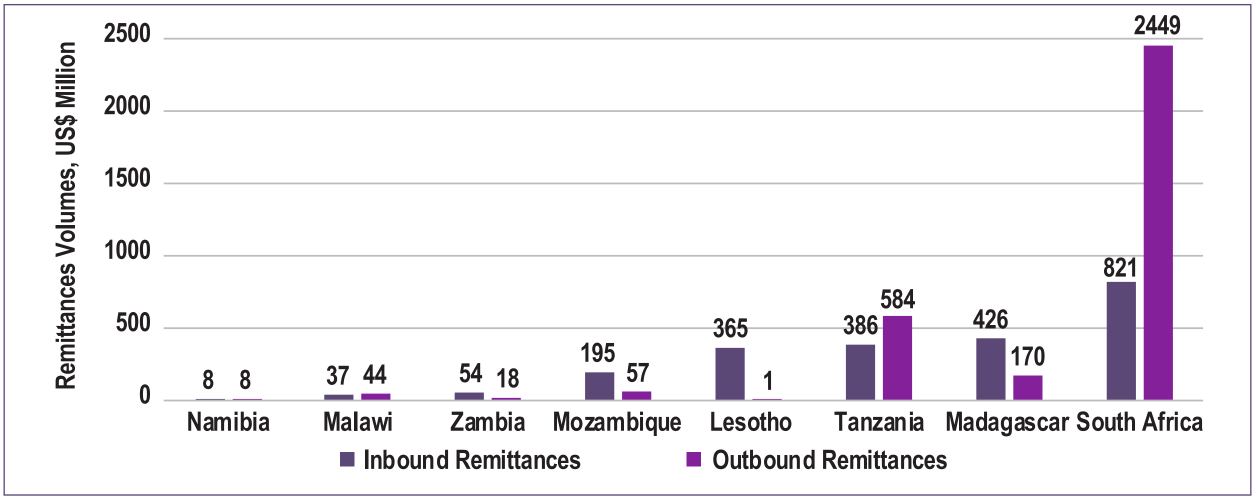
Source: United Nations, Department of Economics and Social Affairs, Population Division (2017).

South Africa and Tanzania have the largest outbound remittance markets, in terms of the volume of remittance outflows in 2015. According to the 2015 World Bank Bilateral Remittances Matrix,[9] remittance outflows from South Africa amounted to US$2.4 billion, making it the largest outbound remittances market in SADC (Figure 1). The second-largest outbound remittances market in SADC is Tanzania, although the volume of remittance outflows from Tanzania accounted for less than 25 percent of remittance outflows from South Africa. Except for South Africa and Tanzania, most of countries in SADC are net receivers of remittances. Lesotho, Madagascar, and Mozambique are the largest net recipients of remittances within SADC.[10]

[9] The Bilateral Remittances Matrix reports official remittance flows by sending and receiving country. Estimates are from the World Bank Bilateral Remittances Matrix as of 2015 (updated in 2016). http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

[10] Official data for Zimbabwe are not available for 2015, but internal estimates indicate that the country received close to US$1 billion in remittances in 2015, making Zimbabwe one of the largest remittance recipients in SADC.

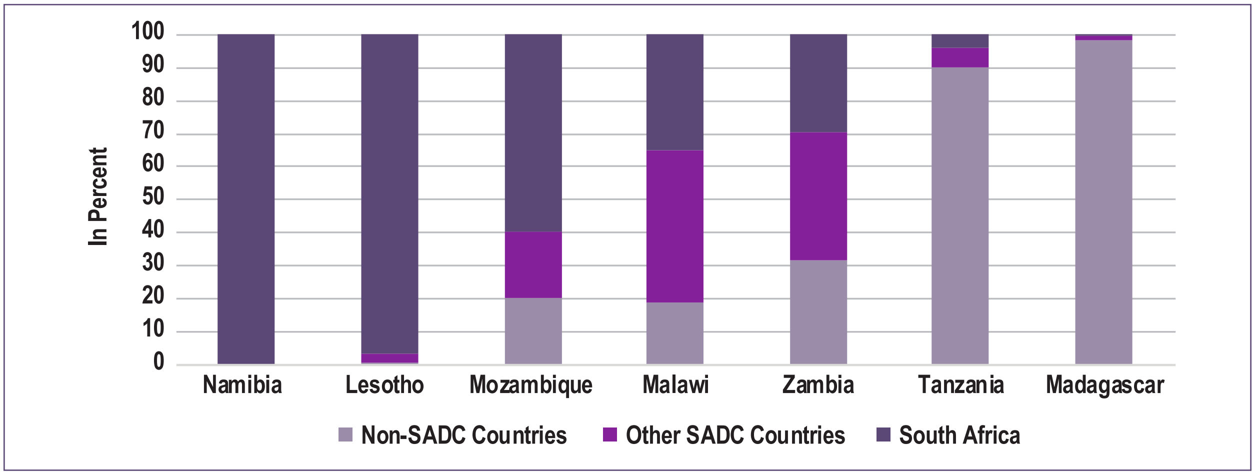
Figure 1. Volume of Inbound and Outbound Remittance Flows in Selected SADC Countries, 2015



Source: World Bank (2016) Bilateral Remittances Estimates for 2015.
Note: Data are included for SADC countries where a World Bank assessment was performed. Data for Zimbabwe were not available, although the Reserve Bank of Zimbabwe estimates indicate that in 2015 remittance inflows amounted to US$939 million.

For several SADC countries, a substantial proportion of remittance inflows are from other SADC countries, particularly South Africa. As indicated in Figure 2, official estimates of intra-SADC remittance flows are considerable.[11] In 2015, more than 50 percent of remittance inflows to Lesotho, Malawi, Mozambique, and Zambia originated from within SADC. For Lesotho, nearly 97 percent of remittance inflows originated in South Africa, while for Mozambique, this figure stood at 59 percent.

Figure 2. Proportion of Remittances Inflows by Origin of Remittances in Selected SADC Countries, 2015

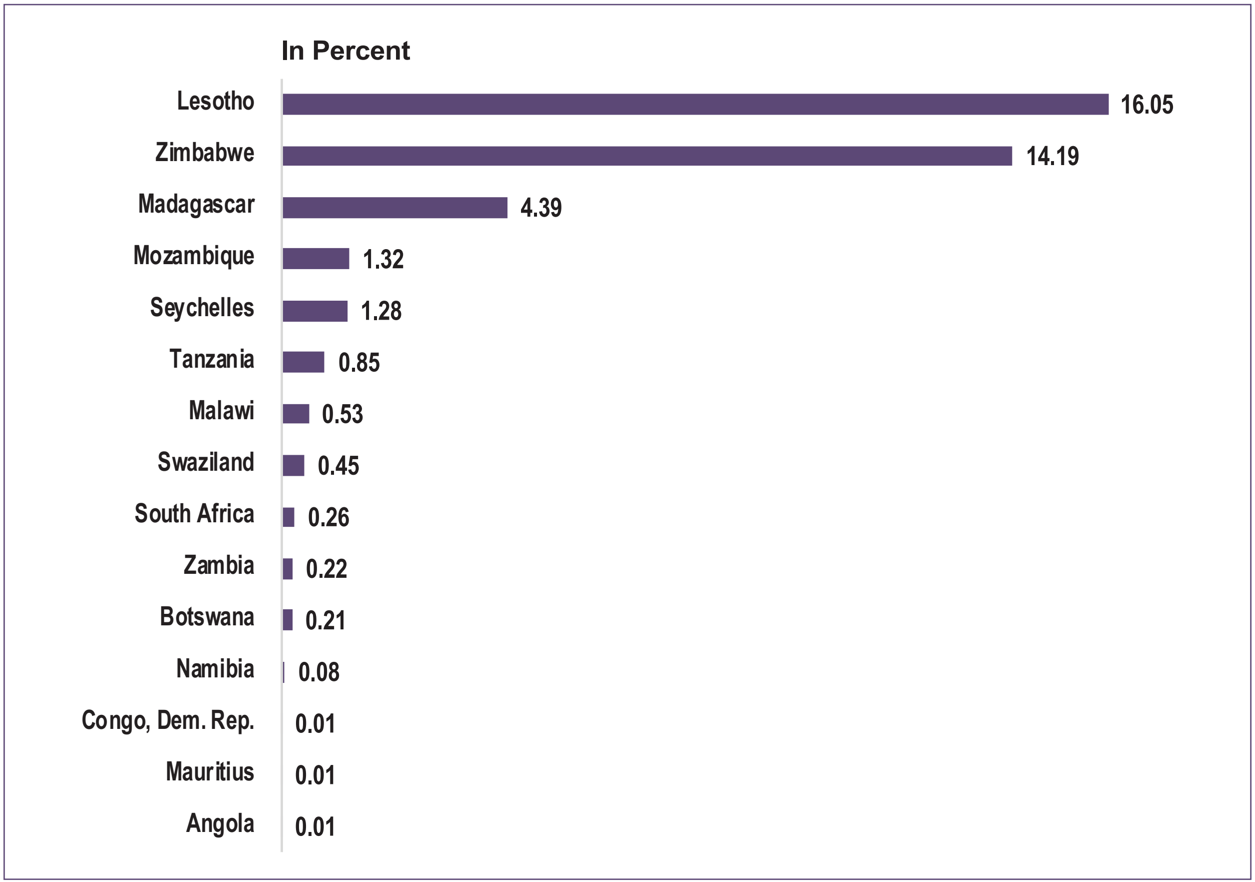


Source: World Bank (2016) Bilateral Remittances Estimates for 2015.
Note: Data are included for SADC countries where a World Bank assessment was performed. Data for Zimbabwe were not available at the time of conducting the assessment.

[11] Official estimates of remittance flows to and within SADC are likely understated due to the scale of undocumented migration within the region, as well as the prevalent use of unregulated remittance channels and weak official data in several countries.

Among SADC countries, Lesotho, Zimbabwe and Madagascar have the highest dependence on remittances. In 2015, remittance inflows made up 16.05 percent and 14.19 percent of GDP in Lesotho and Zimbabwe, respectively. Madagascar has the third highest dependence on remittances, with remittance inflows accounting for 4.39 percent of the country's GDP. Figure 3 displays the distribution of remittance dependencies of SADC countries in 2015.

Figure 3 Dependence on Remittances by SADC Countries, 2015



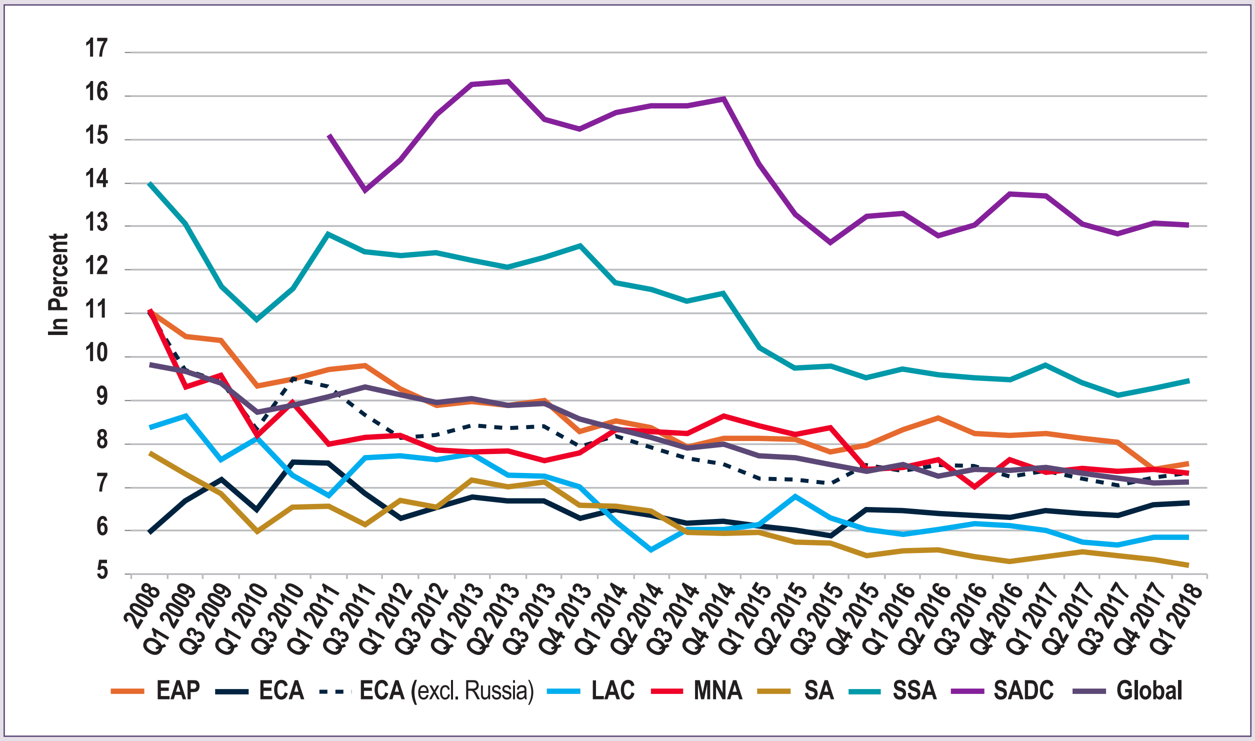
Source: World Bank World Development Indicators, 2016.
Note: Calculated as the volume of personal remittances received (in current U.S. dollars) in 2015 [from World Bank staff estimates based on IMF balance of payments data, http://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT] divided by the GDP (in current U.S. dollars) in 2015 [from World Bank national accounts data, OECD National Accounts, http://data.worldbank.org/indicator/ NY.GDP.MKTP.CD].

KEY ISSUES AND CHALLENGES IN THE SADC REMITTANCES MARKET

High Cost of Remittances

The cost of sending remittances to countries in SADC is significantly higher than other regions in the world. The cost of sending a remittance is typically composed of a transfer fee (charged in the originating currency) and a foreign exchange rate margin.[12] According to the World Bank Remittances Prices Worldwide (RPW) database,[13] the total average cost of sending US$200 to SADC countries in Q1:2018 was 12.64 percent, compared to the global average cost of 7.13 percent. Figure 4 illustrates that despite the overall decline in the cost of remittances, the cost of sending remittances to the SADC region remains considerably higher than other regions in the world.

Figure 4 Costs to Send Remittances to SADC versus Other Regions, Q1:2018



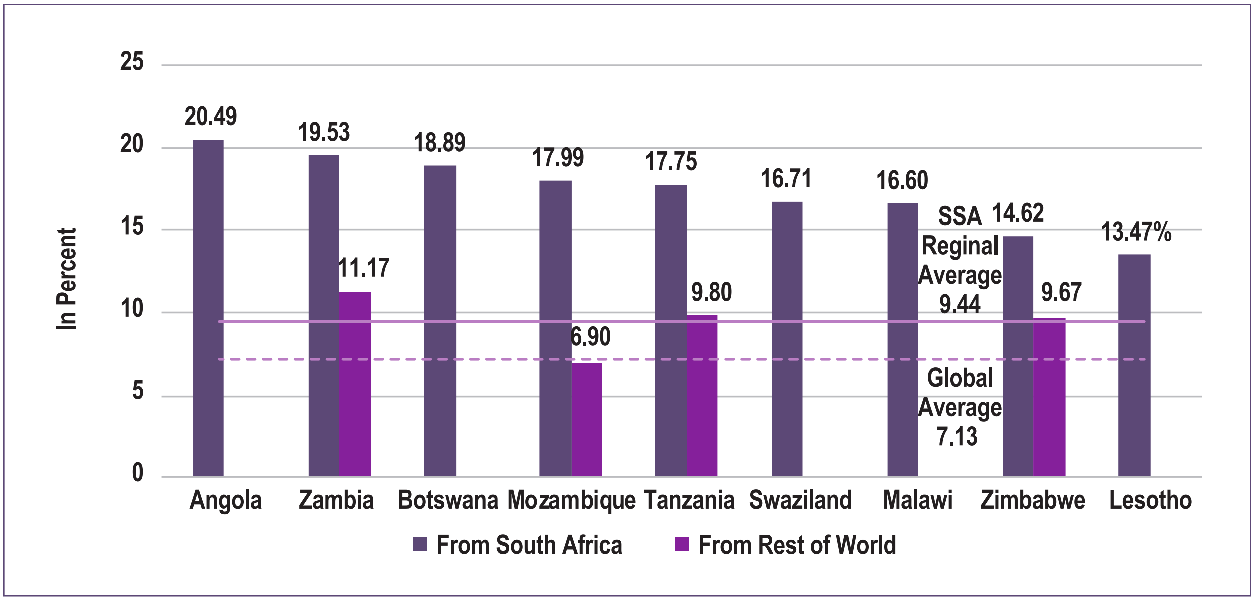
Source: World Bank, Remittances Prices Worldwide (RPW), 2018.
Note: Percentages based on the cost of sending US$200. EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SA = South Asia; SSA = Sub-Saharan Africa. worldbank.org/indicator/ NY.GDP.MKTP.CD].

[12] Other charges may be applied after the remittance transaction and can include charges paid by the recipient if remittances are delivered directly into a bank account, or into a mobile wallet where charges may be applied for the withdrawal of cash at a mobile money agent. The RPW captures only the transfer fee and foreign exchange margin.
[13] Available at http://remittanceprices.worldbank.org.

The remittance corridors between South Africa and other SADC countries, in particular, are estimated to be among the most expensive in the world. The total average cost to send US$200 from South Africa to other SADC countries was 17.08 percent in Q1:2018, compared to the average cost of 8.98 percent when sending the same amount from other countries (not including South Africa). As shown in Figure 5, the cost to send US$200 from South Africa to selected SADC countries ranged from 13.47 percent in the South Africa–Lesotho corridor, to 20.49 percent in the South Africa–Angola corridor.

Remittance costs vary across different types of RSPs, and banks are the costliest channel for sending remittances from South Africa to other SADC countries. Figure 6 illustrates that the costs of sending remittances from South Africa to other SADC countries is significantly lower through money transfer operators (MTOs) than through banks. This trend has been consistent over time. Specifically, MTOs charged a total average cost of 13.19 percent in Q1:2018, compared to 23.20 percent for banks. Between Q1:2016 and Q1:2018, the difference between bank and MTO costs has consistently been greater than approximately 5 percentage points and was more than 10 percentage points in Q1:2018. Nevertheless, sending remittances through MTOs from South Africa to other SADC countries is relatively expensive, especially when compared to other corridors: the international MTO average cost for sending US$200 was 8.16 percent in Q1:2018, and the average MTO cost among G-20 countries was 9.23 percent.[14] While banks may be little used for low-value remittances in SADC, addressing the drivers of the cost for bank remittances is essential to reducing the overall cost of remittances, especially in countries where banks are one of few institutions permitted to offer remittance services.

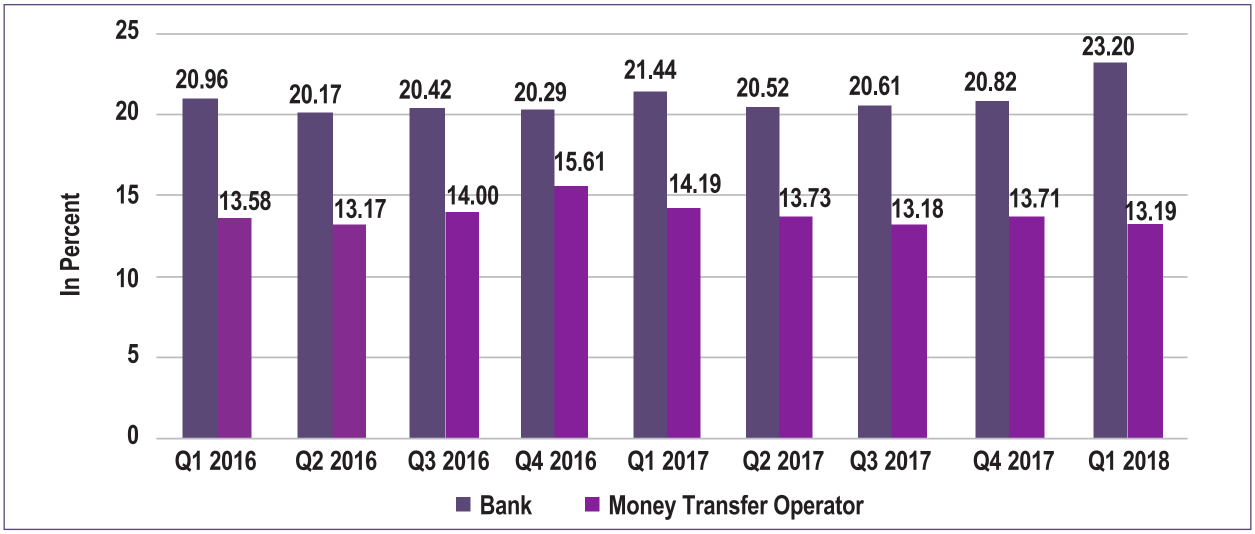
Figure 5. Average Cost of Sending US$200 from South Africa to Selected SADC Countries, Q1:2018



Source: World Bank, Remittances Prices Worldwide (RPW), 2018.
Note: Countries included are those with data collected by RPW for the South Africa corridor. Of these countries, Mozambique, Tanzania, Zambia, and Zimbabwe have data on remittances prices for corridors other than South Africa, allowing a comparison with remittance prices from "rest of the world." SSA = Sub-Saharan Africa.

[14] World Bank, Remittance Prices Worldwide. RPW does not yet include data on the Shoprite South Africa–Lesotho corridor.

Figure 6. Comparison of Remittance Costs from South Africa via MTOs and Banks



Source: World Bank Remittance Prices Worldwide, 2018.
Note: MTO = money transfer operator.

The high cost of sending remittances to and within SADC is influenced by several demand- and supply-side factors. On the demand side, low levels of financial inclusion, jointly with limited financial education and consumer awareness, have contributed to low usage of regulated remittance services, limiting the ability of RSPs to reach economies of scale. Finmark Trust (2015) research indicates that remittance services are used by 33 percent of adults in SADC. Of these adults, 5 percent use bank channels, 20 percent use other formal channels (such as MTOs), and 8 percent reported using unregulated channels including friends and family and other informal channels. Previous research conducted between 2004 and 2005 showed that remittances "carried by hand" accounted for roughly 50 percent of remittances in Southern Africa.[15] In 2009, household surveys conducted as part of the Africa Migration Project further indicated that close to 80 percent of migrants in South Africa used informal channels to send remittances home—largely to other African countries.[16] Nevertheless, the emergence of new digital MTOs serving the SADC market in recent years has begun to shift remittance flows toward regulated channels, although the flow of remittances flowing through regulated channels in the region remains limited. Further stimulating demand and achieving scale for regulated remittance services will be crucial to reducing the cost of remittances in the SADC region.

On the supply side, several regulatory and infrastructure bottlenecks continue to constrain the growth and efficiency of the regulated remittances market. As will be discussed further in the third section, the legal and regulatory barriers in some markets in SADC are fairly onerous, impairing the efficiency and development of the remittances market in the region. For instance, in some countries, requirements that MTOs partner with a bank or other licensed financial institution to offer remittance services act as barriers to entry for new, low-cost RSPs. The imposition of excessive foreign exchange reporting requirements, as well as Customer Due

[15] The prevalence of informal channels is not unique to the SADC region. Informal remittance services, such as hawala and hundi, are popular in the Middle East and South Asia, while informal remittance flows in Eastern Europe and Central Asia are also significant. See IMF (2009) and World Bank (2005).
[16] World Bank (2011).

Diligence (CDD) requirements for Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) purposes that are not proportionate to the risks, raise compliance costs for RSPs. Other supply-side challenges include limited competition in some countries and deficiencies in the payment system infrastructure, including limited geographic reach of remittance and payment service access points in rural areas, and bottlenecks in the national and regional clearing and settlement systems. Addressing these and other challenges will be essential to achieving sustained cost reduction and improving the quality of remittance services in SADC.

Legal and Regulatory Barriers

The legal and regulatory framework for remittance services has considerable influence on the cost, availability, and accessibility of remittance services, as well as on the structure of the remittances market. According to the General Principles for International Remittances Services (GP 3), remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework (see Box 1). A sound framework minimizes the risks to both consumers and RSPs, while a predictable framework ensures that there is clarity and consistency in the regulation of remittance services. A non-discriminatory framework is one in which the legal and regulatory requirements are equally applied to different types of RSPs providing equivalent services, and a proportionate framework is one that is not overly restrictive relative to the number and value of remittances.[17] Based on the World Bank remittance assessments conducted in the selected SADC countries, the main legal and regulatory barriers impacting the remittances market were found to be: licensing requirements for RSPs, and in particular for MTOs; foreign exchange controls and reporting requirements, and AML/CFT compliance requirements. These are discussed in turn next.

Licensing Requirements

In a number of SADC countries, the licensing framework places restrictions on the ability of MTOs to offer remittance services independently of banks or other licensed financial institutions. The licensing and regulatory requirements for MTOs and other RSPs vary across SADC countries.

Table 3 provides a snapshot of the types of RSPs that are permitted to provide remittance services in the region.

Table 3. Overview of RSPs Permitted to Offer Remittance Services in Selected SADC Countries

Country	Commercial Banks	MTOs (Independent)	MTOs (with Licensed Institution)	Other Non-bank RSPs*
Lesotho	√	√	√	√
Madagascar	√	×	√	×
Malawi	√	√	√	√
Mozambique	√	×	√	×
Namibia	√	×	√	√
South Africa	√	√	√	√
Tanzania	√	×	√	×
Zambia	√	√	√	√
Zimbabwe	√	√	√	√

Source: World Bank remittance assessments.
Note: MTOs = money transfer operations; RSPs = remittance service providers.
* Other non-bank RSPs include bureaux de change, payment service providers, mobile network operators, and other non-bank financial institutions that are permitted to offer remittance services within the legal and regulatory environment of the respective country.

[17] CPMI-World Bank General Principles for International Remittances, 2007. http://www.bis.org/cpmi/publ/d76.pdf.

Commercial banks are typically permitted to provide remittance services as part of the banking services prescribed under the relevant banking law and regulations. On the other hand, in five of the nine countries surveyed as part of the World Bank remittance assessments, MTOs and other non-bank financial institutions are required to partner with a bank or other licensed financial institution to offer remittance services (see Box 2).

In recent years, regulations to enable MTOs to operate independently of banks and other licensed financial institutions have been introduced in Lesotho, Malawi, South Africa, Zambia, and Zimbabwe. In South Africa, to offer cross-border remittance services, MTOs were previously required to partner with a licensed Authorized Dealer (AD) of foreign exchange, or an Authorized Dealer with Limited Authority (ADLA) such as a bureau de change. In 2014, the South African Reserve Bank (SARB) introduced a new category of ADLAs ("Category 3") to allow MTOs to operate independently of ADs and ADLAs.[18] Zimbabwe introduced a similar category of ADLAs, enabling internationally and locally incorporated MTOs to offer remittance services independently of banks or other financial institutions; while the licensing frameworks in Lesotho, Malawi, and Zambia enable MTOs to operate independently either as licensed payment system businesses or licensed financial institutions (see Table 4).

Box 2. Regulatory Restrictions on Independent MTOs in Selected SADC Countries

In **Tanzania**, Bank of Tanzania (BOT)* regulationa and practices require MTOs to operate in partnership with a bank or other licensed financial institution, including bureaux de change, and in the premises of a financial institution.** As a result of these requirements, MTOs have created a network of agents and sub-agents in partnership with commercial banks, non-bank financial institutions (including the Tanzania Posts Corporation and community banks in rural areas), and some microfinance institution (such as FINCA and PRIDE). Most financial institutions have already established agent or sub-agent agreements with an MTO. However, this regulation represents a constraint to the entry of new MTOs, as well as to the development of a wider network of remittance disbursing and collecting agents. MTOs cannot expand their network to other types of locations (such as proprietary agencies, grocery stores, gas station, and merchants); thus, the number and coverage of locations remain limited, especially in rural and remote areas where most of the Tanzanian population resides.

In **Madagascar**, the Foreign Exchange Code similarly mandates that cross-border remittances between residents and nonresidents of Madagascar can only be made by authorized intermediaries, which include commercial banks and the Paositra Malagasy (Madagascar Postal Service). As a result, MTO services are available at some banks and 58 post offices, with the result that cross-border remittances can be accessed at approximately 300 locations—a number that is inadequate for the size of the country.

In **Mozambique**, the regulatory framework recognizes banks as the main providers of payment services, and as such only banks are permitted to perform cross-border remittance services either as proprietary services or in partnership with MTOs. However, banking agents are permitted to process inward remittance transactions on behalf of banks.

Similarly, in **Namibia,** MTOs may offer remittance services only in partnership with Authorized Dealers (ADs) of foreign exchange—typically banks—or with Authorized Dealers with Limited Authority (ADLAs), such as a bureau de change.

Source: World Bank Assessment Reports..

* National Payment Systems Act 2015, http://www.bot.go.tz/PaymentSystem/GN-THE%20PAYMENT%20SYSTEMS%20LICENSING%20AND%20APPROVAL%20REGULATIONS%202015.pdf.

** In 2016, the Tanzanian authorities introduced a class of bureaux de change allowed to offer cross-border remittances, although no entities have applied for the license as yet.

[18] The Category 3 license also does not require MTOs to establish a physical location to offer cross-border remittance services, although in applying for the license, they are required to justify how the business will operate – for example, via a call center, field agents, or other third-party agents.

Table 4. Licensing Categories for Independent MTOs and Other Non-Bank RSPs in Selected SADC Countries

Country	Licensing Category	Permitted Activities
Lesotho	Tier IV Financial Institution: Foreign exchange bureaus, MTOs, and credit-only microfinance institutions.	Financial services as prescribed, including international remittance services either in partnership or proprietary services.
Malawi	Money Transfer Agents as specified in the Guidelines for Licensing & Operating Money Transfer Agents (MTA) under the Exchange Control Act 1989.	Business entities limited to receiving and sending monetary instruments for immediate delivery (spot transactions) under an agreement with credible international money transfer service provider duly licensed in the country of incorporation.
South Africa	ADLA Category 3: Independent MTOs.	Money remittance services only, and not exceeding R5,000 per transaction per day and R25,000 per month.
Zambia	Designated Payment Systems Business: Payment service providers, international or locally incorporated MTOs, MNOs.	Money transmission services (domestic and international), independently or in partnership with an external MTO.
Zimbabwe	ADLA Tier 1: Locally incorporated MTO with international MTO as a partner.	Inbound and outbound remittances.Buy and sell foreign exchange on a spot basis. US$100,000 collateral deposit paid to the RBZ.
	ADLA Tier 2: Locally incorporated MTO partnering with international MTOs or using own system to facilitate inbound remittances.	Buy and sell foreign exchange on a spot basis. Local MTOs using their own systems and not partnering with an international MTO – US$50,000 collateral deposit paid to the RBZ is required.

Source: World Bank Remittance Assessment Reports; relevant laws and regulations.
Note: ADLA = Authorized Dealer with Limited Authority; MNO = mobile network operator; MTO = money transfer operator; RBZ = Reserve Bank of Zimbabwe.

A number of new and innovative MTOs have emerged in the SADC countries where the regulatory framework allows for MTOs to operate independently. The remittances market in the SADC region has largely been dominated by well-established MTOs, such as Western Union and MoneyGram. However, after several countries introduced regulations to allow for independent MTOs, new online- and mobile-based MTOs have emerged. In South Africa, four MTOs have since been licensed as ADLA Category 3 institutions: Exchange4Free, Hello Paisa, Mama Money, and South-East Exchange Company. Similarly, in Zimbabwe, the local mobile network operator (MNO) Econet is currently partnering with several MTOs, including World Remit, Western Union, and MoneyGram; and other innovative services are offered by Mukuru, Hello Paisa, and Mama Money, among others. In Lesotho, both local MNOs have partnered with MTOs to offer cross-border mobile money remittances. In Zambia, one MNO has developed a proprietary cross-border mobile money remittance service available in several African countries. Similarly, in Malawi, Airtel offers its proprietary service, and other independent MTOs including Hello Paisa and Mukuru have built extensive agent networks to offer remittances services in the country. In contrast, in the countries where MTOs are required to partner with licensed financial institutions such as banks (as described in Box 2), the remittances market remains dominated by two or three incumbent MTOs.

There is scope for the regulatory environment in SADC countries to further promote the adoption of innovative technologies for remittance services. In the past, most e-money or electronic payment services, including mobile money and electronic remittance services, were regulated in an ad hoc manner—resulting in uncertainty and inconsistency in the legal framework for electronic payments and remittance services. In recent years, several SADC countries have introduced electronic money (e-money) regulations or guidelines that could pave the way for more innovative remittance services. Lesotho, Mozambique, Namibia, South Africa, Tanzania, and Zambia have issued e-money regulations; while, Malawi and Madagascar are in the process of finalizing them. In Zimbabwe, the National Payment Systems Act provides for the recognition, regulation, and oversight of all electronic payments; guidelines in support of retail payment systems and instruments (including e-money) were recently issued in 2017. However, a few restrictions on e-money remain: for example, in South Africa, only banks are permitted to issue e-money, while non-bank financial institutions must partner with a bank to offer e-money services. In Namibia and Mozambique, e-money transfers are limited to domestic remittances, limiting providers from leveraging e-money and other technologies for international remittance services.

Foreign Exchange Controls

Foreign exchange controls, and particularly restrictions on foreign exchange outflows, are in place in several SADC countries. Table 5 provides a summary of the foreign exchange restrictions relevant to remittances in selected SADC countries.

The foreign exchange reporting requirements imposed on MTOs are generally burdensome and disproportionate to the average value of remittances sent and received. In addition to obtaining information on foreign exchange outflows, regulatory authorities rely on foreign exchange reporting for information on financial flows for balance of payments purposes, as well as for monitoring compliance with AML/CFT requirements. However, these reporting requirements and other restrictions are often not proportionate to the value of remittances sent and received. For example:

- **Malawi:** Residents can remit up to US$1,000 per transaction, and there is no limit on inward remittances. There are measures in place to deal with violations of this limit; however, if the violation constitutes externalization of foreign currency, the consequences can be far reaching.

- **Mozambique:** Senders are required to provide information on the reasons for sending the funds, the relationship between the parties, the source of income, evidence of tax paid by the sender, and other evidence to justify the transaction. Furthermore, authorized banks are required to seek authorization for transactions above US$5,000.

- **Namibia:** For every transaction, regardless of the amount, customers are required to provide very specific and detailed documentation, including the ID of the receiver abroad when sending money from Namibia, proof of the stated reason for sending money (for example, school's invoice when paying for school fees), proof of legal residency in Namibia, and proof of source of income. Every transaction must then be reported by the RSP to the Exchange Control Division of the Bank of Namibia.

- **South Africa:** ADs and ADLAs are required to report foreign exchange transactions (inflows and outflows) daily, regardless of the size of the transaction. MTOs are also required to collect detailed information on the sender and receiver of remittances, including the full name, nationality, and identity number of the sender, as well as the full name and address of the receiver.

Table 5. Restrictions on Cross-Border Remittances in Selected SADC Countries

Country	Foreign Exchange Regulation	Restrictions on Cross-border Remittances
Lesotho	Exchange Control Act (amended 1990) Exchange Control Regulations 1989	• Free flow of funds within the CMA • No limit on inflows from non-CMA countries • Single discretionary allowance of R1 million per adult and R200,000 per child per calendar year for purposes of travel, study allowance, gifts, donations, and maintenance
Malawi	Exchange Control Act and Regulations 1989	• No limit on inflows • Limit of US$1,000 per transaction for outflows
Mozambique	Foreign Exchange Law 11/2009	• No limits on inflows • Approval needed from the Bank of Mozambique for outflows over US$5,000
Namibia	Currencies and Exchanges Act (amended 2011) Exchange Control Regulations (amended 2011)	• Free flow of funds within the CMA • No limit on inflows from non-CMA countries • Single discretionary allowance of R1 million per adult and R200,000 per child per calendar year for purposes of travel, study allowance, gifts, donations, and maintenance
South Africa	Exchange Control Regulations, 1961(amended 2012)	• Free flow of funds within the CMA* • No limit on inflows from non-CMA countries • Single discretionary allowance of R1 million per adult and R200,000 per child per calendar year for purposes of travel, study allowance, gifts, donations, and maintenance
Tanzania	Foreign Exchange Act 1992 Foreign Exchange Regulations (amended 2008)	• No limit on inflows • Exchange reporting required for outflows above US$10,000
Zambia	The Banking and Financial Services (Foreign Exchange Risk Management and Exposure) Regulations, 1996	• No limit on inflows • Outflows limited to K20,000 per transaction per day**
Zimbabwe	Exchange Control Act	• No limits on inflows • Outflows limited to US$500 per day, US$5,000 per month, and US$20,000 per year

Source: World Bank Remittance Assessment Reports; relevant laws and regulations.
Note: CMA = Common Monetary Area.
* There are no foreign exchange restrictions between banks of the CMA member countries in respect of cross-border transactions among themselves, although reporting requirements still apply. The application of exchange control within the CMA is governed by the Multilateral Monetary Agreement. Investments and transfers of funds in rand from/to South Africa to/from other CMA countries do not require the approval of the Financial Surveillance Department.
** As per the Circular on Revised Transaction and Balance Limits for Money Transmission and E-money Services.

While these requirements are rightly aimed at monitoring foreign currency flows and maintaining the integrity of the financial system, the costs of compliance are likely passed on to consumers. This contributes to the high costs of regulated remittance services, further incentivizing the use of more "convenient" but unregulated, or even illegal and costlier, channels for remittances.[19]

AML/CFT Compliance Requirements

AML/CFT requirements, particularly Know-Your-Customer (KYC) documentation requirements, have long been a significant barrier to access for remittance services. Consumers of remittance services have typically been required to provide various forms of documentation, including formal identification documents; proof of residential address; proof of a valid work or residence permit; and in some cases, proof of source of funds. In addition, RSPs have sometimes been subject to onerous identity verification and record-keeping requirements. However, as it is estimated that a sizeable proportion of migrants in the SADC region are undocumented or lack full KYC documentation, such requirements act as a further access barrier to regulated remittance services—especially where proof of a valid work or residence permit may be required.

In recognition of these barriers, some SADC countries have introduced tiered KYC requirements, or exemptions from certain AML/CFT regulations, particularly for low-value remittance services. For example, in 2016 the Bank of Zambia introduced tiered KYC guidelines for money transmission services. The guidelines allow individuals making domestic or international money transfers of up to K10,000 (equivalent to US$1,000) to provide only formal ID and no other additional documentation. For transactions and balances above K10,000 and up to K20,000, full KYC procedures should be followed. Separate requirements are also provided for small-scale farmers, corporate entities, and agents. In Zimbabwe, tiered KYC requirements introduced for transactional accounts have seen some banks and payment service providers (PSPs) offer remittance services through "light-KYC" transactional accounts and cards, allowing for stored value functionality in addition to low-cost remittances. These products take advantage of the almost universal ID penetration in the country and are a positive step toward financial inclusion and the use of regulated channels for remittances. In other SADC countries, however, tiered KYC requirements have not been extended to remittances services: for example, in Tanzania and Lesotho, tiered KYC guidelines have been issued for domestic money transfer services, but not for international money transfers.

As the bulk of remittances received in SADC countries originate from South Africa, the AML/CFT regime in the country has a considerable bearing on access to and usage of regulated remittance services in the region. In recognition of the access barriers imposed by KYC requirements, the Minister of Finance of South Africa issued a Financial Intelligence Centre Act (FICA) exemption for low-value cross-border remittances in July 2015.[20] The exemption eliminates the proof of residence requirement for transactions below a daily limit of R3,000 and a monthly limit of R10,000. For transactions above R3,000, foreign migrant workers must provide proof of residence and proof of earnings in addition to a foreign passport. However, and importantly, South Africa's Immigration Act of 2002 still requires financial institutions, including RSPs, to check the citizenship or immigration status of foreign nationals before entering into commercial transactions. This requirement is at odds with the FICA exemption, and creates a perception among undocumented workers that they may be exposed to the immigration authorities should they use regulated service providers to send remittances abroad. The implications of violating the Immigration Act, together with the different interpretations of the wording by banks, have generally led to some banks in South Africa requiring immigrants to present proof of their legal immigration status before undertaking financial transactions—thus maintaining the documentation barrier to access, despite the FICA exemption for low-value remittances.

[19] In Zimbabwe, the cost of using unregulated channels to carry cash can be as high as 30 percent of the amount carried.
[20] Financial Intelligence Centre (2015)

Limited Competition in the Remittances Market

Competitive market conditions are essential to reducing the costs and improving the quality of remittance services. According to the General Principles for International Remittances (GP 4), a competitive remittance market is one in which monopolistic practices are limited, exclusivity conditions are absent, and RSPs have fair and equitable access to market and payment system infrastructure, whether direct or indirect. While in some corridors the demand for remittance services may be insufficient to support multiple RSPs, the market should remain contestable—without unreasonable barriers to entry—such that the benefits of competition are felt by consumers. Within SADC, recent regulatory interventions in South Africa and other countries have begun to improve competition in the remittances market. However, in some markets, exclusivity conditions remain and MTOs have limited access to the domestic and regional payment systems infrastructure.

Although the remittances market in SADC has been dominated by a small number of international MTOs, innovative, low-cost services are emerging in several SADC countries (Box 3). Western Union and MoneyGram are estimated to have the bulk of market share in the SADC region, although in some remittance corridors, new players are beginning to place competitive pressure on these and other incumbent RSPs. For example, in the South Africa–Zimbabwe corridor, Mukuru is estimated to be holding approximately 20 percent of the remittance flows.[21] Box 3 provides a snapshot of the new MTO services emerging in the SADC region.

Recent regulatory interventions in South Africa appear to be correlated with an increase in the number of MTOs operating in SADC, although the impact on remittance costs is inconclusive. As discussed, several regulatory interventions have been introduced in South Africa since 2011, including the removal of foreign ownership requirements for MTOs in 2011; the introduction of the ADLA Category 3 license for independent MTOs in 2013; and the introduction

Box 3. Innovative MTOs Entering the Remittance Landscape in the SADC Region

In the last few years, a number of new and innovative remittance services have emerged in the SADC region. These include remittances services that can be initiated online or via mobile phone, and that allow transfers directly into bank accounts or e-wallets, including mobile money accounts.

For example, **Mukuru** has recently partnered with several mobile money operators in several SADC countries to allow for the receipt of remittances directly into mobile wallets. For instance, in Lesotho, Mukuru has partnered with Vodacom Lesotho to offer inward remittances from South Africa into Mpesa wallets; and in Mozambique. Mukuru has partnered with MCel to offer remittances from South Africa into Mkesh mobile wallets. Mukuru also allows cash-to-cash remittances and has partnered with several retail agents in South Africa, including supermarkets and clothing retailers, to capture cash remittances. In Zambia, Mukuru has partnered with Zoona (a popular domestic MTO) for cash disbursement of remittances via Zoona agents. Mukuru also offers remittance services via Econet's Ecocash service in Zimbabwe. **World Remit** provides similar services, albeit linked to bank accounts or cards in the sending countries, with options to receive funds via cash from an agent, or via a mobile wallet. Other new online-based MTOs serving the remittance market in SADC include **Mama Money, Hello Paisa, and exchangeforfree.com,** which have also begun offering inward remittance services to some SADC countries from South Africa and other countries, including the United States and the United Kingdom. These new services are relatively cheaper than "traditional" remittance services because they have fewer overhead costs and can rely on a range of retail agents for cash disbursements in receiving countries.

[5] World Bank, Zimbabwe Remittances Assessment Report (2017).

The South African supermarket chain, **Shoprite**, has also begun offering inward cross-border remittances from South Africa to Lesotho, and to Mozambique via its store network in the three countries. As the supermarket chain has a presence in several SADC countries, including Angola, Botswana, Democratic Republic of Congo (DRC), Madagascar, Malawi, Namibia, and Zambia, there is potential for the Shoprite service to expand beyond the South Africa–Lesotho and South Africa–Mozambique corridors. Shoprite also acts as an agent for other MTOs, including Mukuru and Hello Paisa.

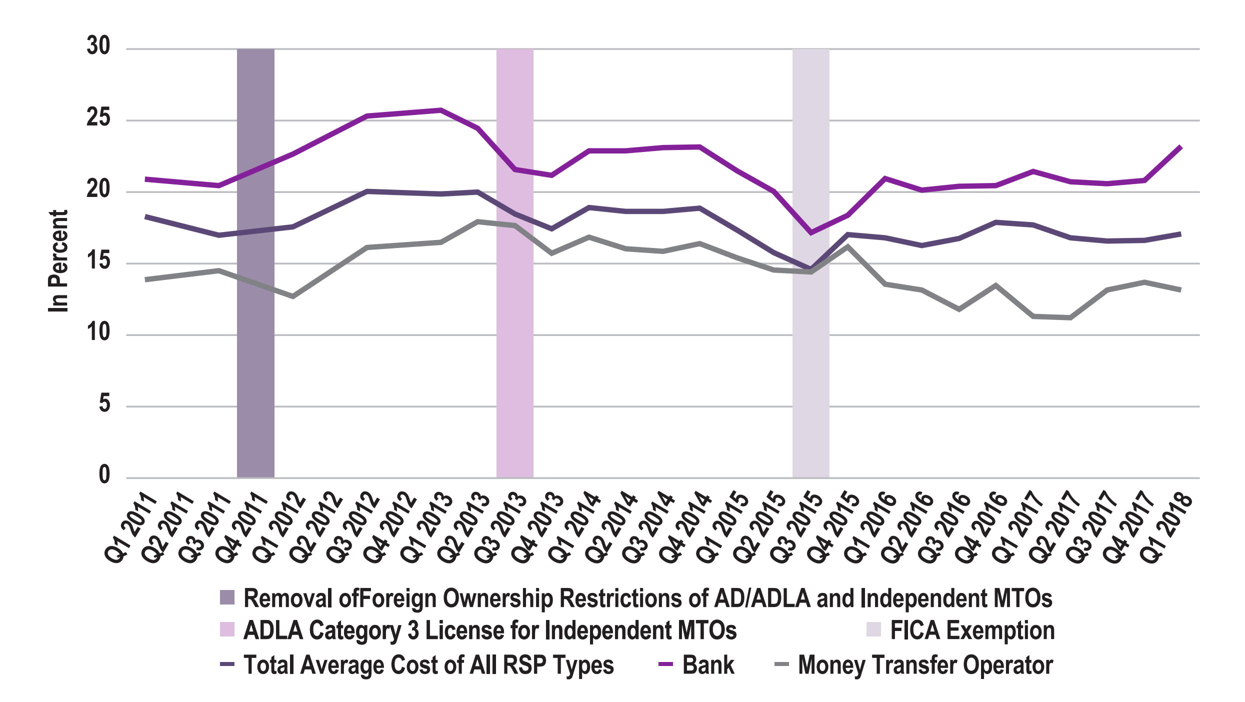
Another retail store, **OK Zimbabwe Limited**, offers remittances from South Africa to Zimbabwe through two services: the OK-Kawena card, a prepaid card in which remittances can be received and used only for in-store purchases; and the FNB Zimbabwe Money transfer, in partnership with **FNB South Africa**, which enables individuals in South Africa to send money via their bank account or mobile wallet to an OK store in Zimbabwe.

Source: World Bank Remittance Assessment Reports.

of the FICA exemption for low-value remittances in 2015. Figure 7 shows the trend in average costs of sending remittances from South Africa to other SADC countries from Q1:2011 to Q1:2018. The highlighted bars correspond to the three regulatory interventions described above.

The removal of restrictions on foreign ownership of MTOs allowed new competitors to enter the market, although the reduction in remittance costs was not sustained. Immediately following this intervention, Mukuru began operating in South Africa. However, despite the downward trend experienced in 2011,

Figure 7. Average Cost of Sending Remittances from South Africa to SADC Countries, Q1:2011–Q1:2018



Source: World Bank, Remittances Prices Worldwide, 2018.
Note: AD = Authorized Dealer; ADLA = Authorized Dealer with Limited Authority; FICA = Financial Intelligence Centre Act; RSP = remittances service provider.

average MTO remittance costs increased soon after this intervention, peaking at 17.98 percent in Q2:2013 and declining to 13.19 percent in Q1:2018.

In contrast, the introduction of the ADLA Category 3 license appears to have been accompanied by an overall, yet slight reduction in the average cost of remittances offered through MTOs. While there were no immediate newcomers into the market following the introduction of the new licensing category, since 2015 four new MTOs have received licenses to operate as independent MTOs. Furthermore, between Q1: 2015 and Q1:2016, the number of services offered through MTOs nearly doubled. In all, the number of MTOs operating in South Africa increased from 3 to 6 following this intervention. As can be seen in Figure 7, the average cost of remittances through MTOs has since maintained an overall downward trend. On the other hand, the decline in the average cost for banks from Q1:2013 was not sustained, with costs rising again in Q3:2015. This may be a result of some banks discontinuing their remittance services in the face of competition from MTOs.

Despite these interventions, the total average cost to send remittances from South Africa to other SADC countries remains high. Before these interventions, there were far fewer services offered through banks and MTOs alike, and even fewer low-cost services offered. The increase in the number of low-cost MTO services should be viewed as a small victory in the quest for further cost reduction in the South African market, especially as services provided by new players, such as Shoprite, offer out-bound remittances services from South Africa at significantly lower costs than banks. However, average costs remain at least 10 percent more than the amount sent through MTO channels, and the competition between MTOs does not appear to be sufficient to combat the upward trend in the costs of remittances offered through banks.

The "stickiness" of remittance costs, particularly through banks, is in part due to high structural costs in the banking system in South Africa—such as monopolistic pricing in the information and communications technologies (ICT) market, and the relatively high costs of skilled labor. However, high remittance costs are also a reflection of bottlenecks in the receiving countries. For example, while MTOs may be able to offer remittance services independently in South Africa, requirements for MTOs to partner with banks in some receiving countries, coupled with payment system and other infrastructure challenges, may limit the reach of MTO agent networks and raise the costs of delivering services to consumers in receiving countries.

Other barriers to competition in SADC include exclusivity conditions in some markets, as well as limited access to relevant payment systems and market infrastructure for MTOs in others. Exclusivity arrangements imposed by international MTOs on their agents have been observed in some SADC countries, including Namibia and Madagascar. In Namibia, for example, international MTOs with whom ADLAs intended to partner required them to sign an agreement prohibiting them from offering their proprietary money transfer product alongside that of the international MTO. The ADLA, bound by the exclusivity clause, would be left with two options: discontinue the product it offers through its own system—and at a significantly lower price to the customer; or split the existing network and offer their proprietary service at some locations, and those of the international MTO at others. Even where regulatory authorities have prohibited exclusivity, many agents tend not to provide the services of more than one MTO. This has, of course, had a negative impact on competition as well as on the, already very limited, remittances delivery network in the region.

In addition, limited access to the national and regional payment systems infrastructure for MTOs and other non-bank RSPs adds to inefficiencies in the provision of remittance services. Fair and equitable access to payment system infrastructure, whether direct or indirect, would enhance the efficiency of clearing and settlement for remittance services offered outside of the banking network. In all SADC countries, only commercial banks have direct access to the clearing and settlement systems,[22] including the automated clearing house (ACH) and real time gross settlement (RTGS) systems. Non-bank financial institutions, including MTOs, can access these payment systems indirectly by going through a "sponsor" bank.

While the sponsorship model for non-bank access to the payment systems infrastructure aims to minimize risks posed to the payment system, allowing MTOs access to the ACH or national switch[23] for clearing purposes would enable MTOs to more efficiently serve their customers. In Zambia, for example, non-bank entities reported delays in the processing of their transactions by sponsor banks, resulting in inefficiencies for consumers with accounts at non-bank financial institutions. The fact that banks and non-banks may offer the same services, in competition, can place non-bank entities at a disadvantage. Similarly, in Namibia, ADLAs are the main providers of remittance services, and depend on commercial banks to facilitate their daily operations; yet most commercial banks also operate their own exchange bureau and remittance services, and thus are potential competitors of ADLAs.

As remittance services begin to evolve toward online and mobile platforms, anti-competitive behavior has also been observed by providers of such platforms that also offer proprietary remittance services. For instance, in Zimbabwe, it has been found that MNOs charge prohibitive fees to MTOs seeking to use U.S. dollar platforms to offer mobile-based remittances. In Zambia, MNOs do not provide access to their mobile platforms for MTOs, and they are in direct competition in both the domestic and international money transfer market. Such behavior impedes innovation in the market and limits competition, resulting in higher prices and lower service quality for consumers.

Bottlenecks in the Payment System Infrastructure

The efficiency and quality of remittance services are enhanced where there is greater standardization, automation, and increased interoperability in both the national and regional payment system infrastructure. In addition to increased automation, standardization, and interoperability, wide geographic coverage of payment service access points, including automated teller machines (ATMs), point-of-sale (POS) devices, bank branches, and agents of RSPs, are also essential to ensuring that consumers have convenient access to regulated remittance services. Furthermore, where there are large volumes of remittance flows between jurisdictions—as is the case in SADC—improvements to the regional payment infrastructure, such regional clearing and settlement systems, have the potential to further reduce the costs and increase the efficiency of remittance services. Based on the World Bank remittance assessments conducted in the selected SADC countries, the main bottlenecks identified in the payment systems infrastructure include lack of interoperability within and across payment networks; low uptake of electronic payment instruments, and high dependence of cash-based remittance services; and limited use of the regional clearing and settlement systems. These issues are discussed next.

Lack of Interoperability

Considerable progress has been made toward establishing automated payment systems in several SADC countries. Recent payment system initiatives in a number of SADC countries have led to the automation of national payment systems, including real time gross settlement systems (RTGS)

[22] In South Africa, the National Payments Systems Act allows for designation of non-banks as clearing and settlement entities with their settlement handled on the South African Multiple Option Settlement System (SAMOS) by a direct participant bank. Nevertheless, no visible non-bank indirect participants have been designated.

[23] A national switch refers to a switch that enables the interoperability of all cards, automated teller machines (ATMs), and point-of-sale (POS) transactions in the country, provided all payment service providers are connected to the switch. In some countries, multiple switches may be established to provide switching services for various groups of payment networks, but these do not always enable full interoperability as would a national switch.

Table 6. Automated Payment Systems in Selected SADC Countries

Country	Clearing and Settlement Systems		Payment Switches	
	RTGS	ACH	National	Other Service Providersa
Lesotho	Lesotho Wire (LSW)	Lesotho Automated Clearing House (LACH)	None	
Madagascar	Real-Time Gross Settlement System	Cheque Clearing House, Automated Clearing House	None	ViaPlus
Malawi	RTGS, a component of the Automated Transfer System (ATS) known as the Malawi Inter-Bank Transfer and Settlement System (MITASS)	Automated Clearing House (ACH), a component of MITASS	Natswitch	
Mozambique	Metical em Tempo Real (MTR)	Electronic Clearing System (CEL)	Interbank Society of Mozambique (SIMO)	Rede Ponto 24
Namibia	Namibia Inter-Bank Settlement System (NISS)	Namclear Namswitch	Namswitch (operated by Namclear)	
South Africa	South African Multiple Option Settlement (SAMOS) Systemb	BankservAfrica	SASWITCH (operated by BankservAfrica)	
Tanzania	Tanzania Interbank Settlement System (TISS)	Bank of Tanzania Electronic Clearing House (BOTECH)	None	UMOJA Switch
Zambia	Zambia Interbank Settlement System (ZIPPS)	Zambia Electronic Clearing House (ZECH)	In progress (to be operated by ZECH)	ZamLink (Z) eSwitch; Financial Transaction Services; Calltrol/PABS; Payserv; Cellulant
Zimbabwe	Zimbabwe Electronic Transfer and Settlement System (ZETSS)	Zimswitch ACH	Zimswitch	

Source: World Bank Remittances Assessments; relevant central bank websites.
* Visa/MasterCard card transactions are switched abroad on the relevant switching networks.
* In South Africa, SAMOS is used for clearing and settling large value payments, as well as settlement of retail electronic debits and credits on either a real-time line (RTL) or a continuous processing line (CPL), which provides for delayed gross settlement.

for large value payments, Automated Clearing Houses (ACH) for electronic retail payment instruments, such as cheques and electronic debits and credits. Some countries have also introduced national switches to enable broader interoperability of cards, ATMs, and POS payment networks (see Table 6).

Despite progress toward automation, the lack of interoperability between payment networks and payment instruments presents a constraint to the growth of innovative e-payment services, including remittances. Of the countries covered by the World Bank assessments, South Africa and Namibia have the most advanced payments systems infrastructure, with a relatively high level of interoperability across payment networks. In the other SADC countries, however, there is limited interoperability of ATMs and cards, particularly between international card networks (such as Visa and MasterCard) and local proprietary card networks. In Zambia, for example, ZamLink—a local switching company—provides switching services for propriety cards issued by 4 out of 21 banks, while the remaining banks are connected to the Visa/MasterCard network. In Tanzania, UMOJA Switch provides interoperability for ATMs and POS for 16 banks that are not connected to the Visa network.

Interoperability of payment instruments and networks for remittances services is even more limited. For domestic money transfers, bilateral arrangements and schemes between MNOs, and between MNOs and banks, are in place in some SADC countries. For example, in Lesotho, bilateral agreements have been developed for account-to-account transfers between MNOs and some banks. In Tanzania, a scheme for payment-to-payment interoperability for mobile money has been established, and four MNOs have opted in via bilateral Application Programming Interface (API) connections. In Zimbabwe, ZimSwitch provides a shared mobile banking platform that allows consumers to send and receive money locally from a variety of account types—such as from mobile wallets to bank accounts, and vice versa. However, not all payment providers in Zimbabwe are connected to ZimSwitch, as providers with large market share do not see the commercial value of interoperability. In Zambia, the local stakeholders are developing a national financial switch that is hoped to enable interoperability between ATM, POS, and e-money transactions.

Despite these developments for domestic money transfers, interoperability for international remittances does not exist. While several of the MNOs operating in SADC developed cross-border mobile money services—for example, Airtel and MTN—these services are offered only within their mobile networks and to countries in which the MNO is present.

Limited Usage of Electronic Payment Services

Notwithstanding efforts to promote electronic payments, cash remains the dominant retail payment instrument in all SADC countries. The use of e-payment instruments is particularly low in SADC countries—even in South Africa, where card penetration is high, and the payment system is relatively sophisticated (see Table 7).

Cash transactions account for the bulk of payments in all SADC countries, despite the considerable growth in mobile money accounts. With the exception of Namibia and Zimbabwe, less than 50 percent of registered mobile money accounts in the selected SADC countries were recorded as active in 2015. The high preference for cash in other SADC countries is in part a reflection of the low levels of financial inclusion (see Box 4).

A key constraint to the uptake of electronic and account-based payment services, including remittances, is the limited geographic coverage of payment service access points. Payment service access points in SADC countries are largely concentrated in urban areas. As a result, communities in rural and remote areas have limited options to access regulated remittance services as well as other formal financial services, with negative implications for rural consumers. Figure 9 shows the distribution of commercial bank branches and ATMs in selected SADC countries.

Table 7. Penetration of e-payment Instruments in Selected SADC Countries

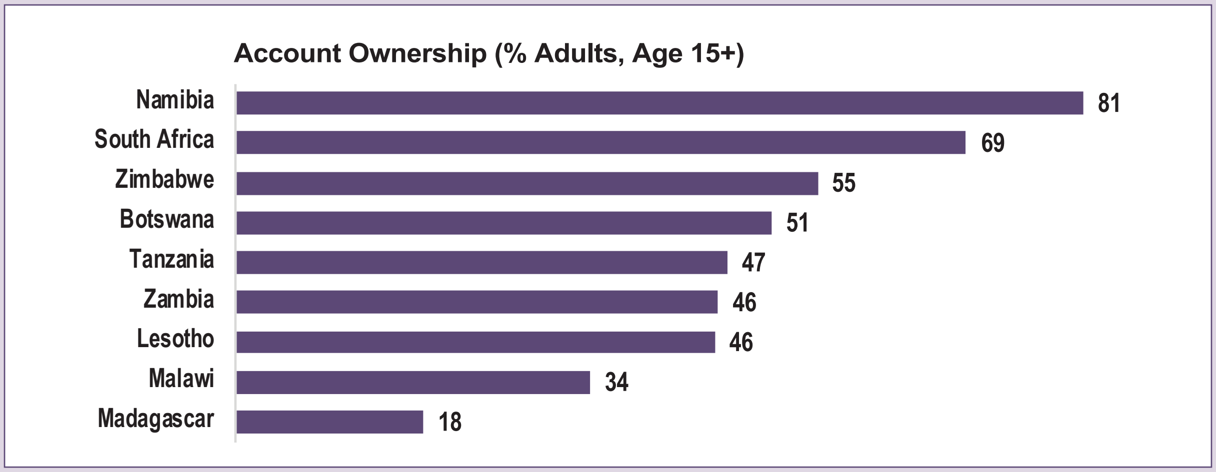
Country	2017		2018		
	Debit Card(% Age 15+)	Credit Card(% Age 15+)	Registered Mobile Money Accounts, per 1,000 Adults	Active Mobile Money Accounts, per 1,000 Adults	Active Mobile Money Accounts (%)
Lesotho	20.4	3.4	779.6	154.5	20
Madagascar	3.2	1.0	176.9	38.5	22
Malawi	11.2	1.3	239.7	75.8	32
Namibia	65.1	15.4	567.3	414.9	73
South Africa	34.1	8.9	173.8	9.1	5
Tanzania	13.3	0.5	1,837.5	648.6	35
Zambia	19.6	4.2	560.8	28.5	5
Zimbabwe	21.9	1.3	913.0	514.6	56

Source: World Bank Global Findex (2017) for debit and credit card figures; IMF Financial Access Survey (2015) for mobile money account figures; Reserve Bank of Malawi for Malawi mobile money account figures.

Box 4. Financial Inclusion Landscape in SADC

The level of financial inclusion varies significantly across SADC countries. In 2017 for instance, 81 percent and 70 percent of adults in Namibia and South Africa, respectively, had a transaction account (including a mobile account), compared to 34 percent in Malawi and 18 percent in Madagascar (see Figure B4.1).[a] In almost all SADC countries, the use of informal financial services is widespread. According to the FinMark Trust (2015), 39 percent of adults in SADC use informal financial services (in addition to some formal financial services), while 12 percent of adults use only informal financial services.[b]

Figure 8. Comparison of Account Ownership in Selected SADC Countries



Furthermore, the FinScope Survey shows that for the SADC region, few adults use regulated remittance services. The survey found that overall, 33 percent of adults use remittance services, compared to over 40 percent for other financial services (credit, savings, insurance, and transactional accounts). Twenty percent of adults in SADC reported using non-bank channels for remittance services, while 8 percent used unregulated channels included informal services and friends/family.c

Barriers to financial inclusion in SADC countries are wide-ranging and include: insufficient or irregular income, long distances to bank branches and other access points, high cost of financial services, lack of required documentation (for example, for Know-Your-Customer requirements), as well as low levels of financial awareness and literacy, and in some cases a lack of trust of formal financial institutions.d These factors also act as barriers to the use of regulated remittance services in the region.

Source: World Bank Global Findex (2017).
a. World Bank Global Findex 2014. https://globalfindex.worldbank.org/#data_sec_focus.
b. FinMark Trust (2015).
c. FinMark Trust (2015).
d. Demirgüç-Kunt and Klapper (2012).

The distribution of commercial banks and ATMs in the selected SADC has remained limited, as shown in Figure 10. The distribution of commercial bank branches in SADC is mixed, with Zimbabwe and South Africa having the highest number of branches per 1,000km2 and per 100,000 adults. Malawi is on par with South Africa and Zimbabwe for bank branches per 1,000 km2, but bank branch distribution is significantly lower per 100,000 people. Similarly, Namibia is on par with South Africa and Zimbabwe for bank branches per 100,000 adults, although the geographic distribution of branches is low. With the exception of Namibia and South Africa, the distribution of ATMs in SADC countries has remained quite low.

The emergence of mobile money services has, however, been accompanied by rapid growth in the number of mobile money agents, which could potentially act as access points for cross-border remittances. However, it is important to stress that, as is the case with mobile money accounts, a sizeable proportion of mobile money agents are inactive and therefore may not be effective in supporting the capturing and disbursement of remittances.

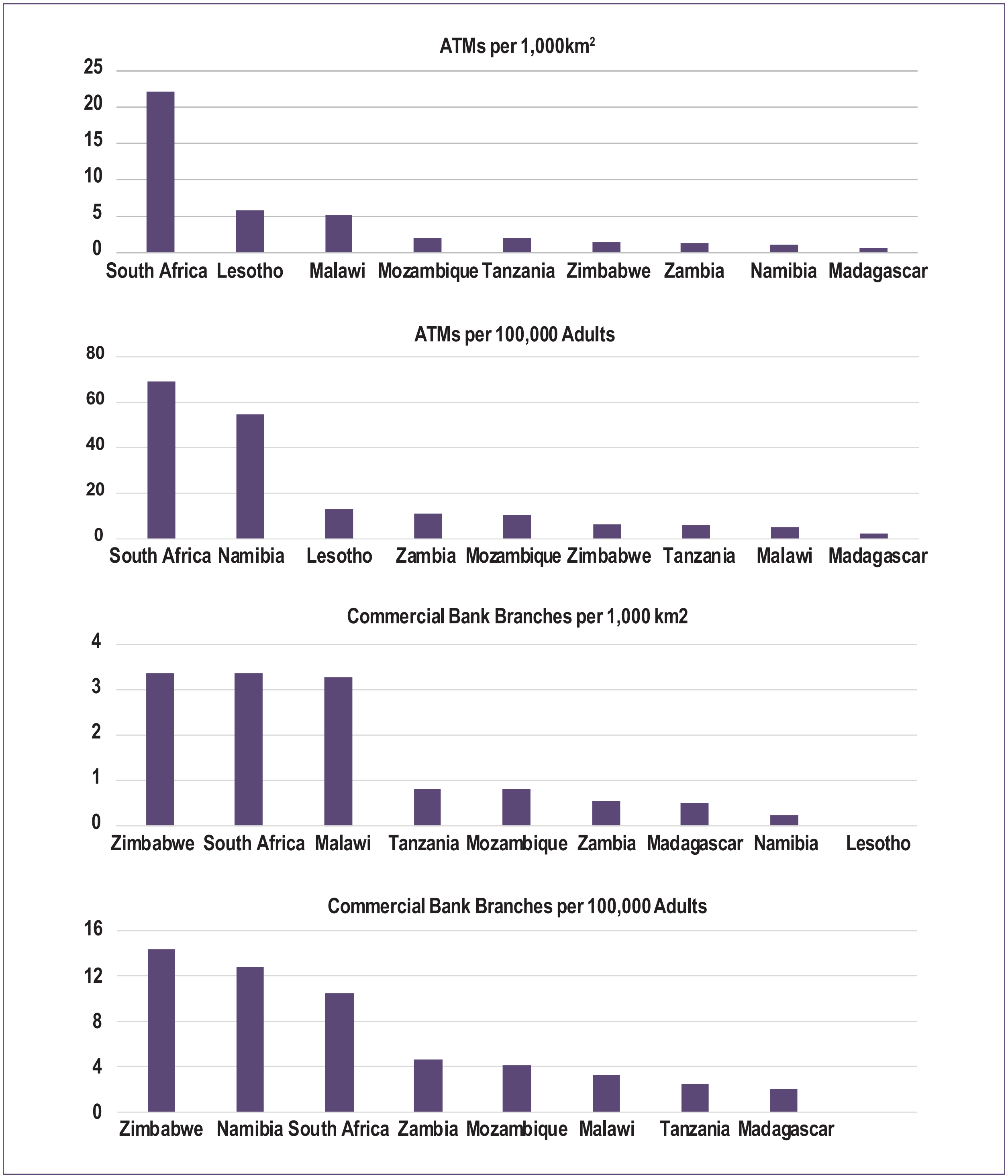
Limited Use of Regional Payment System Infrastructure

The SADC Interbank Regional Settlement System (SIRESS) was established in 2013 to facilitate more efficient cross-border, large-value transactions within the SADC region. SIRESS was developed to enable regional transactions among banks within the SADC region to be settled on a gross basis and in real time. It is hosted and operated by the South African Reserve Bank (SARB). Current participant countries include Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. It is important to note that not all banks in the participant countries are participants on SIRESS (see Table 8).

Although SIRESS has the potential to help reduce the costs of remittances, it is little used by commercial banks and MTOs for settlement of cross-border transactions. RSPs continue to rely on correspondent banking relationships and SWIFT (Society for Worldwide Interbank Financial Telecommunication) for cross-border remittances within the region.[24] The key challenges impeding the use of SIRESS for low-value cross-border remittances have been

[24] A pilot is underway to test the use of SIRESS for low-value remittance services.

Figure 9. Comparison of Distribution of Access Points in Selected SADC Countries, 2015



Source: IMF Financial Access Survey, 2015.
Note: Data are included for SADC countries where a World Bank assessment was performed. Data for bank branch distribution in Lesotho are not available for 2015.

Table 8. Overview of RSPs Permitted to Offer Remittance Services in Selected SADC Countries

Participant Country	Participant Central Bank	Number of Participant Commercial Banks	Total Number of Commercial Banks
Angola	×	1	23
Botswana	×	1	10
Lesotho	√	4	4
Malawi	√	11	12
Mauritius	×	4	23
Mozambique	×	5	19
Namibia	√	6	10
Seychelles	√	0	9
South Africa	√	9	16
Swaziland	√	4	4
Tanzania	×	6	41
Zambia	√	10	19
Zimbabwe	×	13	13

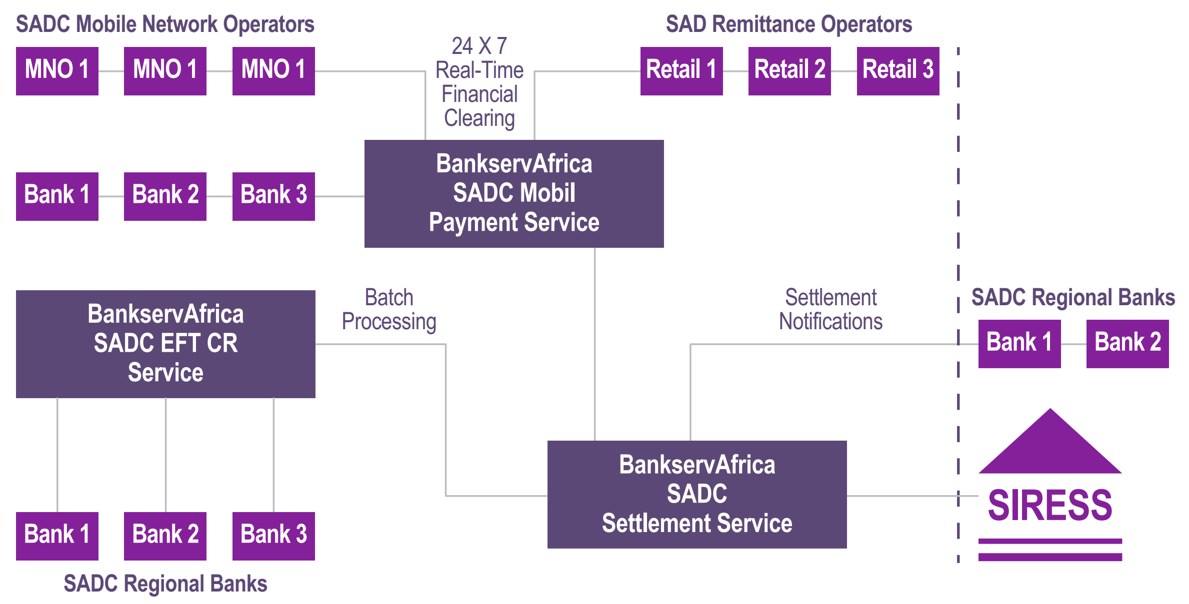
Source: SADC Banking Association; all central bank websites (July 2016).
Note: SADC = Southern Africa Development Community; SIRESS = SADC Integrated Regional Settlement System.

noted to include the high cost of settling low-value transactions, and the lack of multi-currency settlement in the system (transactions are processed in South African rand). Furthermore, the commercial banks in the Common Monetary Area (CMA)[25]—some of which are participants on SIRESS—are currently able to transfer funds within their bank networks at a lower cost than available via SIRESS. This creates little incentive to shift these transactions to SIRESS. Furthermore, as the use of SIRESS for cross-border remittances would require both the sender and receiver to have a bank account, the low levels of account penetration in the region further limit the use of SIRESS for remittances.

In 2015, the SADC Banking Association Payment Scheme Management Body (PSMB) began the implementation of a regional clearing house (RCH) to link the domestic automated clearing houses (ACHs) of SADC countries. Given the large flow of remittances and other retail payments between SADC countries, linking the relevant retail payments infrastructure more directly—rather than relying on large-value settlement systems—is likely to have more impact on reducing the cost of remittances in the region. BankservAfrica was appointed by the SADC PSMB as the first Regional Clearing and Settlement Operator (RSCO). It has been piloting the integration of the ACHs in Zimbabwe and Zambia into the SADC regional clearing house environment, mainly for the processing of card and electronic funds transfer (EFT) transactions, but with the expectation that remittance transactions may also be processed through the RCH in the future.[26]

[25] The CMA is comprised of Lesotho, Namibia, South Africa, and Swaziland
[26] BankservAfrica (2016).

Figure 10. Proposed Regional Payment Solution for Cross-Border Remittances in SADC



Source: BankservAfrica (2016)
Note: CR = credit; EFT = electronic funds transfer; MNO = mobile network operator; SADC = Southern Africa Development Community; SIRESS = SADC Integrated Regional Settlement System..

A mobile payment processing solution, which would enable MNOs and MTOs to participate in the regional clearing house, is also being developed. As illustrated in Figure, BankservAfrica is also considering providing non-bank RSPs, including MTOs, with greater access to the regional payment system infrastructure, further bringing down the costs and increasing the efficiency of cross-border remittances within the region. Specifically, the system will enable mobile money operators, MTOs, and other non-bank payment service providers to have access to the regional payment systems infrastructure for cross-border clearing and settlement within SADC. The Mobile Payment Service would conduct real-time processing and clearing of cross border retail payments, while the connection to SIRESS would enable more efficient settlement for non-bank cross-border payments.[27] This would facilitate greater efficiency and interoperability within the SADC regional payments system.

In other jurisdictions where the domestic ACHs have been integrated, the cost of sending remittances has declined substantially. For example, the cost of remittances in the United States—Mexico corridor dropped below 5 percent largely as a result of the Directo a México service, which links the ACHs of the United States and Mexico for cross-border retail payments (see Box 5). The successful implementation of the SADC RCH project will, therefore, have a considerable potential impact on the cost of remittances in the region.

[27] BankservAfrica (2016).

Box 5. Connecting Domestic ACHs across Borders: The United States and Other Countries

The Federal Reserve Banks in the United States have undertaken a number of initiatives to offer low-cost cross-border automated clearing house (ACH) services by linking the U.S. ACH system to that of several other countries. These services currently are limited to outbound transactions from the United States. Incoming transactions are prohibited until the U.S. ACH system can screen for U.S. Anti-Money Laundering (AML)/Combating the Financing of Terrorism (CFT) requirements.

In 2001, the Federal Reserve Banks, in partnership with a private sector bank in Canada, began offering a cross-border ACH service to Canada. The Canadian ACH service permits depository institutions in the United States to send ACH credit and debit transactions to depository institutions in Canada. In 2003, the Federal Reserve Banks began offering a trans-Atlantic ACH service to five countries in the Western Europe (Austria, Germany, the Netherlands, Switzerland, and the United Kingdom). The trans-Atlantic ACH service is limited to credit transactions only, with transactions originated in U.S. dollars in the United States and received in the domestic currency of the European country.

In 2004, the Federal Reserve Banks and the Bank of Mexico began offering a cross-border ACH service from the United States to Mexico under the name Directo a México. It uses the exchange rate published daily by the Bank of Mexico ("the fix"). The Federal Reserve Banks charge depository institutions in the United States less than $1.00 per payment. The Bank of Mexico does not charge banks in Mexico for the service, but receives part of the fee charged by the Federal Reserve Banks. Although the vast majority of the payments are U.S. government payments to individuals in Mexico, the channel is available for use by depository institutions offering cross-border remittance services to Mexico.

Source: CPMI-World Bank (2007).

Other Issues and Challenges

Other challenges contribute to the high cost and limited reach of regulated remittance services in SADC. These include gaps in consumer protection; capacity shortages for oversight and supervision of rapidly evolving remittance services; and de-risking of RSPs and banks holding accounts of RSPs in the region.

Only a few SADC countries have consumer protection legislation dedicated to financial services, although general consumer protection regulation exists. Furthermore, few countries have regulations that specify the consumer protection responsibilities and transparency and disclosure requirements for remittance services. In addition, the mechanisms for external complaints handling and dispute resolution for remittances are generally unclear and are not well publicized to consumers. For example, in Zambia, it was noted that the main barriers consumers faced to resolving conflict with financial service providers included the lack of awareness about which government entity should be contacted and the perception that financial institutions are too powerful.[28] Without clear and robust consumer protection frameworks for remittance services, consumers may, therefore, feel disempowered to use regulated remittance services—perpetuating the widespread use of unregulated and informal channels for remittances.

Capacity gaps in the supervision and oversight of the remittance market may result in new risks in the market going unchecked, and at the same time may impede innovation in the market. Several regulatory authorities in the SADC region lack the staff capacity to provide adequate supervision and oversight of

[28] World Bank Zambia Financial Capability Survey, 2016.

RSPs, particularly MTOs and their agents. In addition, RSPs expressed concerns about the lengthy process for obtaining approval and regulatory guidance for new, technology-driven remittance services. Capacity gaps also hinder the collection and dissemination of data and statistics on the remittances market, resulting in limited information not only for regulatory purposes but also to guide RSPs on opportunities for new services and corridors.

The de-risking phenomenon continues to impact many stakeholders within the remittances value chain in SADC. In Zimbabwe, for example, commercial banks are finding it increasingly difficult to maintain corresponding banking relationships (the provision of banking services by one bank to another), particularly with regard to transactions initiated by individuals in U.S. dollars. In some instances, local banks have terminated relationships with MTOs to maintain their own correspondent banking relationships in the United States and Europe. Some banks in Zambia also noted facing de-risking pressures from correspondent banks. As remittance services depend largely on correspondent banking relationships, the de-risking phenomenon will continue to affect both the cost and accessibility of remittance services (see Box 6).

Box 6. The De-Risking Phenomenon

According to the Financial Action Task Force (FATF), "de-risking" refers to the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.[a] Drivers of the de-risking phenomenon have been noted to include concerns about Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) risks, profitability, prudential requirements, and reputational risk.[b] Institutions most affected by de-risking practices include remittances companies (or MTOs) often perceived as "inherently high risk," as well as smaller local banks in jurisdictions with limited financial markets. De-risking practices can have considerable impact on consumers and the wider economy. For example, MTO account closures and restrictions on correspondent banking relationships put MTOs and local banks at risk of losing access to the global financial system. Such practices threaten to push "higher risk" transactions into less regulated or unregulated channels, further raising AML/CFT risks. In addition, without adequate access to the global financial system, MTOs and other remittance companies face higher operational and compliance costs, which are likely to be passed on to the consumer, and impede progress made toward reducing the cost of remittances globally.

In recognition of these issues, several global and country-level initiatives have been undertaken to address the de-risking phenomenon. At the request of the G-20, the World Bank Group conducted two surveys on de-risking in 2015, in collaboration with the Financial Stability Board (FSB), Committee for Payments and Market Infrastructure (CPMI), and the G-20 Global Partnership for Financial Inclusion (GPFI). The first survey focused on the restriction or termination of correspondent banking relationships and the second on account closures of MTOs. Both surveys showed the de-risking is indeed happening, with smaller countries being particularly vulnerable to de-risking practices.[c] At the country level, the World Bank Group has undertaken country pilot studies, as well as provided technical support to national authorities to mitigate risks in the financial sector, without restricting access to financial services. An ongoing pilot study is underway in South Africa.

a. FATF (2014). FATF clarifies risk-based approach: case-by-case, not wholesale de-risking. Available: http://www.fatf-gafi.org/publications/fatfrecommendations/documents/rba-and-de-risking.html.
b. Ibid., 2014.
c. For further results, see http://www.worldbank.org/en/topic/financialmarketintegrity/publication/world-bank-group-surveys-probe-derisking-practices.

POLICY RECOMMENDATIONS

Remittances have the potential to play a significant role in the economic and social development of countries in SADC, as well as in reducing inequality within and among countries in the region. As such, national authorities, RSPs, and the SADC Secretariat, including the SADC Committee of Central Bank Governors (CCBG) and the Payment Scheme Management Body (PSMB), should work jointly to ensure that remittance services are efficient, safe, and accessible, and are leveraged to improve the welfare of households and communities in the region. The policy recommendations outlined next propose actions that can be taken at the national and regional level to improve the remittances market in SADC. The SADC Secretariat and relevant subcommittees are well positioned to play a coordinating role and should guide the implementation of these recommendations, as well as other ongoing initiatives in the region.

Recommended Actions for Regulators and Policy Makers

Regulators should develop and apply the regulatory framework for remittance services in a proportionate manner, ensuring that a level playing field is created for all types of RSPs and that consumers are encouraged to use regulated remittance services. With regard to the licensing requirements, for MTOs, regulators should develop a licensing framework that enables MTOs to operate independently of banks or other licensed financial institutions, with appropriate safeguards and capacity requirements. Furthermore, foreign exchange reporting requirements with respect to remittance transactions should be proportionate to the value of remittances involved. For example, the frequency of reporting for remittance transactions could be reduced for remittances under a particular threshold; and regulators could encourage the use of electronic channels for storing and submitting information on remittance customers and transactions.

Regulators should also consider progressively introducing tiered KYC requirements, within a risk-based approach, to facilitate usage of regulated remittance services while reducing the compliance burden for RSPs. In South Africa, specifically, regulators and relevant policy makers should ensure consistency between the customer identification requirements under FICA and the Immigration Act so that migrant workers are encouraged to use regulated channels for remittance services—especially because the bulk of remittances within SADC originate from South Africa. KYC and CDD requirements in receiving countries should also be applied in a proportionate manner to further encourage the use of regulated services within the region.

Regulators should enhance capacity for the supervision and oversight of RSPs, aiming at balancing the risks and benefits of the growing remittances market. As new and innovative business models emerge, properly enforced regulations should encourage innovation while minimizing risks to consumers and to the payment system. Regulators should also ensure that the relevant regulatory bodies and departments—for example, Payment Systems, Supervision, and Foreign Exchange departments—are aware of their roles and responsibilities in the regulation and supervision of the remittances market. The CCGB and PSMB should play an active role in facilitating peer-to-peer learning and training on best practices in supervision of remittance markets.

Regulators should define the framework for financial consumer protection and should make necessary efforts to increase consumer empowerment and financial literacy, particularly for remittance services. There is a need for regulatory authorities to provide clear guidelines and requirements on financial consumer protection, particularly for remittance services. Specifically, there is a need for guidelines on the transparency and the disclosure of fees, and other relevant information relating to remittance services; as well as on the responsibilities of RSPs in handling complaints and resolving disputes. Regulators should also work to streamline the mechanisms for complaints and dispute resolution within the relevant agencies and ensure that these mechanisms are well publicized. Furthermore, given that the low levels of financial inclusion and financial literacy in SADC represent a significant barrier to access for regulated remittance services, a concerted effort should be made by both regulators and financial service providers to encourage uptake of regulated financial services and to raise awareness of regulated remittance services.

Regulators should continue to work toward achieving interoperability of payment infrastructure, including card and e-money infrastructure, and should encourage payment service providers to expand the network of service points to rural and remote areas. Interoperability of the national and regional payment systems infrastructure will have positive spillovers for cross-border remittances, as customers will benefit from increased efficiency and greater payment options for remittance services. However, such benefits will only be felt if there is a wide distribution of access points, including ATMs, points of sale, and agents beyond urban areas. Regulators and RSPs should, therefore, work together to consider cost-effective ways to expand the distribution of access points for remittance services to rural and remote areas.

Regulators should also address the constraints limiting the use of SIRESS for cross-border remittances, as well as continue progress to integrate domestic ACHs in the region. SIRESS presents an opportunity to provide efficient settlement for cross-border remittances in SADC, and thus the SADC CCBG and PSMB should work with national regulators to address the constraints inhibiting its use. In addition, efforts to link domestic ACHs in the region through the Regional Clearing House should be continued, as such initiatives have had a positive impact in other jurisdictions (such as the United States–Mexico corridor).

Regulators should make efforts to facilitate competition in the remittances market by ensuring that exclusivity conditions are not imposed, as well as by encouraging fair and equitable access to the market infrastructure MTOs. MTO agents should be encouraged to partner with and offer the services of more than one MTO. In countries where this is the case (such as Ghana and Morocco), the price to consumers for sending money has declined, and consumers in both the sending and receiving country have benefitted from increased options for remittance services. Likewise, non-discriminatory access to the payment systems infrastructure, as well as mobile network platforms, for MTOs will increase the efficiency of money transfers and result in better quality services available to consumers. RSPs should, therefore, be encouraged to collaborate and coordinate efforts to improve the payment system infrastructure and provide fair and equitable access to relevant market infrastructure for remittance services.

Regulators should work toward improving the quality of data and statistics on remittance trends in the region, to provide insight into market opportunities and facilitate evidence-based policy development for the remittances market. There is a need for countries in the region to considerably improve the collection, compilation, and analysis of data on remittance flows. Regular publications of relevant statistics should be made available to market participants and other public authorities. This will raise awareness of the potential of the market opportunity and enable RSPs to develop services appropriate for consumers. In addition, studies should be undertaken on the scale and trends in the unregulated remittances market to better understand the barriers to usage of regulated channels, and the interventions needed to encourage a shift toward regulated remittance services.

Regulators should facilitate the testing of new technologies that have the potential to reduce the cost and improve the efficiency of cross-border settlement for remittances within the region. With rapid developments in financial technology ("fintech"), there is potential for new technologies such as blockchain or distributed ledger technology (DLT) to support faster and more secure cross-border settlement for remittance services, especially where MTOs do not yet have access to the national and payments system infrastructure. SADC regional authorities should consider testing the use of such technology within the SADC RCH environment to better improve the efficiency of remittance services in SADC.

Recommended Actions for Remittance Service Providers

RSPs should be more proactive in raising customers' awareness of regulated remittance services, especially for new and innovative channels. Given that the lack of consumers' awareness is a key barrier to the use of regulated remittance services, RSPs have a responsibility to more widely promote and market their services to migrant and diaspora communities in the sending countries, as well as to receiving communities in the receiving countries. Providing ongoing financial education through regular communication with customers—for example, through SMS (text messages)—should also be encouraged.

Banks should more actively participate in the remittances market in SADC by pursuing partnerships with MTOs and promoting low-cost remittance services linked to transaction accounts. Providing remittance services to customers could bring in more foot traffic for banks and allow them to sell new banking products and services to customers that currently are likely to be unbanked. Offering remittance services through basic bank accounts could also encourage the use of transaction accounts for remittances, providing a gateway to access for other financial services.

RSPs should be involved in the policy dialogue and market development initiatives being undertaken at the regional level to improve the efficiency of remittance services in SADC. RSPs should create forums to facilitate regular dialogue and collaboration at both the national and regional level and should be actively involved in market development initiatives aimed at improving the remittances market. This will enable RSPs to address competition concerns and infrastructure bottlenecks, as well as to contribute to broader payment systems development initiatives that have a positive impact on the remittances market.


JE SAIS CE QUE JE FAIS
COBRA
Sabu
WASHING POWDER
OMO
PHOENIX BEER
THREE HORSES BEER
HICONCIL

REFERENCES

BankservAfrica. 2016. "Shareholding Ownership of the SADC." https://www.bankservafrica.com/Portals/1/Documents/PSO/ConnectAfrica_Newsletter_June%202016%20-%20Final.pdf?ver=2016-06-27-120251-247

CPMI-World Bank (Committee on Payments and Market Infrastructure/Committee on Payment and Settlement Systems and World Bank). 2007. "General Principles for International Remittance Services." http://www.bis.org/cpmi/publ/d76.pdf.

Demirgüç-Kunt, Asli, and Leora Klapper. 2012. "Financial Inclusion in Africa: An Overview." Policy Research Working Paper 6088, World Bank, Washington, DC.

Financial Intelligence Centre, Republic of South Africa. 2015. "Public Compliance Communication No. 32 (PCC 32) on the Scope and Application of the Cross Border Remittance Exemption to the Financial Intelligence Centre Act No. 38 of 2001." https://www.fic.gov.za/Documents/Web%20note%20-%20cross%20border%20remittances%20-%20PCC%2032.pdf.

FinMark Trust. 2015. "Financial Inclusion in the SADC Region: Fact Sheet." http://www.finmark.org.za/wp-content/uploads/2015/07/FACTsheet_FinInclusionSADC_2015.pdf.

Hanusch, Marek, and Paul Martin Vaaler. 2015. "Migrant Remittances, Capital Constraints and New Business Starts in Developing Countries." Macroeconomics and Fiscal Management Practice Notes, No. 8. World Bank, Washington, DC. http://documents.worldbank.org/curated/en/634721467999988162/pdf/98685-BRI-PUBLIC-ADD-SERIES-Box393179B.pdf.

IMF (International Monetary Fund). 2009. International Transactions in Remittances Guide for Compilers and Users. https://www.imf.org/external/np/sta/bop/remitt.htm.

World Bank. 2005. "Remittances: Transaction Costs, Determinants, and Informal Flows." Policy Research Working Paper 3704, World Bank, Washington, DC.

---------. 2011. Remittances Market in Africa. http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/RemittanceMarketsInAfricaOverview.pdf.

WORLD BANK GROUP