RemitSCOPE

Africa

South Africa

Country diagnostic

IFAD
Investing in rural people

PRIME AFRICA

ACKNOWLEDGEMENTS

This country diagnostic was commissioned by the International Fund for Agricultural Development (IFAD) to Developing Markets Associates Global (DMAG) in implementation of the Platform for Remittances, Investments and Migrants' Entrepreneurship (PRIME) Africa initiative, co-financed by the European Union, and presented at the first National Remittance Stakeholder Network in South Africa in March 2021. Development of this diagnostic was coordinated by Pedro De Vasconcelos (Financing Facility for Remittances, IFAD) and Leon Isaacs (DMAG), with extensive contributions by team members of both institutions.

ISBN 978-92-9266-199-1

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ACRONYMS

ACH	automated clearing house
AfCFTA	African Continental Free Trade Area
AD	authorized dealers
ADLA	authorized dealer with limited authority
AfDB	African Development Bank
AFI	Alliance for Financial Inclusion
AML/CFT	anti-money laundering/combatting the financing of terrorism
API	application programming interface
BOP	balance of payments
BSPs	beneficiary service providers
CARWG	Crypto Assets Regulatory Working Group
CDD	customer due diligence
CICO	cash-in/cash-out
CMA	common monetary area
CPA	Consumer Protection Act
DFS	digital financial services
DMAG	DMA Global
DT	deposit taking
EAPS	East Africa Payment System
EFT	electronic funds transfer
EMI	equated monthly instalment
EU	European Union
FAIS Act	Financial Advisory and Intermediary Services Act
FATF	Financial Action Task Force
FCDO	Foreign, Commonwealth and Development Office
FFR	Financing Facility for Remittances
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Centre Act
FinSurv	Financial Surveillance Department
fintech	financial technology
FSCA	Financial Sector Conduct Authority
FSDMoç	Financial Surveillance Department Mozambique
FMT	FinMark Trust
FSPs	financial service providers
IFAD	International Fund for Agricultural Development
IFWG	Inter-governmental Fintech Working Group
IMTO	international money transfer operator
IOM	International Organization for Migration
IPRS	Integrated Population Registration System
KEPSS	Kenya Electronic Payment and Settlement System
KYC	know-your-customer
LMICs	low- and middle-income countries
MFI	microfinance institution
MMP	mobile money provider
MNO	mobile network operator
MTO	money transfer operator
NBFI	non-bank financial institution
NPS	national payments system

PASA	Payment Association of South Africa
POS	point of sale
PRIME Africa	Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa
RBA	risk-based approach
REPSS	regional payment and settlement system
RPW	Remittance Prices Worldwide
RSP	remittance service provider
RTGS	real time gross settlement
SACCO	savings and credit cooperatives
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank
SARS	South African Revenue Service
SDGs	Sustainable Development Goals
SIMO	Interbank Society of Mozambique
SIRESS	SADC Integrated Regional Electronic Settlement System
SO	system operator
TCF	Treating Customers Fairly
TCIB	transactions cleared on an immediate basis
USSD	unstructured supplementary service data

Executive summary

This research is part of a series of country diagnostics in selected African countries, in implementation of the Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative. The diagnostic series can be downloaded on the RemitSCOPE web portal.

Background: migration and remittances

- South Africa officially hosts 1.16 million migrants but estimates indicate there may be 3.7 million including informal migrants, mainly from the Southern African Development Community (SADC) countries. It is the largest remittance sending market in Africa. Formal outflows were US$1.05 billion in 2019, with estimates that 52 per cent of remittances from South Africa to SADC were sent informally.
- South Africa has incurred a series of national lockdowns as a result of the COVID-19 pandemic, with borders shut and restrictions placed on movement. Remittance providers were classed as essential services, which helped to keep money moving. As a result of the pandemic, the use of formal remittance service providers has increased significantly.
- South Africa is still considered one of the most expensive G20 remittance sending country though significant reductions in cost have been observed in some of the corridors recently. The high cost structures in some corridors are driven by limited competition as a result of restrictive regulatory environments.
- South Africa has a sophisticated real-time, cross-border reporting system (Financial Surveillance Department [FinSurv]) where information on all cross-border transactions is submitted to the South African Reserve Bank (SARB) from all service providers. There is a strong call from industry for more data reporting from SARB on the market.

South Africa background: regulatory and market environment

- SARB has implemented a thorough licencing regime and special categories, called authorized dealers with limited authority (ADLAs) with levels that enable remittance service providers, fintechs and mobile money providers (MMPs) to operate. Though on average remitters on SADC corridors send ZAR 830 (FinMark Trust (FMT), 2022), the current limit of ZAR 5,000 is still considered restrictive and outdated amongst high-value remitters. ADLAs are not permitted to make commercial transactions. The licensing process can take time and is expensive as capital requirements are high. Commercial exclusivity still exists in the market.
- South Africa's remittance market consists of commercial banks (27), MTOs, ADLAs (22), fintechs, digital wallet providers, MMPs, international aggregators, the South African Post Office, retail operators and remittances of value providers. Even though the number of providers is increasing, there are still only a few operators really competing actively in each corridor. No MMP currently offers cross-border remittances, however, the telecommunications operator MTN is in the process of applying for an ADLA licence.

- South Africa has strict exchange controls with a rules-based approach to customer due diligence (CDD), while the Financial Intelligence Centre (FIC) has introduced a risk-based approach within the exchange controls. This has led to confusion in the market as there is currently no e-money framework. Remote onboarding is allowed and transparency could be improved in practice.
- South Africa's underlying payment system that supports remittances is one of the most advanced in Africa. The country is working on an instant payment platform for low-value, high-volume transactions. However, there is no interoperability between different stores of value and there are many closed-loop systems reducing the use cases of these services.
- Mobile money has not yet taken off in South Africa, however M-Pesa, MTN and Telkom Pay are currently operational and MTN is looking to get licensed to offer cross-border remittances. South Africa is well-served by an extensive cash-in/cash-out network and is also now witnessing growth in e-wallets.
- While formal financial inclusion in South Africa is high (90 per cent according to FinScope, 2018), the use of digital payment channels is still low across the country. South Africa remains a cash-based economy and bank charges are high for retail customers, thus excluding low-income customers. There is no data on financial inclusion of migrants, but it is assumed less, especially factoring in the proportion of irregular migrants.
- Unlike formal migrants, irregular migrants or those working in the cash-economy face challenges accessing a bank account, but the market is developing to respond to these challenges.
- ADLAs are creating financial services aimed at their target migrant markets. Uptake is high among the Zimbabwean community and is growing fast within the Mozambican one.

PRIME Africa corridors: Mozambique and Zimbabwe

- This diagnostic has focused on the conditions at both ends of the corridors for two specific receive markets from South Africa, namely Mozambique and Zimbabwe.
- Zimbabwe is the largest receive market from South Africa constituting 16.1 per cent of formal outflows.
- Mozambique is the second largest receive market from South Africa and accounts for 7.5 per cent of the formal outflows, while Ghana and Kenya account for much smaller volumes.
- It is expensive to send money from South Africa to these focus countries: Mozambique, 12.9% and Zimbabwe (10.5%) (World Bank 2021, Q4 – based on US$100 transfer).
- South Africa has high-cost remittance corridors due to limited levels of competition, poor infrastructure in receiving countries and high barriers to entry, in addition to other factors.
  - The cost to send to Mozambique can partially be explained by the low levels of competition on that corridor.
  - The cost of sending money to Zimbabwe can be explained by market by high foreign exchange costs due to inefficiencies in the foreign exchange market, as well as significant cash out costs associated with some channels.

- Consumer surveys and interviews were undertaken for each corridor. In addition, key stakeholders for the corridor were interviewed.
  - The impact of the COVID-19 pandemic has been mixed with some respondents sending more money more frequently and others experiencing the reverse. A minority (20 per cent) of respondents shifted to digital channels during the COVID-19 pandemic rather than sending money in person.
  - Convenience/ease of using the service was the main reason respondents chose their primary RSP.

Mozambique

- There are an estimated 726,000 Mozambicans living in South Africa, many of whom do not have the right to work, often overstay their visas and become irregular. They are typically male and work on farms, in mines and in the informal economy. There are an estimated 20,000 Mozambican miners in South Africa.
- In 2018, formal remittances were estimated to be US$93.4 million from South Africa to Mozambique, with an additional US$188 million estimated to be sent through informal channels
- The COVID-19 pandemic and the uptake of mobile money in Mozambique have been catalysts to changes in consumer behaviour and ADLAs are experiencing high growth.
- Mozambique has historically been a very expensive corridor and most remittances have been sent home through informal channels. Remittances of value companies are also popular in this corridor. Formal transfers for miners have been served by former Teba Bank (now Ubank) offering deferred payments to Mozambique.
- The average cost of sending money from South Africa to Mozambique is higher than the average to other Southern African corridors. According to the ADLAs, there are multiple reasons for this additional cost margin, including language, exchange controls in Mozambique and the pay-out environment
- The majority of remittances are paid in cash via retail outlets. Access is an issue, due to irregular migration status and challenges around language. People overcome this by sharing accounts for send money. Sending remittances of value (goods) is also popular.
- The main method for Mozambicans to send money home is carrying it themselves, using buses, taxis, transport companies and via *hawala* agents. These are trusted methods. There are also anecdotal suggestions that people use unauthorized M-Pesa agents based in South Africa, but this is not verified.

Zimbabwe

- Zimbabwe has the largest diaspora in South Africa, with most of them being undocumented (around 85 per cent). Most migrants from Zimbabwe cannot access a bank account because they do not meet the know-your-customer (KYC) requirements at formal financial institutions. It has been estimated anecdotally that 40-50 thousand people are crossing into South Africa every day.
- Zimbabwe is the largest receiver of remittances from South Africa, and one of the main corridors. Around US$720 million were sent to the country in 2021 (SARB). The average cost of sending US$200 from South Africa to Zimbabwe is 13.67 per cent. ADLAs generally offer lower prices (between 3 per cent and 11 per cent) compared to banks (over 20 per cent for all banks).
- The Zimbabwe-South Africa remittance market is formally served by Mukuru and, increasingly, by MamaMoney and HelloPaisa. WorldRemit, EcoCash and Exchange4Free are also present. Western Union and MoneyGram are not substantial market players in the country.
- There are significant amounts sent home informally, with friends or family and with bus and taxi drivers. Also, small cross-border trading businesses, sending goods over the border to resell or for personal consumption are common mechanisms to support relatives back home. This is a result of market factors and relatively high levels of financial exclusion (45 per cent).
- Remittances to Zimbabwe are also available onto mobile wallets, such as EcoCash through EcoCash Remit. However, mobile money operators are subject to highly restricted political actions. The government has been intervening in the market and restricting or stopping this service. Additionally, wallets are in real-time gross settlement (RTGS) and US$, which can imply significant fees (up to 35 per cent).

There are specific recommendations for each corridor in the relevant sections in the diagnostic.

Stakeholders and coordination

- The South African remittance industry is well-organized through the ADLA Forum. The local NGOs FMT and CENFRI have been successfully working for many years to improve the remittance market from South Africa to SADC.
- There are many donors and other stakeholders who are working in the two receiving corridors. Coordination among stakeholders is critically important to ensure that opportunities are maximized and resources optimized. Sharing of learning is encouraged.

SUMMARY PRIORITY POLICY ACTIONS

For SARB:

A. To harmonize data at a corridor level with receive country central banks.

B. To review and consider piloting ADLAs to handle non-remittance, low-value commercial transactions to help address informal trade in Africa, increase volumes and reduce costs of remittance services, and improve the accuracy of remittance data.

C. To re-examine the licencing and compliance framework in South Africa to see whether changes to licencing approval times, capital requirements, policing of non-licensed service providers and the daily and monthly thresholds prescribed in the ADLA Manual are constraining competition in the market.

D. To review its rules-based approach to consumer due-diligence in relation to the risk-based approach prescribed by FIC in accordance to Financial Action Task Force (FATF) guidance. PRIME Africa may be well positioned to support pilots that implement a risk-based approach that improves access to migrants.

E. To lead on assessing appetite among central banks in SADC on harmonizing remittance and payment regulations across the Community and potentially offering the passporting of licences to reduce barriers to entry and promote competition in the region.

F. To licence non-bank payment service providers to issue e-money to increase competition and lower costs of e-wallets.

G. To ensure interoperability between different closed-loop stores of value and possibly between cash-in/cash-out (CICO) agents in South Africa, and potentially at a regional level through transactions cleared on an immediate basis (TCIB). PRIME Africa would support fintechs that are addressing interoperability in the market where there is a demonstratable impact on the remittance ecosystem.

H. For SARB and other government agencies: to use their existing data collection frameworks to significantly improve data reported and published around migration, remittances and remittance pricing in, to and from South Africa, to facilitate more informed decision making processes.

I. PRIME Africa to financially support ADLAs, challenger banks, MMPs, cryptocurrency providers and other fintechs to drive financial inclusion of diasporas in South Africa through specifically tailored products (especially low-cost digital transaction accounts with reduced KYC requirements for non-documented migrants), digitalize the remittance value-chain by removing the need to CICO (for example through payroll initiatives) and offer more competitively priced, accessible remittance services in South Africa to the Mozambique and Zimbabwe corridors.

J. For financial service providers (FSPs) or RSPs in South Africa and counterparts in Mozambique: to form new partnerships and develop products to meet the remittance needs of the Mozambican and Zimbabwean diaspora in South Africa, as well as remittance-linked and transnational financial services.

K. For PRIME Africa to create "corridor working groups" to bring together stakeholders from both sides of the corridor to address challenges and facilitate innovation through new product development and partnerships.

L. Improve guidance and clarity on transparency and consumer protection for remittance services, taking into account the impact of the Treating Customers Fairly (TCF) framework.

M. For future national consumer financial education strategies to also include migrants and tailor interventions to meet their specific profiles and needs.

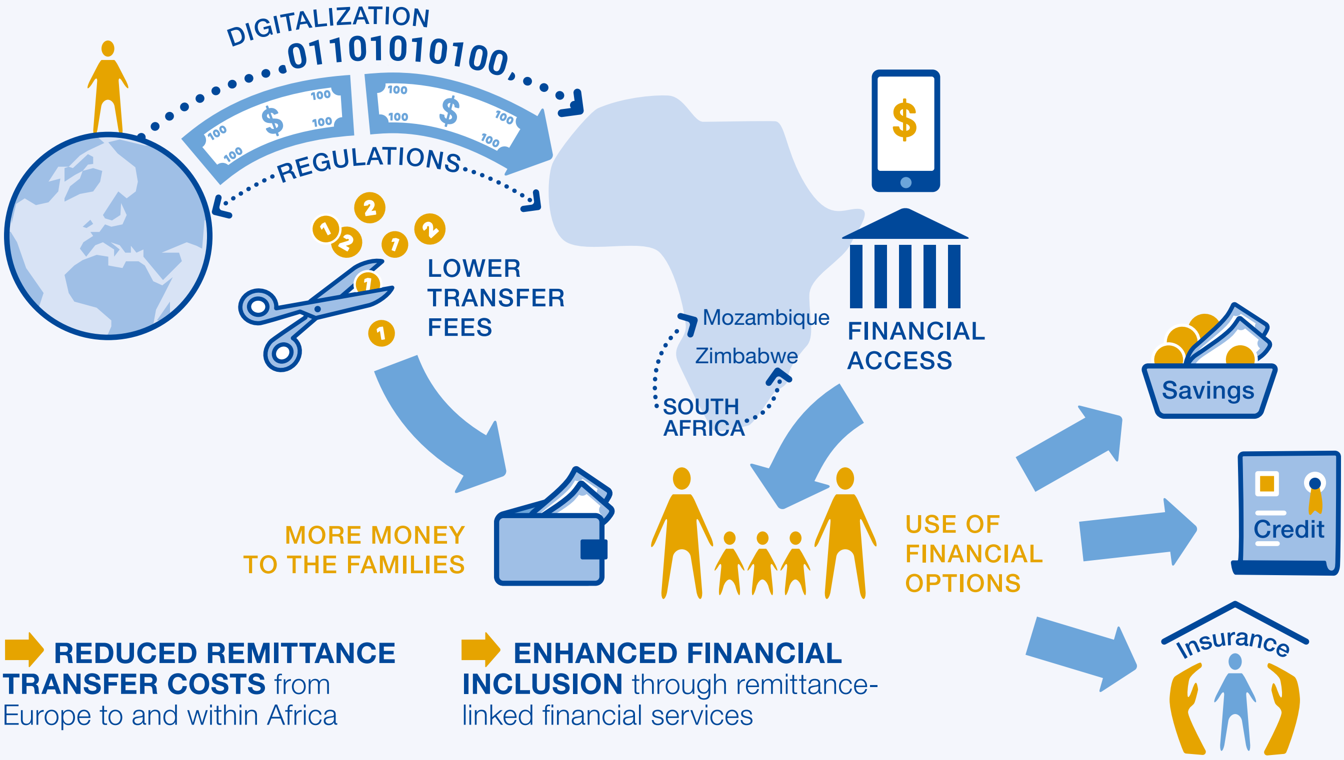
N. For PRIME Africa and RSPs in South Africa, to focus on formalizing the Mozambican corridors through tailored products and services that meet the needs of clients (linguistically, financial literacy levels and types of services required, for example unstructured supplementary service data [USSD] or payroll solutions).

The PRIME Africa initiative

IFAD is implementing the **Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative**, co-financed by the European Union and aimed at maximizing the impact of remittances for millions of families in selected African countries, which contributes to fostering local economic opportunities in migrants' countries of origin (figure 1).

Figure 1. PRIME Africa activities in South Africa

GOALS

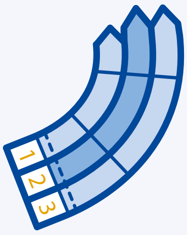


REDUCED REMITTANCE TRANSFER COSTS from Europe to and within Africa

ENHANCED FINANCIAL INCLUSION through remittance-linked financial services

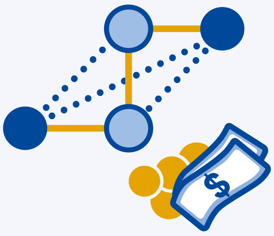
ACTIVITIES

- **Address the data gap**
Strategic market data allow for further market depth and width, and targeted capacity-building to key stakeholders for remittance data creation and use.



- **Increase market competition**
Expand access to remittances through close cooperation with public and private sectors, and additionally reduce significantly direct and indirect costs, and spur market competition.

- **Support an enabling environment**
Coherent national regulatory frameworks in both sending and receiving countries can foster competition in remittance corridors and enable safe, cheap and fast transfers.



- **Finance and promote business models linking remittances and financial services**
Co-finance and promote innovative, replicable and scalable business models and technologies that link remittances to financial services, toward greater financial inclusion.

- **Finance scalable innovations and related capacity**
Collaboration mechanisms in place among central banks, regulatory bodies, the private sector and diaspora communities in sending and receiving countries; and strengthened capacity to adapt and scale up best practices within an operational framework that allows cooperation among partners.

1 Background: migration and remittances

Figure 2. Map of South Africa

This section provides an overview of the key drivers of the remittance flows, costs and channel usage from South Africa through covering migrant communities within South Africa, both formal and informal; the flow of remittances from South Africa and changes in remittance costs over time; the impact of the COVID-19 pandemic on the market; and methodologies for collecting and reporting remittances.

- Remittance flows and migrant communities
- Remittance pricing
- Impact of the COVID-19 pandemic
- Remittance data collection frameworks and reporting mechanisms

South Africa is the largest remittance send market in Africa. Formal outflows were US$1.05 billion in 2019 with estimates that 52 per cent of remittances from South Africa to the SADC were sent informally.

South Africa officially hosts 1.16 million migrants but estimates suggest there may be 3.7 million including informal migrants, mainly from SADC countries.

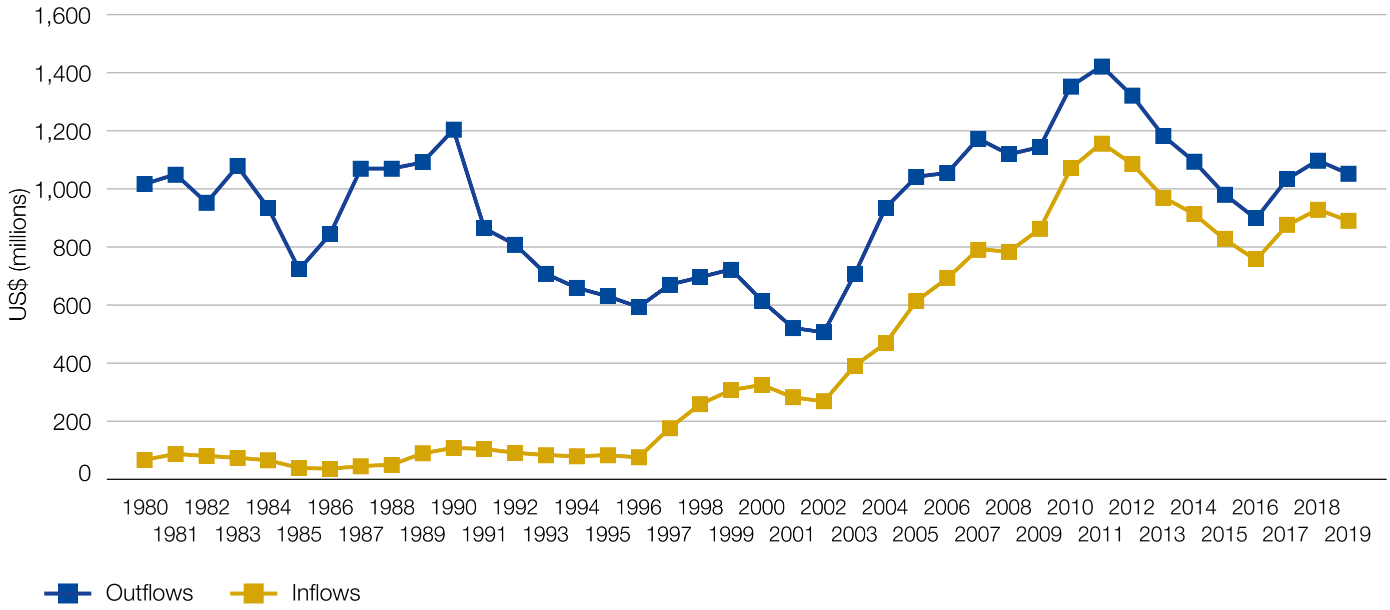
- South Africa officially hosts 1.16 million migrants (UNDESA, 2019). Estimates however suggest there are also significant numbers that are undocumented. The country has long been a destination for migrants from Africa, especially within the SADC region.
- It was estimated that in 2020 3.7 million migrants from the SADC region lived in South Africa (FMT, 2020b), of which 80.4 per cent (2.98 million) are undocumented and have no right to work. However, there is no recent data from the government on immigration or the number of migrants residing in South Africa (FMT, 2020a).
- South Africa is predominantly a send-market for remittances: according to the World Bank (2019a, 2019b), outflows summed to US$1.05 billion (0.3 per cent of GDP) and total inflows were US$840 million in 2019 (0.2 per cent of GDP). SARB does not report data on remittance inflows and outflows for the country as a whole but publishes data on outflows from South Africa to SADC countries only.
- In 2018 SADC residents sent a total of US$655.5 million via formal channels from South Africa (FMT, 2020b). Zimbabwe is the largest corridor within SADC (46 per cent), Malawi (18 per cent), Lesotho (10 per cent) and Mozambique (6 per cent).
- There is also a significant informal remittance market from South Africa, however, the true value of remittances passing through informal channels is unknown. It was estimated that 52 per cent of remittances from South African to SADC were sent through informal channels in 2018, with 68 per cent of flows to Zimbabwe and 67 per cent of flows to Mozambique being sent informally (FMT, 2020b) (see annex 1).

Table 1. Estimate of SADC Migrants in South Africa

Country	Total migrants	% with no right to work
Zimbabwe	1,680,770	**85.4%**
Mozambique	983,078	**74.4%**
Lesotho	402,015	**64.4%**
Malawi	216,515	**96.7%**
Eswatini	90,943	**92.0%**

Source: FinMark Trust, 2020a.

Figure 3. South Africa remittance inflows and outflows

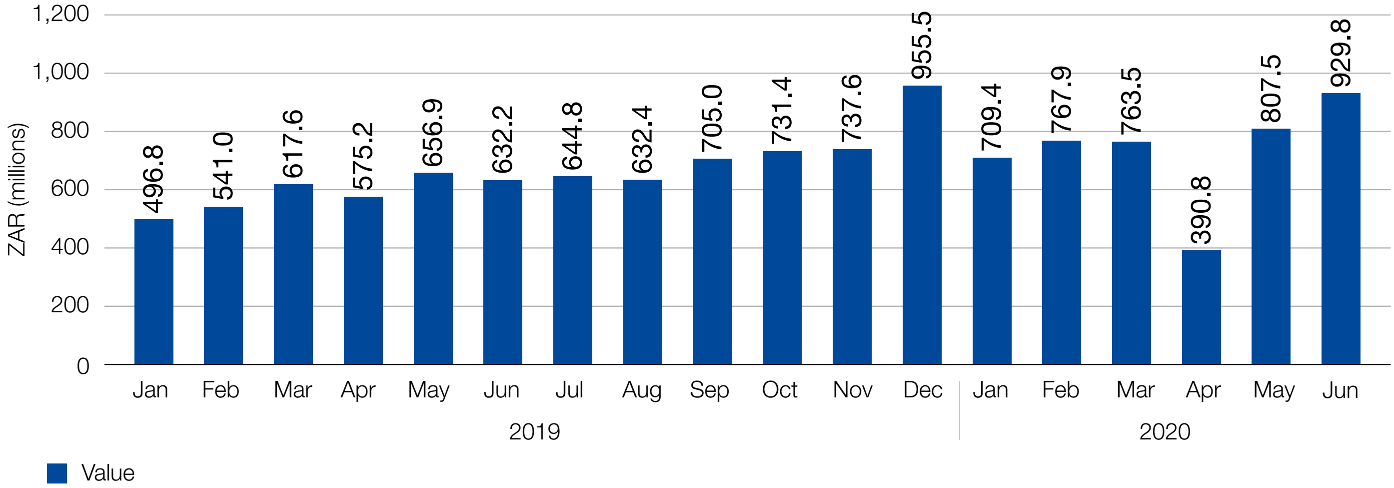


Source: World Bank Inflows and Outflows, 2019a and 2019b.

South Africa has incurred a series of national lockdowns as a result of the COVID-19 pandemic, with borders shut and restrictions placed on movement. Remittance providers were classed as essential services. As a result of the COVID-19 pandemic, use of formal remittance service providers increased significantly.

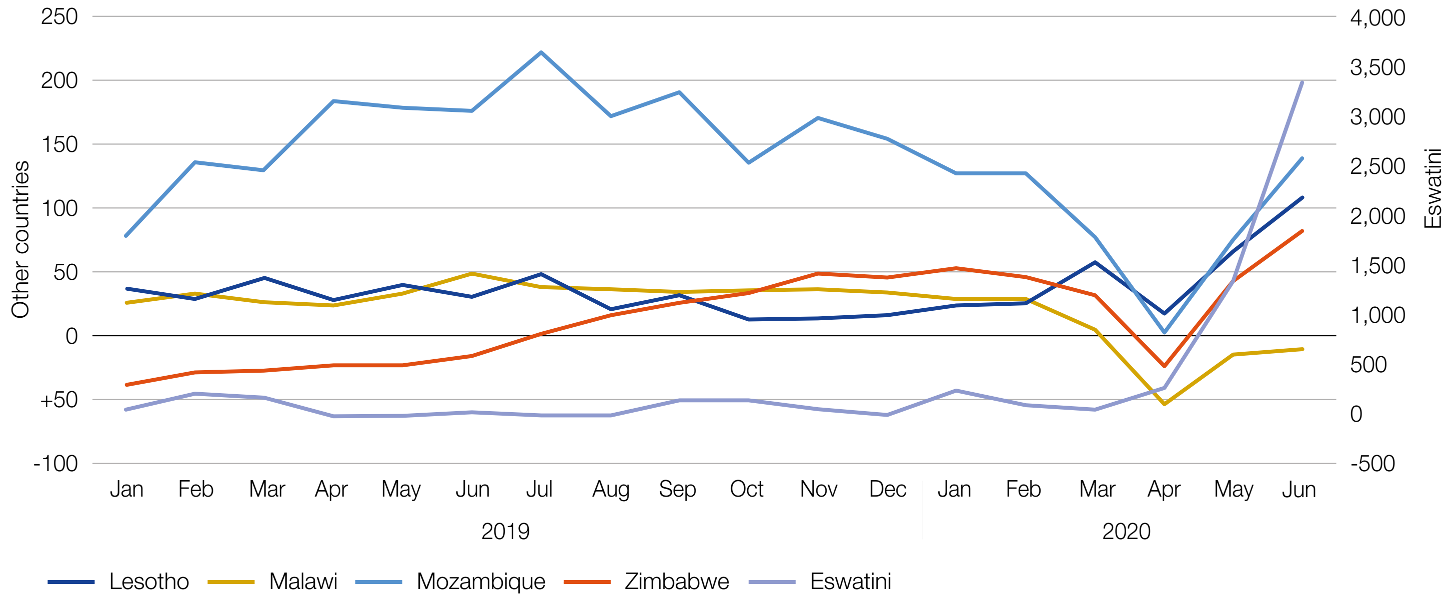
- In March 2020, a national lockdown was announced in South Africa in response to the COVID-19 pandemic, which included restrictions on movement, curfews and some land borders being shut and others partially operational. In response to the first lockdown, many migrants took the opportunity to return to their home countries, particularly Mozambican mineworkers (IOM). A second lockdown begun in December 2020 and restrictions were lowered to an alert level 1 from 1 March 2021. While some remittance agents were considered essential services, access to remittance locations were limited by restrictions on mobility. Roving agents were not deemed as essential.
- The SARB data shows that volumes of cross-border remittances (South Africa to the rest of SADC) dropped initially as the COVID-19 pandemic unfolded, from March to April 2020, including a drop in Mozambique corridor by 51 per cent in volumes between March and April 2020. However, since then, all of the South Africa to SADC remittances rebounded. It is not known what has driven this increase, especially where flows increased beyond pre-COVID-19 pandemic levels, but possibly an indication of more money being sent through formal channels. SARB has not released any data since June 2020.
- Less is known about the impact of the COVID-19 pandemic on the South Africa to non-SADC corridors, as this information is not published by SARB.
- Migrants working in informal employment and seasonal employment were hardest hit. While overall volumes were steadily increasing to pre-lockdown levels, local money transfer operators reported a percentage of customers (SADC migrants) that had previously sent low values of under ZAR 1,000 had stopped remitting from March 2020 (FMT analysis). One of the ADLAs reported that 60,000 customers who had remitted ZAR 1,000 or less had completely stopped remitting since March 2020. Indeed, the most vulnerable were no longer able to send money home (FMT, 2020c).
- With support from the United Kingdom's Foreign, Commonwealth and Development Office (FCDO), FMT launched the Income Relief Fund for SADC Migrants in September 2020 to financially support these remittance beneficiaries (FMT, 2021).

Figure 4. Outbound remittance flows, January 2018-June 2019



Source: FMT 2020.

Figure 5. Total remittance values for selected countries (South Africa outbound), year-on-year growth, per cent

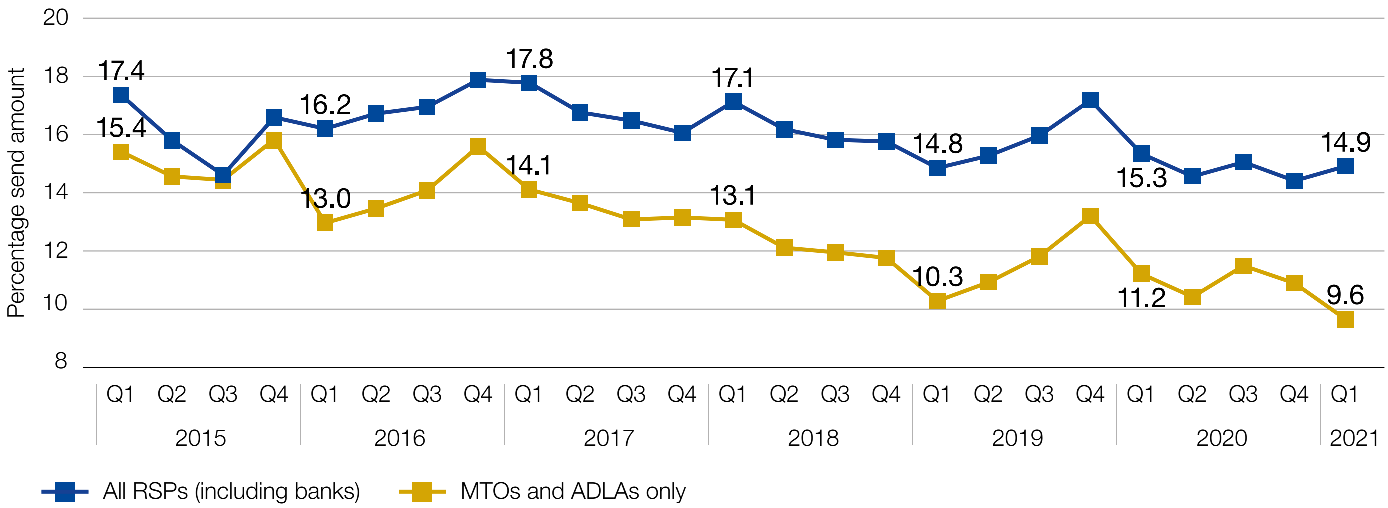


Source: FMT (2020c) Effects of COVID-19 on domestic and cross-border payments and remittances in SADC.

South Africa remains one of the most expensive G20 remittance sending countries though there has been significant reduction in cost in some corridors.

- South Africa is consistently one of the costliest remittance markets in the world and is the most expensive G20 country to send remittances from.
- According to the World Bank's Remittance Prices Worldwide Index, in Q1 2021, the average to send US$100 (equivalent to ZAR 1,370) from South Africa was 14.9 per cent of the send amount; this far exceeds the global average of 6.4 per cent (for US$200 equivalent) the sub-Saharan African average of 8.0 per cent, and the G20 average of 6.4 per cent for the same time period.
- The average cost of sending money from South Africa is skewed within the RPW data collection process. This is due to the large number of banks being included in the sample even though they are not widely used for remittances. Their inclusion means that the average is driven upwards. Plus, the movements in US$-ZAR exchange rates, since RPW started, has changed the nominal US$200 amount used in RPW so that the rand amount collected is now in reality only the equivalent of US$100.
- It is estimated that in SADC, 71 per cent of formal cross-border remittance transactions take place through non-banks (FMT, 2020d). Removing bank money transfer services from the sample reduces the average cost of sending US$100 (equivalent to ZAR 1,370) to 9.65 per cent of the send amount in Q1 2021. This is still high in comparison to other markets globally and in part reflects the high prices in some SADC corridors (such as to Angola or Botswana where volumes are low and infrastructure is weak).
- In Q1 2021, the most expensive corridor to send to from South Africa was Angola at 21 per cent, followed by Botswana (19.07 per cent), China (18.8 per cent) and Nigeria (average 16.3 per cent). The cheapest corridors were Lesotho (average 8.0 per cent) and Eswatini (average 8.3 per cent), while it is worth noting that there is no foreign exchange margin in either of these.
- According to the South African Treasury (2020), "the high cost of South African remittances may be driven by the dual and related effects of stifled competition as a result of regulatory barriers to entry, on the one hand, and the way in which financial institutions give effect to these regulatory requirements, on the other."
- The high remittance pricing, in part, contributes to the use of informal remittance channels. While the true value of informal remittances is unknown, estimates say that 52 per cent of remittances from South Africa to SADC were sent through informal channels in 2018 (FMT, 2020b).

Figure 6. Average global cost to send US$100 (ZAR 1,370) from South Africa, Q1 2015-Q1 2021



Source: World Bank Remittance Prices Worldwide.

South Africa has a sophisticated real-time, cross-border reporting system (FinSurv) where information on all cross-border transactions is submitted to SARB from all service providers. There is a strong call from industry for more data reporting from SARB on the market.

- SARB and the Financial Intelligence Centre have a real time cross-border reporting system, where every cross-border transaction must be reported in real time (by the end of the day) to SARB. The FinSurv Reporting System aims at ensuring accurate and comprehensive reporting of all transactions data by authorized dealers and ADLAs.
  - Every business licensed to send remittances is linked into the FIC reporting system or the FinSurv reporting to provide the required data, either directly or indirectly. Indirectly, the data is supplied through third parties, such as Synthesis. All transactions are reportable. SARB and the FIC conduct their own compliance checks on the transaction data.
  - There are cost implications to the RSPs in meeting the reporting requirements of SARB due to the additional resourcing requirements, and some cited the software requirements as an additional burden.

- SARB does not publish data on South Africa's remittance inflows and outflows. Some data on flows to the SADC region is provided on an ad hoc basis (to FMT) but these data are not shared with industry. There is a call from the industry to provide data on remittance corridors (values and volumes) broken down by migrant status and the payments' balance of payment (BOP) category to provide the market share of different operators in corridors.
- FinSurv is currently under renewal. The 1FinSurv initiative has been initiated to re-engineer its business processes as well as replace a number of key information technology solutions currently being utilized within the department.
  - The proposed 1FinSurv initiative is still at an early stage of specification. SARB is testing an interactive digital data portal and dashboard for cross-border transactions (Cenfri, 2020). Providers can submit their reports to the data portal and market intelligence can be fed back to providers to give an overview of market share, formal flows and so on. Such a system could also encourage improved data quality. A simplified reporting process for providers can assist with reducing operational costs and promote the collection of higher-quality remittances data.

Table 2. Priority policy actions: data

Stakeholder	Rationale	Proposed policy action	Priority
Statistics South Africa (SSA)	There is no recent data from the government on the size of migrant communities in South Africa. FMT has some data on migrants from SADC, but there are no official statistics that disaggregate data according to country, migration status, region and gender.	It is proposed that the Government of South Africa focus on collecting and publishing data on a periodic basis to provide further insight into the profile of diaspora in South Africa, including information around their country of origin, migration status, residency region in South Africa, gender, etc.	Medium
SARB	According to ADLAs and SARB, ADLAs are only permitted to process remittance transfers and are not currently permitted to process commercial payments. SARB is aware that the ADLAs are used for low-value cross-border commercial payments, where senders report the payment as a remittance.	It is suggested that ADLAs should be permitted to process commercial/trade payments that will (a) reduce costs and improve access to formal cross-border payment services for remittance senders and informal traders; and (b) improve the accuracy of remittance data. It has been suggested by ADLAs that the impact of these on the market could be assessed through a pilot focused on using ADLAs to formalize informal trade payments.	High
SARB	SARB has a sophisticated, real time cross-border remittance reporting system and all remittances must be reported according to various categories. However, there is only limited data published by SARB despite requests from the industry for more data at a disaggregated level. The reasons for this lack of data are unclear.	It is requested that SARB share barriers to publishing disaggregated remittance data and reconsider their position on what data they publish. Industry calls for SARB to use their reporting system to generate and publish monthly data on remittance inflows and outflows to and from South Africa broken down by corridor, ADLA category, balance of payments classification on migration status, payment type and to provide market share data by operators through these breakdowns.	High
FMT	The World Bank's RPW data on remittance pricing from South Africa is skewed due to the number of banks in the sample and the average send amount being used. This can skew analysis and understanding of the state of the market.	For FMT or PRIME Africa to produce more reflective and comparative remittance pricing data from South Africa that more accurately reflects the costs.	Medium
SARB and other central banks	There is a real demand from industry across the continent to have remittance data (values and volumes) at a corridor level.	Given SARB's sophisticated cross-border reporting system, it is suggested they work with central banks in receive countries to harmonize data at a corridor level. For example, Central Banks in other PRIME African Countries are now publishing monthly data at a corridor level e.g. Kenya.	Low

2 South Africa background: regulatory and market environment

This section looks at the regulatory and remittance market environment within the country. South Africa has a comprehensive series of regulations, which includes licensing for operators; payment systems; conditions for the entry of new products; and areas that impact financial inclusion. All of this is undertaken within an overall exchange control regime. The section also covers the types of businesses that are sending money from South Africa.

- ADLA licensing framework
- Wider exchange controls and licensing regime
- Payment systems
- Mobile money, fintech and the e-market
- Financial inclusion and use of digital channels

Introduction to regulation in South Africa

- The regulation of ADLAs should be seen in the context of the "twin peaks" model of financial regulation for South Africa, which seeks to promote and maintain financial stability as its core objective. The model established a new prudential regulator, the Prudential Authority, tasked with overseeing the system-wide safety and soundness of financial institutions, as well as a new market conduct regulator, the Financial Sector Conduct Authority, tasked with overseeing the efficiency and integrity of financial markets and affording greater financial consumer protection. Within this model of "regulation by objective" the South African Reserve Bank has an express financial stability mandate.
  - The intention of the framework is to "harmonize the system of licensing, supervision, enforcement, customer complaints (including ombudsmen), appeals, and, consumer advice/and education across the financial sector." The success of the model depends largely on effective/efficient cooperation and collaboration between the various financial regulators.

- The new ADLA licensing regime in 2014 enabled RSPs to enter the market, after which competition intensified and prices fell. The services of ADLAs are aimed at low-value diaspora remittances and are more competitively priced for low-value transactions.
- Despite these efforts, as of Q1 2021, prices offered by ADLAs for their services are still between 5.0 per cent and 12.3 per cent for sending US$100 equivalent. The average global price from South Africa using ADLAs alone exceeds the 3 per cent SDG 10.c goal. World Remit stands out as offering lower than average prices, such as Botswana (4.0 per cent). In contrast, MoneyGram, Western Union, HelloPaisa and Mama Money often have the highest prices: for example, Mama Money costs 19.6 per cent to the United Republic of Tanzania.
- A cash-based send-market, relatively weak competition, regulatory/reporting burdens, exchange controls, large numbers of irregular migrant senders and challenges in receive markets all contribute to making these corridors relatively expensive by global standards.

- Cash-based send market with a reliance on agents. South Africa is still largely a cash-based society, bank fees are expensive and for irregular migrants no work permit means no bank account. It is estimated that at least 83 per cent of total formal remittances are cash transactions (FMT, 2020d) so there is still strong dependency on agents. Some ADLAs had intended to enter the market providing a digital service to contain costs and offer affordable transfers, but they had to expand their physical presence through new branches, kiosks, and so on to meet customer demand with additional cost implications. Non-banks reported that over 90 per cent of transactions are facilitated by agents (roving or stationary).
  There are newer market entrants focused on purely digital-only services for the banked customers. ADLAs and others are also offering alternative pre-paid and e-money solutions with reduced CDD and limited functionality compared to a bank account.
- Large number of irregular migrants with competition from informal money transfer operators. Migrants are being forced to use informal mechanisms because the formal system locks many migrants out. Informal service providers are the biggest competitors to ADLAs in South Africa for low-cost remittances. In response to this, there have been, and continue to be, innovative solutions driven by the ADLAs, SARB, FIC and development partners to drive financial inclusion and formal remittance services.
- Cost of entering the market, and regulatory requirements. SARB has a relatively strict regulatory and supervisory approach. Every transaction must be reported to SARB. Furthermore, there are exchange controls in place that require an extra level of management as well as other barriers to entry, including the capital cost requirements and long wait times to receive licencing approvals.
- Receive market challenges. Many of the main corridors from South Africa have weak infrastructure and pay-out networks as well as other issues that further increases costs. For example, Angola, Mozambique and Zimbabwe are challenging environments to operate in due to currency, payment infrastructure, regulatory and and unstable security environments, as well as low volume corridors such as Zambia. To overcome some of these challenges, sending stores of value rather than money (for example, food and other supplies) is commonplace and growing from South Africa to Zimbabwe and Mozambique with specialized and main players offering these services.

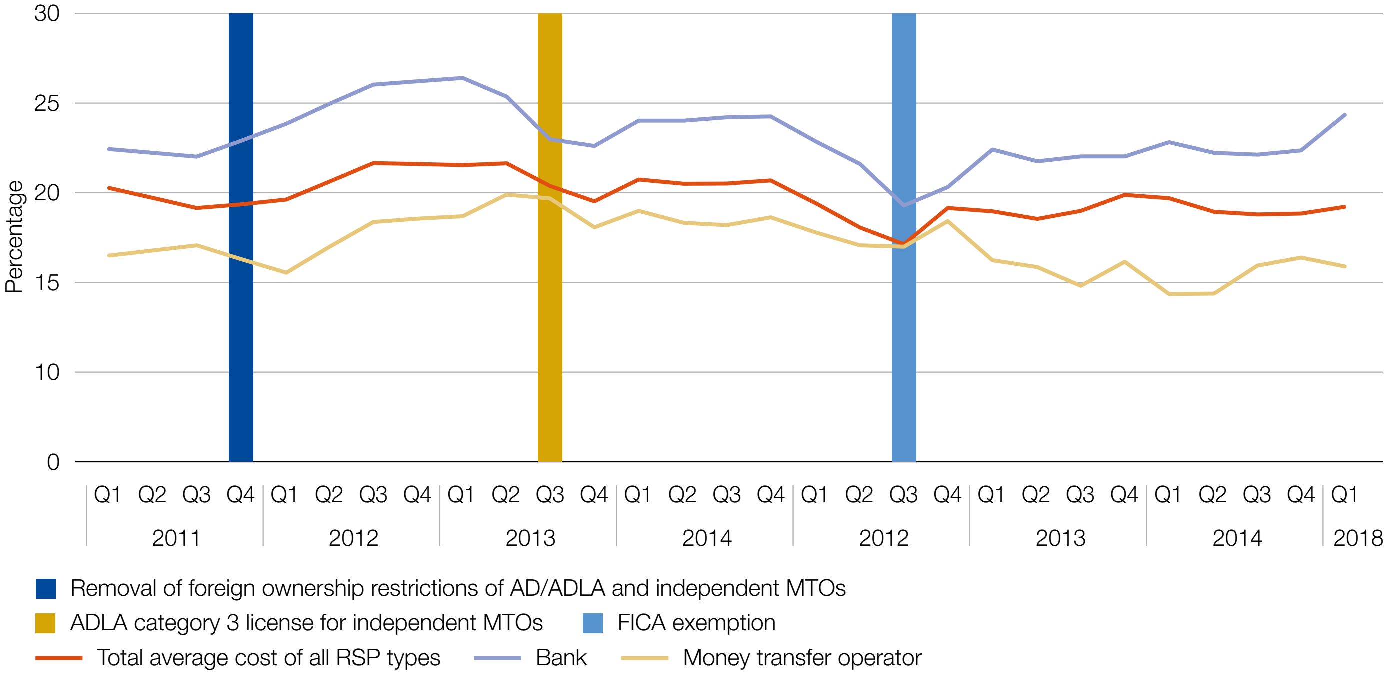
ADLA licensing categories are broad to include fintechs and MMPs, but the ZAR 5,000 maximum amount permitted per transaction is considered too low and out of date. ADLAs are not permitted to make commercial transactions. The licensing process can take time and is expensive as capital requirements are high. Commercial exclusivity still exists in the market.

- Cross-border remittances in South Africa are regulated by SARB and must comply with regulations from the Financial Intelligence Authority. Remittances are supervised by the FinSurv.
- Historically, South Africa was a bank dominated remittances market but introduced a tiered licensing framework for “authorized dealers in foreign exchange with limited authority,” known as ADLAs in 2014 to compete with the large informal remittance market. ADLAs can operate independently from banks. The introduction of ADLAs into the South African market has resulted in lower-cost services for outbound remittances over time.

- There are four categories of ADLAs:
  - Category 1: Bureaux de change only (buying and selling of foreign currency)
  - Category 2: Bureaux de change licensed to offer money remittance services in partnership with an external MTO (single remittance transactions up to ZAR 5,000)
  - Category 3: Independent MTOs (able to offer cross-border transfer services up to ZAR 5,000 per transaction or, once a business relationship has been established with the customer, ZAR 5,000 per day up to ZAR 25,000 per month)
  - Category 4: ADLAs permitted to cover business activities under all above categories; there is not a higher threshold for transaction limits in this category

- There are also two global money transfer businesses in South Africa, Western Union and MoneyGram (they are not licensed separately but partnered with licensed banks/ other licensed entities).
- Remittances are governed by a number of regulations, including; the ADLA Manual 2020; circulars; the FIC Act; and Regulations under the FIC Act.
- The FIC and FIC Act do not propose any mandated CDD requirements other than that the FSPs is required to meet FATF requirements and that the risk tolerances of FSPs and the regulator are within their parameters. However, the RSP regulator at SARB has implemented a rules-based approach in conjunction with the areas of exchange control and financial surveillance that have resulted in the co-mingling of exchange control regulations and CDD oversight, causing confusion.

Figure 7. Average cost of sending remittances from South Africa to SADC countries, Q1 2011-Q1 2018



Source: World Bank (2018).

The above shows how changes to the regulatory environment for remittances in South Africa have contributed to a downward trend in total remittance costs over the last decade.

There are 27 banks in South Africa licensed as authorized dealers to make cross-border transfers, 22 ADLAs licensed to do cross-border remittances, the South African Post Office, as well as other international money transfer operators (IMTOs) including Western Union, MoneyGram, that partner with banks. No MMP currently offers cross-border remittances, however, MTN is in the process of getting an ADLA licence.

Table 3. Authorized dealers for cross-border transfers from South Africa

Name of entity – authorized Dealer	Name of entity – authorized dealer in foreign exchange with limited authority	Category of appointment
ABSA Bank Limited	Imali Express (Pty) Limited	One
Albaraka Bank Limited		
Bank of China Johannesburg Branch	Forex World (Pty) Limited	Two
Bank of India	Global Foreign Exchange (Pty) Limited	Two
Bank of Taiwan South Africa Branch	Inter Africa Bureau de Change (Pty) Limited	Two
Bidvest Bank Limited	Interchange RSA (Pty) Limited	Two
BNP Paribas SA - South Africa Branch	Master Currency (Pty) Limited	Two
Capitec Bank Limited	Mukuru Africa (Pty) Limited	Two
China Construction Bank, Johannesburg Branch	Sikhona Forex (Pty) Limited	Two
Citibank, N.A., South Africa	Tourvest Financial Services (Pty) Limited	Two
Deutsche Bank AG, Johannesburg Branch	Travelex Africa Foreign Exchange (Pty) Limited	Two
FirstRand Bank Limited		
Grobank Limited	Access Forex (Pty) Limited	Three (MTO)
Habib Overseas Bank Limited	Cassava Fintech (Pty) Limited	Three (MTO)
HBZ Bank Limited	Kawena Exchange (Pty) Limited	Three (VTSP)
HSBC Bank plc - Johannesburg Branch	Shoprite Money Transfers (Pty) Limited	Three (MTO)
Investec Bank Limited	Southeast Exchange Company (South Africa) (Pty) Limited	Three (MTO)
JPMorgan Chase Bank (Johannesburg Branch)	Terra Payment Services South Africa (RF) (Pty) Limited	Three (MTO)
Mercantile Bank Limited	WorldRemit South Africa (Pty) Limited	Three (MTO)
Nedbank Limited		
Sasfin Bank Limited	Hello Paisa (Pty) Limited	Four
Société Générale	Mama Money (Pty) Limited	Four
Standard Chartered Bank - Johannesburg Branch	Tower Bureau de Change (Pty) Limited	Four
State Bank of India		
The Standard Bank of South Africa Limited		

Source: Reserve Bank of South Africa (2020 and 2021).

"Challenger" style banks

Offer digital banking services but none are currently offering cross-border money transfers and probably will not do so. These banks are listed below; Zero has also recently entered the market.

Table 4. Emerging "challenger" banks in South Africa

Name of entity - Restricted authorized dealer
African Bank Limited - Sections B.4(B) and B.16
Discovery Bank Limited - Sections B.4(B) and B.16
Tyme Bank Limited - Sections B.4(B) and B.16

Money transfer operators

- Western Union
- MoneyGram

They are not licensed but are partnered with licensed banks/other licensed entities to be able to offer services. They were the only non-banks to acquire licenses from SARB prior to changes in regulations.

Mobile money providers

MTN is in the process of applying for an ADLA 4 licence in order to offer inbound and outbound cross-border remittances from South Africa.

South Africa's remittance market consists of commercial banks, MTOs, ADLAs, fintechs, digital wallet providers, MMPs, international aggregators, the South African Post Office, retail operators and remittances of value providers. The number of providers is increasing, but there are still only a few operators really competing actively in each corridor.

Table 5. Main Remittance Service Providers in (RSPs) South Africa

Standard Bank, FNB, absa, NEDBANK, Bidvest	The main **commercial banks** in South Africa, Nedbank, Standard Bank, FNB and ABSA all offer SWIFT based **cross-border transfers for account holders only**. Transactions can be done online, through an app, over the phone or in a branch. Fees tend to be higher than other channels and consist of a commission (a small percentage with a minimum), a SWIFT fee and in some cases an administration or service fee. All commercial banks also offer transfers through a partner, MoneyGram or Western Union (Nedbank has partnered with Ecobank). All commercial banks also have large branch networks.
MoneyGram money transfer, Western Union	**International MTOs (multi-channel) including** MoneyGram and Western Union operate through a network of agents in South Africa (in addition to the banks mentioned above). These tend to be larger bureaux de change and banking institutions, located in malls and central business districts. The banks tend to offer an exclusive service with one of them (ABSA with Western Union, Standard Bank with MoneyGram, FNB with MoneyGram). Due to the pricing structure, Western Union and MoneyGram are only used for larger transactions.
Mukuru, Sikhona, EcoCash Remit, Mama Money, hellopaisa, Rapidtransfer, WorldRemit	**ADLAs, including Mukuru, Mama Money, HelloPaisa, Cassava and others.** The tiered ADLA licence system has led to the entry of a number of companies offering dedicated cross-border person-to-person money transfers. These services have typically been aimed at the low-value diaspora cross-border remittances, where the fees for using bank services or MTO services are relatively high. These operators offer a range of different pay-in options, including most commonly the large retail networks of Shoprite and others.

CHIPPER, PayPal, Eversend, Skrill	**Fintech/Digital wallet providers** use digital wallets to enable cross-border transfers. ChipperCash launched in March 2020 in South Africa is for banked customers only. Both the sender and receiver are required to have a digital wallet. Similarly, PayPal and Skrill also offer services from South Africa, although they are not licensed to do so. Eversend currently offers services from South Africa to Kenya (and a few other East African countries).
SHOPRITE, Post Office, KAWENA, malaicha.com	There are also a few **other models of interest** from South Africa. For example, the Shoprite MoneyMart model. Kawena has been a money transfer business in South Africa for the last 30 years. It sends remittances of value (goods) to Zimbabwe and Mozambique. Malaicha.com (owned by HelloPaisa) has recently started offering a similar service to Zimbabwe and to Somalia. The **South African Post Office's PostBank** service is not as of yet operational as a bank. It is restricted in its ability to compete in the international payments market. The South African Post Office has joined the UPU IFS/Postransfer service, which enables customers to send money to post offices, mainly in SADC countries. Neither the MTOs nor the 10 million+ debit cards/accounts for social payments can be used with this service.
MTN	**MTN** is due to come to market with a cross-border digital remittance service. It is in the process of getting an ADLA licence.
MFS Africa, TERRA, thunes, VISA Direct	**Aggregators** include MFS, Thunes, HomeSend, Mastercard Send, TerraPay and Visa Direct.

South Africa has strict exchange controls with a rules-based approach to CDD, while FIC has introduced a risk-based approach within the exchange controls. This has led to confusion in the market. There is currently no e-money framework. Remote onboarding is allowed and transparency could be improved in practice.

- South Africa has strict exchange controls, which are outlined in the ADLA Manual, stipulating that SARB must be in possession of full information regarding every transaction. This requirement adds costs to the provider through reporting and CDD burdens. ADLAs also provided feedback that the regulatory limits they are permitted to send are too low (single remittance transactions are limited to ZAR 5,000), which means ADLAs cannot accommodate higher income workers.
- FIC has introduced a risk-based approach to consumer due diligence within the prescribed exchange controls. According to some ADLAs, this has led to confusion in the market as there is seemingly a "risk-based approach" from FIC and a rules-based approach from SARB. Adoption has been slow among the ADLAs and the risk-profile of remittance transactions are often negatively exaggerated. There are innovations being piloted around "no ID" products (see for example Mukuru's new no documentation product pilot).
- There is currently no e-money licence regime; however, SARB (2009) has a position paper that states that only registered banks can issue e-money as it is viewed as a deposit. This means that all e-money issuers in South Africa must partner with a local bank. The development of e-money regulations is anticipated and outlined in the Financial Inclusion Strategy (National Treasury, 2020).
- According to an ADLA, SARB does not permit ADLAs to net off settlement between two currencies, which is also another cost contributor for RSPs, especially in terms of float management. RSPs must keep working capital in accounts to settle transactions. Without being able to net off increases the working capital requirements of the business and costs.
- Remittance pricing is not upfront and transparent in South Africa and there is no standardized guidance around it. Section 43 of the Electronic Communications and Transactions Act, 2002 covers consumer protection for electronic transactions and requires service providers to disclose the full price of the service (including taxes and other fees), as well as the time within which the service will be rendered, the security procedures and privacy policies for payment and personal information on

their website. The Consumer Protection Act (CPA), 2008 also covers the transparency of in-person remittance transactions.

- In 2014 the Treating Customers Fairly (TCF) guiding framework was adopted by the Financial Sector Conduct Authority. It is an outcomes based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific, clearly set out fairness outcomes for financial customers. Regulated entities are expected to demonstrate that they deliver in six key outcome areas (see annex 9) including transparency and communication. The TCF also includes sanctions for individuals and RSPs that breach standards. While this should assist, positive outcomes are yet to be seen in full.
- Confusion remains around spreads and even effective rates in some circumstances. The choice of remittance routing and channel used potentially denies the consumer the right to choose, in terms of the CPA.
- Remote onboarding is permitted and RSPs use innovative methods to support this. ADLAs are using innovative methods through social media platforms to allow customers to connect remotely and seamlessly. Further facial recognition programming and digital copies of ID facilitate remote onboarding of customers.
- All South African primary data must be stored in South Africa, which is an additional challenge for multi-country operators.
- SARB has a fairly progressive approach towards cryptocurrencies, while it does not recognize them as a currency, they do recognize crypto-assets and have a working group reviewing its position.

In terms of the underlying payment system that supports remittances, South Africa has one of the more advanced payment systems in Africa and is working on an instant payment platform for low-value, high-volume transactions. However, there is no interoperability between different stores of value and there are many closed-loop systems reducing the use cases of these services.

South Africa has one of the more advanced payment systems in Africa and is working on an instant payment platform for low-value, high-volume transactions.

- Of the 24 banks in South Africa, Absa, Standard, NedBank, FNB and Capitec account for the majority of the retail banking market. Discovery Bank, Tyme Digital Bank and African Bank were launched in 2018 as new “challenger” style banks that have steadily grown. The South African Post Office’s Postbank full banking service remains a work in progress; it is not yet operational as bank and is restricted in its ability to compete in the international payments market. The South African Post Office recently joined UPU IFS/Postransfer service, which enables consumers to send money to post offices, mainly in SADC countries. In terms of cards, Visa and Mastercard are operational in South Africa and SARB is currently consulting on whether to have a South Africa-based card scheme.
- South Africa’s domestic payment system consists of an automated clearing house (ACH) provided by BankservAfrica. It offers inter-bank payment system, clearing services to the banking sector, authorized by the Payment Association of South Africa (PASA). SARB’s real-time gross settlement (RTGS) is the South African Multiple Settlement System (SAMOS), through which all payment instructions pass through for settlement. South Africa is also part of the SADC RTGS.
- South Africa is working on a new mobile-friendly instant payment platform for the industry using modernized payment rails and messaging protocols; creating an environment where low-value, high-volume transactions can become faster and more cost effective. The Rapid Payments Platform (RPP) is a national initiative to introduce instant payments (Electrum, 2020). There are private players doing instant electronic funds transfer (EFT) payments like Ozow.

Mobile money has not yet taken off in South Africa, however M-Pesa, MTN and Telkom Pay are currently operational and MTN is looking to get licensed to offer cross-border remittances. South Africa is well-served by an extensive cash-in/cash-out network and is also now witnessing growth in e-wallets.

- There is currently no full interoperability between payment systems in South Africa. There are innovations in different payment schemes, including e-wallets, card schemes and mobile wallets, but these are all closed-loop environments. Lack of interoperability limits the potential of these to scale.
- Saswitch (operated by BankservAfrica) is a switch that allows people to use cash machines belonging to banks that they are not registered with. Saswitch also processes dual message transactions such as POS. Payment gateways also provide some level of interoperability in the market, including PayU wallet, Paygate, Stitch and Peach payments. Mastercard Masterpass enables interoperability in a QR code ecosystem.
- SADC has a regional RTGS and is now embarking on a new regional clearing and settlement scheme for low-value retail transactions (TCIB). It is live and in early stages of operation but has the potential to reduce liquidity costs and licensing delays for RSPs sending money from South Africa to SADC. Operators in the market suggest that if prefunding is still a requirement, and removing it changes the counter-party risk frameworks, then the model is not dissimilar from the services that other aggregators are offering, such as MFS Africa, TerraPay and HomeSend.
- Despite success in other Africa countries, mobile money has not yet taken off in South Africa. After a failed attempt in 2016, M-Pesa and MTN are both offering mobile money wallets again in South Africa and MTN is applying for an ADLA licence to be able to offer inbound and outbound cross-border remittances.
- Both MTN and Vodacom shut down their mobile money offerings in 2016 as they were not successful in penetrating the market compared to other financial inclusion efforts by FSPs that were more popular. Since then, there have been renewed developments with MTN and Vodacom. MTN is currently developing its cross-border service, but it is not currently operational. Telkom Pay Digital Wallet is a peer-to-peer domestic wallet that operates via the WhatsApp mobile application.
- The growing uptake of mobile devices in the region provides a potentially new and more convenient channel for cross-border remittances. South Africa has high mobile phone usage, but also a sophisticated banking system, making mobile money less of a game changer than in other countries where the use of bank accounts is lower. More than 90 per cent of South African adults use a mobile phone and smartphone penetration has reached 80 per cent (Independent Communications Authority, 2019).
- South Africa has also started to see the proliferation of e-market players like IMB Financial Services, Amber Financial Services, Olympus Mobile offering KYC lite wallet account services to clients (only with a passport). They currently have limited use cases and there are transaction limits. IMTOs, such as Mukuru, have Visa-enabled cards for stored value and cross-border payments. These products are not interoperable but closed-loop and therefore have not yet reached scale. All of the major banks also offer e-wallets to their customers, which banked customers have (for example the FNB e-wallet).
- The pay-in network for remittances is well-served by a large physical footprint of bank branches, post office branches, kiosks, roving agents, retail network outlets and ATMs. These networks are closed-loop and so require the sender to visit a specific location depending on which service provider they are using. To give an indication of scale, Mama Money stated that they have 32,000 customer cash-in points at all major South African retailers (Medium, 2021). Mobile services are accessible through technology using USSD and apps.

Fintech services to MMPs

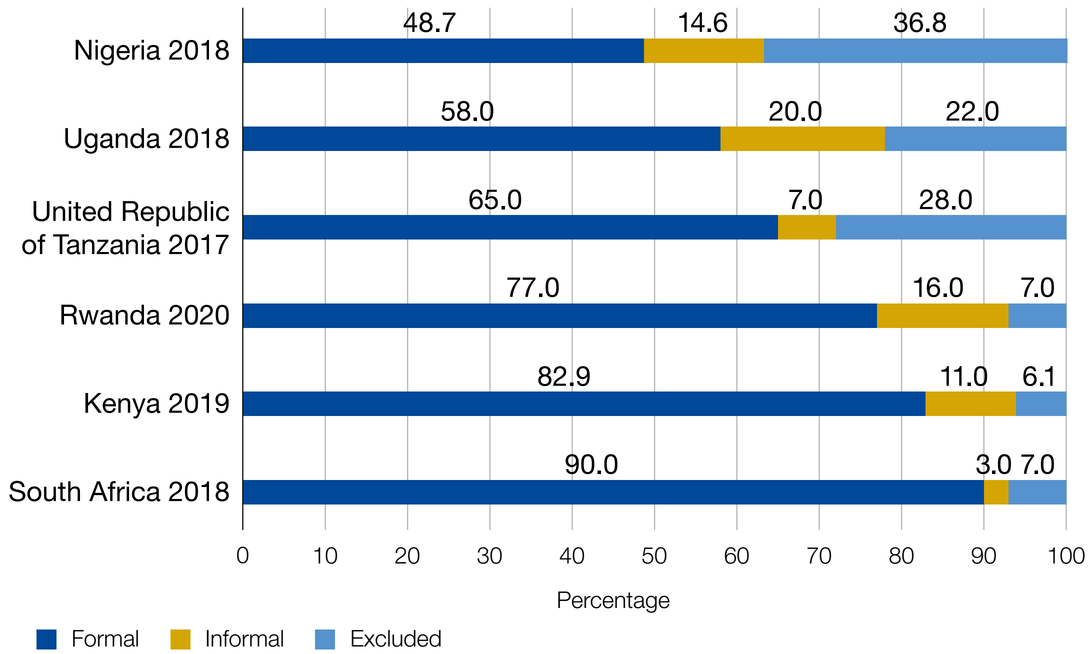
- Fintech enablers like UKheshe Technologies using a single API have started to consolidate numerous payments, KYC, card, wallet and acquiring services needed to enable a digital fintech proposition. The orchestrated payment is being sponsored by a number of banks to enable a number of use cases such as cross-border payments.
- Ukheshe and other fintech enablement partners have started to support mobile wallet players like MTN, Vodacom and Telkom South Africa.

While formal financial inclusion in South Africa is high (90 per cent according to FinScope, 2018), the use of digital payment channels is still low across the country. South Africa remains a cash-based economy and bank charges are high for retail customers, thus excluding low-income customers. There is no data on financial inclusion of migrants, but it is assumed to be less, especially factoring in the proportion of irregular migrants.

While formal financial inclusion in South Africa is high (90 per cent according to FinScope, 2018), the use of digital payment channels is still low across the country.

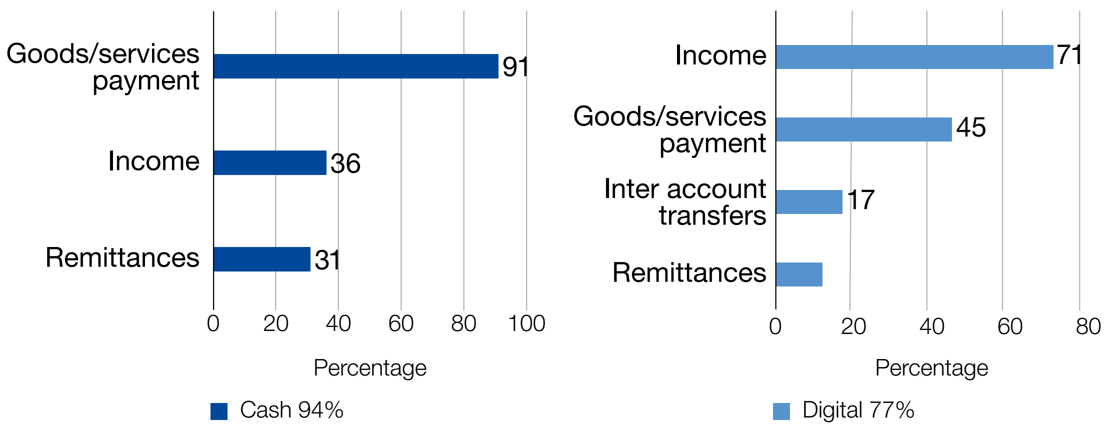
- The 2018 FinScope survey found that 90 per cent of adult South Africans use some form of formal financial service, with 80 per cent of adults considered “banked” (FinMark Trust, 2018). According to Deloitte (2019) however, cash continues to dominate in low-income segments. Inadequate data connectivity and high data costs, as well as a lack of trust in cash alternatives and low levels of financial literacy are key “inhibitors” to digitalizing the informal economy.
- FinMark Trust (2019) shows that 91 per cent of adults use cash for goods/services payments, 36 per cent receive their livelihoods in cash and 31 per cent deposit or withdraw their remittances in cash. Close to 80 per cent of adults use digital payments mainly to receive income (71 per cent), or for goods/service payments (45 per cent).
- Though there is a high number of adults receiving income digitally, around 25 per cent, or 8.3 million people, withdraw all the money as soon as it is deposited into their bank account. This illustrates that many people do not make full use of their bank accounts but rather use them purely as a substitute for cash distribution.
- South African banks are some of the most expensive in the world, with remittance fees costing a global average of 22 per cent in Q1 2021. Banks are also expensive for ADLAs to bank with. The perception of high bank charges is common among the adult population with the 2018 FinScope survey finding that 67 per cent of South Africans view bank fees as too expensive.

Figure 8. Financial inclusion rates in various sub-Saharan African countries



Source: FMT 2020.

Figure 9. Percentage of cash versus digital payments in South Africa, broken down by payment purpose



Source: FinMark Trust FinScope Survey, 2019.

While formal migrants have no challenges accessing a bank account, irregular migrants or those working in the cash economy do. The market is developing to respond to these challenges.

- Formal migrants, with a work permit, have no problems accessing bank accounts at local banks. Although anecdotally diaspora living in South Africa report that access to home loans and vehicle financing still eludes a large percentage. The rigidity of KYC requirements means that many banked diaspora only use financial institutions that channel their salaries through their accounts.
- While there is no data on financial inclusion of migrants in South Africa, it is widely accepted that many irregular and low-income migrants struggle to access financial services due to the documentation requirements and the costs of these services.

Estimates are that 80.4 per cent of SADC migrants (2.9 million people) are irregular and have no right to work (FMT, 2020b). There is no data on the number of irregular migrants from outside of SADC.

- Not being able to access a bank account means that some services are unavailable (for example World Remit and ChipperCash services are only eligible to banked customers). The market has responded to these challenges and there is now an array of alternative solutions with lower KYC requirements through fintech and ADLAs.
- In 2010, FIC announced that refugees and asylum seekers in South Africa will soon be able to open and operate bank accounts, although real progress is yet to be made in this area. Passop, a non-profit organization based in South Africa, reports that FNB is currently the only bank in South Africa offering accounts to refugees and asylum seekers, but that it can take months for documents to be verified.

The main challenges for migrants to access a bank account include:

- Immigration laws on the ability of a migrant to open a bank account are also generally considered to be more restrictive than in other markets, limiting migrants' ability to leverage low-cost digital channels. Undocumented immigrants face great difficulties in accessing formal financial systems (SA National Treasury, 2020). Immigration Act Section 45, Regulation 38 makes it an offence for banks and FSPs not to report irregular migrants. This means that FSPs choose not to serve these customers, which, in turn, contributes to money laundering and illicit financing risks through informal services.
- Generally, a person is required to show their passport and work permit to open a bank account. That said, the requirement to provide proof of address to open an account has been removed, making South Africa a positive regional outlier. Some accounts can be opened with only a passport, but they have limited functionality and caps on transaction limits. Some e-wallets that can also be opened with only a passport (and less, see information on Mukuru no documentation product pilot). The spouse on a relative's permit is also often not allowed to open an account.
- Bank charges are high, with complex pricing structures, including fixed monthly charges and additional fees per transaction. The fees involved in depositing money with banks can be a deterrent to using bank accounts for people working in the cash economy.

ADLAs are creating financial services aimed at their target migrant markets; however, informality is still high on these two PRIME Africa corridors. Uptake among the Zimbabwean communities is more widespread and is growing fast with the Mozambican community.

- There is an estimated 2.9 million informal migrants in South Africa from SADC (FMT, 2020b). Access to formal financial services at banks is not permitted for informal migrants due to the requirement for a valid work permit. Banks and FSPs commit an offence if they do not report irregular migrants to the authorities. They therefore choose to not provide services to them, which then leads to a large informal money transfer market for migrants who are excluded.
- ADLAs are bridging this gap and offering financial services to their client base by partnering with banks to provide a broader array of financial services beyond money transfers. Many of the ADLAs are licensed as FSPs and partner with banks to be able to offer a digital store of value under the current regulations. These services

do not require a valid work permit, but can accept a valid passport, ID or asylum documentation.

- There is good appetite and uptake of these additional financial services, but more needs to be done to increase financial literacy and awareness, especially in rural areas. There is apparently unmet appetite from businesses, especially farms, to have payroll solutions with e-wallets. Workers currently must walk to town carrying cash to send money home, which has time and risk implications.
- Refer to the corridor focus section below for details of product uptake among the three PRIME focus communities in South Africa.

Table 6. Financial services offered by the ADLAs

	**Mukuru** offers Mukuru, a prepaid reloadable debit card. Salaries can be paid directly onto the card and cash can be withdrawn from ATMs. The card can be used to purchase airtime and, because it is Mastercard-enabled, it can be used to pay for goods free charge. The monthly account fee is ZAR 25, which is competitive compared to bank fees. Mukuru has approximately 200,000 active customers using 500,000 cards. They are now rolling out in other SADC countries too. It is possible to register both at agents and through remote onboarding. Mukuru also offers funeral insurance policies.
	**HelloPaisa,** in collaboration with Sasfin, launched a new banking initiative in 2019. Sasfin and HelloPaisa's digital banking offering comprises an adaptable ecosystem of services, including an intuitive mobile app, mobile SIM card, bank account and a Visa debit card that operates at any ATM or POS device.
Mama Money	**Mama Money** launched its Mama Payroll Card in 2018 with Standard Bank. This is no longer available and they have recently launched a new product in partnership with a local bank.
Sikhona Money Transfers	**Sikhona Money Transfer** has a banking product in the pipeline that will issue a bank account with an app, provide a card and offer savings, loans and insurance. Development is in the final stages.

No documentation product pilot from Mukuru – leveraging the FIC Act

- Mukuru, FIC, SARB and FMT are conducting a pilot they are hoping to bring into legislation.
- They are developing a product where the documentation that is collected does not require verification. It is based on a straightforward proposition of a single recipient using a single product through a single channel. There will be options to either use WhatsApp, call centre, or USSD to send the money.
- It is based on the fact that the RSP knows the details of the sender and the receiving RSP knows the recipient as the recipient must provide ID. According to Mukuru, the data shows that there is 99.8 per cent accuracy when an ID is verified. This is in line with the new FIC Act as it is principles-based and outcomes-orientated. The RSP takes on the risk in consultation with the regulator.
- This will only be applicable to low-risk transactions but is aimed at driving financial inclusion by encouraging people to use formal services, and in due course the RSP can encourage higher KYC for additional products and services.

Table 7. Priority policy actions: regulatory and market environment

Stakeholder	Rationale	Proposed policy action	Priority
Digital payment ecosystem development and financial inclusion			
Treasury/Saswitch/ fintech	South Africa currently has closed-loop systems for different stores of value and also between CICO agents. Interoperability between these different e-wallets and agents could increase access, streamline businesses and increase the value of these services.	It is suggested that PRIME Africa support technology solutions that provide greater interoperability at an agent level and between different stores of value. This should be done in coordination with the treasury's plans, as outlined in its Financial Inclusion Policy 2020, to provide interoperability in the market.	High
SARB/PRIME Africa	Currently only banks are licensed to offer e-money in South Africa. This means that ADLAs and other financial service providers have to partner with banks to offer e-money products, which adds an additional cost layer and partnership to the value-chain and hinders competition in the market.	As is the case of many other countries, it is recommended that SARB review the licencing framework so that non-bank payment service providers should be licensed and permitted to issue e-money directly. PRIME Africa can provide technical assistance if required.	High
PRIME Africa	Competition in remittance services is still not strong in South Africa and there remains a reliance on agents for CICO. Furthermore, while headway has been made in providing low CDD remittance services available to migrants without a work permit, these groups struggle to access bank accounts. There are some solutions offering lower CDD and remote onboarding e-wallets and other store of value accounts that can help to digitalize and improve financial inclusion.	PRIME Africa to provide grant support to ADLAs and other FSPs (including challenger banks, MMPs and fintech) in South Africa to continue to create and promote competitive and accessible transaction accounts with lower KYC requirements to expand access and use of digital financial services to diaspora in South Africa (including through USSD). These solutions should be competitively priced and offer seamless and straight-through remittance services to their clients.	High
Financial Services Board	South Africa has a National Consumer Financial Education Strategy (2013).	For the South African government and SARB to work around the development of a National Consumer Financial Education Strategy and for this strategy to also be tailored to and meet the needs of different diaspora communities.	Medium
Licencing and regulatory framework			
SARB	The estimated high value of informal remittances and prevalence of informal operators suggests that the existing licencing framework, exchange controls and KYC requirements are all explanations for a large informal market.	Some ADLAs suggest the necessity for SARB to re-examine the existing licensing framework to see how to bring informal operators into the formal sector. For example, through a lower licence ADLA category or lowering capital requirements, and so forth.	Medium
SARB	Currently there is no level playing field between ADLAs and informal operators as informal operators do not incur the same costs and regulatory burdens.	ADLAs suggest there needs to be more resources dedicated for law enforcement against informal operators.	High
SARB	Capital requirements combined with the time taken to get licensed is a deterrent to new remittance businesses in South Africa. There are examples of new entrants preferring to partner with commercial banks and incur the associated costs rather than embark on the ADLA licencing process themselves. These barriers may be stifling competition in the market.	SARB could review the time it takes to get licensed and the associated costs to see whether the process can be expedited and improved (including capital requirements) to encourage new market participants.	High

Stakeholder	Rationale	Proposed policy action	Priority
FIC/SARB	The Financial Intelligence Centre and FIC Act require FSPs to achieve the FATF requirements and that the risk tolerances of FSPs and the regulator are within their parameters. However, the RSP regulator at SARB has a rules-based approach in conjunction with exchange control and financial surveillance areas. Anecdotally, these regulations are causing some confusion for some banked customers to choose informal channels when sending higher value remittances to circumvent the strict documentation requirements.	It is recommended that a consistent approach is taken in the areas of FIC and exchange control. Ideally, this would be more beneficial to the market if it were risk-based but in any case, a consistent approach would decelerate the move to informal transactions.	High
SARB	There have been suggestions from within the industry that the daily and monthly send limits permitted in the ADLA manual for the different ADLA categories are too low and do not allow ADLAs to meet the needs of relatively wealthier migrants to send money home. The impact of increasing the daily and monthly limits on the market is currently unknown.	It is suggested to consult with ADLAs on the current limits stipulated on the amounts that can be sent with only a valid foreign passport to analyse whether increasing thresholds would increase volumes through the formal sector.	High
SARB and SADC Central Banks	The licencing and compliance framework for remittance service providers across the whole of the SADC area are separate, and different, for each country. This makes it challenging, time consuming and costly for new and existing operators wanting to reduce costs in the region. The EU's Payment Services Directive has been successful in promoting competition through harmonized regulation across the Member States by giving the ability for RSP to passport their licence.	Given that South Africa is the major hub in the region, it is recommended that SARB and the central banks of SADC countries consider harmonizing licensing requirements within SADC, including the passporting of licences.	Low
Challenger banks	Bank costs are high in South Africa, both for consumers and the RSPs banking with them.	For challenger banks to consider focusing on banking RSPs and offering more competitive services.	Medium
SARB and RSPs	Remittance transactions are not particularly transparent for consumers. Improve transparency on remittance pricing in the market, despite regulatory provision for this.	Provide guidance for ADLAs and ADs on pricing disclosure including both fee and foreign exchange rates ahead of sending a remittance. There should be pricing disclosure standardization. SARB may consider making live pricing a licensing requirement.	Medium
Development partners, RSPs, SARB and FIC	FMT is currently conducting an RBA implementation pilot project to assist in developing new approaches and innovations to onboarding financial service and remittance clients to make it simpler and less burdensome.	Support the FMT model in line with changing FATF requirements and guidelines. Support to RSPs, if required, in adopting a risk-based approach to CDD and implementation of the forthcoming/new capital flow management regulations.	Medium

3 PRIME Africa corridors: Mozambique and Zimbabwe

This section looks in detail at the two PRIME focus corridors for this diagnostic: Mozambique and Zimbabwe. It begins with a comprehensive overview of the two countries, including remittance flows and prices. More detailed information on the individual corridors then follows, including pricing and remittance flow analysis; financial inclusion among senders; and popular informal and formal remittance channels and service providers. For the Mozambique corridors, the results from small surveys conducted by DMAG with migrants in South Africa are presented. For the Mozambique corridor, pay-out options, remittance cost contributors in both South Africa and Mozambique, and the impact of the COVID-19 pandemic are discussed, as well as findings from a previous FMT Mozambique survey.

- Introduction to the three PRIME focus corridors
- Fast facts: Remittance flows and pricing to each country
- Detailed breakdown of each corridor: Mozambique and Zimbabwe
- Recommendations for each corridor

Corridor analysis: Mozambique and Zimbabwe

- The focus of the diagnostic is on three specific corridors from South Africa, Mozambique and Zimbabwe.
- For Mozambique, consumer surveys and interviews were undertaken. In addition, key stakeholders for the corridor were interviewed.
- Zimbabwe is the largest receive market from South Africa accounting for 46 per cent in formal outflows.
- Mozambique is the second largest receive market from South Africa and accounts for 7.5 per cent of the formal outflows.
- It is expensive to send money from South Africa to these two countries: Mozambique 15.1 per cent and Zimbabwe 13.7 per cent.
- As shown elsewhere, South Africa is a very expensive country to send money from due to limited levels of competition and high barriers to entry among other reasons.
  - For Mozambique, the high costs are also driven by the poor levels of financial infrastructure in the country and the limited number of operators focused on this corridor.
  - The impact of the COVID-19 pandemic has been mixed with some respondents sending more money more frequently and others experiencing the reverse. A minority (20 per cent) of respondents shifted to digital channels during the COVID-19 pandemic rather than sending money in person.
  - Convenience/ease of using the service was the main reason respondents chose their primary RSP.

- The following sections show a high-level comparison of the fundamentals of each community, including pricing and are followed by the results from the consumer research on a country-by-country basis.

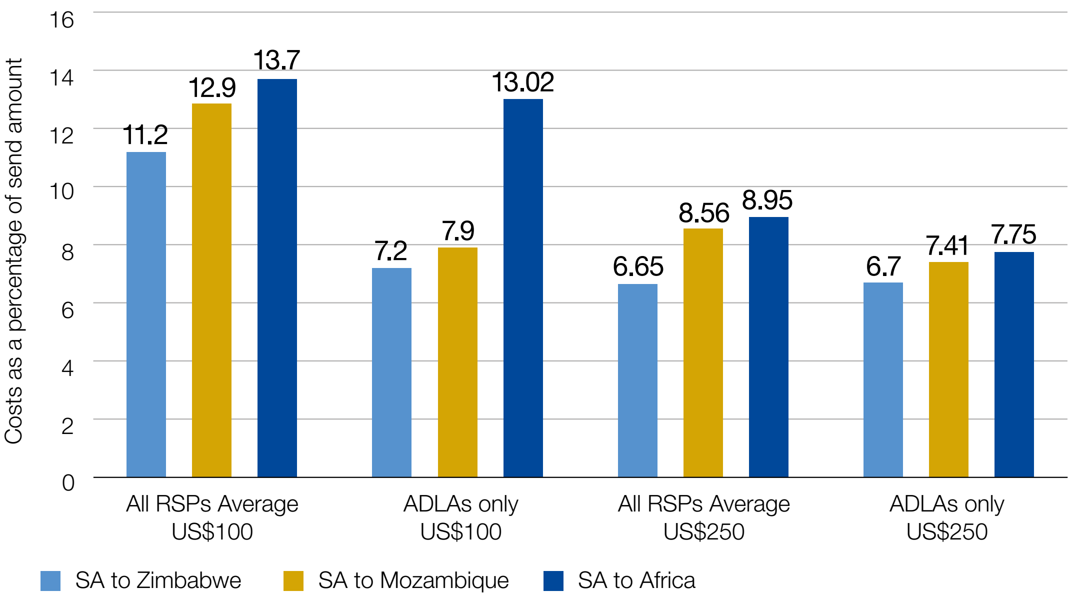
Fast facts: remittance pricing to Mozambique and Zimbabwe

The cost shown is for ZAR 1,370 (which is the current equivalent US$100. Note that the RPW site states that this amount is the equivalent of US$200, which was its value in 2011 when that comparison was developed) and supplemented with additional mystery shopping (following the same methodology) for South Africa to Mozambique and Zimbabwe (Q4 2021). The global average price for all RSPs across the world sending to Africa was 9.2 per cent for US$100 equivalent in Q4 2020. Average costs are not weighted according to market share, and therefore are not necessarily indicative of what the "average" migrant is paying.

Table 8. Fast facts: remittances to Mozambique and Zimbabwe

	Mozambique	Zimbabwe
Number of migrants in South Africa	716,057 (UNDESA, 2019) and 983,078 (FMT, 2020b: 24), 74 per cent with no right to work	376,668 (UNDESA, 2019) and 1,680,770 (FMT, 2020)
Main areas of residence	Eastern Cape, Durban, Johannesburg, Rustenberg region	Johannesburg, Cape Town
Main occupations	Miners, agriculture, domestic (informal)	Informal trade, agriculture, domestic, teaching
Estimated corridor remittance inflows from South Africa to…	US$213 million (BRM, 2018) US$282 million in 2018, of which US$188 million (67 per cent) was informal (FMT, 2020b) estimates)	US$720 million
Percentage of total remittance inflows into Mozambique and Zimbabwe	72 per cent (BRM, 2018)	
Remittance corridor inflows growth rate (year-on-year) 2015-2018	22 per cent (calculated from BRM, 2015-2018)	
Remittances as a percentage of total outflows from South Africa	7.5 per cent	16.1 per cent
Regional membership	SADC	SADC, COMESA

Figure 10. Remittance pricing (per cent of send amount) from South Africa to Mozambique and Zimbabwe, Q4 2021



* *Note:* RPW normally collects data for local currency equivalents of US$200 and US$500. The local currency (ZAR) rates that it actually uses now is the equivalent of US$100 and US$500 based on the exchange rates for Q4 2021 (ZAR 1,370 and 3,410 respectively at a US$-ZAR rate of 16.375).

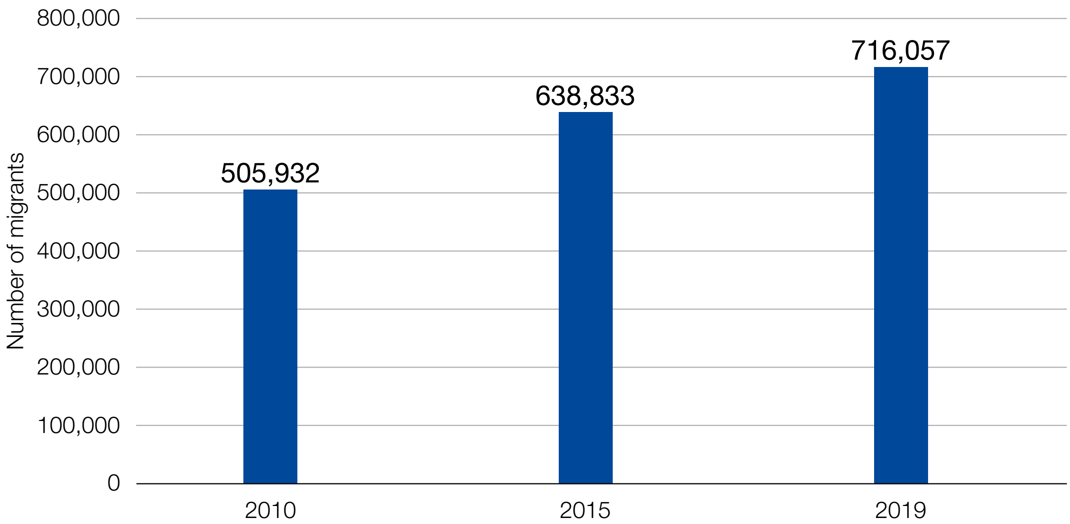
Mozambique country context

- UNDESA (2019) estimates that there are 726,057 Mozambicans living in South Africa, of which 31 per cent are female and 69 per cent male. However, there are varying estimates and the real number of Mozambicans is not known. FMT estimates that 74 per cent are undocumented (2020b):
  - At 293,405, estimates from Stats South Africa are significantly lower than UNDESA (2019) (Stats South Africa Community Survey, 2016).
  - FMT (2020a) estimates that there are 983,078 Mozambicans living in South Africa in 2018 (based on 2011 census multiplied by 2.5), which is significantly higher than the UNDESA estimate.
- The undocumented migrants are mostly young males from rural areas of southern Mozambique who are pushed by poverty and lack of employment conditions. They enter South Africa in response to the demand for cheap unskilled labour, and they work mainly in agriculture, construction, informal trade and the domestic sector. Mozambicans are relatively mixed into the population and provide much sought after labour in certain urban and suburban sectors, due to their precarious status.
- Mining and farming jobs are the norm for Mozambicans in South Africa, especially for those working in the formal sector, with an estimated 20,000 Mozambicans working in the mining sector in 2018 (FMT, 2020b). This number has fallen from 45,000 in 2006.

Mozambique: There is an estimated 726,000 Mozambicans living in South Africa, many of whom do not have the right to work, often overstay their visas and become irregular. They are typically male and work on farms, in mines and in the informal economy.

- Many Mozambicans reside in the Rustenberg region (for mining and agriculture) as well as in Johannesburg, Durban, Cape Town and Pretoria. Mozambicans have a historical presence in the eastern towns of Mbombela and Nkomazi, in particular, due to their large-scale employment in the mines and in farming. The southern provinces of Maputo, Gaza and Inhambane are the main senders of migrant workers from Mozambique to South Africa.
- In Mozambique, INACE is the National Institute for the Mozambican Communities Abroad.

Figure 11. Mozambican migrants in South Africa



Source: UNDESA, 2019.

In 2018, formal remittances were estimated to be US$93.4 million from South Africa to Mozambique, with an additional US$188 million estimated to be sent through informal channels (FMT, 2020b).

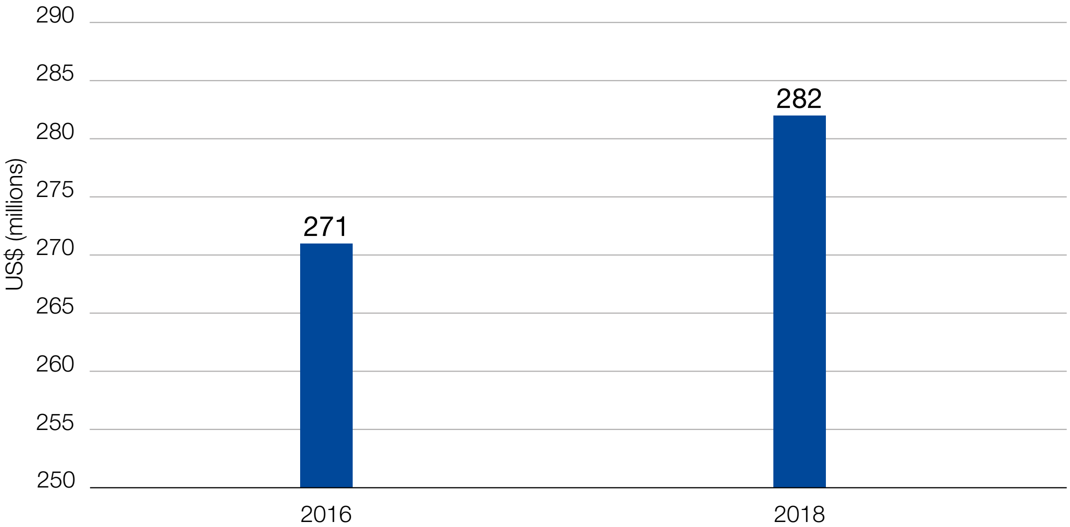
- Mozambique is a member of SADC and therefore SARB reports data on formal remittance flows in this corridor. Using SARB data, formal remittance flows to Mozambique were valued at US$93.4 million in 2018 FMT (2020b).
- Most remittances from South Africa to Mozambique are sent using informal channels (FMT, 2020b). While data are not available, FMT estimates that informal remittances amount to US$188 million (67 per cent of total flows).
- The average amount remitted (informal only) was US$505 in 2018.
- Between 2016 and 2018, there was a shift toward using formal channels in this corridor, according to remittance data reported from SARB, as well as estimates of informal remittances from FMT.
- Mozambican mine workers are legally required to send home a proportion of their pay, under the deferred pay system. These are conservatively estimated at US$50.9 million (ZAR 720 million) per annum by FMT (2020b), but not necessarily reflected in SARB data.

Table 9. South Africa-Mozambique remittance corridor

	2016	2018	% change
Total migrants	983,078	983,078	0%
Proportion remitting	55%	55%	0%
Average amount remitted (2018 average is only for informal remittances)	ZAR 5,950	ZAR 6,983	17%
Formal remittances	ZAR 490,10	ZAR 1,321,70	170%
Informal remittances	ZAR 3,346,60	ZAR 2,668,20	-20%
Total remittances	ZAR 3,836,80	ZAR 3,989,90	4%
% informal	87%	67%	-20%

Source: FinMark Trust (2020b).

Figure 12. Total remittance inflows from South Africa to Mozambique



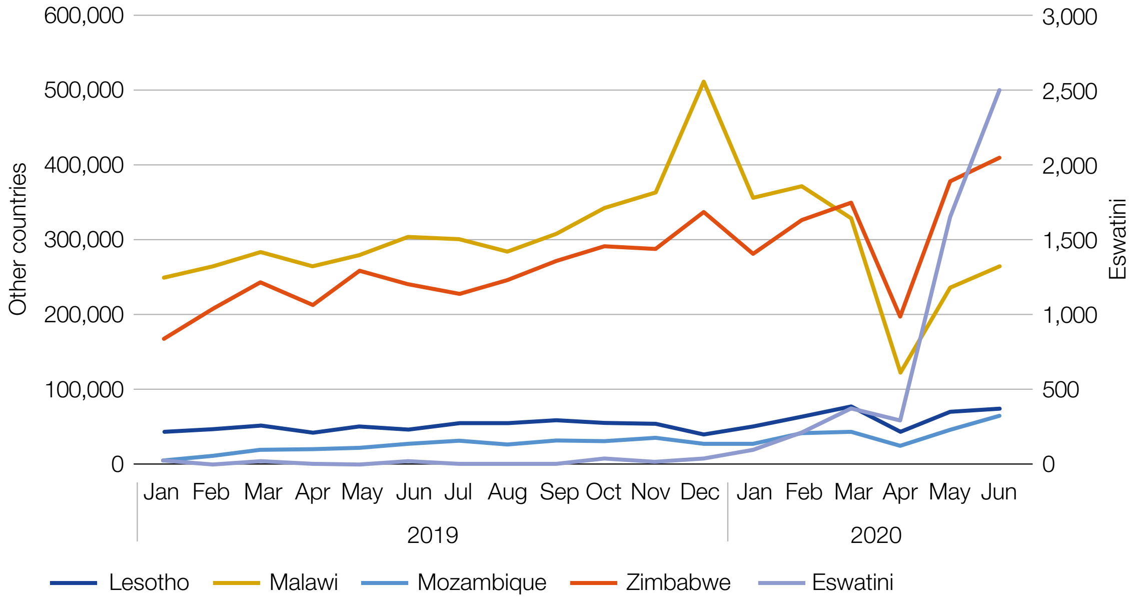
Source: FinMark Trust (2020b).

The COVID-19 pandemic and the uptake of mobile money in Mozambique have been a catalyst to changes in consumer behaviour and ADLAs are experiencing high growth.

- Remittances have grown rapidly in response to the COVID-19 pandemic according to stakeholder interviews. It is assumed that much of this is a result of the closed borders, which made it more challenging for taxis and bus drivers to travel between the two countries, and therefore a switch from sending money through informal channels to formal, rather than an increase in the total amount being sent.
- Mama Money reported over 500 per cent growth as a result of the pandemic (Venture Burn, 2021) and that the growth in the Mozambican corridor had been the strongest. Mama Money recorded 18,000 unique customers in March 2021. Mukuru and WorldRemit also reported growth. However, the number of unique customers is still relatively low compared to the number of Mozambicans working in South Africa.

- According to FMT and the ADLAs, in the immediate aftermath of the start of the COVID-19 pandemic, low-value customers also dropped off; customers that had been sending small amounts month-on-month stopped sending. This suggested that informal workers stopped being able to send money.

Figure 13. Number of transactions per month (January-June 2019/2020)



Source: FMT (2020c) Lessons Learned from COVID-19.

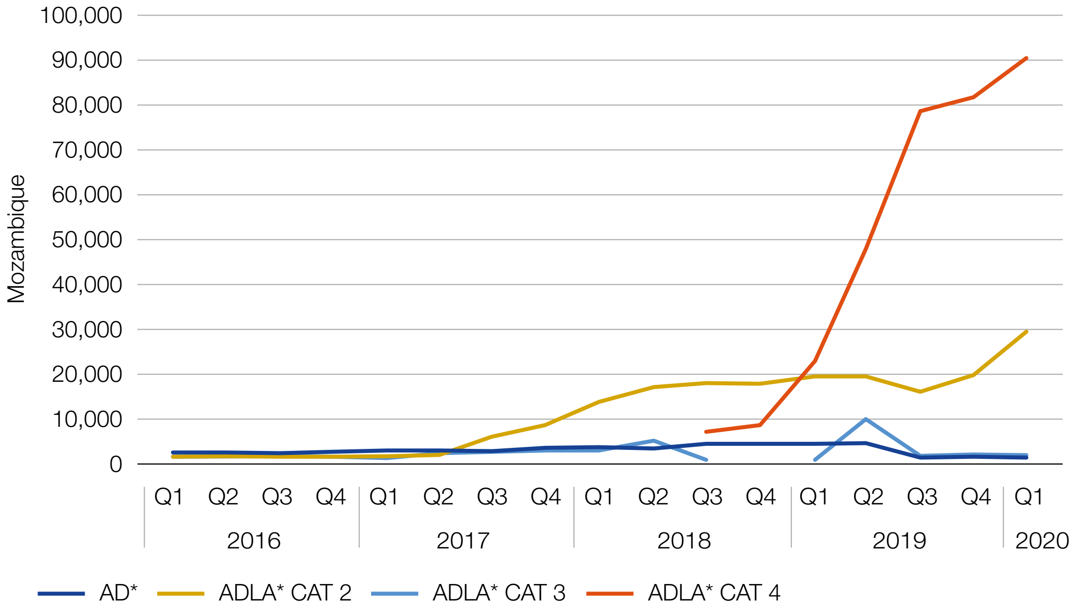
Mozambique has historically been a very expensive corridor and most remittances have been sent home through informal channels.

Mozambique has historically been a very expensive corridor and most remittances have been sent home through informal channels. Remittances of value companies are also popular in this corridor. Formal transfers for miners have been served by specialist TEBA (now Ubank) offering deferred payments to Mozambique.

- Historically, remittance costs from South Africa to Mozambique were some of the most expensive globally (19.9 per cent in Q1 2009 to send US$100 equivalent), which has resulted in a tradition of using informal channels.
- Growth in formal channels has increased rapidly since 2018 with the rapid adoption of mobile money in Mozambique. Mama Money has overcome challenges in Mozambique offering access and convenience.
- Considering the number of migrants in South Africa, the number of transactions being sent home via formal channels is relatively low (100,000 per month).
- In Q1 2020, the lion's share of formal remittances was sent through ADLA 4 (SARB). Interviews suggest that main players in the corridor are Mama Money, Mukuru and Sikhona (estimated at approximately 10 per cent of the market). Other key players include MoneyGram, WorldRemit, Teba and Kawena Distribution. Market share data is not publicly available at a corridor level, although there are requests from within the industry for this information.

- Compared to other SADC corridors from South Africa, there has been less focus on the ADLAs on the Mozambique corridor. Before the uptake of mobile money, there were significant challenges with the distribution of remittances in Mozambique where the bank branch network was not convenient for remittance beneficiaries and language differences presented a barrier.
- Value-transfer remittances (category 4 ADLA licence) are popular in the South Africa to Mozambique corridor – including Kawena Distribution (see annex 24). Mukuru is currently starting to offer this service and the Sikhona's licence is pending. The demand for remittances of value is due to the challenge in getting supplies in Mozambique and the sender's preference to have control over what funds are spent on.
- An estimated 60 per cent of miners in South Africa are paid through TEBA Bank (now Ubank) (Association of Migrant Workers). Around 23,000 people make up the Mozambique mining community in South Africa and the community served by Ubank. The bank offers a deferred payment scheme. There are only three TEBA branches in Mozambique, so people reportedly must travel large distances to get their money.

Figure 14. Formal remittance transaction volumes by licence category



Source: FMT (2019).

- The monthly average transaction size is reported to be under ZAR 1,200 (approximately US$90) (FinMark Trust, 2020c, COVID-19 response presentation) with money being sent regularly. One main operator in this corridor reports that the average send amount is ZAR 600–700 per week (approximately US$50).
- In 2019, FMT conducted mystery shopping looking at the cost of sending US$55 equivalent from South Africa to Mozambique by different ADLA categories. The average cost of sending money using a weighted average was 14.6 per cent of the send amount (FMT, 2020a).
- The World Bank's RPW data collects the cost of sending US$100 and US$250 equivalent globally, including the fees and the foreign exchange margin against the inter-bank rate. The average cost of sending ZAR 1,370 (US$100) from South Africa to Mozambique in Q4 2020 was found to be 15 per cent and 10 per cent for sending ZAR 3,410 (US$250). The average cost of sending US$100 equivalent using ADLAs only was 8.89 per cent of the send amount and 8.26 per cent for sending US$250 equivalent.
- Sending money using Mama Money, Mukuru and HelloPaisa is around 10 per cent of the send amount. Much of the cost of sending money using these ADLAs is hidden in the foreign exchange margin. For example, Mama Money and Mukuru offer 5 per cent fee of the send amount, but there is also a 5 per cent margin on the foreign exchange rate. Competition in the corridor is increasing among a few ADLAs.

The average cost of sending money from South Africa to Mozambique is higher than the average to other South African corridors. According to the ADLAs, there are multiple reasons for this including language, exchange controls in Mozambique and the pay-out environment.

Table 10. TOP 4 Corridors US$55 (transaction size)

	Authorized dealer	ADLA category 2	ADLA category 3	ADLA category 4	Weighted price
Mozambique	42.6%	10.5%	5.0%	9.6%	14.6%
Zimbabwe	35.6%	10.6%	6.8%	7.9%	13.6%
Malawi	34.8%	10.4%	4.8%	9.2%	9.6%
Lesotho	1.09%	10.0%			3.5%

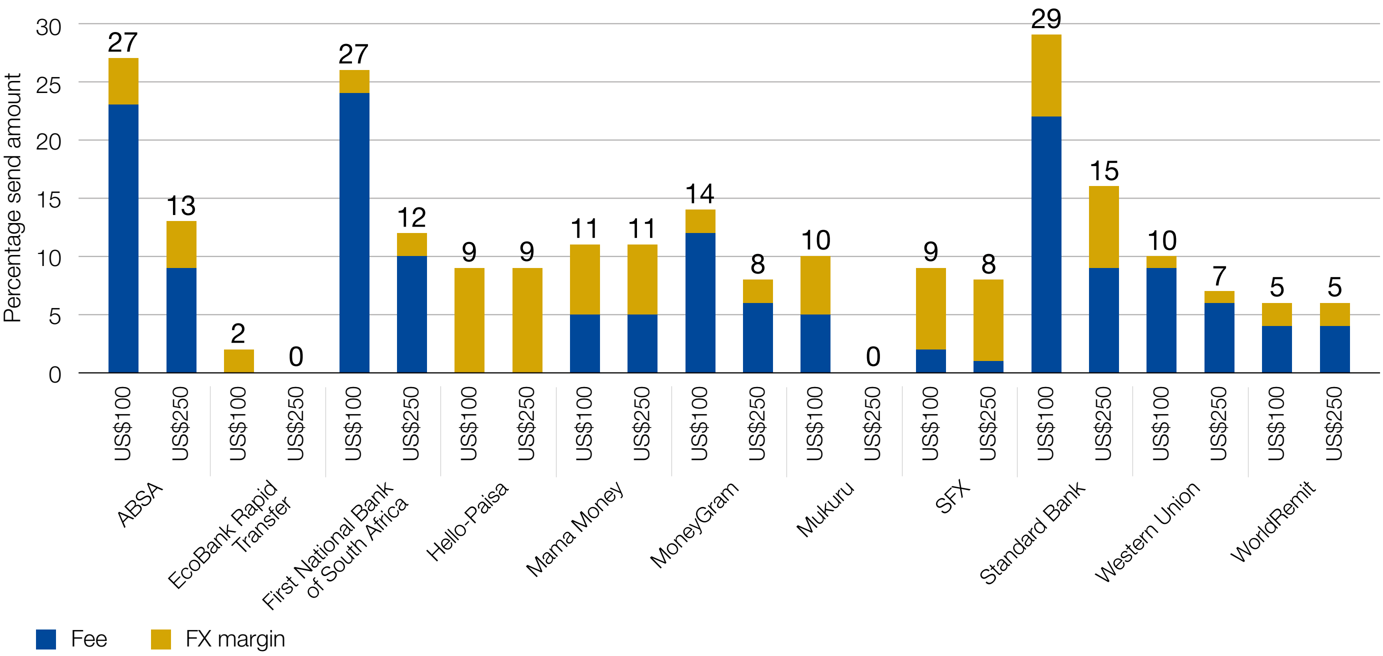
*Note: Authorized Dealer (AD) = Commercial Bank | Authorized Dealer with Limited Authority (ADLA – Non-Bank).

Table 11. Regional average price

Weighted average prices	US$55	US$200
SADC total	11.2%	9.5%
SADC total, excluding CMA	11.9%	10.0%
CMA only	3.5%	2.9%

Source: FinMark Trust (2020a) (pocket guide).

Figure 15. Average cost of sending ZAR 1,370 (US$100) and ZAR 3,410 (US$250) from South Africa to Mozambique



Source: RPW Mystery Shopping, Q4 2020.

Cost contributors in South Africa

- High use of cash-in agents in South Africa. While many of the ADLAs envisaged having a digital only proposition, in reality 80–100 per cent of transactions in this corridor are made using cash via agents. This method incurs the cost of the agents and also cash deposits, which are expensive in South Africa.
- Lower average transaction size. percentage wise, companies need to make their charges higher in order to cover the fixed cost base.
- Different language from most of SADC (Portuguese-speaking). This requires Mozambican agents, platforms, helplines, advertising and marketing all to be in Portuguese.

Cost contributors in Mozambique

According to ADLAs, the main challenges with operating in this corridor are in Mozambique where there are a lot of costs, and the operating environment is more challenging.

- Exchange controls in Mozambique lead to exposure by MTOs. In Mozambique it is required to pay-out in locally bought meticals. There are new, inflexible policies on foreign exchange stipulating that all Meticals must be purchased on-shore, which makes it difficult for MTOs. The exchange rate is published on a daily basis by the central bank, which can lead to a black market, but historically this has not been a problem. This also reduces the opportunities for RSPs to get a better foreign exchange rate off-shore and through pairing relationships.
- Foreign exchange volatility between the South African rand and the Mozambican metical. Historically this has not been a significant problem, however, recently this has become more of a challenge.

The majority of remittances are paid in cash via retail outlets. Access is an issue, due to irregular migration status and challenges around language. People overcome this by sharing accounts for send money. Sending remittances of value (goods) is also popular.

- Receive partner collection points. Bank networks are poor in Mozambique for cash-collection. There is not much competition between pay-out networks and agents in Mozambique. M-Pesa is the dominant provider for paying out. This could result in a monopoly position. It is also suggested that there are heavy mark-ups by operators in Mozambique as they are investing in infrastructure across the country. Liquidity is also a challenge for MMP agents.
- Regulation and the operating environment are inconsistent.
- The insurgency in the north means that RSPs are exposed to financial crime, which can result in additional anti-money laundering/combatting the financing of terrorism (AML/CFT) challenges.
- The majority (over 80 per cent) of transactions are made in cash, utilizing the large retail networks of the ADLAs, including Shoprite and others.
- Access is a challenge for many and there are reports of the same person sending to multiple people, which suggests that there may be account sharing to overcome these challenges. Where these senders are acting as agents within their community presents an opportunity for them to be formalized.
- There are numerous language complications. There is a need to employ Mozambicans in South Africa as agents of the ADLAs so that they can build trust within the community. ADLAs are starting to offer USSD in Portuguese in order to address language challenges.
- Financial literacy is low among Mozambican migrants and so is awareness around the benefits of using formal remittance channels.

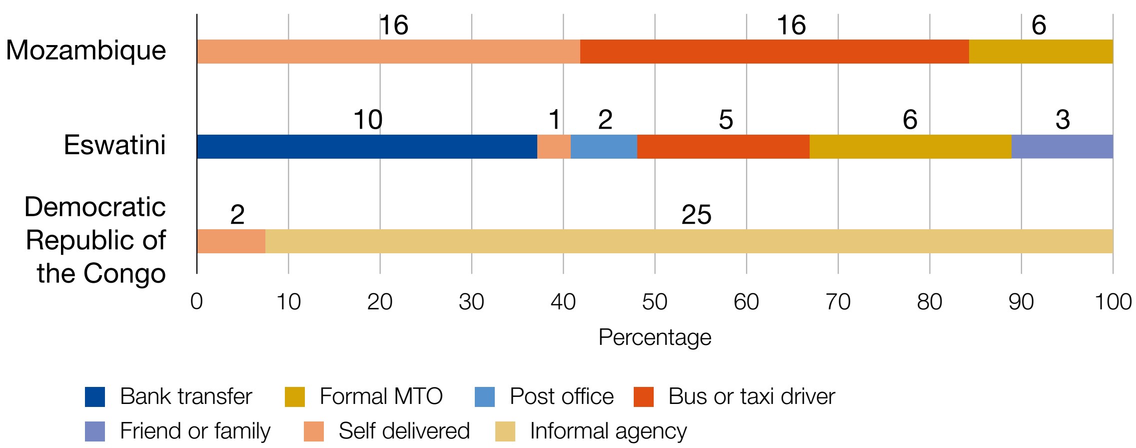
Before the COVID-19 pandemic, FMT (2020b) conducted focus group discussions with people from the Mozambican community living in South Africa to gain insight into their remittance sending practices. The Mozambican group was evenly split between the use of formal MTOs and bus or taxi drivers, with the remainder of the group sending money home via friends and family.

- M-Pesa appeared to be the only formal remittance channel that had made much progress in penetrating the Mozambican market. Focus group participants were largely unbanked and did not make much use of other formal financial products.
- Where respondents did have knowledge of banking remittance channels, they expressed concern over the cost of remitting via that method. There was also discussion of the poor bank network in Mozambique, which made it difficult for recipients to collect money sent via banks.
- Some respondents who used M-Pesa suggested that they accessed the product by using the M-Pesa accounts of friends, which allowed them to circumvent any issues they have in obtaining their own accounts.
- An interesting feature of the Mozambican group was the prevalence of investing in building at home and using remittances to fund such building. Kawena reported that in the Mozambican corridor, the main products bought are groceries and building materials (see annex 23).

- According to ADLAs active in this corridor, the cost of sending money using buses and taxis is 15-20 per cent of the send amount, making them more expensive than some of the ADLA services.
- The bus and taxi services are semi-formalized, with offices at the main bus stations that organize the money to be taken and delivered to the nearest bus station to the recipient. They have historically been the most trusted way of sending money. The money is also apparently sent across the border with trucks taking goods.
- Sending money via taxi is a familiar and well understood method, and some respondents even felt confident that money sent via taxis would be reimbursed if it was lost (FMT, 2020b). The Miners Association relayed that a high level of illiteracy meant that person-to-person was the only option for some.
- Since the COVID-19 pandemic, there have been incidents of *hawala* agents using, or trying to use ADLAs to send money. This indicates that informal providers are still operating as agents for their community.
- Another method used, although with unknown prevalence, is unauthorized M-Pesa agents in South Africa. This involves Mozambicans in South Africa with float on their M-Pesa wallet in Mozambique offering a remittance service. They then conduct a domestic transfer in Mozambique to the remittance beneficiary in return for cash in South Africa. This transfer does not show as an international remittance, but only a domestic payment from a roaming SIM. M-Pesa suggest that this is not commonplace as they are able to detect if a roaming SIM is making multiple payments and this would be flagged for AML/CFT oversight.

The main trusted method for Mozambicans to send money home is carrying it themselves, using buses, taxis, transport companies and via hawala agents. Anecdotal evidence suggests that people use unauthorized M-Pesa agents based in South Africa, but this is not verified.

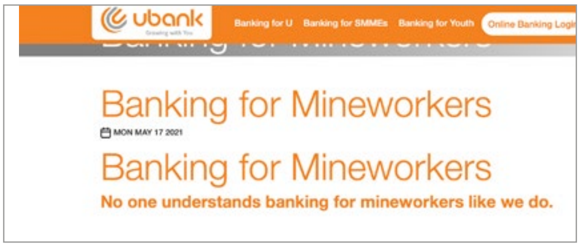
Figure 16. Choice of remittance channel by corridor



Source: FinMark Trust (2020b).

Financial inclusion among the Mozambican diaspora in South Africa

- It is estimated that 74 per cent of Mozambican migrants in South Africa do not have the right to work (FMT, 2020b). Without a work permit, these migrants are unable to open bank accounts.
- Miners have accounts with Ubank (formerly TEBA Bank) for sending money home.
- UBank also provides financial services geared toward the mining community in South Africa. They offer an array of savings and transaction accounts, personal and home loans, debit cards, funeral plan products, airtime contracts and mobile banking. They also have a deferred payment scheme for miners. They have branches in rural and mining communities in South Africa and pay-out locations in Mozambique (and other SADC countries). They offer a Ubank-Hollard insurance partnership with Hollard underwriting Funeral Plans and Credit Life Assurance under the Ubank brand. Ubank has also partnered with MTN to offer mobile money in South Africa.
- According to the ADLAs, Mozambicans are high users of the ADLA financial services, including the Mukuru card and Mama Money's new card, which can be opened with a passport.
- There is reportedly appetite from farmers to get paid digitally and to be able to store their money digitally and not risk taking it to an agent in town.

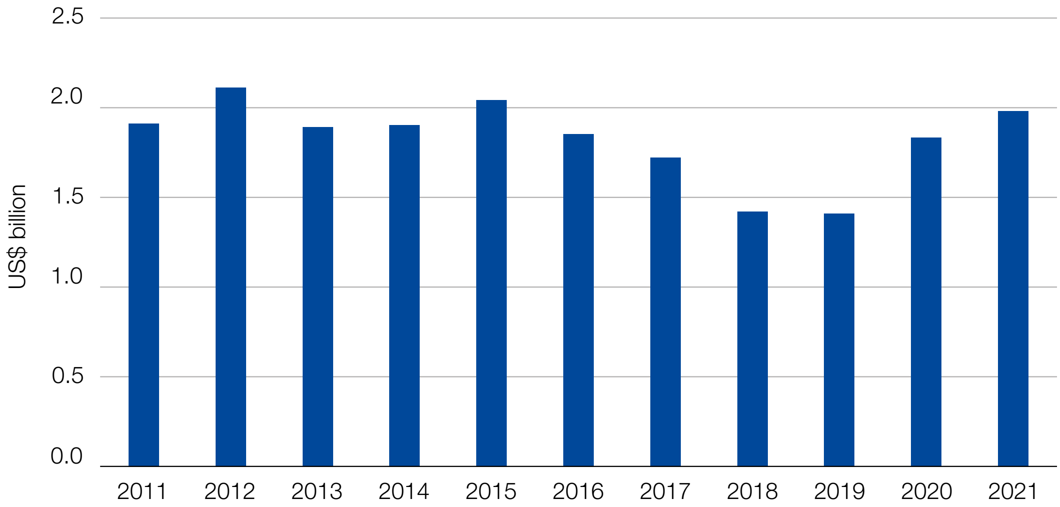


Zimbabwe country context

There is an estimated 1.7 million Zimbabweans living in South Africa (UNCDF, 2020).

- South Africa statistics estimate that over 1 million Zimbabwean migrants formally live in South Africa. Estimates vary because of a large share of undocumented migrants in South Africa making it difficult to get accurate data.
- It is estimated there are around 400,000 Zimbabweans working in South Africa based on the 2011 National census data.
- According to ILO (2020), Zimbabwean migrants are mostly in domestic work formal employment and cross-border trade.
- The impact of the COVID-19 pandemic on remittances is difficult to ascertain owing to data issues but Zimbabwe on aggregate experienced a surge in remittances during the COVID-19 period surpassing US$1 billion in total inflows.
- According to SARB (2020) the remittance flows on the South Africa to Zimbabwe corridor is over US$700 million. It is estimated that informal remittances (US$514 million) are more than double the formal flows (US$242 million) on the South Africa to Zimbabwe corridor.
- Cross border traders are also prevalent in this corridor. It is estimated that an average trader makes four trips a month earning around ZAR12,000 (around US$750) monthly.

Figure 17. Remittances flows to Zimbabwe in US$



Source: Knomad, 2021.

Neither SARB nor the RBS publish data on remittance flows between South Africa and Zimbabwe.

- Aggregate volumes on remittances in Zimbabwe show that they are increasing.
- Remittance flows to Zimbabwe grew from US$1.4 billion in 2019 to US$1.9 billion in 2021 (a 50 per cent increase).
- Remittances flows contributed to 10 per cent of GDP in 2021 according to World Bank data.
- SARB estimates that around US$720 million in formal outflows on the South Africa-Zimbabwe corridor show that South Africa contributes to more than 70 per cent of remittance inflows received by Zimbabwe.
- Domestic remittances are driven by the local Mobile Money ecosystem currently dominated by Ecocash.

- There is no interoperability between most international remittances products, except for the Cassava/SASAI Remit and the domestic Ecocash remittance product which has recently introduced a foreign exchange denominated digital wallet.
- Most RSPs operate through physical cash out points which are often too prone to liquidity challenges. At times RSPs have to fly in physical cash to meet cash-out demands on the receive side.

Zimbabweans residing in South Africa have relatively low levels of financial inclusion because of lack of documentation for more than 70 per cent of the migrants.

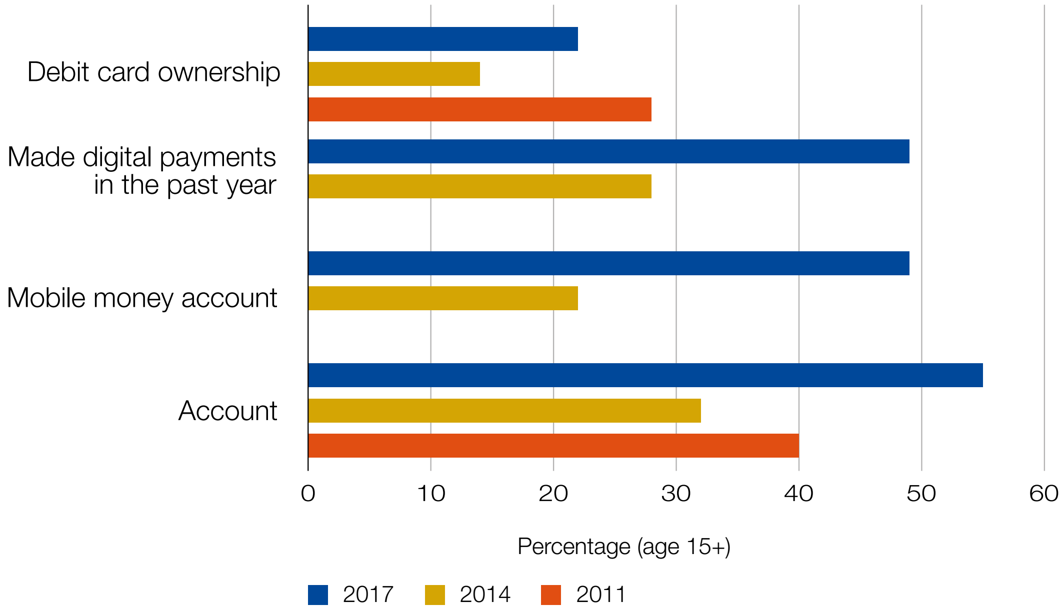
- Most migrants do not have access to bank accounts and mostly transact in cash.
- For those sending money through formal channels, ADLAs are the most common mechanisms in remitting money.
- Leading RSPs providing remittance serves to this corridor are Mukuru, Mama Money, Hello Paisa and Cassava.
- On the receiving side, there are high levels of financial inclusion with close to 63 per cent, having used digital financial services (DFS) for payments in 2020. This is because of extensive reach of mobile money in the country. The figures are much lower for international remittances because of lack of interoperability between international RSPs and the domestic digital payments ecosystem.
- The local mobile money infrastructure has been widely used in the past due to cash shortages in the market but this came with a lot of regulatory scrutiny by the Central Bank. In 2020, the Central Bank banned the use of agent wallets citing abuse of agent accounts for illicit foreign exchange transactions. This disrupted the extensive agent network of around 50,000 agents which could have been used to improve reach of cross-border remittances. The central bank however still permits agent transactions (digitally within prescribed limits) as long as there is no cash-out option.

Informal remittances

- Informal methods are well-established in the Zimbabwean remittance corridor. Most informal remittances are sent via bus through a trusted person. This however remains an unsafe and inefficient way to send money. It usually takes about two days to send money via the most used informal channels and the cost of sending money will usually range between 5 per cent and 10 per cent and, at times, free when it is sent through close friends or relatives.
- High cost of transactions and lack of trust in formal channels are the most cited motives to prefer informal financial services on the Zimbabwean corridor. Exchange rate disparities between the official rate and the market rate often drives people to remit their money in cash to avoid the risk of receiving money converted in currency. ADLAs are however facilitating cash out in foreign currency. It is also important to note that there are significant access level barriers as the ADLA access points are skewed towards urban areas.
- ADLAs are now innovating to offer foreign exchange denominated digital wallets which will reduce the exchange rate risk and reduce informal remittances. The cost structures on new products aimed at digitalising this corridor are not clear enough though to facilitate the transition from informal to formal.

Trends in financial inclusion

Figure 18. Financial access and usage



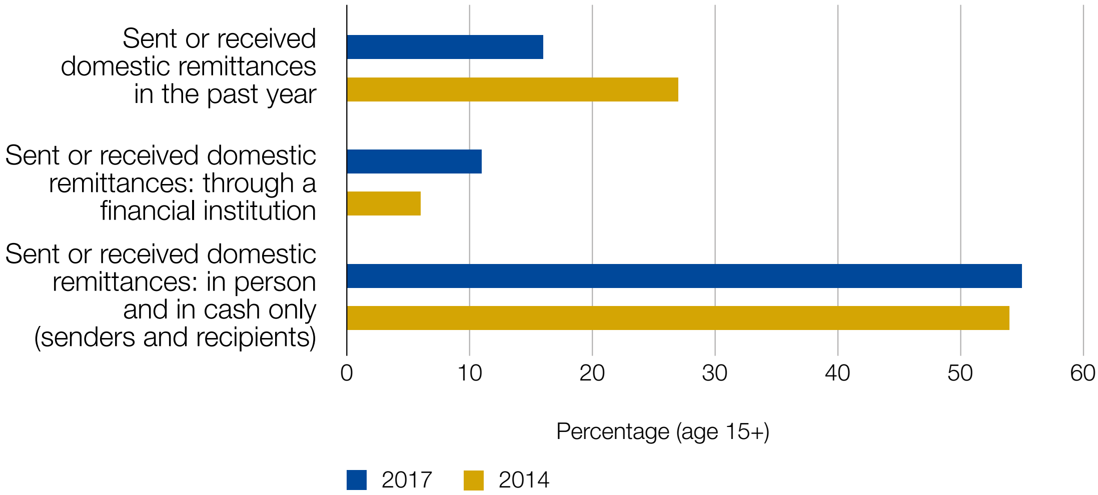
Source: Findex 2018.

- Access to accounts and digital financial products is on the increase. More than half of the adult population had access to an account in 2017.
- Mobile money penetration is high. About 49 per cent of the adult population had access to a mobile money account in 2017. The usage of digital financial services is also high with also 49 per cent of adults having made a digital payment in 2016.
- The high access to financial services is also complemented by access to financial products that enable digital transactions (around 22 per cent of the adults owned debit cards in 2017)
- Overall, the high level of financial inclusion is an opportunity to improve the development potential of cross-border remittances by enhancing the financial depth of migrant families.

High levels of financial inclusion provide rails for cross-border remittance flows.

Trends in domestic remittances

Figure 19. Domestic remittances in Zimbabwe



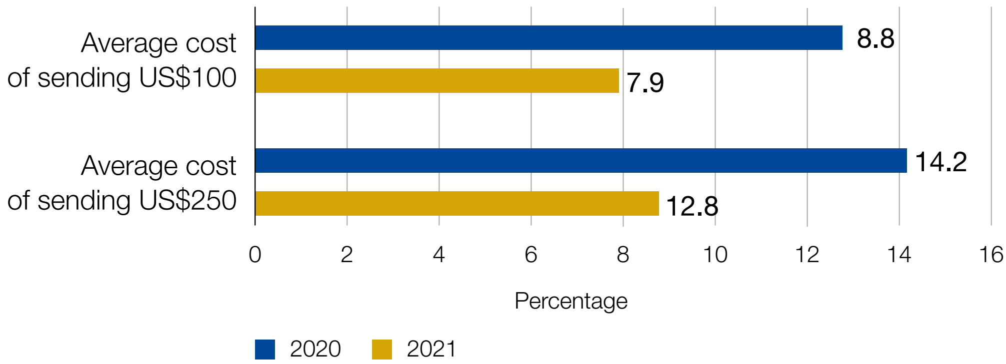
Source: Findex 2018.

Domestic remittances are high, though informal channels.

- The use of domestic remittance services in Zimbabwe is on an increase as shown by a marginal increase in people who have sent or received domestic remittances between 2014 and 2020.
- However, the results show that a significant share of remitters are still sending money informally. Only 10 per cent was remitted through a financial institution in 2017. The use of informal services for domestic remittances is decreasing as evidenced by the share of people using cash only for domestic remittances decreasing from 27 per cent in 2014 to 16 per cent in 2017.

Cost of cross-border remittances

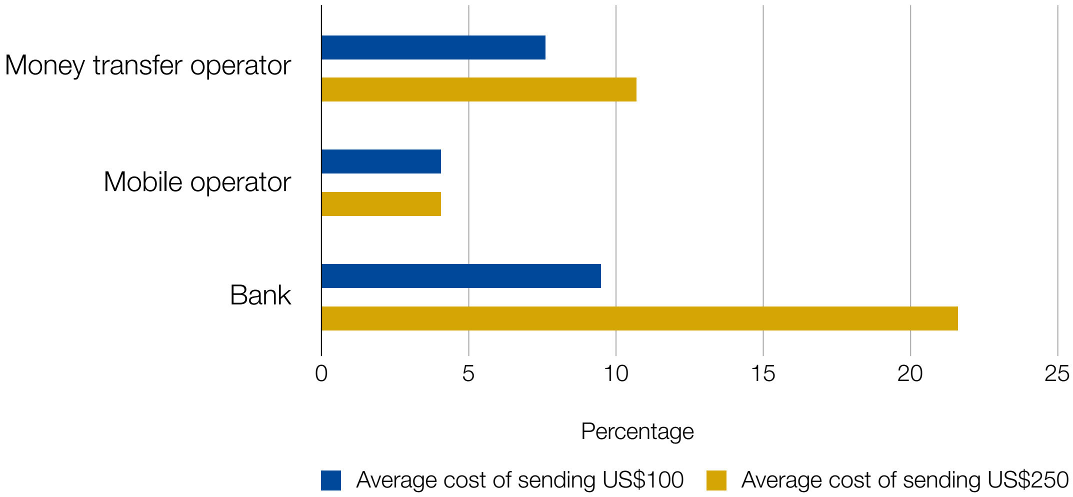
Figure 20. Aggregate cost on the South Africa to Zimbabwe corridor (2020 and 2021)



Source: World Bank RPW.

Across providers, the world bank RPW data show cost reduction on sending both US$100 and US$200 amounts. The average cost of sending money from South Africa to Zimbabwe in 2021 across all amounts was 10.4 per cent compared to 11.5 per cent in 2020.

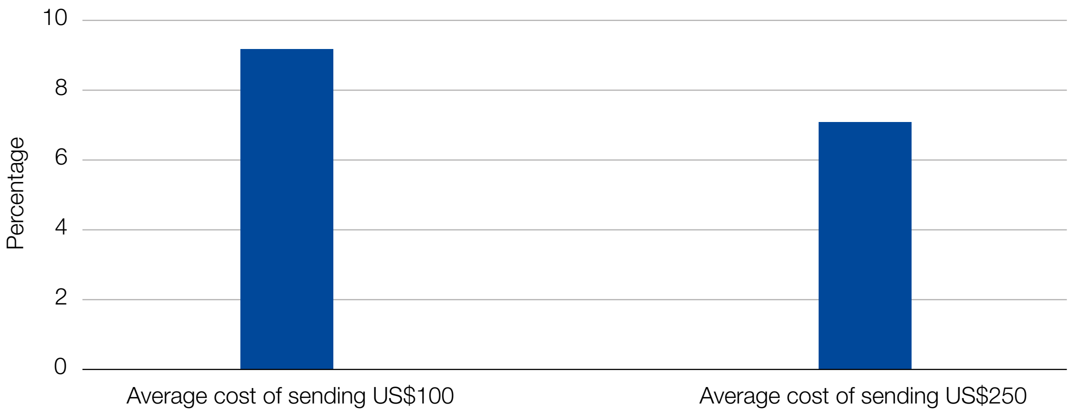
Figure 21. Remittance cost on the South Africa to Zimbabwe corridor (by provider)



Source: World Bank RPW.

The results above show significant differences in cost structures depending on the provider used for remitting. Overall for US$100, the costs are below 10 per cent across all providers. The average cost for remitting through money transfer operators is 7.6 per cent for US$100 and 10.7 per cent for US$200. On average mobile operators are the cheapest with the average cost of remitting at 4 per cent for both US$100 and US$200. Banks are the most expensive RSPs providing services at an average cost of 22 per cent for US$200 and 9.5 per cent for US$100.

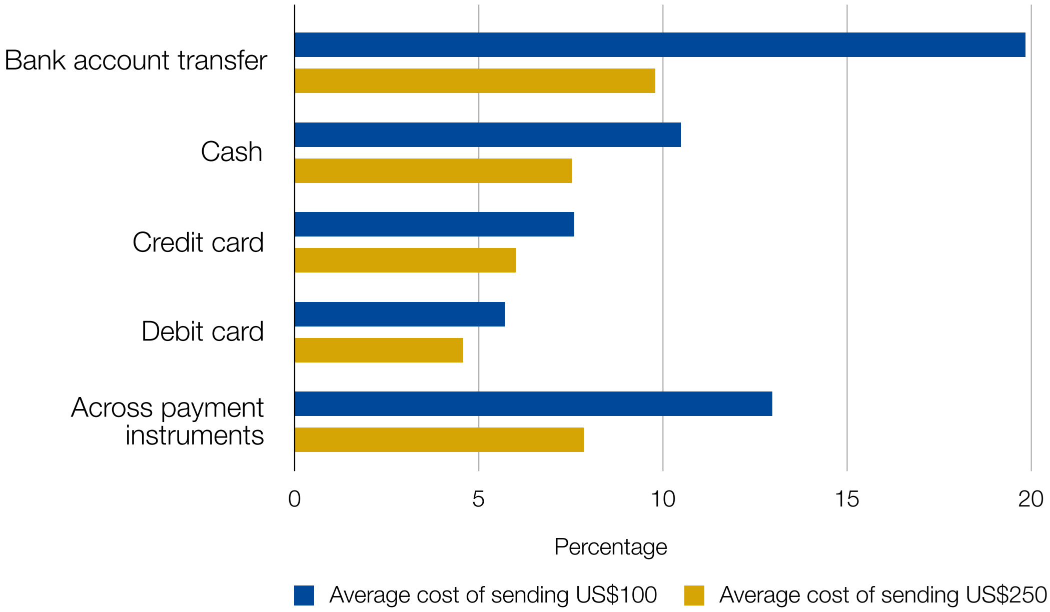
Figure 22. Remittance cost on the South Africa to Zimbabwe corridor (ADLAs only)



Source: World Bank RPW.

The cost of remittances considering the providers widely used on this corridor (ADLAs) is much lower compared to the aggregate indicator which includes banks. Overall, the cost of remitting through ADLAs is 8.1 per cent. It is more expensive to send smaller amounts (US$100 – 9.2 per cent) compared to larger amounts (US$200 – 7.1 per cent).

Figure 23. Remittance cost on the South Africa to Zimbabwe corridor (by payment instrument)



Source: World Bank RPW.

Across providers, the choice of payment instrument determines the cost of remitting. The chart above shows that bank transfers and cash are the most expensive payment instruments for large and smaller amounts. Debit cards and credit cards are the least costly mechanisms for paying for remittance services.

Cost contributors on the Zimbabwe corridor

- Exchange controls in Zimbabwe. The receiving side has a complex regulatory environment which is characterized by frequent market interventions by the regulator. At present, the most pressing challenge for digitalizing remittance value chains end-to-end is the mismatch between the local RTGS currency and US$ which is always below market rates. While foreign currency denominated wallets may resolve this, there is no guarantee that those funds are immune from mandatory settlement in local currency in future which will erode the value of savings in these wallets.
- Foreign exchange volatility and distortions both at the sending side and receiving side. The use of the US$ and the RTGS currency in Zimbabwe brings foreign exchange risk on both sides of the corridor. On the sending side, the rand fluctuates frequently against the US$ exposing RSPs to foreign exchange rate risk. On the sending side, there are often liquidity issues because the Central Bank does not have control over the money supply in US$. Attempts to control monetary policy using the local currency often result in currency depreciation of the RTGS against the US$.
- Lack of interoperability at the receiving end. Access and usage of DFS is high on the receiving side but this is mostly driven by Ecocash wallets which have close to 90 per cent of the market share. End-to-end digitalization of the value chain will require interoperability among digital stores of value.
- High levels of informality. Informality is high in both domestic and cross-border remittances despite leaps made in the use of digital payment products for transactions. Cross-border informality is mostly driven by lack of documentation amongst most Zimbabwean migrants on the sending side.

Table 12. Priority policy action: Mozambique

Area	Stakeholder	Rationale	Proposed Policy Action	Priority
Regulatory environment	BankServ Africa TCIB/PRIME Africa	The TCIB has the potential to reduce costs and reduce the liquidity requirements that are required for pre-funding accounts through the private international payment aggregators.	Support the TCIB testing the impact on payments from South Africa to Mozambique to reduce costs and liquidity requirements in this corridor. The TCIB should include non-bank financial institutions and use a proportionate and risk-based approach to AML/CFT.	Medium
Market environment	PRIME Africa	The official language of Mozambique is Portuguese. To accommodate this provides an additional cost for ADLAs where marketing, website, apps, USSD, agents and call centre staff need to be in/must be able to speak Portuguese. Language is one of the reasons that Mozambique has not been a core country of focus for ADLAs.	PRIME Africa to support ADs and ADLAs in making services available in Portuguese to serve the Mozambican community in South Africa.	High
Financial inclusion	PRIME Africa	Financial literacy (and even literacy) levels among some Mozambican migrant workers are low.	PRIME Africa to support ADLAs to increase awareness and marketing of formal remittances services and formal stores of value with the Mozambican community. This may be through financial education through trusted members of the community.	High
Digitalization	PRIME Africa	Farm workers and other agricultural workers often get paid in cash and then have to walk to town to send their money home. This presents risk of theft from carrying this cash, as well as the time and costs involved.	For PRIME Africa to support ADLAs in offering payroll solutions for farms, mining and other large employers of migrant workers to use so that migrant workers can pay their staff digitally and that the solution offers competitively priced financial services and straight-through remittance processing. PRIME Africa may support this through pilots with specific employers.	High
Working groups	Central Bank of Mozambique/ MMPs/ADLAs/ ADLA Forum/ banks/development partners	There are challenges for ADLAs operating in Mozambique that increase costs and add barriers to entry. Some ADLAs have the ear of the regulator, but not all.	Working Group with South Africa-based ADLAs and Mozambican regulators, MMPs, banks and other pay-out partners. A platform to discuss challenges in this corridor, market development, bottlenecks, partnerships, etc. For example, opportunities for sandboxing through the regulator or discussing the impact of M-Pesa wallet limits on the market.	High

Table 13. Priority policy actions: Mozambique and Zimbabwe

Area	Stakeholder	Corridor Focus	Rationale	Proposed policy action	Priority
Data	SARB	Mozambique and Zimbabwe		SARB and other central banks review and harmonize data collection (in line with balance of payment Manual 6 and beyond) and standardize data at corridor level.	Medium
Competition	PRIME AFRICA	Mozambique and Zimbabwe	Mobile money has yet to take off in South Africa and there are currently no cross-border services available. MMPs are operating and trying to grow business. Mobile money usage is on the increase in Mozambique and uptake is high in Zimbabwe.	For PRIME Africa to support MMPs in developing tailored and competitive financial services for migrants in South Africa. Given that mobile money is already commonplace in the receive market, there may be greater awareness and appetite for these services among these migrant communities and opportunities to streamline costs.	High
	PRIME AFRICA	Mozambique and Zimbabwe	The documented segment on the Mozambique and Zimbabwe corridor has good access to DFS from the sending side which is an opportunity to advance delivery of additional financial services.	For PRIME Africa to support the development of new remittance-linked financial services and and services designed specifically for migrant communities in South Africa by ADLAs, banks (especially the challenger banks) and other financial service providers. For example, transnational financial services improving access to savings, loans services improving access to savings, loans and insurance, and investments. New product and insurance, and investments. New product development and new partnership development with receive country operators.	High

Table 14. Priority policy actions: Zimbabwe

Area	Stakeholder	Corridor Focus	Rationale	Proposed policy action	Priority
Regulatory environment	SARB	Zimbabwe	Greater visibility on the South Africa remittances corridors through publication of market data.	For SARB to publish remittance data on the major South Africa remittance corridors.	Medium
Market environment	PRIME Africa	Zimbabwe	Market informality is high on the Zimbabwe corridor (above 70 per cent). A combination of factors drives informality inefficient foreign exchange markets, high proportions of undocumented migrants and high transaction costs on the corridor.	End-to-end digitalization of remittance value chain while addressing high FX margins will help lower the cost of transaction of migrants through formal channels. Interoperability between remittances product will also accelerate Digitalization and reduce high levels of cash out at the receiving side.	High
Digitalization	PRIME Africa	Zimbabwe	Zimbabweans have high levels of familiarization with digital financial service with more than half of the adult population having completed a digital transaction in 2018. The use of digital channels remains low which is a call to action for stakeholders to speed up efforts to digitalize the corridor.	Promote digitalization of key use cases driving remittances e.g. cross-border trade through initiatives such as TCIB. Resolve the identity issues hindering formalization of remittances through initiatives such as proxy IDs, waiving proof of address for low-value transactions. Promote the take up of FX denominated stores of value to eliminate the avoidance of formal channels driven by disparities between official and market rates at the receiving side.	High

4 Stakeholders and coordination

This section covers the key players active in the South Africa, Ghana, Kenya and Mozambique remittance industries. It provides an overview of stakeholders' thematic areas of focus and some detail on recent remittance-related activities.

- South Africa remittance industry stakeholders
- Ghana corridor stakeholders
- Kenya corridor stakeholders
- Mozambique corridor stakeholders

The South African remittance industry is well-organized through the ADLA Forum and the local NGOS FMT and CENFRI have been working successfully for many years to improve the remittance market from South Africa to SADC.

Table 15. Key stakeholders in the PRIME AFRICA corridors

Stakeholder	Thematic areas of focus
South Africa	
ADLA Forum	The ADLA Forum has strong membership and represents the ADLAs in South Africa with the regulator. The ADLA Forum convenes all operators regularly and then meets with the regulators every three months.
SARB	SARB is the regulator of remittance service providers in South Africa. It has a regulatory sandbox that is an initiative of the Intergovernmental Fintech Working Group (IFWG), an organization that includes South Africa's major financial regulators and government agencies. Within the regulatory sandbox, SARB is working with FMT and the private sector to pilot a no documentation product for remittance senders.
CENFRI	CENFRI is a PRIME Africa partner and a South African based agency that researches on national and regional payment systems and remittances across sub-Saharan Africa. CENFRI had a programme on risk, remittances and integrity in partnership with FSD Africa, which ended in 2020.
FinMark Trust (FMT)	FMT is a think tank based in South Africa that seeks to further financial and economic inclusion for the poor of the SADC region. The work is implemented in individual countries as well as on a regional basis. FMT has conducted a significant amount of primary research on remittances in SADC and engages with the regulator and private sector to pilot innovations that have resulted in reduced remittance costs and access. FMT receives data from SARB on corridor remittance flows within SADC, conducts mystery shopping on pricing and launched a fund to assist beneficiaries due to loss of income from the COVID-19 pandemic.
IOM	The IOM in South Africa and Mozambique does not as of publishing have any specific interventions regarding remittances. IOM Mozambique has been working with the Ministry of Labour on a five-year strategic plan that includes remittances.

Stakeholder	Thematic areas of focus
IFAD	IFAD, through the FFR, has been undertaking programmes in Eswatini and Lesotho on inclusive financial services. PRIME Africa is a multi-year, multi-country program, funded by the European Commission, focused on reducing remittance costs from the European Union to and within Africa, increasing financial inclusion through remittances and reducing the use of informal channels. PRIME Africa has projects in Ghana, Kenya, South Africa and six other countries.
Mozambique	
Mozambique Miners Association	Represents Mozambican miners in South Africa.
FSDMoç	Supported FinScope Mozambique in 2019. FSDMoç focuses on women, youth, smallholder farmers and micro, small and medium-sized enterprises and include programmes on advocating enabling regulatory environment (drafting legislation on MMPs, low KYC accounts, study on banking agents), grants to support new businesses and studies on bottlenecks.
Bank of Mozambique	Has a regulatory sandbox which is currently looking at permitting Mukuru to open branches in Mozambique.
The National Institute for Mozambican Communities Abroad (INACE)	A public institution, operating under the Ministry of Foreign Affairs and Cooperation. It carries out its activities abroad through the diplomatic and consular missions of the Republic of Mozambique. INACE diaspora engagement project with IOM.
Zimbabwe	
Reserve Bank of Zimbabwe	Has regulatory oversight on the remittance market ecosystem, coordination and implementation of the financial inclusion policy.

RECOMMENDATIONS

1. Use the ADLA Forum to coordinate between stakeholders in South Africa, including donors. Alternatively, an additional body could be formed.
2. Specific corridor ad hoc groups could be formed to address specific issues. An umbrella grouping would also help as long as it is not too administratively burdensome.
3. There are active stakeholders involved in this sector with deep knowledge of the market. It is therefore critical to ensure close coordination and that any activities and actions complement the work they are doing and does not duplicate efforts.
4. Donor coordination in South Africa should be a strong overall ongoing consideration, and also at a corridor level for the two PRIME corridors.
5. Coordination between stakeholders at both ends of each corridor should be enhanced.

ANNEX 1

Data on outbound remittances to SADC, informal remittance estimates by corridor and miners in South Africa

Table 16. Formal outbound remittances from South Africa to SADC per country, ZAR million (adjusted)

	2016	2017	2018	Total
Angola	15.58	11.71	10.98	38.27
Botswana	204.44	203.50	230.91	638.84
Comoros	1.31	1.76	2.62	5.68
Democratic Republic of the Congo	102.35	147.12	196.75	446.23
Lesotho	446.19	857.88	1,317.10	2,621.18
Madagascar	28.85	27.42	30.62	86.90
Malawi	843.22	1,581.53	2,353.15	4,777.90
Mauritius	162.50	213.23	233.40	609.13
Mozambique	453.89	455.44	601.65	1,510.99
Namibia	350.91	345.87	323.14	1,019.92
Seychelles	11.20	14.17	15.73	41.10
Eswatini	123.37	135.84	154.44	413.65
United Republic of Tanzania	166.50	189.63	206.14	562.28
Zambia	425.63	464.23	492.42	1,382.29
Zimbabwe	4,656.24	4,091.84	3,174.89	11,922.96
Total	**7,992.18**	**8,741.17**	**9,343.94**	**26,077.31**

Source: SARB response to FinMark data request. Adjusted to compensate for tourism transactions, Shoprite Money Transfer to Lesotho, and EFT payments to CMA countries.

Table 17. 2018 remittances from South Africa to the rest of SADC

	Migrants with propensity to remit informally	Amount remitted informally (Rm)	Migrants with propensity to remit formally	Formal remittances (Rm)	Total remittances (Rm)	% informal
Angola	24,818	95.5	1,072	11.0	106.5	90%
Botswana	15,871	64.0	14,919	230.9	294.9	22%
Democratic Republic of the Congo	52,099	243.3	24,791	196.8	440.1	55%
Lesotho	191,079	762.4	210,936	1,817.1*	2,579.5	30%
Malawi	83,908	164.1	132,607	2,353.1	2,517.3	7%
Mozambique	746,577	2,668.2	236,501	1,321.7*	3,989.9	67%
Namibia	50,651	162.1	50,787	323.1	485.2	33%
Eswatini	74,045	339.4	16,897	154.4	493.8	69%
United Republic of Tanzania	6527	12.8	10,690	206.1	218.9	6%
Zambia	29,517	57.7	45,618	492.4	550.1	10%
Zimbabwe	1,342,809	6,729.1	337,961	3,174.9	9,904.0	68%
Seychelles and Mauritius	1,844	4.4	5,811	249.1	253.6	2%
Madagascar and Comoros	210	0.4	675	33.2	33.7	1%
Total	**2,619,955**	**11,303.5**	**1,089,265**	**10,563.9***	**21,867.4**	**52%**

Source: Own estimates, incorporating external data sources as discussed in report.
* *Note:* Please note that this includes estimated deffered pay for mineworkers of R500 million to Lesotho and R720 million to Mozambique.

Table 18. Mineworkers from the rest of SADC in South Africa

Year	Lesotho	Botswana	Eswatini	Mozambique	Total
2006	46,078	2,992	7,123	46,706	102,899
2007	45,608	2,845	7,099	44,879	100,431
2008	42,851	2,654	6,397	43,004	94,906
2009	38,559	2,357	5,855	39,090	85,861
2010	35,179	1,800	5,009	35,782	77,770
2011	34,583	1,783	4,779	34,940	76,085
2012	30,519	1,527	4,485	31,596	68,127
2016	22,704	957	3,215	23,108	49,984
2017	21,234	840	2,926	22,075	47,075
2018	19,410	762	2,712	20,359	43,243

Source: Budlender 2013 repying on TEBA special run cited in (Jinnah, 2013); 2016-2018 TEBA data provided via correspondence with Mining Council.

ANNEX 2

SARB data reporting

- Data must be reported depending on the status of the migrant using balance of payment (BOP) reporting categories, such as:
  - For all customers with a South African ID, the BOP category relevant to the money remittance is 401[Gifts].
  - For all customers with a foreign passport or asylum document, the BOP categories relevant for the money remittance are 305 [compensation paid to a migrant worker employee (excluding remittances)], 306 [compensation paid to a foreign national contract worker employee (excluding remittances)] and 416 [migrant worker remittances.

- ADLA licence holders are only permitted to provide services to remittance senders and are not permitted to offer cross-border payments for trade purposes. However, through discussions with SARB and stakeholders, it is clear that these service providers are often used for trade flows (with senders declaring remittances or gifts as the transaction purpose). As such, there are challenges with the remittance flow data being over-inflated in terms of real remittance values. This is seen in the case of the remittance flows from South Africa to Kenya.
- SARB only publishes data on formal flows. However, FMT provides estimates on informal flows within the SADC region through an assessment of migrant numbers, including proportions of documented and undocumented migrants, combined with an understanding of individual remittance patterns and volumes within each migrant community, based on secondary resources and focus group research (FMT, 2020b).

Table 19. Number of financial services providers

Financial service providers	2012	2013	2014	2015	2016	2017	2018
Banks	16	17	17	17	17	19	19
Mutual banks	3	3	3	3	3	3	4
Co-operative banks	2	2	2	2	2	3	4
Registered co-operative financial institutions	106	24	24	28	28	28	22
Non-life insurers	106	99	97	92	89	88	86
Life insurers	87	77	74	75	74	72	73
Credit providers	5,450	5,450	5,724	4,577	4,569	5,591	6,191

Source: SARB Banking Supervision Reports (2013-2017), Prudential Authority Annual Report (2018) FSB Annual Report (2013-2017), NCR Annual Reports (2013-2018) and CBDA Annual Reports (2013-2017).

ANNEX 3

Access to financial services in South Africa

- According to the South African National Treasury (2020), “since 2010 more than 90 per cent of households had access to physical points of presence within a 10 km radius”. Physical points of presence consist of bank branches, ATMs and POS payment devices. Each of the 278 municipalities in South Africa has at least some transactional points of service from a regulated service provider.
- While physical reach and the use of technology have improved access to financial services, there is still much scope for improvement, particularly in rural areas where the presence of financial services infrastructure is limited (SA National Treasury, 2020).
- South Africa does not have well-developed agency banking, but it is something that is proposed in the Treasury’s Financial Inclusion Strategy 2020. There are a few examples, for example, Tyme bank has kiosks and relationships with retailers for CICO.
- Withdrawal options and payment services have increased due to the participation of retail and other networks in the payment system. However, these are operated on a closed-loop system.
- In South Africa, remittances can be paid in and out at a variety of different locations, including bank branches, MTO branches, post office branches and ATMs, but most popularly through retail networks including Checkers, PicknPay, Spar, Ackermans, PEP, Shoprite, Boxer, Makro, among others.
  - To give an indication of the scale, there are currently 1,685 Shoprite supermarkets (including Usave, Checkers and others) in South Africa (Shoprite, 2020) and South Africa Post Office has 1,202 outlets (2021). Mama Money quotes 32,000 customer cash-in points at all major South African retailers (Medium, 2021). Ubank has “bank on wheels” service.
  - The bivariate map (figure 24) shows populations underserved by money transfer agents in South Africa (using MoneyGram and Western Union agents as proxies). It should be noted that MoneyGram and Western Union are not the largest MTOs in South Africa and therefore are possibly not representative of the ADLAs. The map indicates that most areas are well served, apart from around Lesotho.

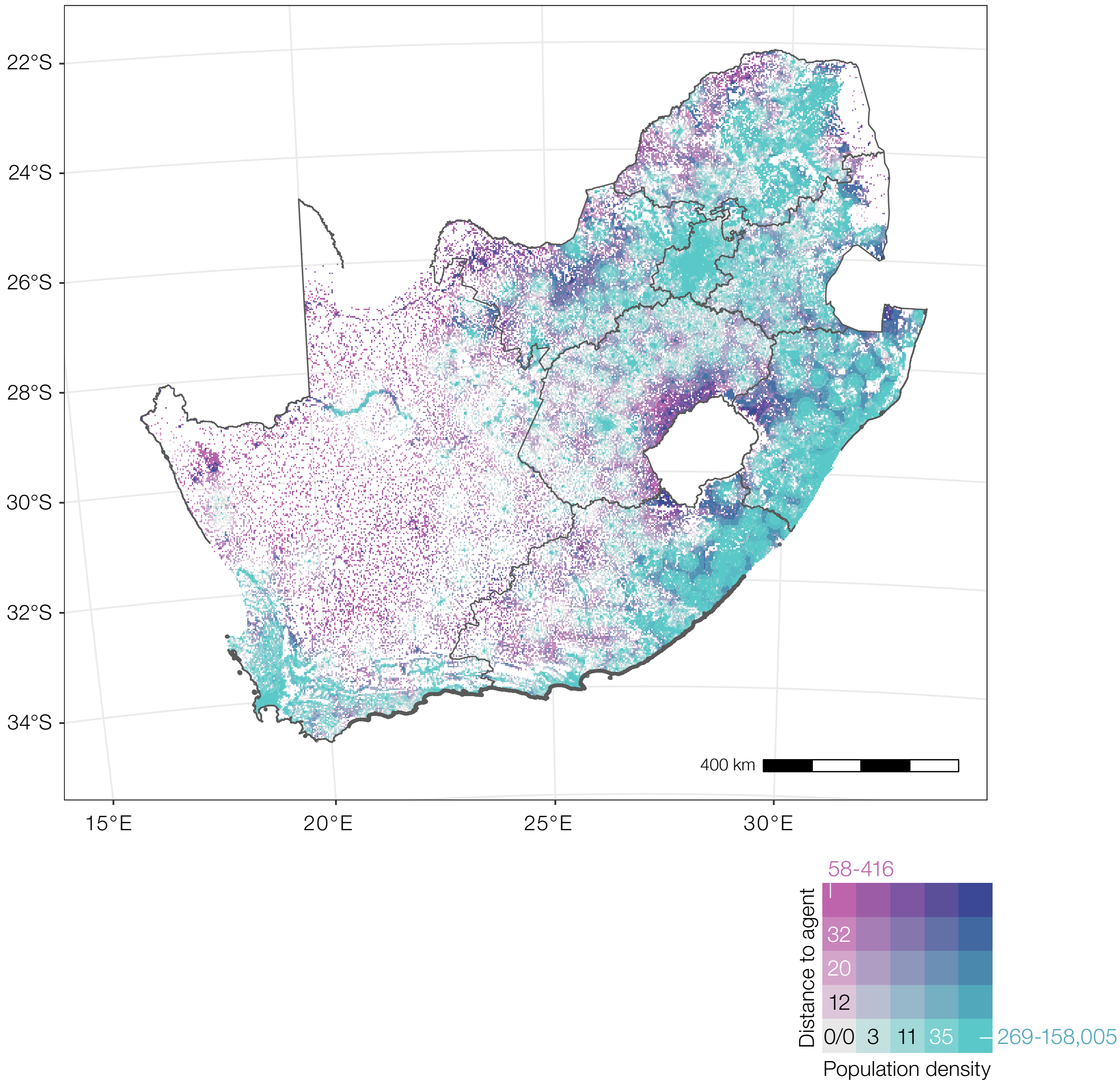
- ATMs are an important part of the payment system infrastructure in South Africa, with 65 ATMs per 100,000 adults. In South Africa, merchant acquiring costs are apparently high, which disincentivize the use of cards and favour cash.

Table 20. ATM per 100,000 adults

Countries	Year	ATMs per 100,000 adults	Bank branches per 100,000 adults
South Africa	2019	65.31	9.59
Germany	2019	129.89	10.97
Ghana	2018	11.51	8.54
Kenya	2019	7.69	4.65
Mozambique	2019	10.39	4.10
United Kingdom	2019 (ATM) and 2013 (Bank)	110.28	25.14
Zimbabwe	2020	6.16	4.17

Source: IMF FinAccess Survey (various years).

Figure 24. Population in reach of a money agent in South Africa



Source: World Data Lab (2020).

ANNEX 4

Despite success in other countries, mobile money has not yet taken off. After a failed attempt in 2016, M-Pesa and MTN are both offering mobile money wallets again in South Africa and MTN is applying for an ADLA licence to be able to offer inbound and outbound cross-border remittances.

- Since then, there have been renewed developments:
  - **MTN** announced in January 2020 that it would launch its mobile money services in partnership with UBank. The service is intended to expand financial inclusion through providing services to the unbanked in South Africa, with a particular focus on penetration in rural areas. Cross-border services are also being developed but are not currently in operation. It is still early days for MTN in building out the offerings and they are still growing their merchant acceptance and building out their agent network and through ATMs. There is currently no push or pull from bank accounts.
  - **Vodacom Group** and the SADC Banking Association signed a memorandum of understanding that will allow the Vodacom Group to join the South African Development Community's TCIB payment scheme as part of its strategy to advance regional integration of payments on the African continent. Vodacom is not offering their M-Pesa service in South Africa but have a few other products such as a QR payments wallet for banked customers. In 2020, Vodacom announced a partnership with AliPay's parent company Ant Financial to launch VodaPay, an AliPay-style super-app for the South Africa market that will allow banked customers to make payments. Unlike other countries, it will not have the agent model.

- Launched in December 2020, **Telkom Pay Digital Wallet** is a P2P domestic wallet that operates via WhatsApp. Users on any mobile network can send and receive money, buy airtime, data and electricity, or purchase goods instore using a QR code. Wallets are topped up via EFT, Nedbank ATMs or at Pick n Pay stores.

ANNEX 5

South Africa's licensing regime

- Licensing categories are broad enough to include fintechs and MMPs.
- It reportedly takes a long time to get licensed and is therefore an expensive process. The average time is about 28 months and there is a lot of back and forth with the regulator.
- Capital requirements are considered high (ZAR 3 million to ZAR 8 million for ADLA2-4) (US$218,000 to US$582,000 equivalent), which means there are high barriers to entry that hinder competition in the market.
- The ADLA licence only permits ADLAs to conduct person-to-person remittances, and therefore does not authorize the ADLAs to send low-value commercial or trade transactions through their systems. These transactions must be completed by banks.
  - There are ongoing discussions with SARB to change this and open the landscape. Allowing ADLAs to also conduct commercial transactions would expand these businesses, increase volumes and reduce costs.
  - There is an ongoing pilot with FMT to extend the use of ADLA for trade. It is also suggested that people are currently using ADLAs for trade purposes (as seen in the South Africa to Kenya corridor), which distorts the data, as people are misreporting.

- Some commercial exclusivity still exists in the market and some operators report not being able to structure new agreements because of pre-existing ones for example, ABSA and Western Union. However, further work by regulators could resolve this to remove these agreements if they are deemed to be anti-competitive.
- De-risking of money transfer businesses by banks is also reported to be a challenge for some RSPs in the market in being able to access bank accounts, necessary for clearing and settling payments. The banks have additional compliance and reporting obligations, which adds an additional reporting burden. Furthermore, feedback suggests that the partnerships with banks can be expensive, with large sums of paid-up capital and also in terms of cash deposits, which are high by international standards (1 per cent or 35 cents for every deposit with the bank).
- There is an ADLA forum every month for all operators, SARB and FIC. It is reported that the event is well attended. There is also a formal meeting in Pretoria with SARB held three times a year.

ANNEX 6

ADLA Licensing categories

- SARB has a Manual for ADLAs (2020). There are four categories of ADLA and with each comes different licensing requirements and permitted activities. Each category of ADLA licence specifies how much can be sent by different types of senders and provides maximum thresholds, transaction amounts and CDD requirements (including immigration documents, proof of address, proof of income, etc). These prescriptive criteria are at odds with the risk-based approach to limits and CDD proposed by FICA and FATF.
- ADLAs are responsible for exchange controls and are required to maintain detailed records of all transactions.
- All accountable and reporting institutions are required to register with the Financial Intelligence Centre (FIC). FIC has the mandate to assist in identifying the proceeds of crime, combating money laundering and terrorist financing. The FIC and supervisory bodies have the authority to inspect and impose administrative penalties on non-compliant businesses.

Table 21. Categories of licensed ADLAs in South Africa

Category	Permitted activities
Category One	An ADLA authorized to operate as a bureau de change
Category Two	An ADLA authorized to operate as a bureau de change, facilitate specific transactions under the single discretionary allowance limit of ZAR 1 million per applicant per calendar year and offer money remittance services in partnership with external money transfer operators
Category Three	An ADLA authorized to operate as an independent money transfer operator and/or value transfer service provider.
Category Four	An ADLA authorized to: – operate as a bureau de change; – facilitate specific transactions under the single discretionary allowance limit of ZAR 1 million per applicant per calendar year; – offer money remittance services in partnership with external money transfer operators; – operate as an independent money transfer operator; and/or – operate as a value transfer service provider.

Source: SARB (2021) ADLA Manual.

ANNEX 7

South Africa has strict exchange controls, that are outlined in the ADLA Manual, stipulating that SARB must be in possession of full information regarding every transaction. This requirement adds costs to the provider through reporting and CDD burdens, and the thresholds are considered too low. SARB does not permit ADLAs to net off settlement between two currencies.

Exchange controls

- SARB delegates administration of exchange controls to ADs and ADLAs. Only authorized dealers are allowed to affect a currency transfer. The Financial Surveillance Department is required to be in possession of full information regarding the transaction, its nature and purpose (clearly specifying the motive and intent). This is applicable to all transactions no matter the size.
- There are set amounts for personal transfers in the form of allowances that must be adhered to. These are outlined in the ADLA Operating Manual and there are thresholds per licence category. Within each ADLA licence are the thresholds permitted and then within that the ADLA must decide the KYC requirements for different send amounts.
- Under a risk-based approach, each ADLA produces a risk management program matrix and assigns each transaction a risk rating and a risk profile. This matrix is presented to SARB. Proof of funds, proof of income, proof of address can all be required depending on the risk matrix and the risk profile of the transaction.
- Some stakeholders feedback noted that the thresholds or limits set on per transaction and monthly amounts that can be transacted according to the different ADLA categories, and the associated CDD requirements, are too low. This means that these ADLA are not able to accommodate people sending larger values home as the enhanced CDD and the additional documentation required is too burdensome. These requirements push people sending larger amounts to use informal channels.
  - Low-value amounts under ZAR 5,000 per day can be sent with an ID only. Some ADLAs are lobbying against the threshold limits, stating that while they may make sense for Mozambican workers, they do not for other foreign nationals (US$350 day/US$4,000 a month) as the ADLAs cannot accommodate them.

Netting off

- According to SARB it is not permitted to net off settlement of transactions by ADLAs. This means that ADLAs have to settle the full amount outbound and inbound between two currencies. This incurs additional and unnecessary costs for RSPs.

ANNEX 8

FIC has introduced a risk-based approach to consumer due diligence within the prescribed exchange controls. Adoption has been slow among the ADLAs and the risk-profile of remittance transactions often negatively exaggerated. There are exciting innovations being piloted around “no ID” products.

- South Africa is a member of the FATF, an international standard-setting body on measures to combat money laundering and terrorist financing, and the Eastern and Southern Africa Anti-Money Laundering Group.
- Customer due diligence (CDD), and an onerous tick-box approach, has been a real barrier to migrants using formal financial services and formal remittance services in South Africa. In recent years there has been a concerted effort by donors and the government to simplify the CDD process and to make sure that immigration status and other official documentation are not required on the onboarding process for low-income, low risk transactions. Initially, South Africa had Exemption 17 and FICA Lite, but has recently implemented a risk-based approach, leaving it to the discretion of the operators.
- In 2010, FATF mandated the switch from rules principles to RBA. In South Africa, the Financial Intelligence Centre Act facilitated the switch from this date, which became enshrined in law in October 2017. It allows for a more flexible application of customer due diligence measures to certain categories of financial products or customers, who might otherwise struggle to meet rigid identification and verification requirements. The introduction of flexible, risk-based KYC rules by the FIC makes it easier to on-board and serve previously unserved migrants.
- The National Treasury’s A New Approach to Combat Money Laundering and Terrorist Financing document provides a set of principles to guide the implementation of the risk-based approach. The FIC Amendment Act places an obligation on accountable institutions to develop, document, maintain and implement a risk management and compliance programme that will enable them to be more innovative and use new technology to apply simplified due diligence in cases of lower risk exposure.

It is currently possible in South Africa to send remittances of under ZAR 5,000 per day and a maximum of ZAR 25,000 per month by presenting only a valid foreign passport. For amounts above these thresholds, IMTOs may request additional information including source of funds, and may conduct enhanced due diligence (such as face match) under the new risk-based approach.

According to FMT (2019), FSPs often apply more stringent compliance measures to remittance transactions – the main challenge with the change is that there exists a perception that remittances (particularly cross-border ones) are by definition more susceptible to AML/CFT risks than are other financial products and services (despite a lack of evidence).

The adoption of the risk-based approach has been very slow from most of the institutions in South Africa that offer low-value products, which target the mass market and unbanked sector of the community.

For Mozambicans, one service provider suggested that people often travel leaving their passport at home with only their Mozambican national ID on them, which cannot be accepted as a formal form of ID by the RSPs. SARB has approved a dispensation whereby the RSP can take the national ID and a photocopy of the passport.

In South Africa there is some discord between the FIC's RBA and SARB's rules-based approach in terms of how much customers can send depending on CDD requirements. For example, the FIC stipulates that only transactions over ZAR 5,000 need to be reported to FIC, but SARB requires every transaction to be reported, including the migration status and purpose of transaction.

ANNEX 9

Companies need to deliver the six outcomes of Treating Customers Fairly to their customers throughout the product life-cycles, including through servicing, advice and complaints handling. In practice, implementation is variable and sanctions not always utilized.

The required outcomes are:

- Treating Customers Fairly (TCF) is an outcomes-based regulatory and supervisory approach designed to ensure that regulated financial institutions deliver specific, clearly set out fairness outcomes for financial customers. Regulated entities are expected to demonstrate that they deliver the following six TCF Outcomes to their customers throughout the product life cycle, from product design and promotion, through advice and servicing, to complaints and claims handling:
  - Customers can be confident they are dealing with firms where TCF is central to the corporate culture;
  - Products and services marketed and sold in the retail market are designed to meet the needs of identified customer groups and are targeted accordingly;
  - Customers are provided with clear information and kept appropriately informed before, during and after point of sale;
  - Where advice is given, it is suitable and takes account of customer circumstances;
  - Products perform as firms have led customers to expect, and service is of an acceptable standard and as they have been led to expect; and
  - Customers do not face unreasonable post-sale barriers imposed by firms to change product, switch providers, submit a claim or make a complaint.

ANNEX 10

There is currently no e-money licence regime, however, SARB (2009) has a position paper which states that only registered banks can issue e-money as it is viewed as a deposit. The development of e-money regulations is anticipated and outlined in the Financial Inclusion Strategy (National Treasury, 2020).

- The SARB regulates the payment system industry under the National Payment System Act 1998. The SARB has mandated the Payment Association of South Africa (PASA) to oversee the participation of banks and non-bank players in the payment system. The PASA's work spans the full payment process, from payer to beneficiary, as well as all the tools, mechanisms, systems and processes applied to effect payment.
- SARB is also the main regulator in the CMA between South Africa, Eswatini, Namibia and Lesotho. SARB recognizes institutions based on local regulations and what the central bank recognizes. Therefore, if any country in CMA recognizes a mobile money scheme as a clearing entity, it would therefore be recognized by SARB.
- Non-bank players must have formal authorization from the PASA to participate in the payment system.
- Non-banks can enter into arrangements with licensed banks so that they can offer payment-related services (Section 52, Banks Act 1990).
- In 2009, SARB released an e-money position paper which states that SARB will allow only registered South African banks to issue e-money, subject to section 52 of the Banks Act, which allows non-banks to enter into arrangements with banks that may permit such non-banks to offer payment-related services in relation to e-money, in conjunction with the bank. Some digital wallets qualify as e-money and the activities surrounding such wallets are subject to the e-money position paper.
- In South Africa there is no e-money licence and e-money issuers must do so through a sponsor bank. Only banks are able to take deposits and store of value is categorized as a deposit. This requirement adds an additional layer of cost to any e-money offering. MMPs are not able to directly participate in the national payment system. The absence of a national strategy on e-money in South Africa has led to numerous closed-loop e-money products and services that are not interoperable (South Africa National Treasury, 2020).
- Regulation is evolving to conform to fintech with the development of e-money regulatory framework anticipated in the near future and outlined in the Treasury Financial Inclusion Strategy 2020.
- The ADLAs are lobbying with the MMPs for an e-money licence like the Electronic Money Institute (EMI) licence in the EU.

Fintech in South Africa

- South Africa is the top destination for fintech start-ups in Africa. There are no fintech-specific laws or regulations in the country.
- However, financial services legislation in South Africa is wide enough to apply to most fintech products and services.
- The country has recently launched a fintech programme to strategically assess the emergence of fintech in a structured and organix]zed manner, and to consider its regulatory implications.
- An inter-governmental fintech working group (IFWG) was formed in 2016, comprising representatives from the National Treasury, South African Reserve Bank, Financial Sector Conduct Authority, National Credit Regulator, South African Revenue Service and Financial Intelligence Centre. The IFWG has recently published the Fintech Vision Document.

ANNEX 11

Remittance pricing is not upfront and transparent in South Africa and there is no standardized guidance around it. Remote onboarding is permitted and RSPs use innovative methods to support this. All South African primary data must be stored in South Africa, which is an additional challenge for multi-country operators.

Transparency and consumer protection

- There are no requirements from SARB with respect to transparency and disclosure on pricing. However, the Consumer Protection Act is fairly comprehensive in disclosure requirements for online transactions. It is considered an anomaly that RSPs do not disclose spreads. Disclosing final foreign exchange rates is seen as complying with price disclosure requirements, although this is only part of the transparency issue.
- In practice, service providers do so themselves, but the format and details vary from operator to operator.
- Many operators now have an app-based service (in addition to cash counters and collection points) where customers can obtain a quote for the transaction, inclusive of sending and receiving fees, VAT and other taxes and any other charges.
- There are no requirements for banks to display foreing exchange rates for remittances.

Data

- South African data has to remain in South Africa. This is a challenge for multi-country operators with centralized data management platforms, as the primary data has to sit in South Africa, although secondary data can sit outside.
- This requirement adds additional costs and challenges for non-South African operators.
- AWS cloud services are not available, hosting is complex using a "little stack" with a local provider.

Remote onboarding of diaspora

- Remote onboarding is permitted in South Africa, under the risk-based approach. RSPs use technologies and a manual to complete enhanced due-diligence if required, depending on the amount being sent.
- With support from SARB, HelloPaisa developed a digital registration system in 2016, which has now been adopted by a number of operators. This development is intended to make the services easier to access as new customers are not required to find a physical store to register.
- Mukuru has a self-sign up by WhatsApp facial recognition process. There is no centralized repository of ID for authentication or verification.

ANNEX 12

SARB has a fairly progressive approach toward cryptocurrencies, while it does not them it as a currency, they recognize crypto assets and have a working group reviewing its position.

- South Africa has been fairly progressive in its approach to cryptocurrencies.
  - In 2014, SARB released a position paper on cryptocurrencies where SARB pointed out that virtual currencies are not legal tender in South Africa and should not be used as payment for the discharge of any obligation in a manner that suggests they are a substitute for legal tender.
  - Early in 2018, the joint Crypto Assets Regulatory Working Group (CARWG) was formed under the auspices of the IFWG to specifically review the position on cryptocurrencies.
  - SARB released a Consultation Paper on Policy Proposals for Crypto Assets in 2019 that suggests favourable guidelines and recommendations for digital currencies.
  - In November 2020, the FSCA published a draft declaration that crypto assets be included as a financial product. The FSCA proposes the following definition for crypto assets: "any digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes, but excluding digital representations of fiat currencies or securities that already fall within the definition of financial product".

- Cryptocurrency exchanges are not licensed or registered in South Africa but are technically subject to the same exchange controls for taking money out of the country. Crypto exchanges are not registered, but many adhere to KYC requirements voluntarily. There is some suggestion that crypto exchanges will be declared accountable institutions. SARB is of the opinion that cryptocurrency-related businesses should register with the country's Financial Intelligence Centre, a move that's potentially aimed at increasing the adoption of the likes of Bitcoin by taking care of the risk-related factors. SARB will introduce measures to keep a check on financial terrorism and money laundering and plans to introduce the rules in a retroactive manner based on the way the cryptocurrency industry in South Africa develops.
- Lack of regulatory framework has made it difficult for crypto platforms to operate bank accounts in South Africa. There are however signs of regulatory movement. For example, South Africa's Financial Sector Conduct Authority (FSCA) has published a draft declaration of crypto assets as a financial product under the Financial Advisory and Intermediary Services Act (FAIS). The new rules apply to cryptocurrency service providers, including crypto exchanges, advisors and brokers. They will have to register with the FSCA as financial FSPs. The draft declaration is merely intended to be an interim step in mitigating certain immediate risks in the crypto assets environment, pending the outcome of broader developments currently taking place through the CARWG, which will inform future policy interventions to be implemented across a variety of regulators and laws.

ANNEX 13

Transaction cleared on an immediate basis (TCIB)

- Improvements to the regional payment infrastructure, such as regional clearing and settlement systems, have the potential to reduce the costs and increase the efficiency of cross-border remittance services.
- The SADC Banking Association has developed a regional instant payment-to-payment, which is now known as transaction cleared on an immediate basis (TCIB). The scheme allows cross-border low-value credit transfers to be cleared through an appointed regional clearing and settlement operator (BankservAfrica), which performs the clearing leg of these transactions.
- TCIB is in its infancy but is live between a small number of institutions. TCIB will be available to banks and non-banks authorized by their regulators to act in the payment system. MTOs and MMPs will still have to access through their partner banks (as per the regulations).
- In the short run, TCIB will offer interoperability across the region for retail payments using the standard pre-funding model. However, it is planned that TCIB will be able to offer real-time cross-border transfers with daily clearing.
- TCIB progress has slowed down during the COVID-19 pandemic but is live between certain institutions.

Perceptions of TCIB according to operators

- Deep and wide interoperability between all authorized payment service providers in the SADC should make cost effective, low-value payments directly into bank accounts or electronic mobile wallets much easier.
- If the need for prefunding is removed, this will help on the liquidity and treasury side (managing foreign exchange) for RSPs sending money to Mozambique.
- If prefunding is still a requirement, and removing it changes the counter-party risk frameworks, then the model is not dissimilar from the services that other aggregators are offering, such as MFS Africa, TerraPay and HomeSend.
- TCIB will have the support and be endorsed by the regional central banks and therefore should also help reduce bottlenecks from regulators, especially in terms of having to get every new corridor approved, which causes significant delays.

ANNEX 14

Financial infrastructure in Mozambique

- Regulators:
  - Bank of Mozambique
  - Insurance Supervision Institute of Mozambique

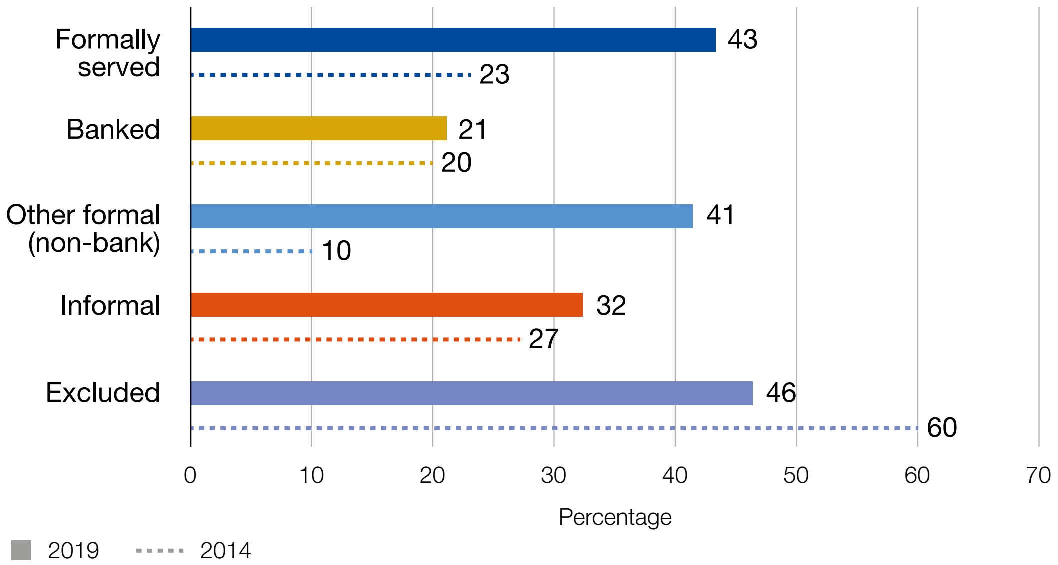
- Credit institutions and financial companies:
  - 19 commercial banks
  - 9 micro-banks
  - 9 credit unions
  - 3 electronic money institutions
  - 12 savings and loan organizations
  - 529 representations of savings and credit unions, micro-credit operators

- Insurance and pension institutions
  - 22 insurance operators (including 1 micro-insurance operator)
  - 1 basic social security institution and 2 mandatory social security institutions
  - 8 pension funds and 6 pension fund management companies

- Capital market institutions
  - 1 Stock Exchange and 9 Stock Exchange operators

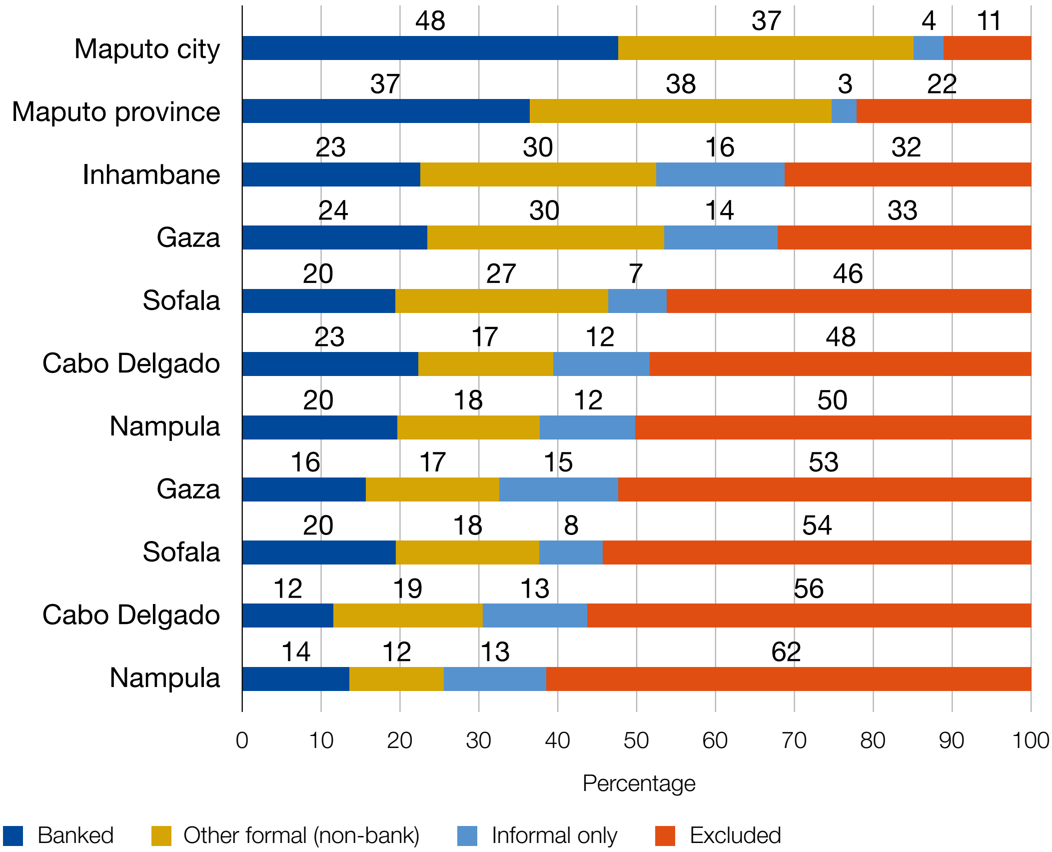
Source: FinScope Mozambique (2019).

Figure 25. Mozambique Financial access strand



Source: FinScope Consumer 2019 Survey.

Figure 26. Financial access strand disaggregated by geography



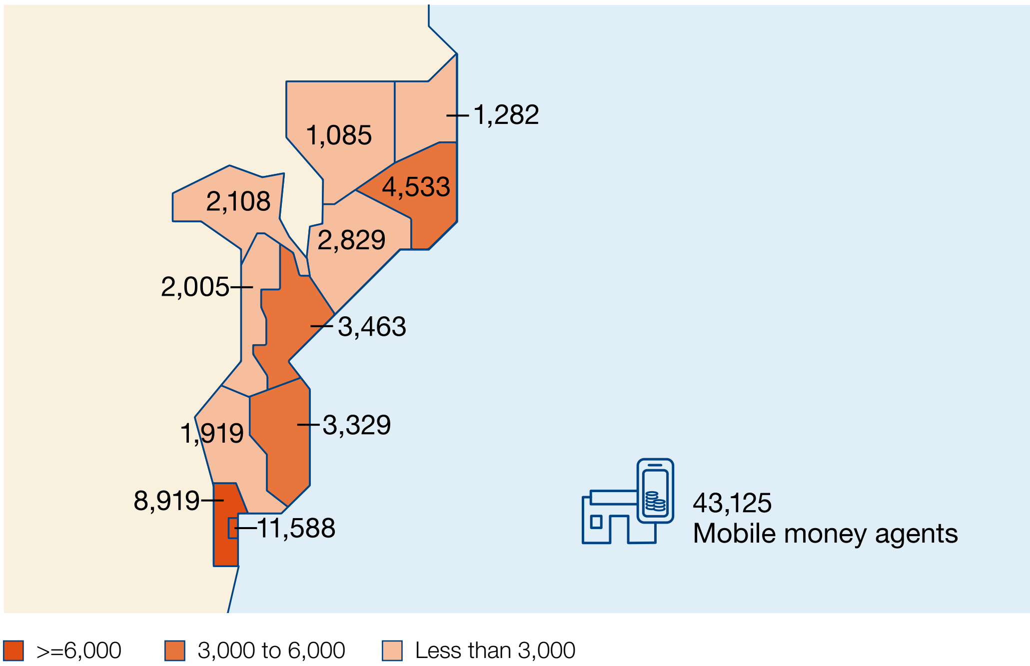
Source: FinScope Consumer 2019 Survey.

Table 22. Supply-side indicators: Trends 2014-2019

	2014	2015	2016	2017	2018	2019
Number of ATMs	1,301	1,561	1,678	1,701	1,766	1,755
Number of POS	14,688	20,482	25,082	25,689	32,659	36,701
Number of debit cards	330,6154	2,845,082	3,155,049	3,360,855	3,160,026	2,780,814
Number of credit cards	97,324	135,838	244,590	141,499	119,683	321,728
Total of cards	3,425,346	3,001,879	3,455,590	3,652,028	3,332,349	2,900,830
Number of bank accounts in MT	3,461,568	4,251,084	5,008,451	4,732,053	4,928,711	4,975,495
Number of bank accounts in foreign currencies	115,534	154,073	204,990	164,491	165,026	137,355
Total of bank accounts	3,577,102	4,405,157	5,213,441	4,896,544	5,093,737	5,112,850
Accounts/1,000 adults	2,510	3,110	3,600	3,620	n/a	n/a

Source: Banco de Moçambique 2020.

Figure 27. Number of mobile money agents per province (December 2018)



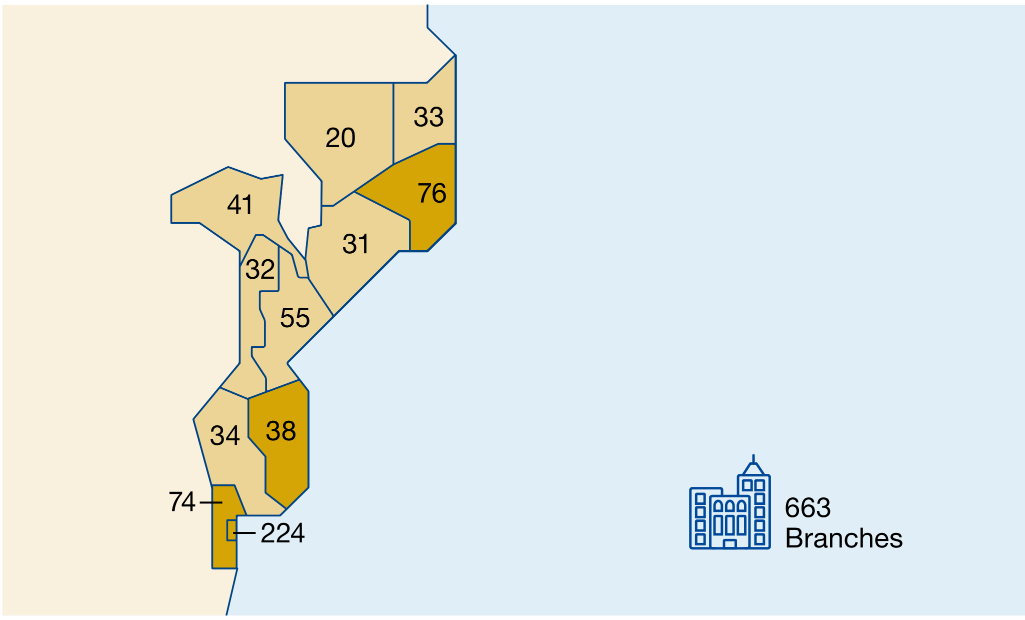
Source: FSD Moç, FinScope Report (2019).

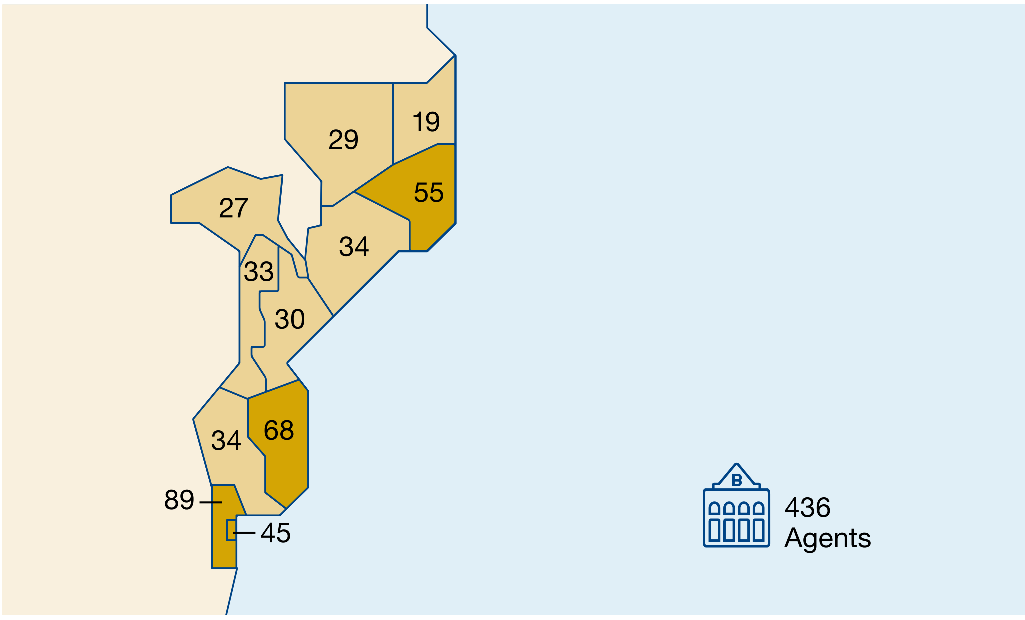
Table 23. Provincial distribution of bank branches

Provinces	Branches (until Q3:2019)	Bank agents (until Q3:2019)	Non-bank agents (until Q3:2019)	Micro-banks and credit operators (until 12/2019)	Representations of savings and credit unions, micro-credit operators (until 12/2019)
Maputo - City	236	496	13,407	13	320
Maputo - Province	77	172	10,956	9	100
Gaza	33	34	2,505	3	24
Inhambane	38	68	3,865	5	17
Sofala	54	55	4,406	5	15
Manica	27	116	2,772	6	4
Tete	39	51	3,039	5	9
Zambézia	33	34	3,813	4	12
Nampula	79	85	5,670	8	12
Cabo - Delgado	38	19	1,940	2	12
Niassa	25	29	1,128	3	4
Total	679	1,159	53,502	63	529

Source: Banco de Moçambique and Monthly Summary of Statistical Information Trimester III 2019.

Figure 28. Number of bank branches and bank agents (December 2018)





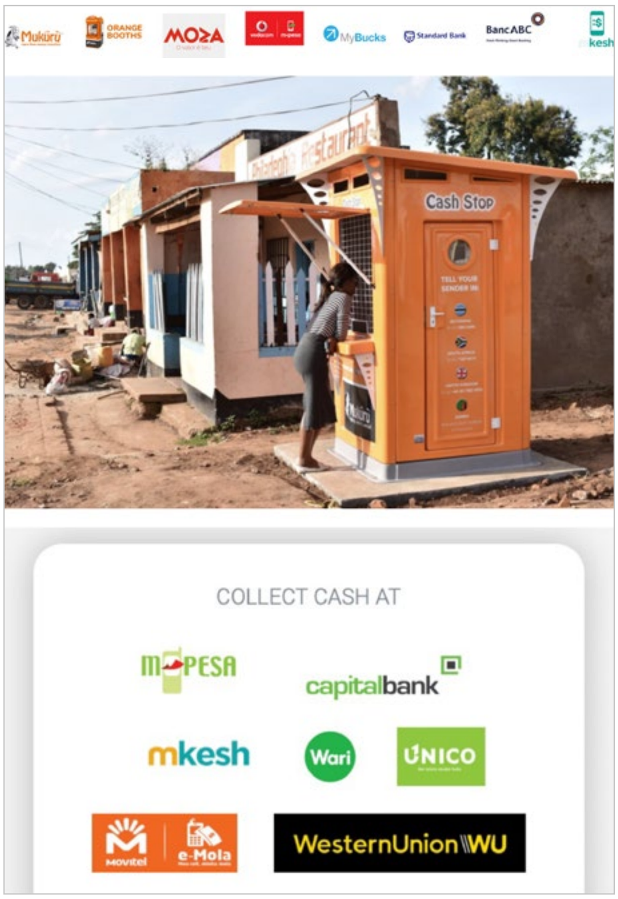
100 to 250 banks and agents Less than 100 branches and agents

Source: FSD Moç, FinScope Report (2019).

ANNEX 15

In Mozambique, M-Pesa is the main pay-out partner for remittances from South Africa. International aggregators play a key role in connecting ADLAs to mobile wallets.

- Pay-out options in Mozambique include banks (accounts and cash pick-up in branches), terminating into mobile wallets and Mukuru outlets and booths.
- While there are multiple pay-out options, ADLAs suggest that the majority (if not all in some cases) of their transactions are being terminated into mobile money (M-Pesa). M-Pesa is apparently the only MMP currently with the liquidity to be able to guarantee pay-out of international remittances. Indeed, Mozambicans living in South Africa indicated that M-Pesa is more affordable, and often more convenient, than informal channels (FMT, 2020b).
- RSPs indicate that M-Pesa is not charging over-the-top fees despite their dominant position in the market (circa US$1.20 per transaction), however a major challenge is the limits on wallets in Mozambique, especially given that if someone sends an amount and the threshold is met, then the transaction is cancelled. Therefore, there either needs to be a way to verify the amount in the wallet ahead of the transaction or increase the mobile wallet threshold amount.
- Mukuru currently has 6-12 outlets in Mozambique. Mukuru is the only stand-alone entity in Mozambique. It has been able to do this through the Sandbox (FSDMoç). Mukuru sees the value in having its own kiosks and as such knowing the customer and the regulator, rather than a cost-cutting exercise.
- The ADLAs that are most active in this corridor use the international aggregators to process payments from South Africa to Mozambique.



ANNEX 16

Many Mozambican migrants in South Africa are irregular workers and thus have difficulties accessing the formal financial system. Almost 46 per cent of Mozambican adults are formally financially excluded and banking infrastructure is weak outside Maputo. Banks have recently started offering agency banking.

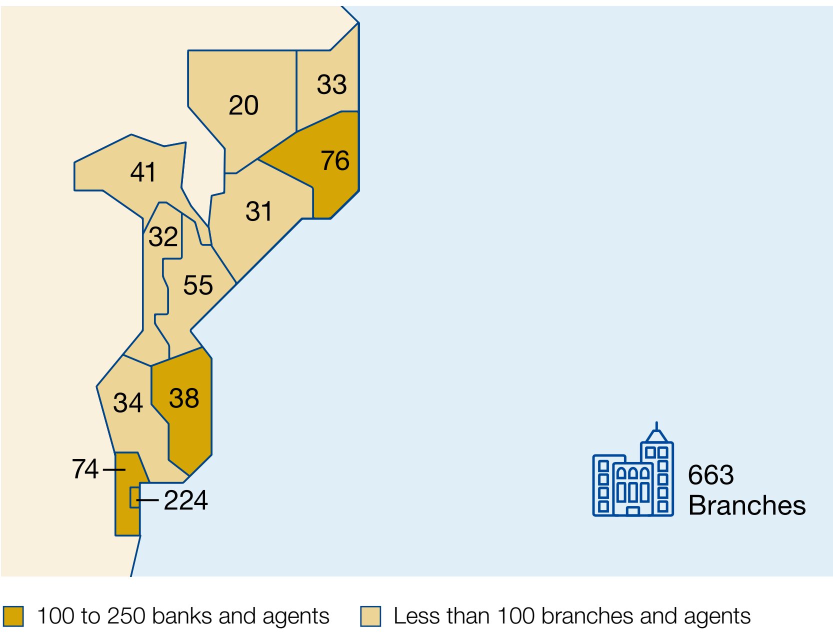
Financial inclusion in Mozambique

- About 21 per cent of the population was formally banked in 2019 and 43 per cent formally financially included, meaning that 46 per cent were financially excluded (FSD Moç, FinScope Report, 2019).
- There is a significant rural-urban divide; where 60 per cent of people living in rural areas were financially excluded in 2019 and only 10 per cent has an account at a bank.
- Women are slightly more likely to be excluded: 48 per cent of women compared to 43 per cent of men (FSD Moç, FinScope Report 2019).
- More than 70 per cent of the population makes a living primarily from agriculture (the majority through subsistence farming), so efforts to advance financial inclusion must focus on the rural population and smallholder farmers.
- The Government of Mozambique is eager to improve the financial inclusion rate in the country demonstrated by the 2016 National Financial Inclusion Strategy (2016-2022).

Banking infrastructure and agency banking

- Banking infrastructure (branches, ATMs and POS) is heavily concentrated in the Maputo region; 40 per cent of the banking infrastructure is in Maputo and the surrounding region (see annex 19).
- Banks in Mozambique have only recently started to implement banking agent programmes in an attempt to reach the unserved populations in rural areas. However, contracting bank agents by the banking system is limited to the list of entities that are eligible to be considered as agents, and the criteria for evaluating potential banking agents. Regulations stipulate that agents need to be of a minimum size, have rifle proof-glass and safes in bank branches, which means that agent banking is only really viable in Maputo.
- Mozambican banks can hypothetically offer micro-credit through agent banking because they have full banking licences, but their agent banking networks are considerably weaker than those of mobile network operators, partly because they are subject to higher degree of regulation by the central bank (Yale Insights, 2019).

Figure 29. Number of bank branches and bank agents in Mozambique, 2018



Source: FSD Moç, FinScope Report (2019).

ANNEX 17

Quotations from Mozambique FGDs in South Africa conducted by FMT (2020)

Moderator: **So you left the drivers and opted for M-Pesa, why?**
Respondent: *It's simpler than the driver. With the driver sometimes it takes a lot of time to get home, maybe after three days you sent it. With M-Pesa it only takes five minutes. Even back at home they don't have bread you are able to send same time but with drivers maybe he will get there very dark that's another delay.*
Mozambique female, Johannesburg

Respondent: *No we go to someone who has [M-Pesa] because we don't have M-Pesa.*
Moderator: **Okay, how does the money get to the other person?**
Respondent: *We transfer.*
Moderator: **But if you don't have it do you go to someone who has it?**
Respondents: *Yes, we go to someone else.*
Mozambique female, Johannesburg

Moderator: **Okay, so why don't you use them to send money back at home?**
Respondent: There is one problem, the bank charges are too expensive and also the banks back at home are too far and they don't have money to go to the banks so it going to be a problem for them to go to Maputo and collect money
Mozambique mixed, Pretoria

Moderator: **So how many of us are building at home?**
Respondent: *Almost all of us.*
Mozambique females, Johannesburg

Source: FMT (2020b) Volumes and Values and others.

ANNEX 18

Mozambique corridor specialists: Ubank and Kawena services

Ubank

- Ubank is wholly owned by The Employment Bureau of Africa (Teba) Fund Trust and is administered jointly by two trustees – the majority union, the National Union of Mineworkers (NUM) and the Minerals Council South Africa (MCSA).
- Ubank is a well-established financial services provider that has grown over the years and managed to entrench itself primarily within the gold and platinum mining communities. Ubank offers transactional mining accounts to the mining community, as well as other savings, lending and insurance products. Ubank also offers a deferred payment scheme to Mozambican miners, where since 2016 workers have been receiving their deferred wages in rand in Mozambique.
- Ubank has a strong presence in selected mining and rural communities in South Africa. It has 24 branches in South Africa and 113 ATMS. It has 19 TEBA branches outside South Africa, and three in Mozambique.
- Recipients in South Africa can only collect their funds in cash at the TEBA branches, which often means hundreds of kilometres to travel. This means there is often a preference for using informal methods to send money home.
- Ubank is looking to diversify into other blue-collar sectors such as nursing, the police force and teaching.
- Ubank has recently partnered with MTN to offer mobile money in South Africa. Mobile money has broadened the way in which customers are onboarded and provides a platform for Ubank to cross-sell its products and services into this market.
- Participation in medical assistance is provided through the Bureau for Occupational Diseases (MBOD) mining outreach programme.
- Ubank holds Ubank Sisonke Stokvel Seminars which educate the community in financial literacy and saving, enabling people to be active participants in the economy, and to meet their financial goals without needing to borrow money repeatedly. They also have Sisonke Financial Planning Seminars and supporting marketing campaigns, including on social media to promote savings.
- Ubank concluded a partnership agreement with Hollard Life Assurance Company Limited (Hollard) through which Ubank is authorized to sell various bank assurance products and services to its customers and the market.

Kawena services

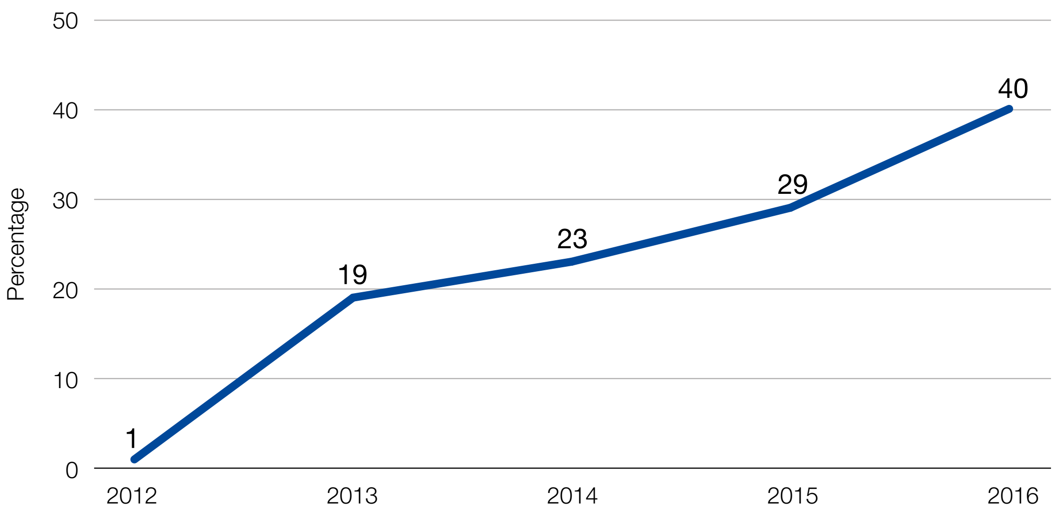
- Kawena offers remittances of value from South Africa to Mozambique and Zimbabwe corridors. It has been operational for more than 25 years and is still growing, with the last two years witnessing its best performance to date. Kawena has 50,000 unique customers.
- ZAR 2,500-3,500 is the average transaction size and transactions are sent frequently.
- The annual send volume of Kawena is ZAR 40-45 million.
- Kawena has 117 offices in South Africa where people can peruse the catalogue and pay via cash or cards. There are 17 collection sites in Mozambique. People mainly send food, commodities, building material and furniture, which are duty and VAT-free for mine workers.
- Customers evidently appreciate having control over what the recipients will be spending money on.
- Many people send goods bought from “cash and carry” shops over the border, so Kawena provides trust that the goods will reach the beneficiaries.

ANNEX 19

The real success, and driver of financial inclusion in Mozambique is mobile money. M-Pesa says it is their fastest growing market in Africa with five million very active users.

- In 2019, FinScope reported that 29 per cent of people said they have a mobile money account, up from 3 per cent in 2014. FSD (2018) reported that 40 per cent had an account in 2018. Proportions are likely to have increased since then, and it is a fast-growing mobile money market.
- M-Pesa penetration rate in urban areas is more than 50 per cent (in Maputo city it is more than 70 per cent), while in rural areas where the *Pedro* strategy has been rolled out, there is a penetration rate of 30 per cent or higher (FSDMoç, 2020).
- It is estimated that there are 6-76 million mobile money accounts, but that not all are active.
- According to M-Pesa, Mozambique is its fastest growing mobile money market in Africa, with five million very active customers. Transaction amounts are low, but frequency is high.
- Launched in 2011, mobile money is playing a significant role in accelerating access to financial services with mobile money agents covering 77 per cent of districts by 2016 and being the second most prevalent access point in Mozambique after POS.
- Geographic expansion of agent networks is also limited by traditional brick-and-mortar banking infrastructure for liquidity management, as agents still need to be situated near banks or "super-agents" with agent-to-agent transfer capabilities to balance their floats. In Mozambique, a country with a large land area and low population density outside of Maputo, mobile money is still much more prevalent in urban areas rather than rural ones (Yale Insights, 2019).
- Agent liquidity has been identified as another operational challenge. Many agents often do not have enough float to serve all their customers. Many customers are bounced, and the proportion of bounced customers is higher for mobile money than for traditional banking (Yale Insights, 2019).

Figure 30. Access to mobile money in Mozambique



Source: FSD Moç (2018).

Figure 31. Number of Mobile money agents per province (December 2018)

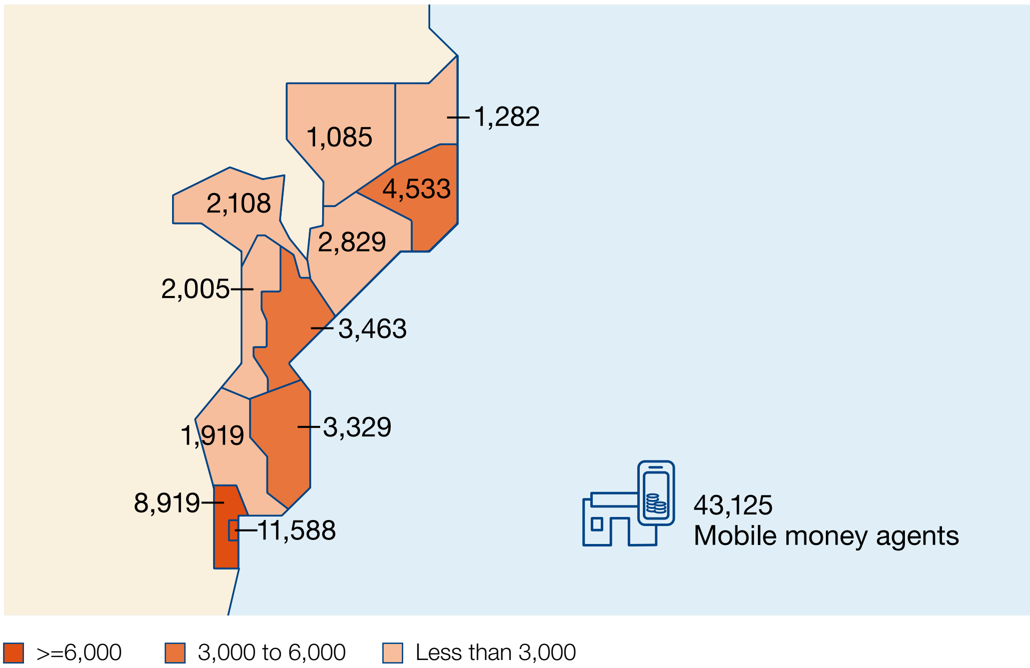


Table 24. Agent coverage in PRIME Africa countries

Country	Number of active mobile money agents per 100,000
Ghana	984.3
Senegal	626.3
Mozambique	105.4
Kenya	546.7
Zimbabwe	427.1

Source: FSD Moç (2019).

ANNEX 20

There are three main mobile operators in Mozambique, with M-Pesa being the dominant one. Mozambique has an interbank switch and MMPs are integrated but not yet operational. Interoperability is currently achieved through bilateral agreements.

- There are three main mobile operators in Mozambique, each linked to a mobile money provider.
  - mKesh from mCel (now Tmcel) launched in 2011; Vodacom M-Pesa in 2013; and Movitel e-Mola in 2017.
  - Though the adoption of mobile money is not as solid as it is in Kenya and the United Republic of Tanzania, Mozambique is trending toward the situation in Kenya where there is a dominance of one mobile money provider: M-Pesa (FSDMoç, 2020).

Interoperability

- Mozambique has the Metical em Tempo RTGS and Electronic Clearing System ACH. There is also a national payment switch called the Interbank Society of Mozambique (SIMO) and Rede Ponto 24 that provide switching services.
  - The government established the single network of transactions through SIMO, and brought in an Interoperability Law (FSDMoç, 2018). MMPs are currently integrated into SIMO but the commercial terms are not yest sorted and as such it is not currently operational for mobile money.
  - M-Pesa achieved interoperability through bilateral agreements with banks to be able to push and pull funds from bank accounts.

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IFAD is a specialized agency of the United Nations and an international financial institution, with the mandate to invest in rural people to eradicate poverty in low- and middle-income countries.

Financing Facility for Remittances (FFR)

IFAD's US$65 million multi-donor Financing Facility for Remittances aims at maximizing the impact of remittances on development and promoting diaspora engagement in migrants' countries of origin.

For more information, visit: **www.ifad.org | www.ifad.org/ffr | www.remitscope.org**

Developing Markets Associates Global (DMAG)

Headquartered in central London with a regional office in Sydney, DMAG is a leading payments consultancy engaged by both the public and private sector to deliver projects around the world. Since the company was founded in 2007, it has grown to 20 full-time staff, with a global network of research and support staff of a further 60 people. DMAG's core competencies include:

- Remittances and payment systems
- Financial inclusion and access
- Diaspora investment and diaspora related affairs

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About the initiative

Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa)

PRIME Africa is a EUR 15 million initiative co-financed by the European Union and implemented by IFAD's FFR, aimed at improving the management of remittances and their use for development impact in selected African countries.

For more information, visit: **www.ifad.org/prime-africa**

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The South Africa country diagnostic was undertaken in the framework of the Platform for Remittances, Investments and Migrants' Entrepreneurship in Africa (PRIME Africa) initiative, co-financed by the European Union.

ISBN 978-92-9266-203-5