FULL REPORT

The Role of Remittances in Deepening Financial Inclusion:

South Africa And Eswatini Remittances Corridor Diagnostic

IFAD
Investing in rural people

Financing Facility for Remittances

FMT
FINMARK TRUST

cfi
Centre for Financial Inclusion

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About FinMark Trust

FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. We pursue our core objective of making financial markets work for the poor through two principle programmes. The first is through the creation and analysis of financial services consumer data to provide in depth insights on both served and unserved consumers across the developing world. The second is through systematic financial sector inclusion and deepening programs to overcome regulatory, supplier and other market level barriers hampering the effective provision of services. Together, these programmes unlock financial inclusion and sector development through a symbiotic relationship between rigorous data collection and research activities. Our work can be found in South Africa, throughout the SADC region and the global arena.

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ACRONYMS AND ABBREVIATIONS

Acronym	In full
AD	authorised dealer
ADLA	authorised dealer with limited authority
CBE	Central Bank of Eswatini
CFI	Centre for Financial Inclusion
FICA	Financial Intelligence Centre Act
FINCLUDE	Financial Inclusion and Cluster Development
FMT	FinMark Trust
FNB	First National Bank
FSDIP	Financial Sector Development Implementation Plan
FSP	financial service provider
FSRA	Financial Services Regulatory Authority
GDP	gross domestic product
IFAD	International Fund for Agricultural Development
KYC	know your customer
M&E	monitoring and evaluation
MFI	micro-finance institution
MNO	mobile network operator
MSME	micro, small and medium enterprise
MTO	money transfer operator
NDP	National Development Plan
NFIS	National Financial Inclusion Strategy
NPS	national payment system
P2P	person-to-person
POS	point of sale
RBA	risk-based assessment
RSP	remittance service provider
SA	South Africa
SACCO	savings and credit cooperative organisation
SADC	South African Development Community
SARB	South African Reserve Bank
SBS	Eswatini Building Society
SDG	Sustainable Development Goal
SWAMMIWA	Swaziland Migrant Mineworker Association
SZL	Swaziland Lilangeni
TEBA	The Employment Bureau of Africa
UNFPA	United Nations Population Fund
US$	United States Dollar
ZAR	South African Rand

EXECUTIVE SUMMARY

This report is a compilation of research findings to inform the implementation of the IFAD's Financial Inclusion and Cluster Development (FINCLUDE) programme in Eswatini. The Centre for Financial Inclusion is the lead implementing agency of FINCLUDE on behalf of the Eswatini Ministry of Finance.

The Eswatini National Financial Inclusion Strategy 2017–2022 (NFIS) recognises the need for alternative mechanisms for domestic and cross-border remittances to support vulnerable dependent population segments.

FINCLUDE is a development programme designed to improve the livelihoods of poor and vulnerable households – smallholders and micro-entrepreneurs – in rural Eswatini through increasingly profitable and resilient links to markets and appropriate financial services: FINCLUDE provides finance, facilitates access to markets, provides risk management support, and builds capacity.

The Eswatini National Financial Inclusion Strategy 2017–2022 (NFIS) recognises the need for alternative mechanisms for domestic and cross-border remittances to support vulnerable dependent population segments, while the Draft National Payment System (NPS) Strategy (2021–2025) emphasises the need to drive the development of a more enabling cross-border remittance licensing regime. Given that 24% of the country's adult population are dependent on remittances as their main source of income, the development impact of remittances can be leveraged in achieving the objectives of FINCLUDE. The IFAD Financing Facility for Remittances thus partnered with FinMark Trust (FMT) to support FINCLUDE´s design by developing strategies to extend its services specifically to *migrant* households in rural areas; as a result, FINCLUDE's design ties remittances as financial inclusion-related outputs to the core activities of the programme.

This report shares FMT's research findings thus far on cross-border (South Africa–Eswatini) and domestic remittance markets, in order to support FINCLUDE implementation and inform the design of actionable policies, regulations, and market-led approaches to better serve the FINCLUDE target group.

The research covers both cross-border (South Africa–Eswatini corridor) and domestic (Eswatini) remittance markets and flows, and in both cases includes a demand-side focus and a supply-side focus. The underlying assumptions are that remittance product/service pricing, market openness, and financial literacy and capability are key aspects of optimising remittances to build the resilience of households.

The research underpinning this report was conducted via desktop research, key informant interviews, and demand-side surveys in Eswatini and South Africa.

South Africa–Eswatini corridor remittances: findings

Supply-side findings

The South Africa–Eswatini market has commercial bank-led and non-bank-led remittance service providers (RSPs) regulated by the South African Reserve Bank (SARB). The non-bank RSPs function under the authorised dealer with limited authority (ADLA) licence, with products specifically developed for low-value remittance transactions (targeting low-income migrants). The services available in this corridor can be accessed through commercial bank branches, bank agents (retailers) and ADLA agents.

Fully digital options (access via mobile phone) are available to commercial bank customers that meet 'full' know your customer (KYC) requirements; partial KYC products are available through risk-based assessment (RBA) onboarding with restrictions on transaction sizes (a strategy to further expand formal remittance services to undocumented migrants). Non-bank providers are most likely to adopt RBA – though only one service provider is currently onboarding customers using the RBA regime.

While the regulatory environment already allows cross-border remittances being sent directly to a mobile wallet (i.e. mobile money), as things stand there is not a partnership between an RSP and a mobile money operator in South Africa to offer a South Africa–Eswatini cross-border mobile remittance service.

The South Africa–Eswatini remittance corridor is a relatively open market with diverse providers to meet the needs of low-income customers. The low remittance volumes from South Africa to Eswatini relative to other Southern African Development Community (SADC) countries do not naturally encourage participation of more RSPs to improve product offerings.

Between 2016 and June 2020, the South Africa–Eswatini corridor (formal remittances) comprised only 0.02% of the total number of transactions of the other South Africa–SADC country corridors, with Zimbabwe, Malawi and Lesotho representing the top three and accounting for about 93% of total transactions over the same period. The 69% quarter-on-quarter increase in total transactions between quarter 4 2018 and 2019, however, is assumed to be attributable to a move away from informal to formal remittance service usage.

Facilitating cross-border remittances between South Africa and the rest of SADC countries (including Eswatini) is an important strategic objective of the SADC Committee of Central Bank Governors; this provides an institutionalised basis for interventions to further develop and ensure the inclusivity of the supply of cross-border remittances to serve the South Africa–Eswatini corridor.

The United Nations Sustainable Development Goal (UN SDG) indicator 10.c aims to reduce to less than 3% the transaction costs of migrant remittances, and eliminate remittance corridors with costs higher than 5% by 2030. Pricing of products in the South Africa–Eswatini corridor ranges from 1% to 9%.

The research found no add-on financial services to the existing remittances services in the South Africa–Eswatini corridor, which is probably due the small size of this corridor compared to, for example, Malawi or Zimbabwe.

An FMT report estimates there are just under 100,000 Swazi migrants in South Africa, with an estimated 60% of them remitting money back home. About 90% of Swazi migrants are not legally allowed to work in South Africa. Without the requisite documentation to use a commercial bank, therefore, most remittance senders are likely to either use informal remittance services (an estimated 69% of migrants are sending informally) or choose an RSP that is applying the RBA in onboarding remittance customers as this does not require having a work permit.

Demand-side findings

The demand-side survey of Swazi migrants (sample of 679) in South Africa reported on here was biased towards those migrants legally allowed to work in South Africa; therefore, a majority were found to be using formal remittance services to send money back to Eswatini. Swazi migrants are most likely to send money back home on a monthly basis, with 89% sending money in the 12 months preceding October 2020; of those, 59% sent money to rural areas in Eswatini – confirming the assumption that most Swazi migrants come from rural Eswatini with limited economic opportunities.

Swazi migrants are most likely to send money back home on a monthly basis, with 89% sending money in the 12 months preceding October 2020; of those, 59% sent money to rural areas in Eswatini.

Most of the survey respondents use commercial banks for cross-border remitting. The low level of ADLA usage is probably due to the fact that Mukuru, the only ADLA RSP operating in the South Africa–Eswatini corridor, is relatively small, with a limited number of outlets.

Inaccurate perceptions of the eligibility criteria for using formal remittance services was found to be a key barrier to their usage; but with 85% of Swazi adults owning a mobile phone, the availability of fully digital options is likely to drive increased adoption of formal services. At the same time, however, fully digital options via mobile phone are only available to commercial bank customers satisfying full KYC requirements, thus limiting the rate at which full formal services can be made available to undocumented migrants without the requisite eligibility documentation or to those onboarded via partial KYC.

Domestic remittances: findings

Supply-side findings

Mobile money is the dominant platform used for remittances, given that over 80% of Swazi adults are registered mobile money customers.

Remittances (cross-border and domestic) is one of the six strategic focus areas of the Eswatini National Payment System (NPS) Strategic Vision 2009–2016; the NPS Vision is currently being updated (to be finalised in 2021) and remittance services remain a key pillar.

The regulatory environment allows for commercial banks and non-bank providers to provide domestic remittance services. Commercial bank users can remit to unbanked customers, who can withdraw from ATMs and retails agents. The non-bank providers include, among others, the Eswatini Post Office, mobile money agents and retail outlets. The regulatory environment offers a tiered approach to onboarding users of regulated payments service providers, allowing for partial KYC customers using products with limited transaction sizes, in order to maintain the integrity of the NPS while being inclusive. All formal payments service providers are regulated by the Central Bank of Eswatini (CBE).

There is no aggregated source of data on formal domestic remittance flows in terms of volumes and values: the Eswatini NPS does not aggregate remittance flows from commercial banks and non-bank platforms. However, mobile money is the dominant platform used for remittances, given that over 80% of Swazi adults are registered mobile money customers. According to the NPS data (provided by the CBE), the volume of remittances via mobile money (person to person) increased from 7.2 million transactions in September 2018 to 10.0 million transactions in September 2019. Various commercial banks and non-bank providers have interoperability (facilitating bank-to-mobile-wallet transaction and not the other way round), and interoperability between the country's two mobile money service providers will likely drive increased uptake of mobile money usage.

The cost of domestic remittances was assessed using tariffs published by the RSPs. The direct cost of remittances is borne by the sender and not the receiver. For mobile money transactions, on a remittance transfer of SZL1,000 (US$66), the transaction fees ranged from less than 1% of the transferred amount (Shoprite) to 1% for MTN and Nedbank Eswatini. For 'instant money' products, which are designed to benefit the low-value transactions market and the unbanked, the transactions fees ranged from 1.2% to 1.5% (FNB Eswatini Pay2Cell). In terms of the UN SDG pricing target, transaction costs alone do not appear to be prohibitive in enabling the use of the NPS to serve the domestic remittances market.

Given the popularity of the use of cash, cash distribution networks are integral to remittances. However, the information on financial access points is not disaggregated by geographical location to provide a breakdown by rural and urban. The research did attempt to collect geospatial information on access points in order to assess barriers to access and usage. The RSPs provided the following data: ATMs: 240; bank agents: 18; commercial bank branches: 49; merchants (businesses that accept digital payments): 124; and active mobile money agents: 1,015. Furthermore, the data from MTN (the dominant mobile network operator) for its mobile money agents translates to: 11.7 agents per 1,000 people in Manzini; 8.1 agents per 1,000 people in Hhohho; 8.4 agents per 1,000 people in Lubombo; and 6.8 agents per 1,000 people in Shiselweni. There are still crucial information gaps regarding quality of service at financial access points (e.g. working hours of agents, % downtime of access points, liquidity management challenges of mobile money agents, drivers of mobile money agent churn given the level of active agents compared to registered agents etc.), which require additional research.

Savings and credit cooperative organisations (SACCOs) were also included in the research, given the FINCLUDE programme's emphasis on encouraging a culture of formal saving and improving the quality of demand for credit. SACCO membership is very popular in Eswatini: in March 2020, there were 58 registered SACCOs, with 60,580 members (an increase from the 49 licensed SACCOs in March 2017).

As of 2018, 85% of the Eswatini adult population are financially included (driven by the uptake of mobile money). The research found that generally the domestic remittances ecosystem in Eswatini is well calibrated to serve the needs of the country's adult population.

Demand-side findings

The demand-side Eswatini research covered four profiles of respondents, all of whom had to be aged 15 or older:

- Domestic remittance senders (only sending money within Eswatini).
- Domestic remittance receivers.
- Cross-border remittance receivers.
- Aspiring resource-constrained micro-entrepreneurs that <u>*do not*</u> receive or send remittances, with a desire to enhance their financial capabilities in order to develop or expand farm or non-farm enterprises.

The total sample of 2,055 (56% females, 44% males) was drawn from all four regions of Eswatini.

Financial literacy and capability

Eswatini generally has a relatively strong saving culture: more than half of respondents in all four regions had saved money in the previous 12 months; 72% of the total sample had saved or put money aside; and 1,141 of the respondents reported belonging to one or more savings group (directly or through someone else). The majority of people in Shiselweni and Lubombo belong to savings groups.

Mobile money is the preferred mechanism for saving, followed by banks, and then saving at home (in cash).

Half of the survey respondents were found to be unable to maintain liquidity to cater for monthly expenses or save for long-term goals.

Most of the respondents indicating the inability to save for long-term goals had lower education levels.

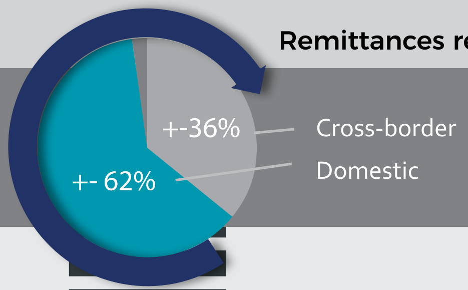
It will be important to support the development of new products that link remittances and savings: that is to say, leveraging remittance services to engender a culture of formal saving in order to support the consumption smoothing needs of households and micro-enterprises. While the CBE, the Financial Services Regulatory Authority and the RSPs have financial literacy and capability programmes to reduce information asymmetry between providers and the market, these programmes are mostly geared towards marketing of products rather than scaling up financial capability.

However, as indicated in the 2018 Eswatini Financial Capability FinScope Survey, there needs to be a concerted effort at defining the financial literacy and capability needs of Eswatini citizens and launching a national financial capability strategy with remittances as a key pillar.

To this end, the research gathered data on the financial literacy and capability levels of cross-border remittance receivers, domestic remittance receivers, domestic senders and micro-entrepreneurs.

Domestic remittance senders, domestic remittance receivers, cross-border remittance receivers and micro-entrepreneurs in Eswatini – salient findings

Remittances received



Remittances mainly spent on food and groceries, supporting basic livelihood needs and preventing households sliding into food insecurity or poverty.

Remittances mainly received monthly.

Most remittances are money: if non-cash, usually airtime, electricity or groceries.

Cross-border receivers: via bank account

Receivers less satisfied with their method:

- waiting times at ATMs: inconvenient
- transport costs to travel to and from ATMs to withdraw: expensive

Domestic receivers: via mobile money

Receivers more satisfied with their method:

- affordable
- reliable
- speedy
- easy

DOMESTIC SENDERS

Mostly males

+- 20% have tertiary education

Most formally employed (company or government)

Income SZL5,000 (US$327) or more per month: 30%

Live mainly off farming: 5%

MICRO-ENTREPRENEURS

Mostly females older than 35

Shiselweni 58% Lubombo 25%

+- 40% have no formal or only primary education; +- 40% have secondary education

Income SZL2,000 (US%130) or less per month: 60%

Most micro-enterprises: are informal, do not employ others, use mainly cash

MSME sector: 43% agricultural 26% retail

Micro-entrepreneurs have ambitions beyond survival – but cash flow is barrier to growth

DOMESTIC RECEIVERS

Mostly females

Shiselweni 56% Lubombo 71%

A third have low levels of education

Dependents segment: 48%

Full agency over remittance spending: 70%+

Income SZL2,000 (US%130) or less per month: 75%

Run a non-farm business: 63%

Earn a living from agriculture: 25%

CROSS-BORDER RECEIVERS

Mostly females

Shiselweni +- 46%

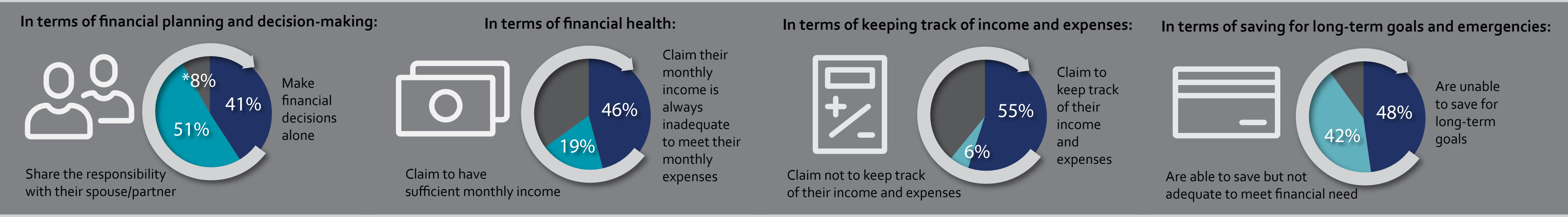
A third have low levels of education

Dependents segment: 88%

Income SZL2,000 (US%130) or less per month: 46%

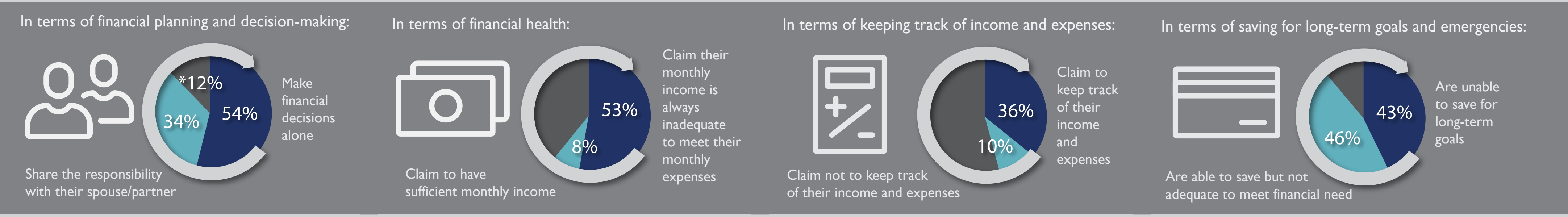
Income between SZL1,000 and SZL2,000 per month: 27%

Cross-border remittance receivers – financial literacy and capability levels

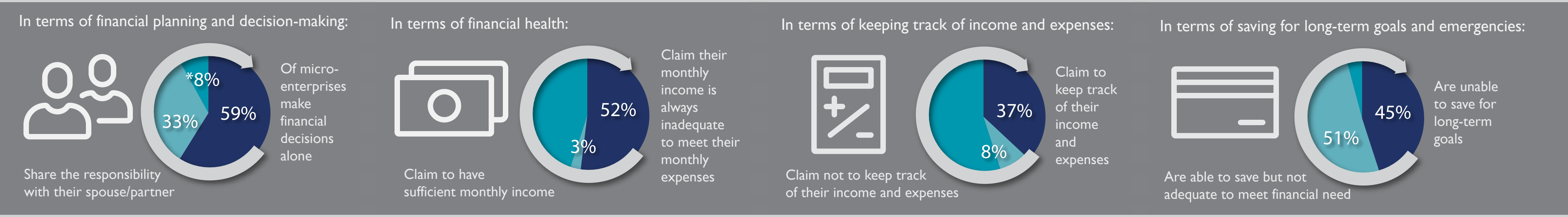


Domestic remittance receivers – financial literacy and capability levels

Domestic senders – financial literacy and capability levels



Micro-entrepreneurs – financial literacy and capability levels



* Make financial decisions with others in household

NOTE: Where percentages are not provided, survey responses were ambivalent ('not sure').

IFAD Financing Facility for Remittances in partnership with FinMark Trust (collaborating with the CFI)

Supporting FINCLUDE in enhancing the resilience of resource-constrained households (smallholders and micro-entrepreneurs) in rural Eswatini by leveraging the development impact of remittance flows

	Recommendations	National Policy Framework	Main Implementation Responsibility
1	Develop a national financial capability strategy that targets the needs of remittance senders and receivers – Regulators and FSPs are already providing financial literacy and capability programmes, and remittances are a 'gateway' service to potential use of other formal financial services. In the national Strategy, include a financial capability component targeting specifically remittance senders and receivers.	NFIS 2017–2022: Plan to develop and launch the National Financial Literacy and Consumer Protection Strategy by 2019.FSDIP (2017): Develop a Financial Sector Consumer Protection Strategy and Financial Literacy Strategy.	Remittances Technical Committee: CFI, CBE, FSRA
2	Strengthen the multilateral interoperable (open-loop) payments environment – Mobile money is driving uptake and usage of formal payment services: a multilateral open-loop payment environment becomes increasingly urgent. It would boost formal remittance service usage and increase digital payment for goods and services.	NFIS 2017–2022: Achieving payments interoperability a key factor in expanding geographical access to and usage of payment services. FSDIP (2017): Establish a fully interoperable card payment system that is national and/or regional in nature. Draft NPS Strategy (2021–2025): Advance efforts towards interoperable, 24/7 and real-time payment functionality.	Remittances Technical Committee: specifically CBE as payments system regulator, with NPS as a committee member
3	Provide further support to savings groups – The 58 registered SACCOs have 60,580 members, and low-value remittance senders and receivers are likely to be members. SACCOs play positive roles in consumption smoothing and operating micro-enterprises and have existing financial infrastructure already serving the target group.	NFIS 2017–2022: Objective of linking informal/semi-formal SACCOs to digital platforms. FSDIP (2017): Expand permissible activities for healthy MFIs, SACCOs and the building society via a community banking or tiered licensing structure to include the range of savings products, direct access to the payment system and crisis frameworks.	FINCLUDE implementation team (led by CFI) + FSRA + Remittances Technical Committee to develop policies linking SACCOs to digital payment platforms
4	Improve the quality of geospatial data on financial access points – Cash distribution networks are critical to domestic and cross-border remittances but a crucial analytical gap remains in terms of mobile money agent location data. Requiring payments service providers to provide access point data will enable an audit of barriers to access and M&E of progress.	This is an M&E component to track progress of the NFIS, FSDIP and NPS strategies related to the expansion of cash distribution points.	Remittances Technical Committee (all the payments service providers and the regulator: CBE)
5	Cross-border remittances sent directly to a mobile wallet – Mobile money has the highest level of uptake across formal financial services in Eswatini. So, getting cross-border remittances directly on to mobile money would further reduce the cost of remittances, especially for receivers, while increasing convenience. The regulatory environment is already able to accommodate this recommendation; it will be driven by commercial incentives of the mobile money operators.	NFIS 2017–2022: Growing mobile money and remittances are key to increasing financial inclusion. SADC Bankers Association Transactions Cleared on an Immediate Basis (TCIB) project: Deep and wide interoperability between all authorised payment service providers in SADC should facilitate cost-effective, low-value payments – directly into bank accounts or mobile wallets. Draft NPS Strategy (2021–2025): Drive the development of a more enabling cross-border remittance licensing regime.	Remittances Technical Committee: specifically CBE + mobile money operator committee members looking to provide this service

INTRODUCTION

About the FINCLUDE programme

IFAD's Financial Inclusion and Cluster Development (FINCLUDE) programme in Eswatini has as its aim:

Transformational improvement in prosperity and resilience of poor and vulnerable Swazi smallholders, and micro-entrepreneurs through increasingly profitable and resilient links to markets and appropriate financial services.

In this predominantly rural country, the FINCLUDE programme is targeted to include 18,500 enterprises: actual or aspiring smallholders and micro-entrepreneurs requiring short-term support. The programme has a particular focus on youth (aged 18–35) and women: young men and women engaged or willing to engage in farm and non-farm enterprises; and poor rural women (particularly female-headed households) active along the targeted supply chains and aspiring to business growth.

In this predominantly rural country, the FINCLUDE programme is targeted to include 18,500 enterprises: actual or aspiring smallholders and micro-entrepreneurs requiring short-term support.

FINCLUDE is designed to be in alignment with the Eswatini National Financial Inclusion Strategy 2017–2022 (NFIS),[1] which has the goal to:

Increase the depth of Financial Inclusion, growing the percentage of adults with access to two or more formal products from 43% to 75%, and reducing the financially excluded from 27% to 15%, by 2022 by growing mobile money and remittances, deepening bank reach, getting credit basics right, ensuring risk management products are available, and enabling alternative channels to serve the poor.

FINCLUDE´s executing agency is Eswatini's Ministry of Finance (MoF). The lead implementing agency on behalf of the MoF is the Centre for Financial Inclusion (CFI)[2] and will house the Programme Management Unit (PMU). FINCLUDE is intended to run from 2018–2024.

IFAD's 2018 FINCLUDE project design report[3] sets out the programme's three interrelated components: inclusive cluster development; increasing supply of rural financial services; and climate resilient decision making and investment.

- **Inclusive cluster development:** The 'cluster' in the FINCLUDE name refers to a 'geographic concentration of interconnected producers, buyers, suppliers, and associated support institutions that creates direct and indirect synergies among them, resulting in market linkages'. The cluster development approach is a rolling process of action-oriented brokering, dialogue and investment facilitation among the key actors in each cluster, in the interests of catalysing investments and removing bottlenecks to increased trading and profits, and making the most of practical opportunities for growth. The programme design anticipates that, driven by the investment priorities set through the cluster development process, private and public good investments are likely to be needed (both of which will be facilitated by the project): private investment will be supported through a mentored investment process with

1 Government of the Kingdom of Swaziland. (2016). *National Financial Inclusion Strategy for Swaziland 2017–2022*. Prepared by the Ministry of Finance, available at: https://www.afi-global.org/sites/default/files/publications/2018-01/Swaziland%20National%20Financial%20Inclusion%20Strategy%202017%20-2022.pdf

2 Between 2010 and 2016, the CFI implemented the IFAD-financed RFEDP (Rural Finance and Enterprise Development Programme).

3 Source: IFAD. (2018). Kingdom of Swaziland. Financial Inclusion and Cluster Development (FINCLUDE) Final Project Design Report, available at: https://webapps.ifad.org/members/lapse-of-time/docs/english/EB-2018-LOT-P-10-Project-Design-Report.pdf

savings and loan financing, facilitated by the project working with partners in the financial sector if needed; while for public good investments, FINCLUDE's role is primarily as an 'integrator' of existing support initiatives of the government and others (e.g. donors).

- **Increasing supply of rural financial services:** The FINCLUDE programme design calls for: addressing the information divide between supply and demand for credit and other financial services through a number of databases and information tools; partnerships with financial institutions to increase access to loans and savings services; financial instruments for risk management, which will provide the necessary security to the banks and other financial institutions so they can extend loans to farmers and non-farm rural micro-entrepreneurs; a capacity enhancement and policy development facility for capacity enhancement across all the programme's activities pertaining to financial inclusion; supporting savings and credit groups' apex bodies to strengthen their networks and own capacities; and partnerships with several external organisations working to improve livelihoods of youth, women and rural people, with the aim of increasing the quality of credit demand on a wider scale.
- **Climate resilient decision making and investment:** The programme design argues this will entail: a) climate information services intended to enable producers, traders and bankers to use climate information to manage their business; b) a climate investment facility to leverage investments in climate resilience by producers, traders and government; and c) improving access to climate finance to enable long-term access to climate finance for Swazi organisations.

FINCLUDE and remittances

A key assumption underlying FINCLUDE implementation is that, given the notable and long-standing phenomenon of Swazi migration to South Africa, the remittances sent back to Eswatini have a key role to play in expanding and deepening financial inclusion. Financial inclusion is integral to the successful implementation of the three FINCLUDE components – and especially the component focusing on increasing the supply of financial services in rural areas.

Given that Eswatini's rural areas are where most families of migrant labourers (to South Africa) reside, FINCLUDE aims to target remittance senders and receivers as a subset of its core target groups (youth and women), in order to leverage remittances and balance the costs and the benefits of migration with the investment opportunities the programme seeks to promote in rural areas.

The FINCLUDE design document specifically undertakes to serve remittance users through supporting the development of new products that link remittance and *savings*.

A FINCLUDE assumption is that households and micro-enterprises can manage the remittance income they receive via formal channels to facilitate access to additional formal financial services, especially credit – needed for household consumption smoothing and to support expansion of rural businesses (whether farm or non-farm enterprises). The IFAD Financing Facility for Remittances thus partnered with FinMark Trust to support FINCLUDE in enhancing the resilience of resource-constrained entrepreneurs in Eswatini's rural areas by leveraging the development impact of remittance flows.

With regard to remittance-related capacity building and support, the FINCLUDE design document sets out as follows:

> ***Remittance:** training modules to support households – both women and men – to better make use of remittances will be developed and included as part of the business skills peer mentoring process, in particular related to medium/long term financial planning and use of remittances for productive investment. Similarly, the social mentoring processes will address positive and negative social aspects of migration, for the migrant workers as well as the remaining migrant families.*

The FinMark Trust contribution

FinMark Trust's involvement occurs in a number of areas to support achievement of the objectives:

- **Demand-side research:** financial services needs assessment in terms of both cross-border remittance flows (South Africa–Eswatini corridor) and domestic remitting (within rural Eswatini).
- **Supply-side research:** data on service providers, products, and the regulatory environment with regard to the above cross-border and domestic remittances respectively.
- **Developing financial literacy and capability training** adapted to the needs of rural households and MSMEs – particularly micro-enterprises – including remittance receivers in Eswatini.
- **Facilitating a productive evidence-based dialogue with the regulatory body** using updated data, with an eye to further revision and prioritising of existing laws and regulations that would enable cheaper, faster and safer cross-border and domestic remittance services for the rural Swazi population.

These objectives are anchored by three project components.

Component 1: Building a remittances actionable knowledge database

FinMark's role in terms of Component 1 is to gather and analyse primary remittance transfer data (both demand and supply side). This component builds on existing data collected by FinMark on the demand for and supply of financial services and the regulatory environment, and incorporates specific data on the access and use of remittances in Eswatini. In addition to the demand-side and supply-side remittance market mapping activities – domestic and cross-border alike – already mentioned, this component supports FINCLUDE in designing and implementing an M&E/knowledge management system to track achievements, outputs and outcomes, and costs/benefits, to capture lessons and to propose remittance-related adaptations.

Component 2: Raising awareness among key stakeholders and promoting an enabling regulatory environment

The plan in terms of Component 2 is that FinMark and the CFI use dialogue tables and technical review meetings to raise awareness among stakeholders of the impact of remittances in development, and to promote an enabling environment through direct advocacy and knowledge dissemination to government agencies and other relevant stakeholders at regional level. This component leverages the CFI's coordination role in the field of financial inclusion in Eswatini and its mandate to drive NFIS implementation, and supports its measurability and monitoring plan for the identified priority areas.

Component 3: Enhancing the financial capability of FINCLUDE's beneficiaries through financial literacy

The Component 3 focus is implementation of a financial education programme to enhance the saving and investment capacity of FINCLUDE beneficiaries, as well as raise their awareness of the availability of safe financial products that promote economic opportunities in their home area. Given that a key aspect of this component is measuring the impact of financial literacy at FINCLUDE beneficiary level, the FinMark and CFI plan is to hire technical experts in financial literacy to promote the required activities, which are: materials development for beneficiary training; training of the trainers who will educate FINCLUDE technical staff on financial literacy; and training of the trainers who will educate other relevant FINCLUDE stakeholders on financial literacy.

About this report

The methodology used in the report includes desktop research, key informant interviews, and demand-side surveys in Eswatini and South Africa.

While some of the project component sub-activities were not achieved due to COVID-19 travel and public-gathering restrictions, this report shares FinMark's key findings thus far, in the process building the knowledge base on remittances. The data supports the design of actionable policies, regulations, and market-led approaches in order to better serve FINCLUDE beneficiaries – the rationale being that evidence-based policy and regulatory enhancements will help strengthen the resilience of the programme's target group while promoting wider market innovation. The research data makes it possible to identify and recommend specific areas of FINCLUDE beneficiaries' capacity in terms of savings and investment that merit strengthening. The data is also the foundation on which the report makes recommendations for raising beneficiaries' awareness of the availability of safe financial products that promote economic opportunities.

1. COUNTRY OVERVIEW

1.1 Geography, demographic and socioeconomic overview

The population of Eswatini is approximately 1.1 million (per the 2017 Population and Housing Census): 48.6% (531,000) male, 51.4% (562,000) female.

Eswatini geography at a glance

- Eswatini is a small (17,364 km^2) landlocked country in Southern Africa, bordered by South Africa and Mozambique.
- It has four administrative districts (regions): Hhohho, Manzini, Lubombo and Shiselweni.
- It is divided into four agro-ecological zones with varying climates: 10% of the land is arable and 0.9% is occupied by permanent crops. Natural resources in Eswatini include coal, iron ore and water.[4]

Eswatini demographics at a glance

- Population: approximately 1.1 million (per the 2017 Population and Housing Census): 48.6% (531,000) male, 51.4% (562,000) female.
- A declining population growth rate saw average growth of 0.7% in the period 2007–2017, attributable to declining fertility rates (declining from 4.0 to 3.3 children per women on average) and a high incidence of HIV/AIDS, with resulting high mortality rate.
- UNFPA estimates the total population will grow to 1.4 million by 2050[5] (see Table 1).
- The majority of the population are very young: almost half (46.5%) are younger than 20.
- The working age population (ages 15–64) has grown as a percentage of the total population over the years, accounting for almost 60% of the total population; this can be partly attributed to declining fertility rates.
- A predominantly rural country: more than 75% of the population live in rural areas. While Hhohho and Manzini are more urbanised, Shiselweni and Lubombo are more rural (see Table 2). The distribution is fairly even in Manzini, Shiselweni and Lubombo (almost 20% each), while 30% of people live in Hhohho.
- An approximately 2.5% annual increase in urbanisation combined with the opportunities for employment and higher income in urban creates strong ties between urban and rural areas.

4 Kingdom of Eswatini. Ministry of Economic Planning and Development. (2019). National Development Plan. 2019/20–2021/22 Towards Economic Recovery, available at: National Development Plan 2019/20–2021/22; Country Reports: Eswatini Geography

5 The UNFPA estimate factors in the lower-trending fertility rate and high mortality rate.

Table 1: Eswatini population characteristics

	1960	2007	2017	2050
Population total (thousands)	279.0	1,018.0	1,093.0	1,376.0
Average population growth rate for period (%)	3.5	0.9	0.7	0.7
Male to female ratio (number of males per 100 females)	91.4	89.6	94.5	
Population proportions by age groups (%)				
0–14	45.1	39.5	35.6	27.5
15–34	31.9	37.7	37.7	35.4
35–64	20.1	19.1	22.2	32.8
65+	2.9	3.7	4.5	4.3
Total fertility rate (average number of children per woman)	6.7	4.0	3.3	2.1
Dependency ratio (number of dependents relative to the number of working age population)	0.92	0.71	0.67	0.47
Urban population (% of total population)	3.9	22.1	23.8	30.7
Net migration rate (per 1,000 people)	-7.11	-1.18	-1.83	-

Source: NDP; CSO 2017 & 2007 Population Housing Census; UNFPA & UN Population Division

Table 2: Population distribution by area

	Region	Population (total)	Population (%)
More urbanised	Hhohho	320,651	29.3
	Manzini	355,954	32.5
More rural	Shiselweni	204,111	18.7
	Lubombo	212,531	19.4

Source: National Development Plan 2019/20–2021/22

Eswatini socioeconomics at a glance

- Classified as a lower-middle income country: GDP per capita: US$3,780 (2017).
- Progress evident in key areas, including infrastructure for social services delivery (particularly important for the health and education sectors) leading to improvements in both access to healthcare and school enrolment.
- Literacy rate: 87.5%.
- Poverty remains widespread (59% of the population): 40% of the population live below the extreme poverty line (less than US$1.90 per day).[6]
- Gini coefficient: 0.5 (2017) – among the top 10 most unequal countries in the world.[7]
- Unemployment rate consistently high: about 23%[8] (though decreased from about 28% in 2007).
- Lack of employment opportunities particularly reflects in youth unemployment rate: 46.2% (2017).[9]

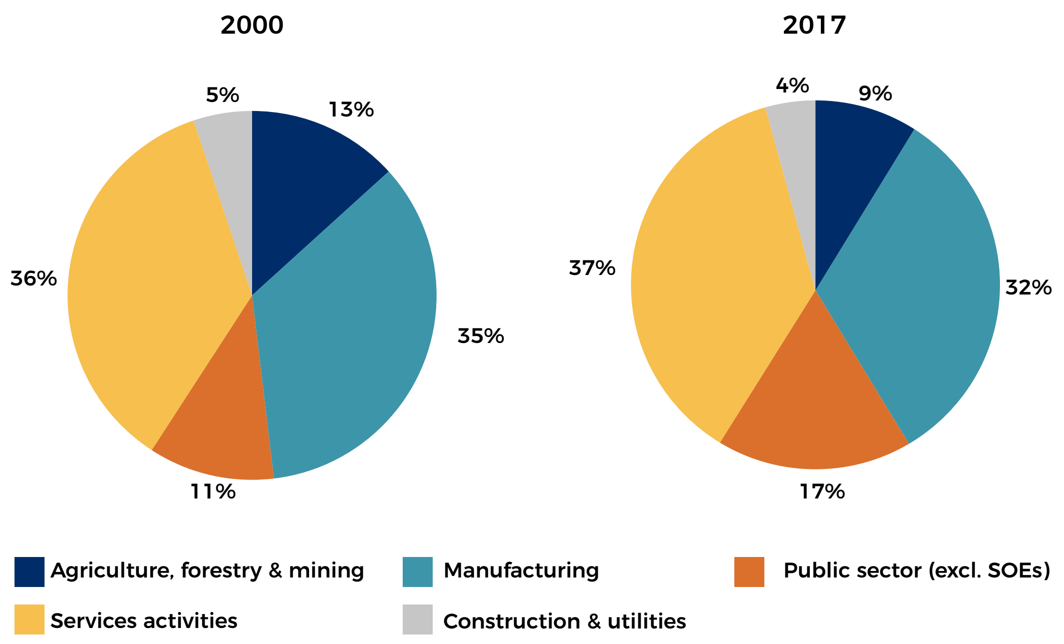
6 World Bank, available at: https://www.worldbank.org/en/country/eswatini/overview
7 By definition, the higher a country's Gini coefficient is, the more inequality there is.
8 National Development Plan 2019/20–2021/22
9 World Bank, available at: https://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=1W-SZ

1.2 Macroeconomic structure

Eswatini macroeconomy at a glance

- Manufacturing and agricultural productivity have declined (past two decades): they still show marginal growth, due largely to fewer businesses focusing on a limited number of products.
- The services and public sectors have grown: now the main drivers of employment and economic growth. But given that productivity levels are generally lower in services and the public sector, the economy is in a period of stagnation.
- The public sector accounts for 17% of both GDP and employment (as of 2017) (see Figure 1 for the changes in the structure and makeup of the Eswatini economy).
- Agriculture remains a key sector for economic growth: sugarcane, cotton and maize have been identified as key crops with increased production. The growing of crops and poultry has strengthened the agricultural sector; growth in cattle production is slower. Crop growing and animal production continue to recover following the extended drought of 2015/16.
- Activity in the mining and forestry subsectors remains constrained; both quarry and coal production remain lower than in previous years.
- The secondary manufacturing sector has struggled (weak external demand) but positive performances in food production and sugar processing are attributed to ongoing economic recovery in this sector.
- Growth in the tertiary sector is somewhat stagnant: growth in wholesale and retail trade is moderated by declines in other services (e.g. tourism, government, the financial sector, transportation – see Table 3).

Figure 1: Economic structural shifts (2000–2017)[10]



10 Source: National Development Plan 2019/20–2021/22

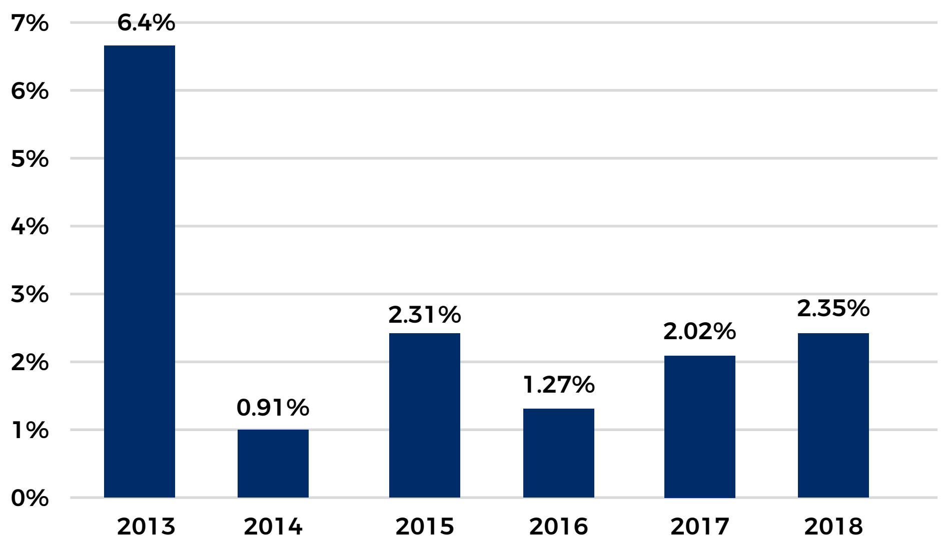
Overall GDP growth has remained under 2.5% since 2014, with an average of 1.8% year-on-year growth in the period 2014–2020. Given the general economic outlook in the region, it is expected Eswatini's economy will continue to grow at a slow rate, if not close to stagnating, as economies continue to recover from the impact of COVID-19.

Table 3: GDP growth by sector, 2015–2018

	2015	2016	2017	2018
Primary sector	-4.5	-8.2	-4.1	7.4
Agriculture and forestry	3.8	-8.4	-4.3	8.0
Mining and quarrying	-86.3	9.7	8.0	-26.5
Secondary sector	1.1	2.4	1.8	-0.1
Manufacturing	1.8	1.5	3.2	-0.4
Electricity supply and distribution	-33.9	-31.8	11.3	20.3
Construction	9.4	20.0	-9.9	-0.3
Tertiary sector	5.2	2.7	2.9	3.1
Wholesale and retail	6.2	3.0	-3.3	3.4
Financial services	4.9	-0.7	13.2	12.2
Public administration	7.2	5.6	3.4	1.0
Information and communication	9.0	7.1	4.0	6.6
Professional and technical services	13.9	-9.1	7.4	-7.4
Education and human health	2.5	5.1	4.6	5.5
Overall GDP	2.3	1.3	2.0	2.4

Source: Central Bank of Eswatini

Figure 2: Real GDP growth %, year-on-year, 2013–2019

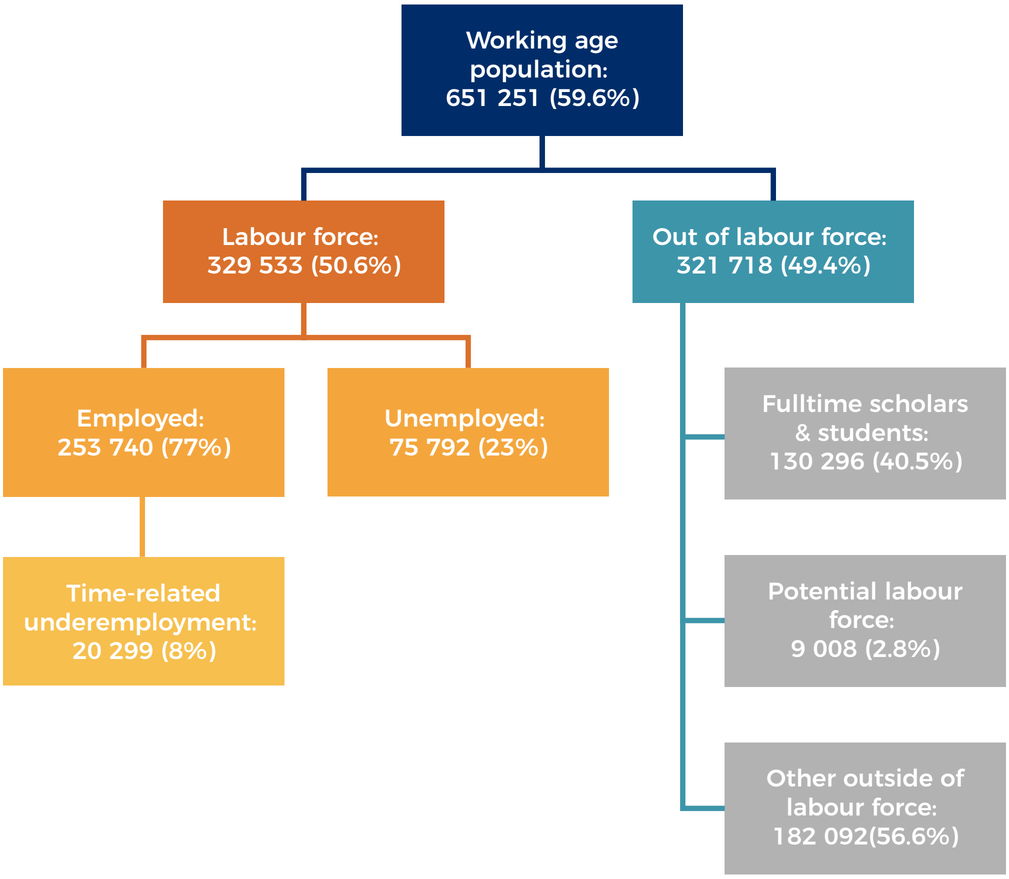


Source: Central Bank of Eswatini

Employment

As already stated, Eswatini has an unemployment rate of about 23% for the working age population (aged 15–65) and a rate of almost 46.2% for youth (aged 15–34), as of 2017. This points to a large pool of potential contributors to economic growth and development in the country (see Figure 3). However, there is both a skills gap and a lack of employment opportunities. The population groups most likely to migrate to South Africa seeking better opportunities for employment are the unemployed (75,792) and those outside of the labour force (321,718). The implication is that, if opportunities for employment in Eswatini do not increase as more people move into the labour force, 61%[11] of the working age population will not have jobs and would likely consider migration to South Africa to seek employment as an attractive alternative.

Figure 3: Current status of working age population (15–64)



Source: Eswatini National Development Plan 2019/20–2021/22

11 Calculated from Figure 3: Unemployed (75,792) + out of labour force (321,817)] / working age population (651,251)%.

Trade

Eswatini has become increasingly dependent on the Southern African Customs Union (SACU)[12] for its trade in the past decade, with 70% of its total exports headed for other member countries. SACU member states form a single customs territory, with no customs duties paid between them and a single tariff that is applied to non-members.

Eswatini's manufacturing sector is export-driven and South Africa is the primary export destination. Given that South Africa has been in an extended technical recession, the accompanying decline in demand for Eswatini's exports has had a significant dampening effect on the manufacturing sector, particularly the textiles and beverages industries. And as South Africa remains in recession, Eswatini's exports are expected to remain constrained; opportunities for economic growth will be driven by supply-side developments, particularly increased agricultural production.[13]

Although South Africa accounts for the bulk of export demand, Eswatini also exports products to other Southern African Development Community (SADC) countries and globally. However, as countries continue to deal with the effects of COVID-19, it is expected that demand will remain constrained for some time, which could have implications for employment prospects in Eswatini.

1.3 The National Development Plan 2019/20–2021/22

The government of Eswatini has developed a National Development Plan (NDP)[14] to institute an economic recovery programme designed to correct poor economic performance experienced by the country for a number of years. The NDP is built upon previous development programmes and integrates various policy documents that outline goals towards future growth and development; the NDP also provides an implementation framework and quantifies the resources required to achieve the Plan in the medium term.

The fundamental goals of the NDP are to drive positive and sustainable economic recovery and subsequent growth, encourage active private sector participation, accomplish fiscal stability and improve livelihoods of citizens.[15]

The NDP sets out the following six National Outcomes, which the Plan states are to be achieved through a number of sectoral outcomes, programmes/interventions and projects:

1. Good governance, economic recovery and fiscal stability.
2. Enhanced and dynamic private sector supporting sustainable and inclusive growth.
3. Enhanced social and human capital development.
4. Efficient public service delivery that respects human rights, justice and the rule of law.
5. Well managed natural resources and environmental sustainability.
6. Efficient economic infrastructure network.

12 SACU members: South Africa, Eswatini, Lesotho, Botswana and Namibia
13 Source: Eswatini Economic Review and Outlook 2018–2021
14 National Development Plan 2019/20–2021/22
15 National Development Plan 2019/20–2021/22

1.4 The National Financial Inclusion Strategy (NFIS) for Eswatini 2017–2022

The National Financial Inclusion Strategy for Swaziland 2017–2022 (NFIS)[16] outlines Eswatini's development vision and aspiration for 25 years (1997–2022). It is an extension of government activities to afford appropriate and quality financial services and products accessible to the general population and MSMEs. The goal is to limit constraints faced by people and businesses in accessing and using formal financial services and products. The vision is as follows:

> *Increase the depth of Financial Inclusion, growing the percent of adults with access to two or more formal products from 43% to 75%, and reducing the excluded from 27% to 15%, by 2022 by growing mobile money and remittances, deepening bank reach, getting credit basics right, ensuring risk management and products are available, and enabling alternative channels to serve the poor.*[17]

The NFIS vision highlights the important role remittances play in driving and promoting financial inclusion for all stakeholders in Eswatini.

One of the priorities identified by the NFIS is supporting low-cost remittances in order to support vulnerable dependents. The NFIS recognises the need to develop and institute alternative mechanisms for domestic and cross-border remittances – as a major source of income for individuals and families – to support vulnerable groups. The NFIS argues that nearly half of Swazi adults rely on each other for remittance income, which is mainly sent informally, and identifies the key barriers to formalising these channels as being high transaction costs and limited awareness of alternatives. There are opportunities for both direct and indirect welfare impacts on receivers flowing from improving the remittance products and services on offer to the country's population.

The NFIS is naturally a key component of the FINCLUDE programme's dialogue tables and technical reviews and discussions.

The objectives of the NFIS are derived from the 2017 Eswatini Financial Sector Development Implementation Plan (FSDIP).[18]

16 National Financial Inclusion Strategy for Swaziland 2017–2022
17 National Financial Inclusion Strategy for Swaziland 2017–2022
18 Government of Swaziland. (2017). Financial Sector Development Implementation Plan, available at: https://www.fsra.co.sz/media/notices/FinancialSectorDevelopmentImplementationPlan.pdf

2. ESWATINI–SOUTH AFRICA MIGRANCY

Eswatini's fairly stagnant economy has a small labour market with a limited number of opportunities for employment, which leads to Swazis seeking employment outside of their country. Swazi migrants are most likely to be the male head of household, and the main destination is South Africa.[19] Work in the South African mining industry has been found to be the predominant form of employment for male migrants, while household domestic work is more likely to be the employment for female Swazi migrants.

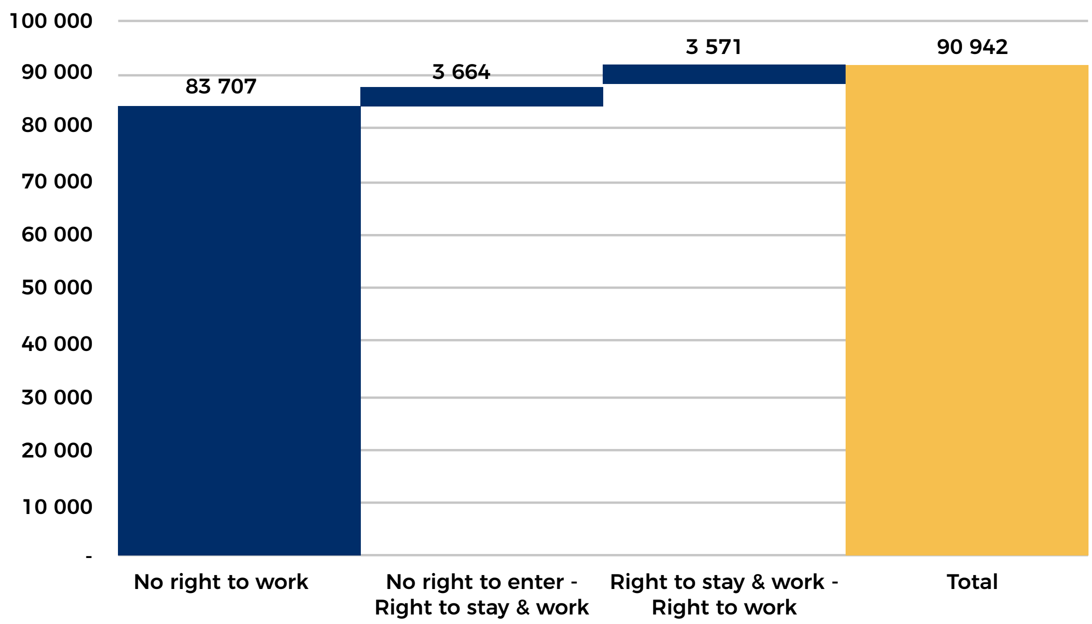
The population of Eswatini is approximately 1.1 million (per the 2017 Population and Housing Census): 48.6% (531,000) male, 51.4% (562,000) female.

South Africa does not provide regular data on the number of migrants in the country or the traffic across the border. Previous research undertaken by FinMark Trust[20] used the 2011 South African census figures multiplied by a factor of 2.5 to estimate the number of migrants from SADC in South Africa. Using this methodology, it is estimated there were 90,943 Swazi migrants in South Africa in 2018 (from an original 2011 census figure of 36,377). This figure is corroborated by the United Nations Population Division's estimate of Swati migrants in South Africa (92,608).[21] An estimated 92% of these migrants do not have the 'right to work' in South Africa (see Figure 4).

FMT research[22] estimates that, of the 3,571 migrants that have the right to both enter and stay, and retain the right work to in South Africa, 12.5% (448) were classified as skilled labour and the remaining 87.5% (3,123) as mineworkers. The UNHCR (United Nations High Commissioner for Refugees) had not recorded any refugees, asylum seekers or others of concern from Eswatini (as of mid-2018); amnesty permits granted in the 1990s account for migrants that did not have the right to enter South Africa but gained the right to remain and work in the country. However, these permits account for less than 1% of all amnesty permits granted.

19 https://samponline.org/wp-content/uploads/2016/10/Acrobat49.pdf
20 FinMark Trust. (2020). *SADC Remittance Values and Volumes 2018*, available at: https://finmark.org.za/system/documents/files/000/000/143/original/FMT_SADC_values_volumes_report_CB5_18052020.pdf?1594134149
21 United Nations Population Division. (2019). *International Migrant Stock 2019*, available at: https://www.un.org/en/development/desa/population/migration/data/estimates2/estimates19.asp
22 FinMark Trust. (2020). *SADC Remittance Values and Volumes 2018*.

Figure 4: Estimate of total Swazi migrants and migrants with no right to work



Undocumented entry into South Africa is not uncommon, due largely to porous borders, and corruption and mismanagement within border agencies. Thirty-day permits (Eswatini and South Africa are both signatories to the Protocol of the Free Movement of Persons in the Southern African Development Community) provide a quasi-legal loophole, as migrants that live within proximity of the border can return to the border post to renew the permit.[23] However, this permit does not allow holders to work in South Africa.

More available opportunities for relatively well-paying jobs attracts migrants to South Africa from neighbouring countries. With an unemployment rate of about 23% in 2019[24] migrants look to move to South Africa for unskilled and semi-skilled jobs. Whether residing in South Africa legally or illegally, migrants' primary goal is to send money back to family, friends or the community in Eswatini.

2.1 South Africa's mining sector

In general, both mining production and employment have declined in South Africa over the past decade. In line with economic trends for the region, South Africa's mining production overall has struggled in recent years. Perhaps more concerning is that employment in the mining sector has continued to decline even during periods of economic growth (globally and locally) and higher commodity prices; not only is mining an important export commodity, it is also resource intensive, particularly with regard to unskilled labour.[25]

As Figure 5 indicates, the total number of mineworkers from Eswatini has declined consistently since 2006, as is the case for mineworkers from other SADC countries.

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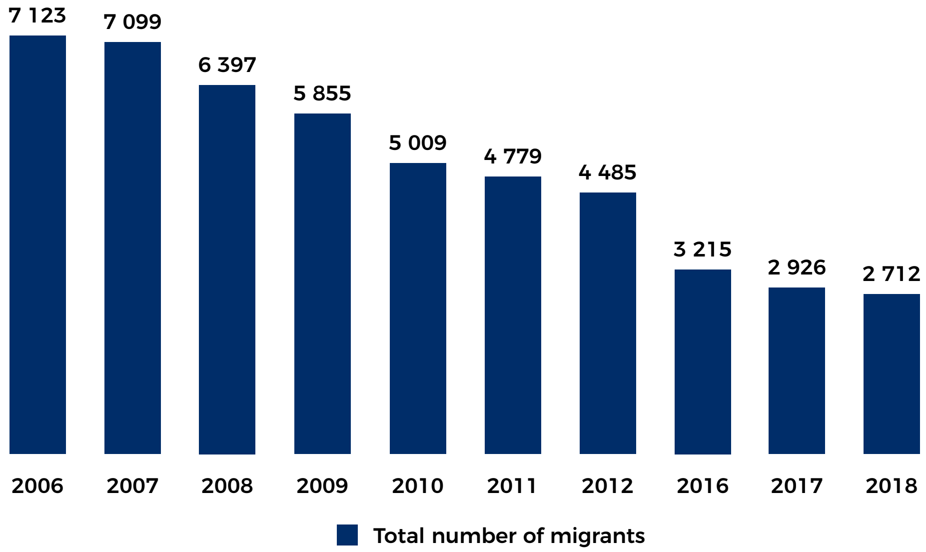
23 https://www.sadc.int/files/9513/5292/8363/Protocol_on_Facilitation_of_Movement_of_Persons2005.pdf
24 National Development Plan 2019/20–2021/22
25 Bhorat, H., Cassim, A. & Yu, D. (2016). *Temporary Employment Services in South Africa: Assessing the Industry's Economic Contribution*. Pretoria: Labour Market Intelligence Partnership (LMIP), available at: http://www.psetresearchrepository.dhet.gov.za/sites/default/files/documentfiles//Temporary%20employment%20services%20in%20South%20Africa.pdf

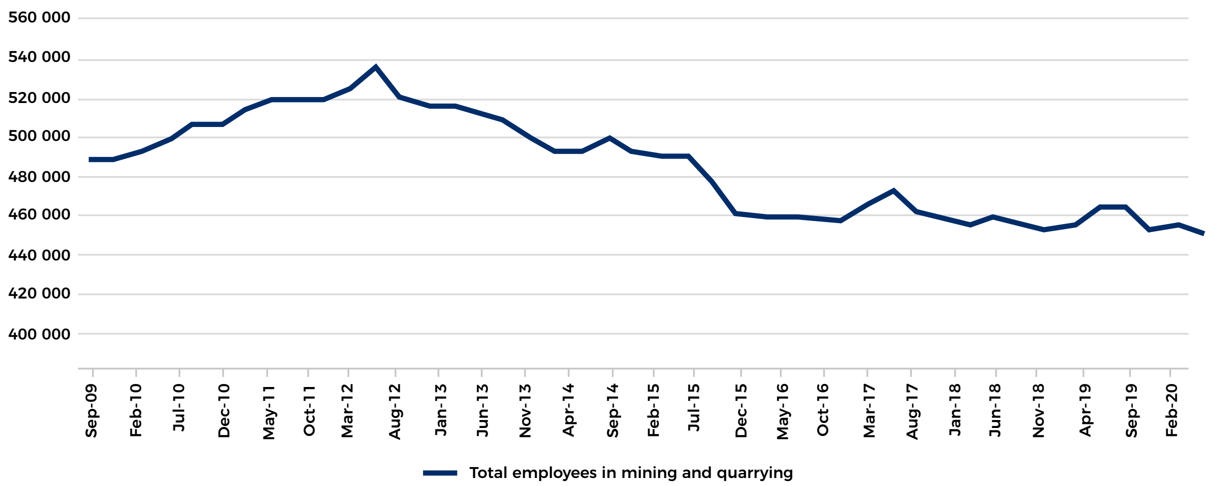
Figure 5: Total number of Eswatini mineworkers in South Africa



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

While this trend of declining employment levels of Swazi migrants in the mining sector reflects the sector's overall decline in employment levels, the decrease with regard to migrants has been more rapid and more marked: employment of Swazi migrant workers has fallen by 62%, while overall employment in the sector fell by 8% between 2009 and 2020 (see Figure 6). In practice, however, the number of migrant mineworkers working in South Africa exceeds the number of employment applications received by the Department of Labour. This indicates that mining companies might be employing workers informally, which would affect workers' remittances behaviour (as explored subsequently in this report).

Figure 6: Total number of employees in the South African mining sector



Source: Stats SA Quarterly Employment Statistics, P0277

While the Swazi migrant population continues to grow in South Africa, the steady decline in employment opportunities in the mining industry is likely to have negative implications for the level of remittances sent from South Africa to the geographical regions in Eswatini where the majority of mineworking migrants have families.

2.2 Agriculture

As with the mining sector, there is a possibility that the actual number of Swazi migrants working in South Africa's agricultural sector exceeds the number of applicants on record with the Department of Labour. Labour brokers are also responsible for supplying foreign and local unskilled labour to South Africa and vary substantially in level of formality. Formal labour brokers can maintain a degree of control over migrants by holding their passports and collecting wages to distribute to workers after taking a management fee. For informal brokers, there is much less certainty for migrants, because they are not aware of the details of their employment. As the formal system of labour broking in agriculture continues to diminish in importance, there could be an increase in the number of undocumented migrants working in the sector.

Regardless of whether job opportunities arise with formal labour brokers or as undocumented workers, South Africa's agricultural sector is likely to remain an important source of employment for Swazi migrants. A 2018 survey of small farms in the North West and Northern Cape provinces found that almost 30% of farms employed foreign workers: such workers are likely to be unskilled or semi-skilled, earn low incomes and have unreliable, seasonal jobs.

Uncertain employment conditions lead migrants to use informal remittance channels, especially when the migrants do not have the legal right to work in the country. However, applying the RBA in onboarding remittance customers does not require them to have a work permit. In 2018, the estimated level of use of informal remittances channels between South Africa and Eswatini was 69%.[26]

The next section of the report provides more details on the channels migrants use to send remittances home from South Africa.

26 FinMark Trust. (2020). *SADC Remittance Values and Volumes 2018.*

3. CROSS-BORDER REMITTANCES: SA–ESWATINI

This overview of cross-border remittances in the South Africa–Eswatini corridor presents both supply- and demand-side analysis.

Cross-border supply-side findings. The supply-side subsections examine the types of business models allowed by regulation to provide remittances services, the existing products available, and the SARB data on South Africa–Eswatini transfers (remittances), disaggregated by product type. Also included is an assessment of the cost of the products and a discussion of whether remittance service providers (RSPs) are providing additional financial services linked to their existing remittances offerings.[27]

Cross-border demand-side findings. The demand-side subsection presents the findings of the survey undertaken to understand the remittances behaviour of senders: Swazi migrants in South Africa sending money to their families back in Eswatini. While the analysis is based on a survey designed specifically for the purposes of this report, references are made to existing demand-side surveys to form *a priori* statements that contextualise the findings from the bespoke demand-side survey.

__Cross-border supply-side findings.__ The supply-side subsections examine the types of business models allowed by regulation to provide remittances services, the existing products available, and the SARB data on South Africa–Eswatini transfers (remittances), disaggregated by product type.

__Cross-border demand-side findings.__ The demand-side subsection presents the findings of the survey undertaken to understand the remittances behaviour of senders: Swazi migrants in South Africa sending money to their families back in Eswatini.

3.1 Cross-border remitting

The South Africa Reserve Bank (SARB) regulates the domestic (South African) and cross-border remittances and payments ecosystem. The SARB's Financial Surveillance Department oversees the operations of RSPs, who are classified as either authorised dealers (ADs) or authorised dealers with limited authority (ADLAs):

- Commercial banks are typically the ADs, dealing in foreign exchange (forex) and with the right to buy and sell forex – subject to conditions and within limits prescribed by the SARB.
- ADLAs, including bureaux de change (bureaus of exchange), are authorised by the SARB to deal in certain designated forex transactions, including travel-related transactions.

Regulations to increase formal financial inclusion of low-income migrants

ADLA regulation aimed at increasing financial inclusion of migrants. The South African government passed the ADLA regulation in 2014 to enable market entry to non-commercial bank RSPs offering remittance services for smaller amounts ('low-value remittance services'); the objective of the regulation is to develop a product that can serve low-income migrants, thereby expanding access to and usage of formal remittance services.

27 The supply-side assessment relies on existing FinMark Trust research, review of South African Reserve Bank data on remittances to Eswatini (from South Africa), and selected interviews with key stakeholders (including Mukuru, Standard Bank, First National Bank and Shoprite Money Transfers), which took place between April and September 2020.

FICA amendments aimed at providing alternative to full KYC in AML/CTF legislation. Subsequently, amendments were made to the South African Financial Intelligence Centre Act (FICA), allowing risk-based assessment (RBA) – in other words, partial know your customer (KYC) requirements – as a strategy for further expanding formal remittance services to migrants not able to comply fully with the rules-based approach (i.e. the 'full' KYC) to implementing anti-money laundering and counter-terrorism financing (AML/CTF) legislation. However, the adoption of the RBA has been slow and its implementation has been limited to non-bank RSPs.

Cross-border RSPs

Provision in the South Africa–Eswatini corridor is dominated by commercial banks (ADs), with only one ADLA – Mukuru (in partnership with Eswatini Bank)[28] – which only began operating in 2019.

There are four distinct models operating in remittance markets:

- **Commercial bank model (the ADs):** ABSA, First National Bank (FNB), Nedbank, Standard Bank, Capitec and Bidvest Bank.
- **Bank-retailer partnership model:** Shoprite in partnership with Standard Bank.
- **ADLA model:** Mukuru.
- **Independent money transfer operator (MTO) model:** there are no *independent* MTOs operating in the South African remittances context; the MTOs in this instance have partnered with banks: MoneyGram with Standard Bank and FNB, and Western Union with ABSA.

3.2 South Africa–Eswatini corridor: existing products and services offered

The commercial banks and some smaller specialist banks facilitate international transfers between bank accounts using the SWIFT interbank payment system. Until recently, commercial banks were also permitted to allow electronic fund transfers (EFTs) to bank accounts that are part of the Common Monetary Area (CMA), which includes Eswatini, Lesotho and Namibia. However, regulatory changes have necessitated that banks only perform transactions using SWIFT.

While all of the banks provide the option of transferring funds using SWIFT, some also offer remittance-specific products. Low-income earners are not likely to use SWIFT services due to high costs but make use of the banking app (for digital use) or mobile phone banking that these banks offer. Table 4 summarises the various RSP remittance modes and the remittance services on offer.

28 Eswatini Bank was previously known as SwaziBank.

Table 4: RSPs in South Africa, remittance modes and remittance services available

RSP (South Africa)	Service to remittance senders	Cash to cash	Cash to digital	Digital to cash	Digital to digital
ABSA	SWIFT payment to bank account (via partnership with Western Union)			✓	✓
FNB	SWIFT payment to bank account Pay2Cell (via partnership with MoneyGram)			✓	✓
Nedbank	SWIFT payment to bank account				✓
Standard Bank	SWIFT payment to bank account Banking app (via partnership with Moneygram)	✓	✓	✓	✓
Capitec	SWIFT payment to bank account				✓
Bidvest Bank	SWIFT payment to bank account (sending agent for MoneyGram and Western Union)				✓
Mukuru	Payment to bank account Payment to mobile money account	✓		✓	
Shoprite	Shoprite Money Transfer (through partnership with Standard Bank)	✓			

FNB and Standard Bank (agents for MoneyGram)

FNB and Standard Bank are agents for MoneyGram and offer a remittance service to their South African bank account holders. Both FNB and Standard Bank have Eswatini operations.

For FNB and Standard Bank:

- The sender must have an account with that bank in South Africa.
- The sender originates the remittance via mobile phone banking (using the Pay2Cell option for FNB, or the banking app for Standard Bank).
- The receiver in Eswatini must have an account with the same bank as the sender. (However, Standard Bank states it will also process MoneyGram remittances for non-account holders at its in-branch forex outlets, on production of proof of identity.)
- The money is available in the receiver's bank account.
- The transaction is immediate.
- The cost of withdrawal is US$0.07 (SZL15).
- On a sample remittance of roughly US$55, the transaction fee charged to the receiver is 1%.

ABSA (agent for Western Union)

ABSA is an agent for Western Union and offers a remittance sending service:

- The sender must have an ABSA account in South Africa.
- The sender originates the remittance either online or via mobile phone banking.
- Remittances may be received in cash at Western Union agents in Eswatini (ABSA does not have operations in Eswatini).
- Withdrawal of the funds is free as the sender bears the withdrawal cost.

Mukuru

ADLAs such as Mukuru offer a wider variety of modes for remitting money, though there are fewer outlets.

- Mukuru (in partnership with Eswatini Bank) offers senders many payment options:
  - Pay in cash at selected retailers (e.g. PEP).
  - Pay from a bank account via online banking or via mobile phone.
  - Pay via a branded prepaid debit card (issued by Standard Bank).
- The sender originates the remittance via the mobile app, WhatsApp or USSD,[29] or the call centre.
- The receiver can only withdraw the funds at a Mukuru collection point in Eswatini.
- On a sample remittance of roughly US$55, the transaction fee charged to the receiver is 9%.

Viability for providers

ADLAs. Mukuru is the only ADLA in the South Africa–Eswatini corridor. Remittance provision is thus Mukuru's core business, with a focus on competitive pricing and efficient onboarding of customers to reach minimum scale. Mukuru is able to onboard customers remotely via Facebook/WhatsApp for low-value transactions. Mukuru has also adopted the RBA in onboarding customers.

ADs, bank–retailer partners. On the other hand, commercial banks and large retailers (e.g. Shoprite) use a remittance offering as a value-added service. 'Value-add RSPs' focus on pricing for customer retention and improving the bundle of offerings. These businesses are able to spread the fixed cost of existing infrastructure across a variety of other products and services and hence are less reliant on the scale of remittances to cover distribution costs. Only the South Africa–Lesotho and South Africa–Eswatini remittance corridors have the Shoprite Money Transfer product.

MTOs partnered with commercial banks. MTOs provide both online and offline means of sending money – online by facilitating deposits into accounts held by partner banks, or offline through agent networks. MoneyGram and Western Union are the two MTOs that operate in South Africa; however, they do not acquire licences independently but instead partner with licenced commercial banks to facilitate forex transactions: Standard Bank and FNB, and ABSA, respectively.

Need for innovation

As competition in the South African–SADC remittance corridors has increased, RSPs have needed to pivot and introduce innovative solutions to reach customers currently using informal channels; obvious strategies include reducing the transaction costs of remittances and increasing customer convenience by reducing the distance to pay-out points.

One innovation that makes a lot of sense is partnership between an RSP and a mobile network operator (MNO) to provide mobile remittances: these partnerships have the proven potential to lower remittance costs and improve the transparency of pricing. Furthermore, MNOs have an extensive agent network, providing RSPs with a wider potential pool of customers while expanding the service available to consumers. As things stand, however, there is no such RSP–MNO partnership in South Africa offering a South Africa–Eswatini cross-border mobile remittance service.[30]

29 Unstructured Supplementary Service Data protocol

30 MTN South Africa launched a mobile money service in 2020 but is currently unlicensed to engage in cross-border remittances.

Supply-side related barriers to usage of formal remittance services

While there are not many supply-side related barriers to consumer usage of formal remittances services in the South Africa–Eswatini corridor, the key barriers are as follows:

- **Digitisation of the first mile:** Fully digital options (access via mobile phones) are only available to commercial bank customers that meet 'full' KYC requirements; thus, customers onboarded on the basis of partial KYC are not able to access fully digital services.
- **Implementation of the risk-based approach:** RSPs (especially banks) have been reluctant to change their KYC documentation requirements following the adoption of the risk-based approach: there is concern that the new regulation contradicts the requirements of immigration law.
- **Relatively limited services:** The total monthly transaction volumes from South Africa to Eswatini were less than 1% of the total transactions from South Africa to the rest of SADC between 2019 and 2020. Such low volumes are not likely to encourage participation of more RSPs to improve product offerings.

Each business model will encounter high costs at different points in the value chain, which will determine which part of the market an RSP will target to maximise profitability. Physical infrastructure in receiver countries has also been cited in the literature as an impediment to growing formal remittance customer bases.

3.3 Size of cross-border remittances: South Africa–Eswatini

South Africa is one of the countries to which most Swazi adults migrate; for this reason, remittances are an important source of income to receivers in Eswatini. The total value of formal remittance transactions in the period 2017–2019 varied between ZAR1 million and ZAR2 million (approximately US$65,500 and US$131,000) per month (see Figure 7 for quarterly values).

However, the introduction into Eswatini of the Shoprite Money Transfer (in partnership with Standard Bank) in 2020 certainly contributed to a massive increase in the average amounts that remitters sent, as it presented an alternative channel to banks, traditional MTOs such as MoneyGram and Western Union, and informal channels such as sending money back to Eswatini with friends or family, or via minibus taxis. The average amounts sent by remitters between 2019 Q1 and 2020 Q3 are:

- **Commercial banks:** ZAR15,329 (approximately US$1,000).
- **MoneyGram:** ZAR2,355 (approximately US$154).
- **Shoprite:** ZAR1,457 (approximately US$95).
- **Mukuru:** ZAR778 (approximately US$50).

The average amounts remitted are lowest for Shoprite and Mukuru, indicative of those products serving low-income migrants compared to commercial banks. (As described in section 2 of this report, the majority of Swazi migrants are not legally permitted to work in South Africa and therefore not likely to use commercial banks that require customers to be onboarded on full KYC and that are less inclined to adopt RBA.)

The average amounts sent by remitters between 2019 Q1 and 2020 Q3 are:

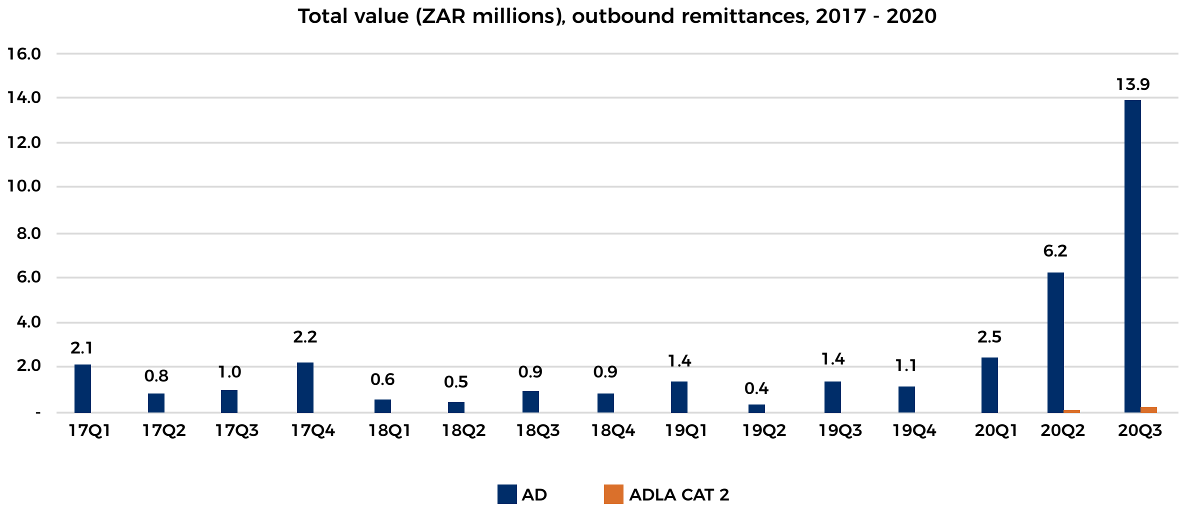
Commercial banks: ZAR15,329 (approximately US$1,000).

MoneyGram: ZAR2,355 (approximately US$154).

Shoprite: ZAR1,457 (approximately US$95).

Mukuru: ZAR778 (approximately US$50).

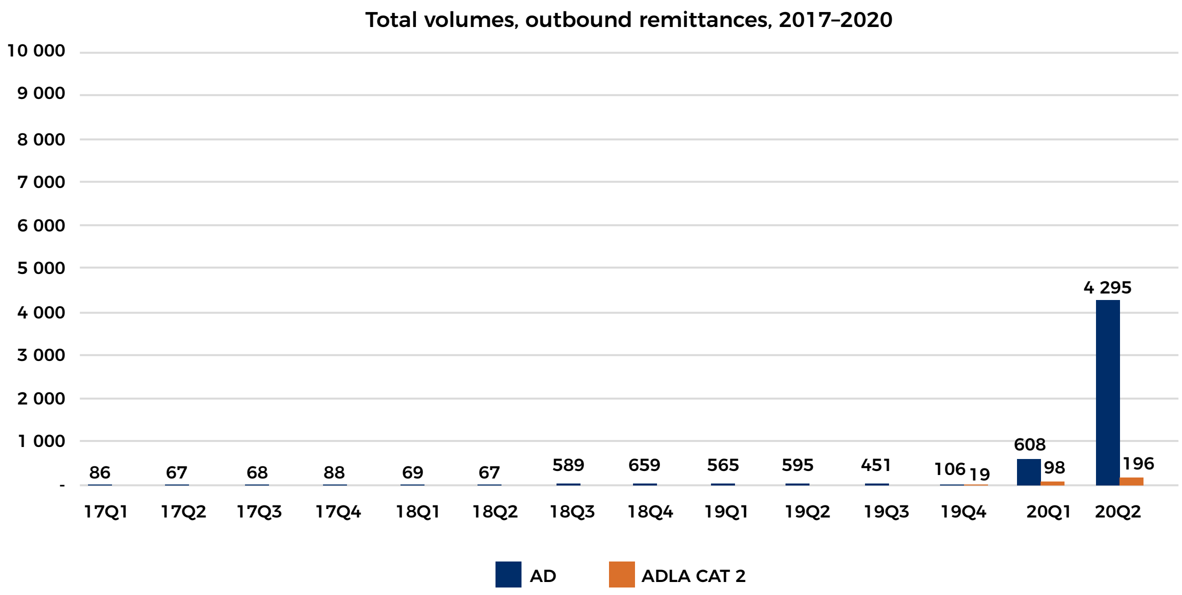
Figure 7: South Africa–Eswatini remittances, total values, quarterly (2017–2020)



Source: South African Reserve Bank

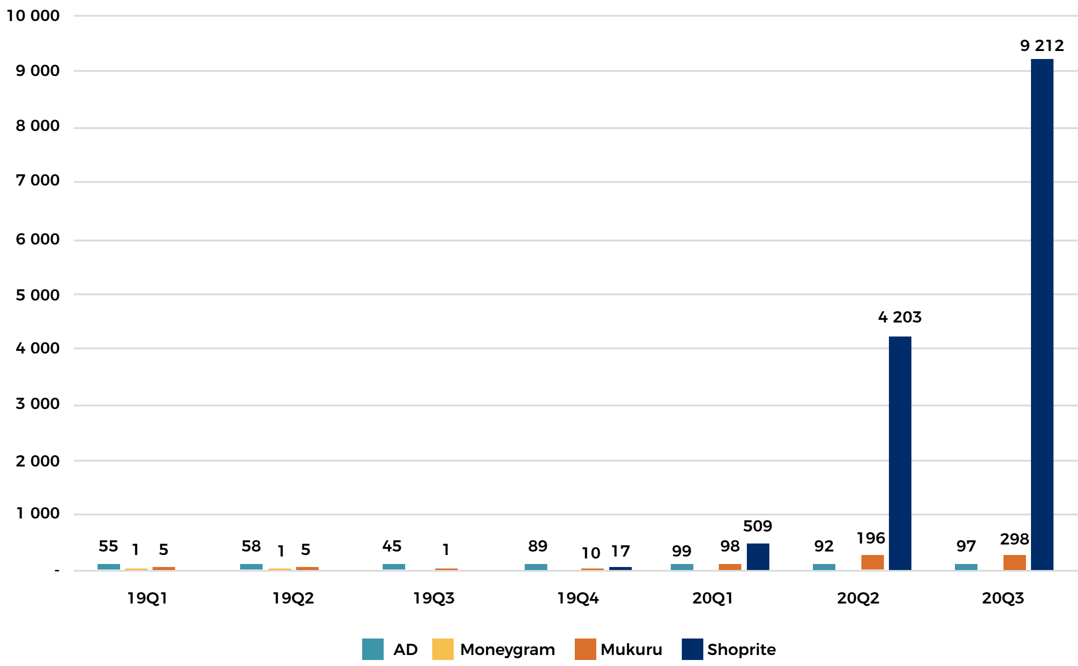
As mentioned, trends in the total value of transactions outbound from South Africa to Eswatini reflect the introduction of the Shoprite Money Transfer as an alternative remittance channel more widely accessible to Swazi migrants living in South Africa. Transaction volumes per month for the period 2017–2020 were quite low relative to outbound transactions to other countries but began to increase in the first quarter of 2020 (see Figure 8) – after which there was tremendous growth in transaction volumes per quarter. It should be noted that, under the reporting requirements, MoneyGram and Shoprite are classified as ADs, which is how Figure 8 relates to Figure 9.

Figure 8: South Africa–Eswatini remittances, total volumes, quarterly (2017–2020)



Source: South African Reserve Bank

Figure 9: South Africa–Eswatini remittances, total volumes, quarterly (2019–2020)



Source: South African Reserve Bank

It should also be noted that the SARB only provides volumes and values data; that is to say, it does not provide any insight into unique number of senders in the South Africa–Eswatini corridor and there is no data source to inform this variable. Nonetheless, the surge in usage of formal remittances between quarters 2 and 3 of 2020 shows that more Swazi migrants started using formal remittances providers. The Covid-19 lockdown that affected informal RSPs (who were not regarded as 'essential services'), and the closure of the South African borders also drove informal outflows to formal platforms.

3.4 Pricing in the South Africa–Eswatini corridor

The United Nations Sustainable Development Goal indicator 10.c aims to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5% by 2030. Eswatini is part of the Common Monetary Area (CMA) and thus there are no exchange rate margins (the Eswatini Lilangeni is pegged at a one-to-one exchange rate to the South African Rand) charged on transactions. However, direct transaction fees may apply, depending on the bank and service used. Table 5 illustrates the estimated total transaction cost for remitting US$55. The following firms were sampled in order for costs to be assessed:

- **FNB:** To obtain banking remittance prices, we found it necessary to complete transactions. FNB was chosen as the banking service provider example because one of the researchers held an FNB account. The completed transaction was for ZAR200 (US$13), and then the cost was used to extrapolate costs for a ZAR840[31] (roughly US$55) transaction size.
- **Standard Bank:** The Standard Bank cost was obtained by a visit to a Standard Bank branch to enquire about the pricing (US$55 equivalent) for the South Africa–Eswatini corridor.
- **Mukuru:** quotes were obtained from the online interface.
- **Shoprite:** A visit to a Shoprite Money Market facility confirmed the price of remitting to Eswatini. Other prices were obtained by obtaining quotes from that interface. A quote was obtained for each available receiving option (cash, bank account, and mobile).

Table 5: Estimated transaction cost

	FNB	Standard Bank	Shoprite Money Transfer	Mukuru
US$55	1%	1%	3%	9%

Sending money to Eswatini using commercial banks currently works as an on-us/intra-bank transaction as three of the five commercial banks in Eswatini are subsidiaries of South African banks (FNB, Standard Bank and Nedbank).[32] The speed of transaction across the sampled service providers is in real time, meaning the receivers get their remittances on the same day. The US$55 was used in assessing pricing given its use for international comparison purposes and being close to the average transaction size by users of Mukuru – the ADLA meant to serve the low-income customer sending low-value remittances.

3.5 RSP ability and strategic appetite to cross-sell

Regulatory changes and innovations in the financial space present opportunities for remittance providers to adapt their strategies to develop new financial services and products to cross-sell to customers. But are RSPs actually providing these additional financial services linked to their remittance offerings?

As mentioned, easing of regulations (introduction of ADLAs in 2014, and RBA in 2017) has made the process of remitting money more accommodative for migrants that are documented. The adoption of a risk-based approach to customer identification and verification by South African authorities allows for 'low documentation' for low-value transfers: a customer need only provide proof of identification for cross-border remittance transactions under ZAR5,000 (approximately US$327).

31 Reference exchange rate: US$1 = ZAR15.27
32 The analysis does not consider interbank costs.

However, as also already noted, not all RSPs have taken advantage of this new approach: some service providers have not changed their KYC documentation requirements. Although specific rules around customer due diligence have been lifted, institutions will still reflect their own risk tolerance in their KYC practices. Thus, more conservative businesses (e.g. commercial banks) will continue to require fairly high levels of KYC, while more risk-tolerant businesses (e.g. ADLAs) will have greater appetite for relaxing these requirements while remaining prudent.

The new approach has also not necessarily had a significant impact on senders' behaviours, probably due to the awareness gap – meaning most senders remain unaware of the regulatory change and are not actively engaged with about this.

In the innovation space, fintechs have focused on leveraging existing payments infrastructures for the 'first mile' – how to get money onto the platform – and the 'last mile' – how to cash out payments more cost-effectively – mainly by linking to mobile money wallets, or on the enablement of non-cash purchases (e.g. airtime purchases). However, there are no add-on financial services to the existing remittances services in the South Africa–Eswatini corridor, which is probably due the small size of this corridor compared to, for example, Malawi or Zimbabwe.

3.6 Demand-side remittance market mapping and needs assessment: South Africa–Eswatini

This subsection reports on the findings of demand-side surveys of the remittance behaviour of senders (Swazi migrants) from South Africa to Eswatini (i.e. cross-border remittance flows).

Methodology

In 2018, FinMark Trust implemented a study[33] (using focus-group methodology) with a focus on the behaviour of Swazi migrants in South Africa.

The findings from that study are revisited here in the light of a more recent (2020) quantitative survey with a larger sample size, which assessed the extent to which the 2018 findings are validated or refuted. This later survey had an expanded set of objectives covering more behavioural aspects of Swazi migrants to close the information gap on this target group. This survey questionnaire was designed to cover the following:

Migrant workers segmentation: cross-border, average duration, the related occupations and incomes earned, and how these features influence remittances amount, frequency or repatriation of funds back home; the reasons for migrating.

Nature of the relationship with the main recipients(s) of remittance(s).

Remittance preferences: data on channels used to receive remittances (formal vs informal), average amounts, frequency of transfers, perception on price.

Access, usage and knowledge of other financial services: the propensity to save formal vs informal, the level of awareness of existing financial services.

Targeted respondents. The initial methodology was to target mining migrants and source data from The Employment Bureau of Africa (TEBA), which has a history of recruiting workers in the SADC region for mining corporations in South Africa. However, the sample frame was sourced from the Swaziland Migrant Mineworker Association (SWAMMIWA).[34]

33 FinMark Trust. (2020). SADC Remittance Values and Volumes 2018, available at: https://finmark.org.za/system/documents/files/000/000/143/original/FMT_SADC_values_volumes_report_CB5_18052020.pdf?1594134149

34 SWAMMIWA is made up of member organisations of community-based organisations of migrant mineworkers, ex-migrant mineworkers, their families and communities.

Conducting the 2020 survey. The study was originally designed for a telephonic methodology, to deal with the practical implications of the COVID-19 lockdown in South Africa and Eswatini. Telephonic interviews (computer-assisted telephone interviewing method: CATI) took place from 19 August–5 October 2020 (including pilots). The survey was conducted in English and siSwati, depending on the respondent's preference, and was conducted from Monday to Saturday during the fieldwork period. FinMark Trust provided the sample to Ask Africa (the research house that undertook the research). Due to low response rates, with the lifting of the COVID-19 restrictions face-to-face (F2F) interviews were conducted at the Oshoek border post and surrounding areas from 10–14 October 2020, to increase the number of completed interviews. This led to a more diverse profile of respondents (see Table 6) as the initial online respondents were mostly working professionals, and the telephonic respondents included many Swazi migrants employed in the mining and transport industries.

Table 6: Survey respondents' employment status

Employment status	CATI	F2F	Online	Total
Employed but working part-time	10	14	66	90
Employed by someone and earning a salary	160	72	147	379
Not working: receiving a grant, pension or money from other people	11	22	52	85
Self-employed	7	42	70	119
Student		3	3	6
Total	188	153	338	679

Level of formality/passport-holding. Miners are most likely to have a passport, while respondents earning a living through trade[35] are least likely to have a passport, which would have implications for using formal financial services. This could be due to drawing the sample of mineworkers from the SWAMMIWA – which is not likely to have illegal mineworkers as members. With a portion of the sample also sourced at the border post between South Africa and Eswatini, the assumption can be made that these survey respondents were passport-carrying migrants between the two countries – that is to say, eligible to make use of formal financial services if they chose.

Findings of the 2018 study

The previous FinMark Trust study[36] found the following as of 2018:

- **Formal favoured:** participants are more likely to send money via banks and ADLAs than informal means.
- **Use of formal RSPs is new:** participants' initial preference was transport service providers (minibus taxi drivers), given the trust developed over many years of using them.
- **Commercial banks favoured but documentation a barrier.** Compared to migrants from Democratic Republic of Congo, Swazis are more likely to use a commercial bank to send money back home. However, the perception on the eligibility requirement (documentation related to KYC requirements of the bank) remains the main impediment to using formal RSPs.
- **Sending likely to be monthly:** the Swazi migrants are more likely to remit monthly.

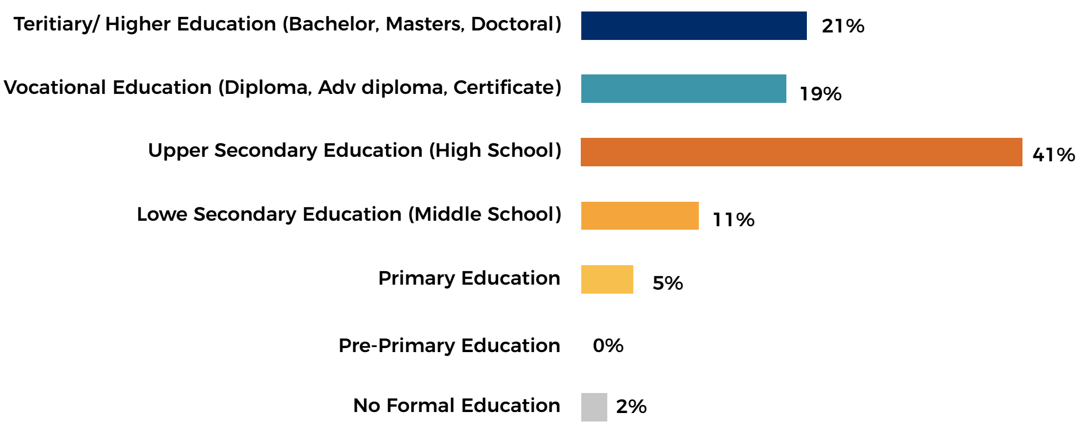
35
36 FinMark Trust. (2020). *SADC Remittance Values and Volumes 2018*.

Findings of the 2020 study

Cross-border senders – salient findings. Of the total 679 respondents:

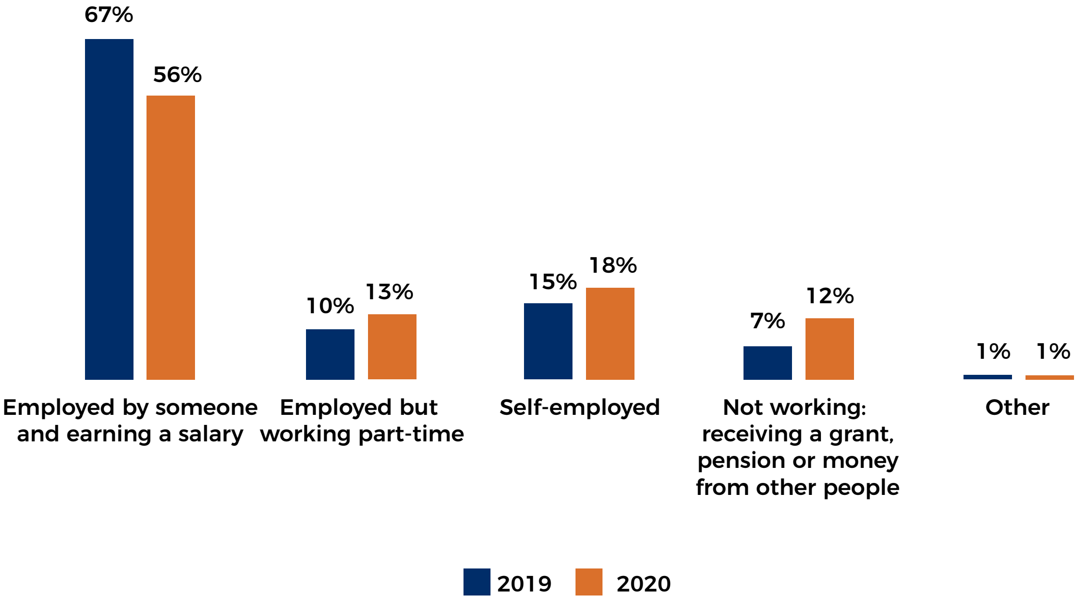
- **Age:** the majority (69.3%) are in the 25–45-year category.
- **Gender:** 58.2% are male and 41.8% are female.
- **Marriage status:** 47.3% are married while 46.2% are single.
- **Level of formality/passport-holding:** all of the survey respondents had some form of formal identification document.
- **Length of time in South Africa:** 71.9% have been in the country for 10 years – indicative of how the South African labour market is integral to the livelihoods of Eswatini households.
- **Reason for migrating:** 77.1% of the total respondents moved to South Africa for better job opportunities – with 78.9% of total respondents returning home at least once a year.
- **Education level:** these range from no formal education right up to postgraduate degrees (see Figure 10).

Figure 10: Education level of migrants



Changes in employment levels. Between 2019 and 2020, full-time salaried employment dropped from 67% to 56%. By contrast, part-time employment and self-employment increased slightly (see Figure 11). This could be due to the decline in levels of labour absorption by South African mines and possibly also the impact of COVID-19.

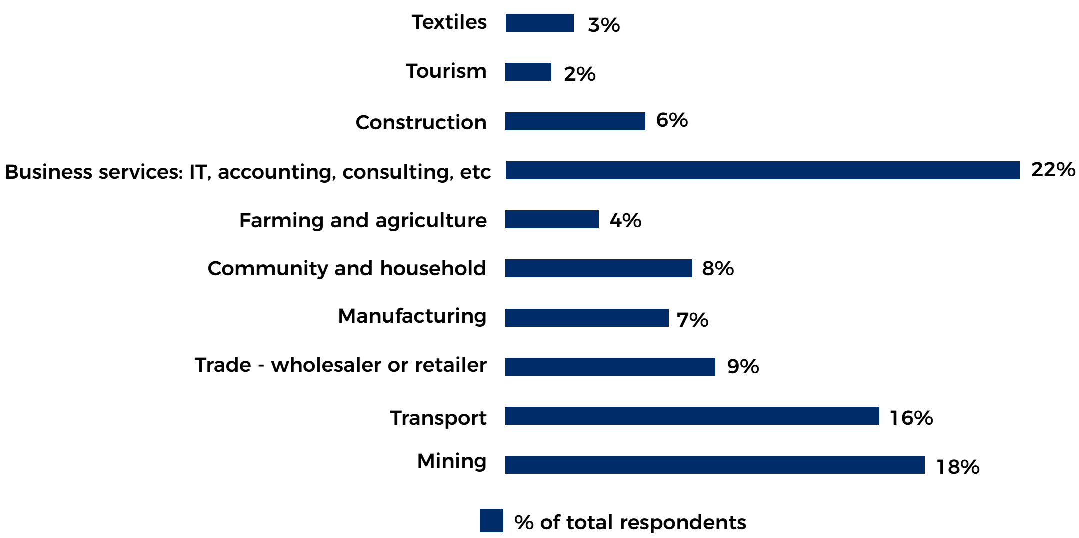
Figure 11: Employment profile, 2019–2020



Breakdown by economic sector. Figure 12 shows the economic sectors in which migrants from Eswatini work in South Africa. Of the total respondents:

- 22% (131) work in high-skilled jobs in business services.
- Just over half work in low-/semi-skilled jobs spanning mining (106), transport (94), household/domestic work services (47), trade (56) and farming (21).

Figure 12: Migrant labour employment, by sector



Given the reduction in the size of the South African mining sector and the impact of COVID-19, one would expect a reduction in the employment of Swazis in this sector, which would result in income constraints for households in Eswatini.

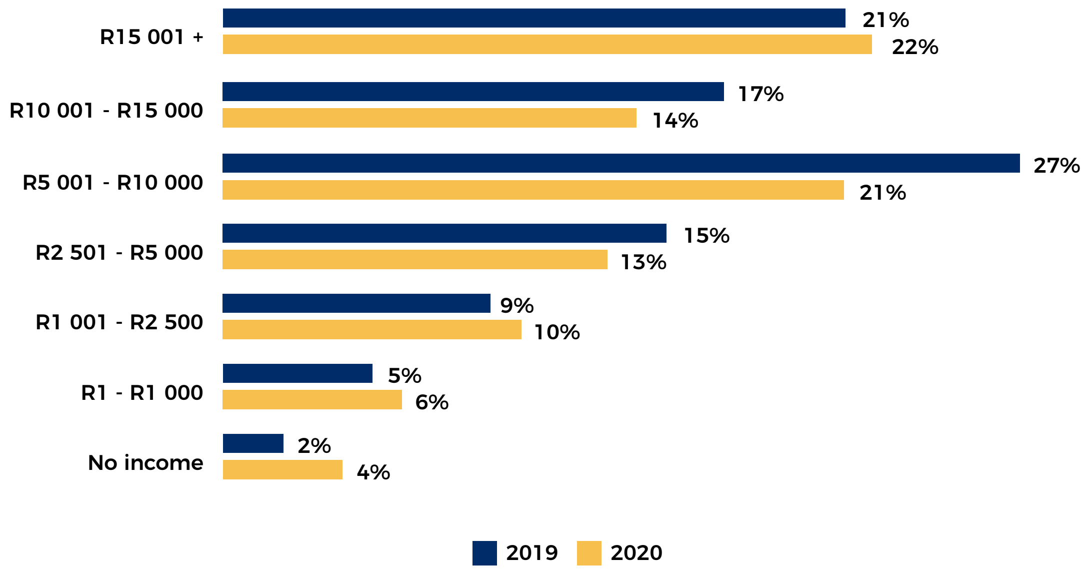
Monthly income 2020 vs 2019. Figure 13, which compares 2019 and 2020 monthly income amounts, shows a decline in the following income categories:

- ZAR2,501–ZAR5,000 (US$163.82–US$327.51).
- ZAR5,001–ZAR10,000 (US$327.58–US$655.03).
- ZAR10,001–ZAR15,000 (US$655.09–US$982.54).

Respondents that work in business services earn the highest monthly income in 2020, accounting for the majority (47%) in the ZAR15,001+ category.

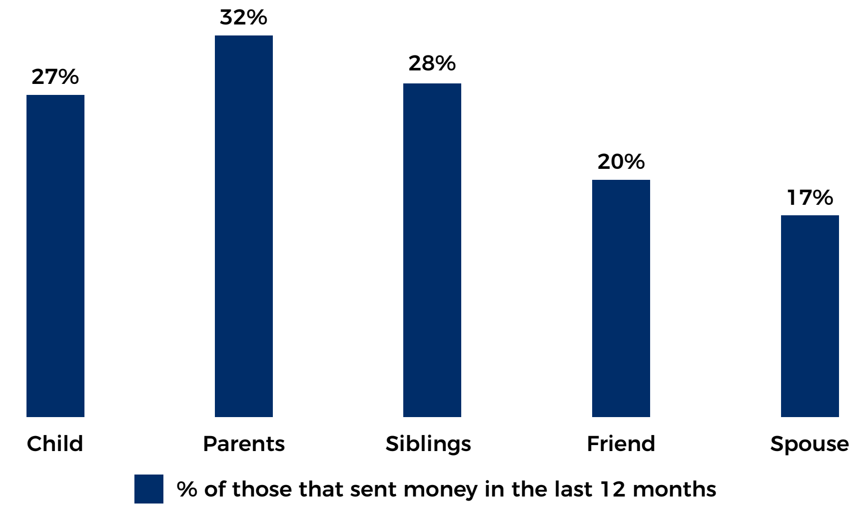
In the income category between ZAR10,000 and ZAR10,001–ZAR15,000 are 58% of respondents working in mining and 53% of transport workers.

Figure 13: Monthly income categories, 2019 vs 2020



Nature of relationship between sender and receiver. In the 12 months preceding October 2020, 89% (607) of all respondents had sent money back to Eswatini. Respondents working in the business services sector were most likely to send goods (non-cash) back to Eswatini. The largest category of cross-border receivers in the survey was parents of the sender (32%), followed by siblings (28%) (see Figure 14). Perhaps surprisingly, given that 47.3% of the survey respondents were married, the category 'spouse' (17%) was smaller even than friend (20%).

Figure 14: Remittance receivers, by relationship to sender

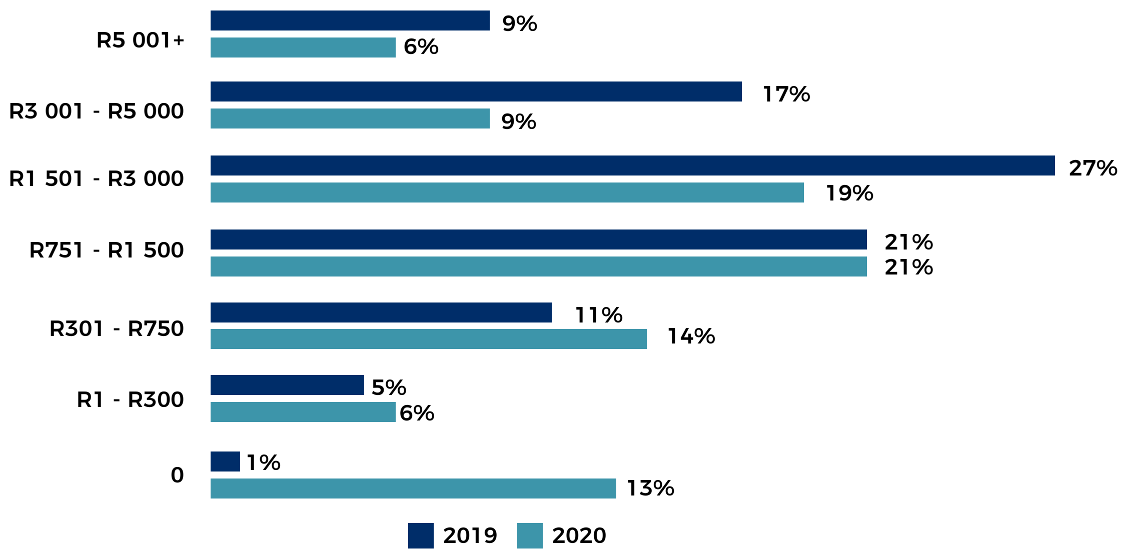


Target area in Eswatini for receiving the remittances. In the same 12-month period, 61% of senders had sent money to rural areas in Eswatini – confirming the assumption that most Swazi migrants come from rural Eswatini with limited economic opportunities. Interestingly, however, compared to the other three regions of Eswatini, 50% of senders claimed to have sent money to more-urbanised Manzini.

Frequency of remitting. Across the different livelihood profiles, a majority (66%) send money back to Eswatini monthly.

Average amounts sent. Figure 15 shows the average amounts sent in 2019 versus 2020, which reveals a decline in remittances for values higher than the ZAR1,501–ZAR3,000 category. This could be attributed to the decline in employment in the mining sector and the impact of COVID-19.

Figure 15: Amount sent, 2019 vs 2020



Preferred channels: formal vs informal. Only 26% of the total respondents used informal channels (e.g. friends, minibus taxi, workmate).

In sum, the survey findings should be viewed from the context of a sample of mostly legal Swazi migrants with the requisite identification documents that would allow them to use formal financial services in South Africa.

Of the total respondents, 7% used an ADLA – which would have been Mukuru, the only ADLA offering services in the South Africa–Eswatini corridor. The low level of ADLA usage is understandable given the relatively small size of Mukuru's operation in the South Africa–Eswatini corridor and limited number of outlets (as already discussed).

Only 7% of total respondents used TEBA, while 13% used the Shoprite service, which was only launched in January 2020.

Most respondents used commercial banks, either via a visit to the bank branch or using electronic transfer. This is corroborated by supply-side data from the SARB Balance of Payment database, which shows that formal volumes from South Africa to Eswatini are dominated by commercial banks.

Interrogating the high levels of formal remittances usage. The preceding findings (high usage of formal remittances) could well be due to the bias of the survey, with an over-representation of Swazis with identification documents, which makes them eligible to use formal RSPs. All of the survey respondents had some form of formal identification document.

Of the total respondents:

- 61% had a passport.
- 54% had proof of residence (utility bill).
- 55% had a South African identification (ID) document.
- 60% had a permanent residence certificate/asylum document/work permit.

In sum, the survey findings should be viewed from the context of a sample of mostly legal Swazi migrants with the requisite identification documents that would allow them to use formal financial services in South Africa. The research does consider pre-COVID-19 remittance behaviour; but even at that, only 26% of total respondents used informal channels to send money back to Eswatini. Thus, the observed eligibility of the Swazi migrants to use formal platforms combined with the COVID-19 restrictions probably explains the high levels of usage of formal remittance services (depicted in the SARB data for quarters 2 and 3 – see Figure 9, earlier in this subsection).

Respondent perceptions of formal vs informal channels. The survey is not definitive on the perception of cost of formal vs informal platforms, as both were reported to be affordable by at least half of those using the two platforms. However, formal platforms are considered more trustworthy than informal (e.g. friends and minibus taxi drivers). Speed, trust, reliability and cost are the key reasons cited for using formal platforms.

Lack of the required official documentation on the part of the sender is one of the key reasons cited for using informal platforms.

Sending cash vs non-cash. The majority of senders (69%) send money home to support the purchase of food. Only 27% reported the receiver having a micro-enterprise back in Eswatini; but in that case the sender is more likely to send stock (business input) for the micro-enterprise to resell than to send cash.

Access to, usage and knowledge of other financial services. Commercial banks are the most popular financial service providers senders are aware of; Mukuru (ADLA) the least popular.

Of total respondents, 15% are not aware of other financial services besides the platform they use to send money to Eswatini. Of total respondents, 84% have a bank account registered in their name in South Africa, 36% have a mobile money account (back in Eswatini), and 46% have an insurance policy.

Senders' propensity to save (formal vs informal). Of total senders, 37% (251) belong to a savings group:

- 43% are members of a *Tinhlangano* back in Eswatini (this is an informal rotating monthly savings scheme predominantly used in rural areas).
- 55% belong to a funeral or burial society.
- 50% belong to an informal *stokvel*.
- 39% access savings groups indirectly through a family member.

The survey also shows that 63% of total senders saved in the 12 months preceding October 2020, with the main reason for saving being to 'save for an emergency'. This demonstrates the importance of savings for unexpected events, of which death of a family member is probably prioritised given the 55% of senders that belong to a funeral/burial society. In terms of *where* senders save:

- 65% save in a commercial bank.
- 36% have a provident fund/pension fund/retirement annuity.
- 22% save on a mobile money platform in Eswatini.
- 21% save with the building society in Eswatini.
- 19% have shares, unit trusts or bonds.
- 19% save at home.

Level of awareness of existing financial services. In terms of financial inclusion, 90% (of the total senders surveyed) have a formal financial services account in their names (in South Africa and Eswatini):

- 84% have a commercial bank account.
- 46% have an insurance product.
- 37% have a mobile money account.
- 1.5% have an investment product.

Senders' propensity to save (formal vs informal)

37%
belong to a savings group

63%
of total senders saved in the 12 months preceding October 2020, with the main reason for saving being to 'save for an emergency'

55%
of senders that belong to a funeral/burial society

Level of awareness of existing financial services

90%
have a formal financial services account in their names (in South Africa and Eswatini)

4. DOMESTIC REMITTANCES: ESWATINI

This overview of the domestic remittance ecosystem in Eswatini presents both supply- and demand-side analysis.

The supply-side subsections assess the supply and regulatory ecosystem of the Eswatini payment system, including an exploration of the cash distribution networks.

The demand-side subsection presents the findings of research undertaken to assess the needs and understand the remittance behaviour of cross-border remittance receivers, domestic remittance receivers, domestic remittance senders, and micro-enterprises in Eswatini.

As discussed in the introduction to this report, FINCLUDE looks to make use of savings and credit groups' apex bodies in order to strengthen their networks and capacities, thereby increasing the effectiveness of savings groups in meeting the financial needs of the FINCLUDE target groups as households or micro-enterprises.

The NPS Vision 2016 is currently being updated (to be finalised in 2021) and remittance services remains one of its key pillars.

4.1 Regulatory environment

Remittances (cross-border and domestic) is one of the six 'key strategic focus areas' of the Swaziland National Payment System (NPS) Vision 2016:[37] it aimed to develop the remittances ecosystem, and in that document the focus area is summarised as follows:

- Establish a common platform and channel for cross border remittance payments (taking account of all relevant payment and exchange control regulations)
- The market for remittances should be transparent and have adequate consumer protection
- Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged
- Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework
- Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance service industry
- Remittance services should be supported by appropriate governance and risk management practices

The NPS Vision 2016 is currently being updated (to be finalised in 2021) and remittance services remains one of its key pillars.

The regulator: Cross-border remittances are regulated by the Central Bank of Eswatini (CBE) through the national payment system. The regulatory environment has implications for the uptake and usage of remittances services, as discussed further in subsequent sections.

Interoperability. The regulatory environment allows for interoperability between banks and non-bank RSPs. Currently it is possible to send from banks to mobile money operators, but these are bilateral agreements. The CBE plans to invest in a national switch to enable an open-loop interoperable payments system but there is no specific timeline to inform delivery date.

37 Central Bank of Swaziland. (2016). Swaziland National Payment System Vision 2016. NPS Vision and Strategy Document from 2009 to 2016, available at: https://www.centralbank.org.sz/nps/NPS-strategic-vision-2016.pdf

KYC requirements. Services provided by financial service providers are tiered according to the level of KYC that is provided, the aim being to enable usage of the domestic payment system by different socio-economic segments of the population:

- Low-income earners, who are generally at the bottom of the pyramid and do not have more than a national identification document, have benefitted from the relaxation of KYC rules for certain financial products offered through retailers and the mobile money service providers.
- In the case of commercial banks, however, customers can only be onboarded via a full KYC process (Eswatini Bank requires national ID, proof of residence and traditional authority reference).[38]
- Non-commercial banks can onboard customers via partial KYC, generally with restrictions on amounts that can be transacted and frequency of transactions per person.

All the commercial banks also offer entry-level products with partial KYC subject to transaction limits; the current limits[39] on transactions were updated in June 2020 (see Table 7) as a COVID-19 response measure, to ensure that regulation does not inhibit flow of funds to vulnerable households.

Table 7: Limits on transactions for partial KYC customers

	Bank-led e-wallet size balance	Bank-led e-wallet send per day	Bank-led e-wallet withdrawal per day	Bank-led e-wallet spend per day
Previous limit	SZL4,999 (US$327) with monthly turnover of SZL25,000 (US$1,637)	SZL4,999 (US$327)	SZL4,000 (US$327)	SZL4,999 (US$327)
New limit	SZL15,000 (US$982) with monthly turnover of SZL25,000 (US$1,637)	SZL15,000 (US$327)	SZL15,000 (US$982)	SZL15,000 (US$982)

4.2 Domestic RSPs

There are three distinct models operating in the country's domestic remittance market:

- **Bank model:** Clients of the respective five retail banks in Eswatini can either make use of their bank account to transfer funds within or between banks; or can use the bank's mobile app; or make use of the bank–MNO partnerships in the market (see below). There are two mobile money operators in Eswatini: MTN's MoMo and Swazi Mobile's e-Mali.
- **Bank–MNO partnership model:** Eswatini Bank, SBS, Nedbank and FNB have formed partnerships with MTN to deliver mobile money services to their respective clients. These partnerships allow the banks' clients to link their bank accounts to their MTN MoMo accounts and pay, deposit or withdraw funds. Eswatini Bank and FNB clients can transfer money from their accounts to a MoMo wallet, while MoMo agents can deposit, withdraw and disburse money instantly through the SBS escrow account.
- **Bank–retailer partnership model:** The third model used in Eswatini is the bank–retailer model, which is used by Standard Bank and Shoprite Money Transfer. This is currently only operating on a person-to-person (P2P) basis, but agency banking is also under consideration.

38 https://www.swazibank.co.sz/mfmbs/ib/swazibankkyc.jsp
39 https://www.centralbank.org.sz/monetarypolicy/governor/2020.pdf

When it comes to incoming international (i.e. cross-border) remittances, receivers in Eswatini have a fairly limited number of options (the options below relate to funds received from South Africa):

- Receive the funds directly into their commercial bank account (to withdraw at an ATM). (In the case of Standard Bank, if the receiver does not have a Standard Bank account they can cash the funds at the in-branch forex service.)
- In the case of funds sent from ABSA account: cash the funds at a Western Union agent.
- In the case of funds sent via Mukuru: cash the funds at a Mukuru collection point.
- In the case of funds sent via Shoprite Money Transfer: receive the funds through a Shoprite outlet (this is enabled through the commercial bank–retailer model).

However, importantly, as things stand (2021), receivers in Eswatini are unable to receive cross-border remittances into their mobile money wallet.

4.3 Existing products offered

Commercial banks in Eswatini offer a variety of products, some of which are low-cost accounts catering specifically to the low-income market, as well as products and services for banked and unbanked people alike.

- Accounts that require limited documentation and verification are targeted to the low-income segment. Banks have differing requirements in this regard. Nedbank, for example, relies on MTN's KYC verification system for clients opening an account with them: the aim is to enable usage of both banking and mobile money rails to send and receive money while expanding and deepening financial inclusion.
- FNB and Nedbank have also simplified the process of sending money to the unbanked by means of a transfer of funds from a bank account to an e-wallet, as long as the receiver has a mobile phone number.
- There are also products targeted at specific groups, such as children, students, the elderly, and farmers. Often, trained consultants are deployed to assist with onboarding customers in these target groups.
- While service providers cannot cross-sell to the unbanked, there are alternative products and services offered to organisations that work with the unbanked: both Nedbank and Standard Bank have *stokvel* (savings groups) accounts, with Standard Bank working with *stokvels* to extend credit to their members. This show that the banks are already implementing the objective of providing a linkage between formal financial services and savings groups – a key objective of FINCLUDE.
- Banks also work with donor organisations, such as the Africa Cooperative Action Trust (ACAT) and World Vision, to disburse funds via bulk instant money to people that do not have bank accounts.

Use of mobile money for domestic remittances. Over 80% of Swazi adults are registered mobile money customers. MTN's mobile money platform, MTN MoMo, is used for domestic remittances. MTN has partnered with banks – including FNB, Nedbank, Eswatini Bank and SBS – to facilitate the payment of remittances domestically. A new product has been developed to facilitate the transfer of cash between bank accounts and e-wallets this is available for Standard Bank, FNB and Nedbank customers and was implemented after the emergence of COVID-19. Swazi Mobile also offers mobile money services through its e-Mali platform.

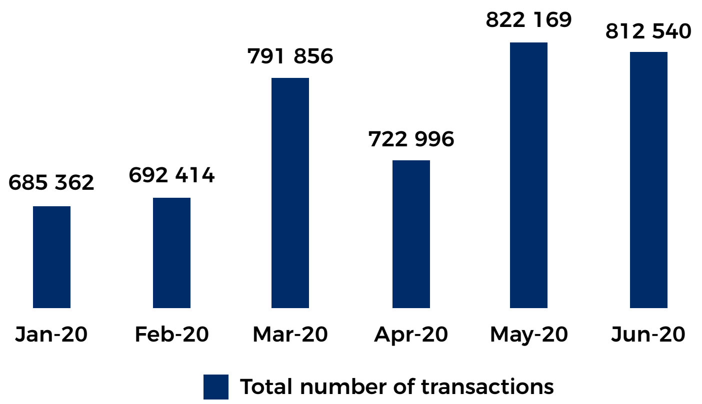
Interoperability expected to further drive mobile money uptake. In December 2020, the two mobile money service providers were due to become interoperable, which enables transactions between customers of the two providers. This is likely to result in an increase in mobile money user transactions.

According to MTN, as of August 2020 the company had 698,000 registered accounts (subscribers), supported by an agent network of 10,000 registered mobile money agents (to support cash distribution, onboard customers and facilitate remittances and payments). The geographical scope of the MTN mobile money agents entails:

- **Manzini:** 42% (4,200) of total agents – translating to 11.7 agents per 1,000 people.
- **Hhohho:** 26% (2,600) of total agents – translating to 8.1 agents per 1,000 people.
- **Lubombo:** 18% (1,800) of total agents – translating to 8.4 agents per 1,000 people.
- **Shiselweni:** 14% (1,400) of total – translating to 6.8 agents per 1,000 people.

Increasing mobile money uptake driving formal remittances service usage. The expansion of mobile money in Eswatini has led to increased usage of formal remittance services in Eswatini. Figure 16 shows there is an average of 755,000 transactions (P2P) on the MTN MoMo platform every month. An increase in the usage of MTN MoMo is likely to be because of COVID-19, given the concerted effort by the CBE to encourage use of digital platforms rather than cash.

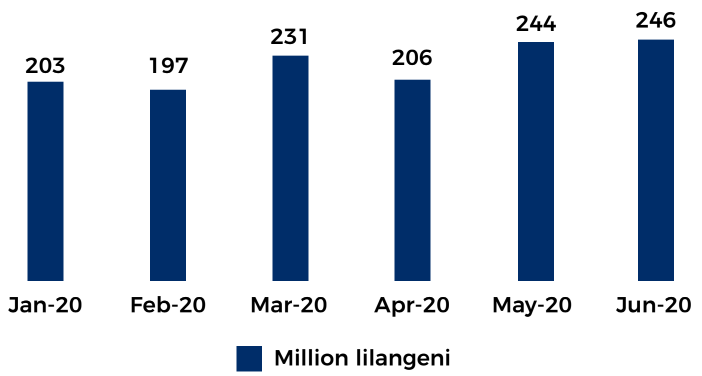
Figure 16: Total number of P2P transactions on MTN MoMo platform (Jan–Jun 2020)



Source: Eswatini NPS

The total value of transactions on the MTN MoMo platform averages SZL221 million per month (US$ 14.5 million), as indicated in Figure 17 (January–June 2020).

Figure 17: Total value of P2P transactions on MTN MoMo platform (Jan–Jun 2020)

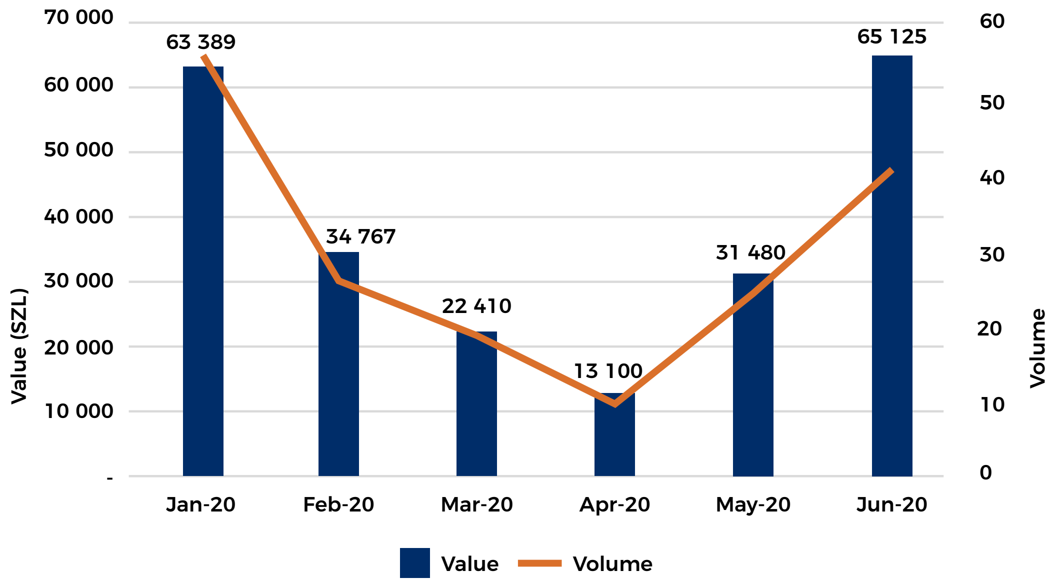


Source: Eswatini NPS

According to the National Payment System (NPS) data, the volume of remittances via mobile money (P2P) increased from 7.2 million transactions in September 2018 to 10.0 million transactions in September 2019.

Shoprite Money Transfer. Shoprite also offers domestic transfers through its Money Transfer (MMT) service. Figure 18 shows that transfers in the first half of 2020 were as high as SZL63,389 (US$4,252) in January but fell to a low of SZL13,100 (US$858) during April, when COVID-19 lockdowns came into effect.

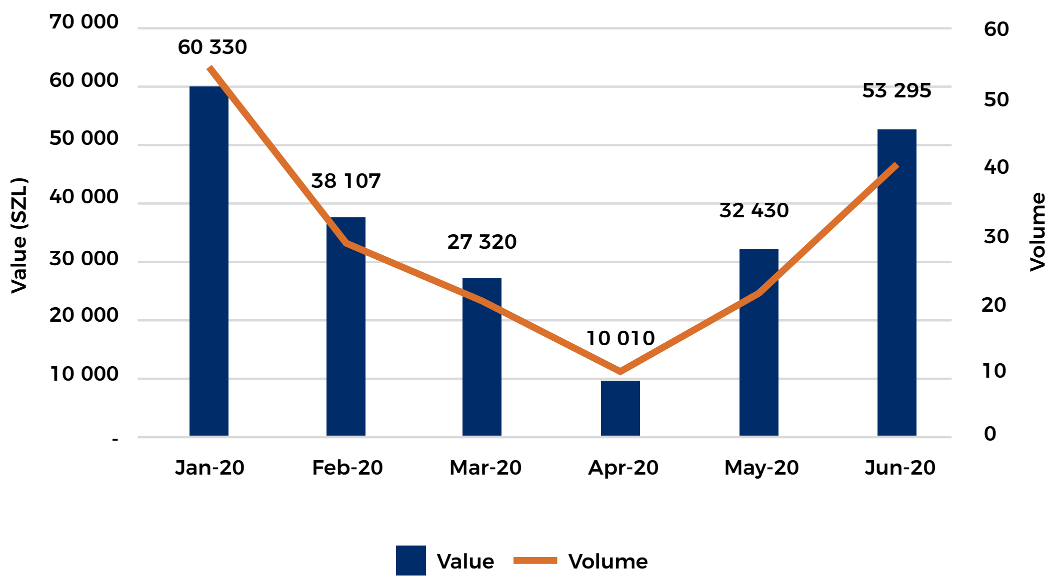
Figure 18: Shoprite MMT transfers (P2P) (Jan–Jun 2020)



Source: Eswatini NPS

Figure 19 indicates that withdrawals followed an almost identical pattern over this period.

Figure 19: Shoprite MMT withdrawals (P2P) (Jan–Jun 2020)

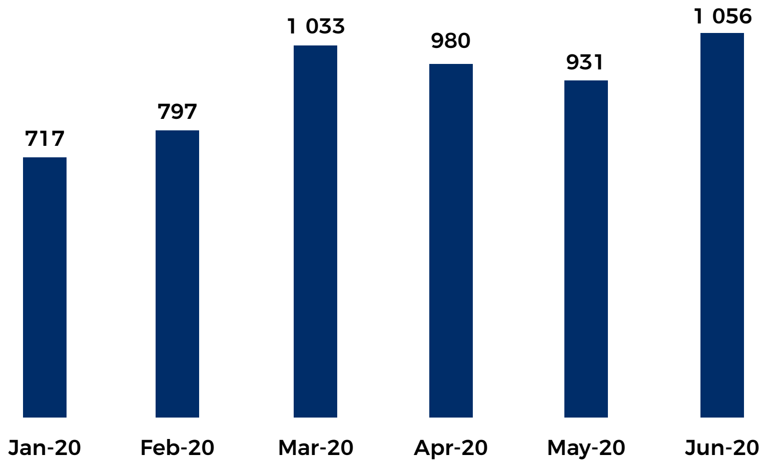


Source: Eswatini NPS

Over the course of January–June 2020, Swazi mobile's e-Mali experienced a drop in the value of P2P transactions, in line with MTN's MoMo and Shoprite's MMT; however, the e-Mali pattern (see Figure 20) contrasts with the other platforms' patterns, where volumes dropped significantly in April, before recovering in May.

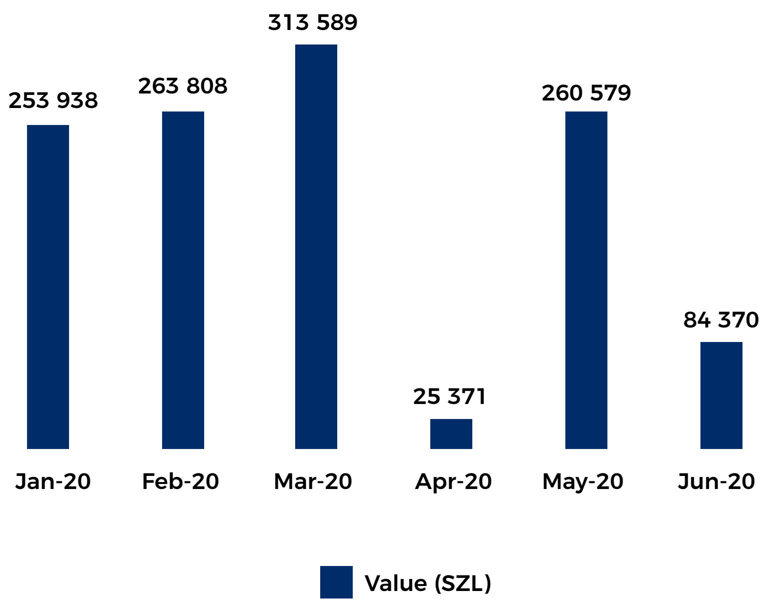
Figure 21 illustrates the drastic drop in e-Mali values transacted in April, which reflects the impact of COVID-19 on remittances in general. e-Mali experienced another decline in June, which is not reflected in the other platforms' values for the month. This could be a delayed impact of COVID-19.

Figure 20: Total volume of P2P transactions on e-Mali platform (Jan–Jun 2020)



Source: Eswatini NPS

Figure 21: Total value of P2P transactions on e-Mali platform (Jan–Jun 2020)



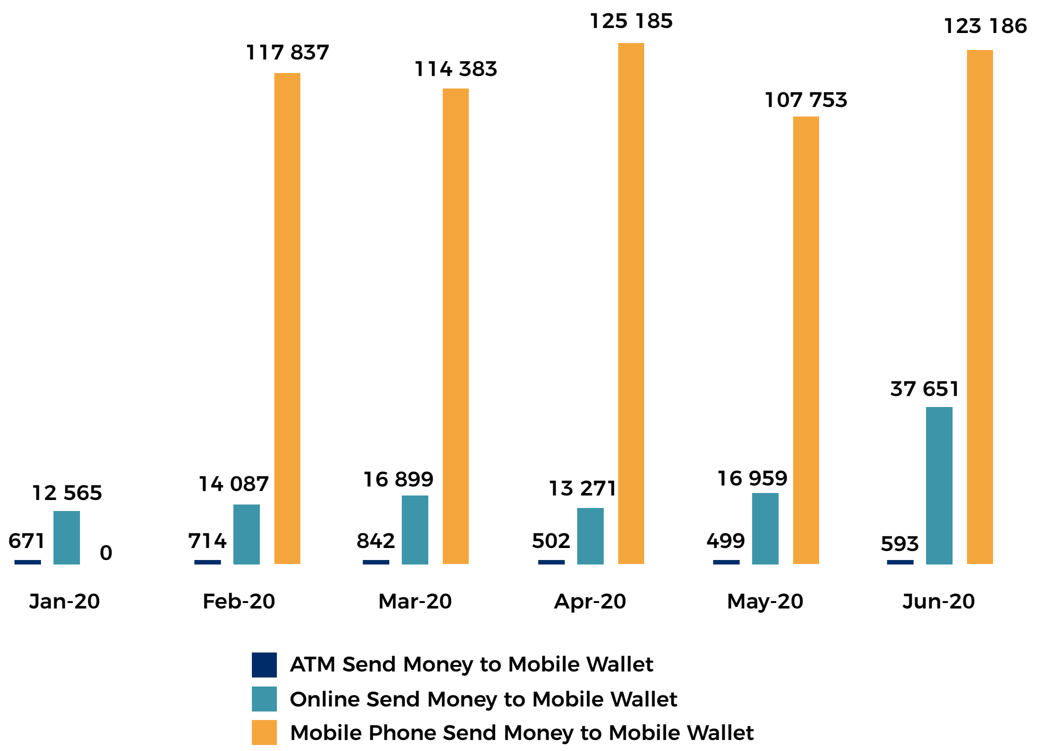
Source: Eswatini NPS

While we do not have aggregated data for P2P transactions for Eswatini, we use combined bank-to-mobile-money transactions as a proxy. For combined bank-to-mobile money, the following data is used: (i) ATM send money to mobile wallet; (ii) online send money to mobile wallet; and (iii) mobile phone send money to mobile wallet.

The data for the total number of transactions (see Figure 22) is not dissimilar to that of Swazi Mobile e-Mali over the period January–June 2020. However, the drop in the total value of transactions was not as sharp as for the mobile money platforms (see Figure 23). The data is as follows:

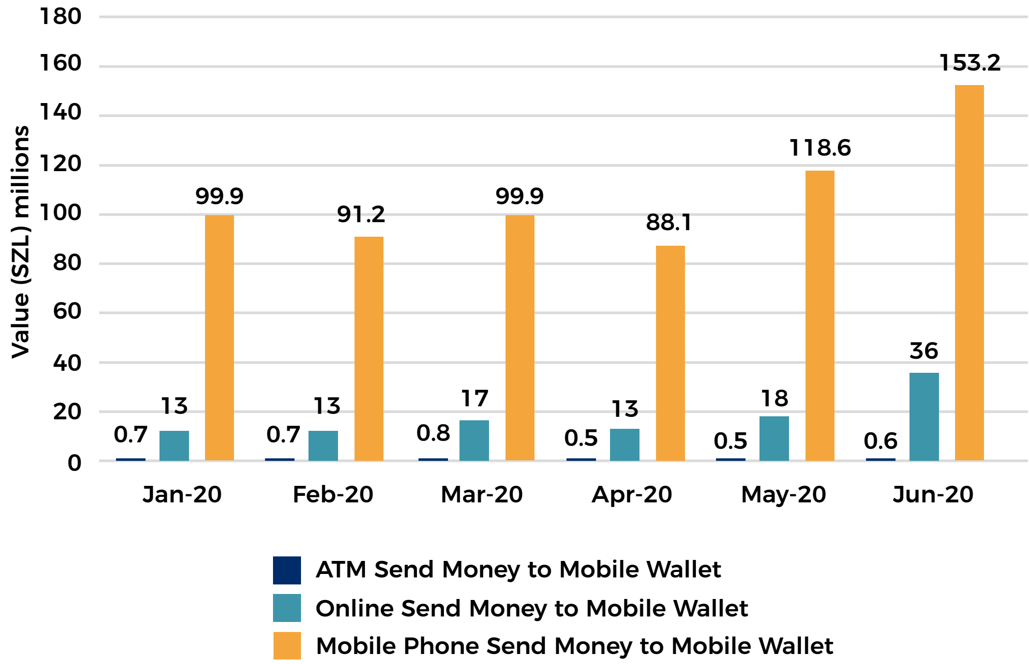
- In general, not many people send money to mobile wallets from ATMs.
- The *total volume* of transactions sent from mobile phones is seven times higher on average than those sent via an online channel.
- The *total value* of transactions sent via mobile phone is six times higher on average than via online channels.

Figure 22: Combined number of bank-to-mobile money transactions (Jan–Jun 2020)



Source: Eswatini NPS

Figure 23: Combined value of bank-to-mobile money transactions (Jan–Jun 2020)



Source: Eswatini NPS

For mineworkers whose transfers are administered by TEBA, there is no source of aggregated data to ascertain the size of the cross-border transfers. However, the CBE Exchange Control unit revealed that the inbound transfers to mineworkers (via TEBA) involve third-party corporate entities that are responsible for the transfer between South Africa and Eswatini. Once the funds get to Eswatini, local payments service providers are then leveraged to ensure the beneficiaries receive their income.

4.4 Network of financial access points

The access points that support payments and remittances in Eswatini include commercial bank branches, ATMs, retail outlets (Shoprite), Mukuru payout points, Eswatini Post Office outlets, bank agents and mobile money agents. As discussed in the preceding section, commercial banks are interoperable with the mobile money service providers in a closed-loop manner or bilateral agreements between RSPs.

Commercial banks' strategies for extending into rural areas. The banks' branches and ATMs are generally focused in urban areas, without much reach in rural areas. Forming partnerships with MNOs and retailers is thus one strategy banks are using to extend their reach into rural areas:

- As mentioned, FNB, Nedbank, Eswatini Bank and SBS have their respective partnerships with MTN.
- Nedbank and Standard Bank have bank–retailer partnerships: in order to grow its presence in rural areas, Nedbank has partnered with the three retailers OK, Shoprite and Pick 'n Pay – to provide a cashback solution, and at Shoprite a funds-withdrawal facility for customers.
- Standard Bank and Shoprite's remittances product (Shoprite Money Transfer) is designed to extend cash distribution beyond urban areas.

Financial access points in Eswatini. The current research process ascertained the following numbers in terms of Eswatini financial access points:

- **Commercial bank branches:** 67 (June 2019) – up from 61 (2015).
- **ATMs:** 281 (June 2019) – up from 255 (2015).
- **POS devices:** 3,444 (June 2019) – up from 1,704).
- **Post Office outlets:** 20 (September 2020) – up from 10 (2015).
- **Shoprite retail outlets:** 13 (September 2019).
- **Mobile money agents:** 10,000 registered; about 7,000 active (i.e. provided a service in the previous three months).

Need to disaggregate access point data by geographical location. However, the data on financial access points is not disaggregated by geographical location to reveal the breakdown by rural and urban areas. We thus attempted to collect geospatial information on financial access points (between March and September 2020), the aim being to assess barriers to access and usage.

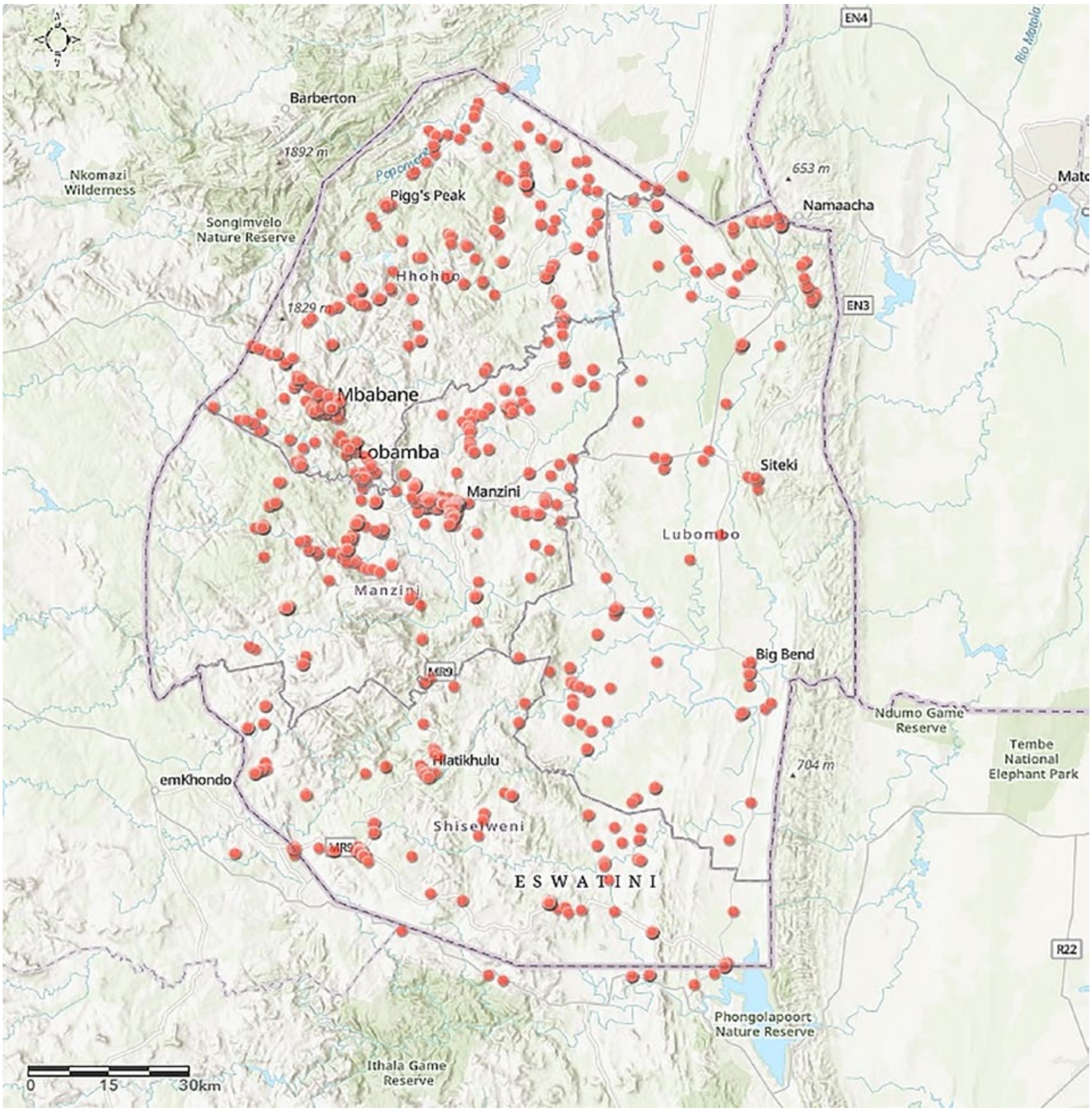
The following information received from service providers shows fewer access points (than the numbers listed above in official and promotional publications) because only those access points with geospatial data (i.e. where geolocation was available) were included in the research findings:

- **ATMs:** 240.
- **Bank agents:** 18.
- **Commercial bank branches:** 49.
- **Merchants (businesses that accept digital payments):** 124.
- **Active mobile money agents:** 1,015.

Figure 24 shows the distribution of these access points on a map that covers the country's four geographical zones. To reiterate, the map and statistics in the table do not include all the financial access points in Eswatini, serving only to illustrate distribution where geospatial data is available.

Furthermore, Shoprite locations are assumed to be included in the merchant data, but this does not provide a comprehensive view of Shoprite outlet locations.

Figure 24: Eswatini: financial access points across the four geographical zones

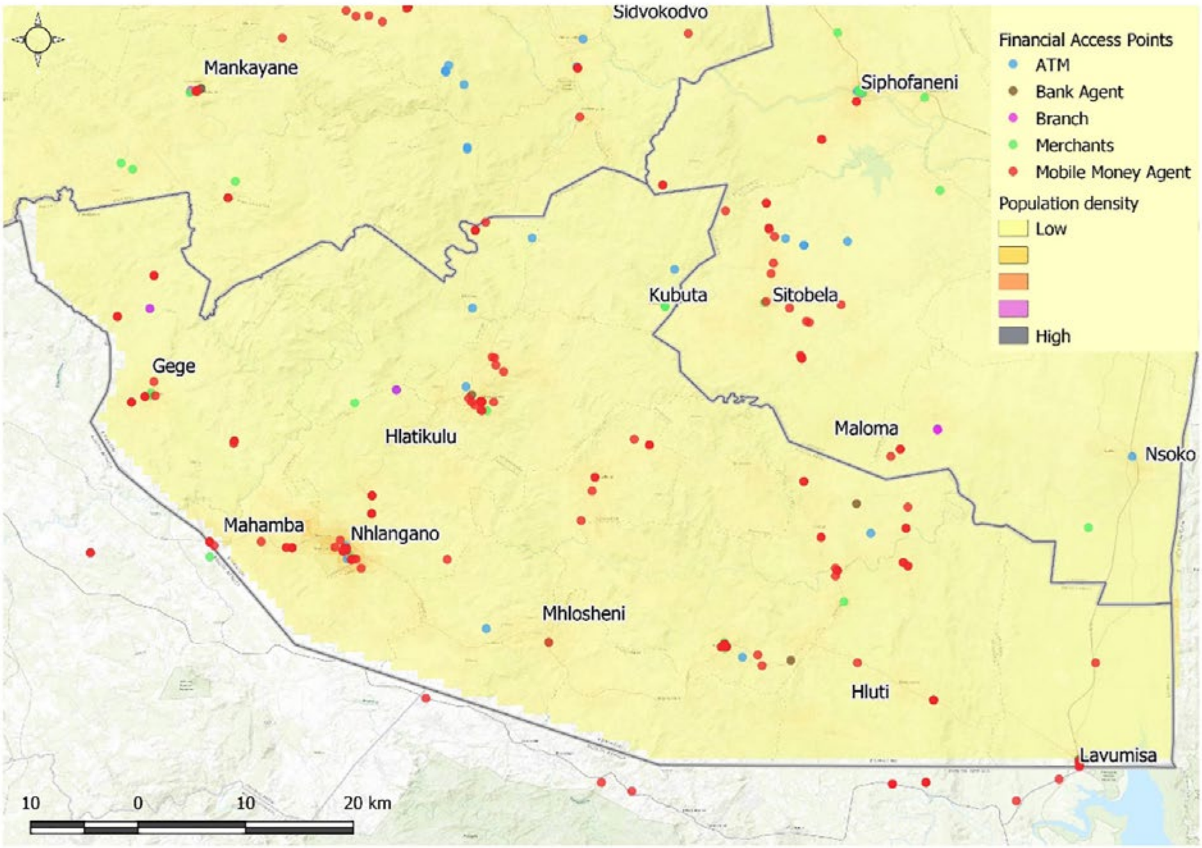


Source: Commercial banks and MTN

Figures 24 and 25 show the cluster of financial access points in relation to population density, focusing on Shiselweni and Lubombo, which is where most migrant families reside.

Figure 25 shows population density overlaid with access points in relation to the Shiselweni region only. This region has the lowest levels of bank and ATM penetration compared to other regions, and mobile money agents account for approximately 79% of the financial access points, indicating that agents are covering the gap in the provision of banking services.

Figure 25: Shiselweni: clustering of financial access points in relation to population density



Source: Commercial banks and MTN

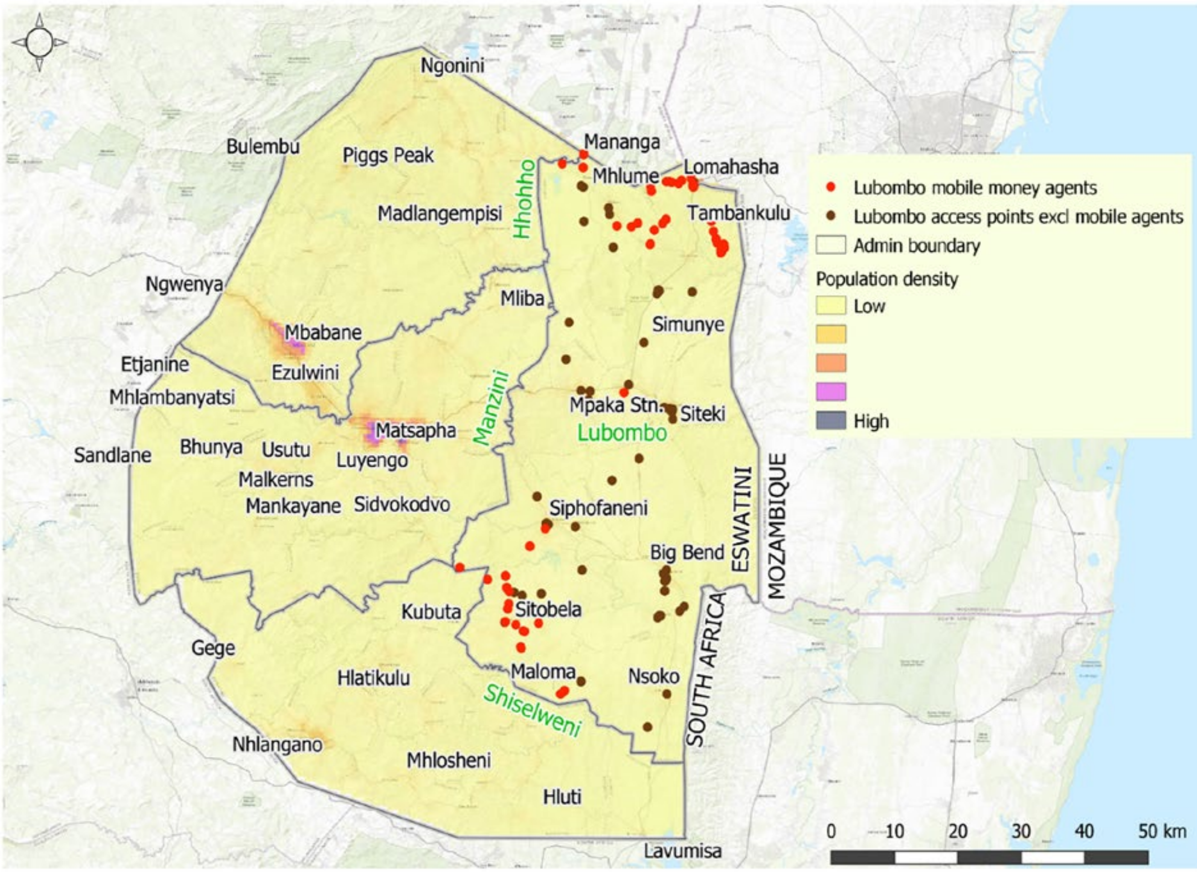
Need for more comprehensive data. Given that mobile money agents are likely to provide convenience to customers, their proximity to banks and ATMs is important, to ensure that liquidity (to adequately provide cash-out services) issues in low-population-density areas with fewer bank branches and ATMs are addressed. A more comprehensive dataset is needed: on mobile money agent locations, as well as information on agents' average number of transactions per day and float requirements; this would provide a better indication of whether mobile money agents are considered reliable cash points.

Figure 26 provides a similar analysis for Lubombo. The region has the lowest percentage of financial access points. The data below is as a proportion of total Lubombo financial access points:

- **Mobile money agents:** over 50%.
- **ATMS:** 21%.
- **Bank branches:** 8%.
- **Merchants:** 8%.
- **Bank agents:** 3%.

Access points in Lubombo are concentrated in towns (e.g. Siteki, Big Bend, Sitobela) and at the borders (Mananga), where there are economic activities.

Figure 26: Lubombo – clustering of financial access points in relation to population density



Source: Commercial banks and MTN

It should be noted that, given that four-fifths of total mobile money agents were not provided for this analysis, this geographical analysis will be limited; but it does provide a starting point and could be built on once more geospatial data on mobile money agents becomes available.

4.5 Costs

Transaction costs would not seem to be off-putting to consumers.

The cost of domestic remittances was assessed using published tariffs provided by the RSPs. The direct cost of remittances is borne by the sender and not the receiver. For mobile money transactions, the following tariffs/transaction fees would apply on a remittance transfer of SZL1,000 (US$66):

- **MTN:** 1% of the transferred amount.
- **Nedbank Eswatini:** 1% of the transferred amount.
- **Shoprite:** less than 1% of the transferred amount.
- **Using 'instant money'**: 1.2% of the transferred amount (this product is designed to benefit the low-value transactions market and the unbanked).
- **FNB Eswatini Pay2Cell (instant) product:** 1.5% of the transferred amount (this product is also designed to benefit the low-value transactions market and the unbanked).

Transaction costs would not seem to be off-putting to consumers. Using the products designed for the unserved and underserved in Eswatini, sending money across banking and non-banking service providers attracts additional fees of less than 2% of the transaction size of

SZL1,000. Thus, transaction costs alone do not appear to be prohibitive in enabling the use of the NPS to serve the domestic remittances market.

Domestic remittances ecosystem is able to meet the need. Considering that, as of 2018, 85% of the Eswatini adult population are financially included (driven by the uptake of mobile money), as the preceding subsections show the country has reached its target with regard to uptake of formal financial services: there are low-cost products designed for low-income earning adults, and relatively widespread networks of financial access points; commercial banks and non-commercial bank service providers are interoperable; and the usage metrics show a steady increase in the use of the NPS for remittances. In short, this report shows that the domestic remittances ecosystem is well calibrated to serve the needs of adults in Eswatini.

Further research needed, to close information gaps. There remain crucial information gaps regarding quality of service at financial access points (e.g. working hours of agents, % downtime of access points, liquidity management challenges of mobile money agents, drivers of mobile money agent churn given the level of active agents compared to registered agents etc.), which require additional research.

Links between formal remittance receiving and formal saving merit further development. It will be important to support the development of new products that link remittances and savings: that is to say, leveraging remittance services to engender a culture of formal saving in order to support the consumption smoothing needs of households and micro-enterprises.

4.6 Financial literacy and capability

Regulations

The CBE has mandated that all commercial banks publish information on products and fees twice a year, both on their respective websites and in print media and newspapers. There is a minimum standard that the CBE shares with commercial banks to guide this information. The banks are to submit this to the CBE in June and December (annually) and will be penalised for failure to do so.

Existing programmes

Commercial banks: Over and above adherence to the directive issued by CBE that banks publish product- and fee-related information, all the banks have programmes (either from a marketing perspective or outright literacy focused) to improve the literacy and capability of their clients. The banks interviewed typically do not have literacy campaigns targeted at specific target groups but there is a geographical focus to how their literacy programmes are implemented, with emphasis on rural areas, which is where the underserved reside.

The channels used include newspapers, radio, mobile phone texts (SMSs), and community outreach, which entails deploying teams to rural locations to engage with (potential) clients. Eswatini Bank is an exception in having consultants/fieldworkers deployed to support sugarcane and banana farmers with financial capability. COVID-19 was cited to have had a negative effect on the outreach programmes, so print media, radio and mobile phone have been the main channels used for implementing financial literacy programmes.

Banks also visit schools to teach students about banking and banks' role as a financial intermediary.

For the most part, none of the banks have a formal policy on financial literacy and capability; their method is mainly about reducing information asymmetries about their products and services.

Mobile money service providers: MTN MoMo does not have a formal policy on financial literacy. However, through the MTN Foundation they provide training on the mobile wallet functionalities to their customers via the radio and social media. They also arrange roadshows every Friday ('impact Fridays') to educate the market on mobile money services, rotating the targeted locations (rural/urban) on a monthly basis.

FSRA: The FSRA is also involved in financial literacy outreach, including distribution of booklets and presentations, booking time on radio stations and space in print media, using multiple social media channels and conducting in-person roadshows. They also attend the AGM of licensed SACCOs to interface with members while providing financial literacy and capability support.

SACCOs

FSRA responsibility for supporting saving and credit institutions. The main roles of the FSRA, as the non-bank regulator, are advocacy intervention; ensuring that SACCOs move from a cash to a digital base; coordinating and engaging other stakeholders within the payment ecosystem; and assistance and support to and regulation of SACCOs.

SACCO membership very popular among Swazi people. As of March 2020, there were 58 SACCOs registered with the FSRA, with 60,580 members (an increase from the 49 licensed SACCOs in March 2017).

Few SACCOs depend 100% on cross-border remittances. The FSRA is closely involved with domestic regulations. Cross-border remittances sent from South Africa to Eswatini may be used to support beneficiaries in rural areas, particularly migrant families; this money is used for living expenses and some may be used to join a SACCO. Very few SACCOs are entirely dependent on cross-border remittances, however, and those that are, are generally small-sized SACCOs, which are still for the most part unlicensed, according to the FSRA.[40]

SACCOs subject to fairly stringent regulatory requirements. Before a SACCO is registered with the FSRA it needs to go through training and obtain a certificate of registration from the Commissioner for Cooperatives within the Ministry of Trade and Industry. The SACCO itself is strongly encouraged to have a bank account (most have one with Eswatini Building Society or FNB). If a SACCO has a mobile number, its members can make their monthly contributions directly through mobile money. Challenges facing the FSRA from the smaller SACCOs include potential governance issues and inadequate accounting in terms of SACCO records and operations.

4.7 Demand-side remittance market mapping and needs assessment: Eswatini

Remittances (both domestic and cross-border) constitute the main source of income for a significant portion of the households in Eswatini. According to the 2018 Eswatini Consumer FinScope,[41] 24% of total adults declared remittances as their main source of income, followed by income from the formal sector (20%). Due to the level of dependency in Eswatini, remittances, as a financial service, present an opportunity for policy makers and regulators to use the country's payments infrastructure to meet the need for social assistance.

Therefore, the subsections that follow provide insight into the remittances behaviour of cross-border remittance receivers, domestic remittance receivers, domestic remittance senders, and micro-enterprises in Eswatini. The role of savings and credit groups in consumption smoothing

40 Based on interview with FSRA
41 FinMark Trust. (2018). FinScope Consumer Survey Highlights Eswatini 2018 Pocket Guide.

and productive activities is also interrogated, in order to generate recommendations relating to the role of formal and informal financial service providers in the developmental path of vulnerable households and micro-enterprises in rural Eswatini.

The main sample – 2,000 households – was drawn from multiple datasets to fit the spread of these types of households in Eswatini.

Methodology

Focus areas of the study. FinMark Trust (FMT) partnered with the Eswatini Economic Policy Analysis and Research Centre (ESEPARC) to conduct a study on how remittances move between urban and rural areas within Eswatini. A particular focus of the study was describing the gaps in cash distribution across the rural and urban divide, and also how the remitted funds are used by remittance receivers.

Questionnaire design. The research had both a quantitative and qualitative element and was designed to cover the following:

- To provide migrants' household segmentation: occupations and incomes earned, as to understand the level of reliance on remittance received from South Africa and domestically.
- To understand the nature of the relationship with the main sender(s) of remittance and which family member remained responsible for the family and the use of remittances received.
- To evaluate access, usage, perceptions, preferences and interactions that target groups have with any remittance products and services at their disposal, and the extent to which these are linked to other inclusive financial products.
- To understand access, use and knowledge of other financial services: The propensity to save formally vs informally, the level of knowledge of existing financial service.
- To understand the financial literacy of target groups.

The qualitative aspect of the research complemented the main survey focus and interviewed a sub-set of the respondents, mainly around financial literacy and financial capability.

Sampling approach and main sample. The sampling approach used was largely purposive based on the results of the FinScope Survey in 2018;[42] the sampling frame had to represent the following respondent characteristics (as per the results of the 2018 Eswatini FinScope):

- Domestic remittance senders (only sending money within Eswatini).
- Domestic remittance receivers.
- Cross-border remittance receivers.
- Aspiring resource-constrained micro-entrepreneurs that *do not* receive or send remittances, with a desire to enhance their financial capabilities in order to develop or expand farm or non-farm enterprises.

Furthermore, to qualify for the study, respondents had to be aged 15 years or older.

The main sample – 2,000 households – was drawn from multiple datasets to fit the spread of these types of households in Eswatini. The datasets included: MTN Eswatini MoMo subscribers; SWAMMIWA members: mineworkers, truck drivers, and textile workers; and household contact details from community development officers working in the Shiselweni and Lubombo regions of Eswatini.

Some of the contact lists that made up the fixed sample of 2,000 respondents were collected during the interviews, where some respondents provided the receiver's contact details if they were the remittance sender. The sample achieved is depicted in Table 8.

42 FinMark Trust. (2018). FinScope Consumer Survey Highlights Eswatini 2018 Pocket Guide.

Table 8: Sample of target groups

Target groups	Frequency	%
Domestic remittance senders	605	29.0
Domestic remittance receivers	772	37.6
Cross-border remittance receivers	166	8.1
Micro-entrepreneurs	512	24.9
Total	2,055	100.0

The total sample (2,055) is spread across the four regions of Eswatini, with the majority (43%) from Shiselweni, followed by 27% from Lubombo, 16% from Manzini and 14% from Hhohho. Of the total sampled, 56% are female and 44% male.

Survey timing. The quantitative survey, which made use of CATI (computer-assisted telephone interviewing), was piloted over a period of three days (13–15 July 2020 inclusive). On 15 July, FMT granted approval to roll out real data collection, and data collection began on day 4: 16 July 2020.

Qualitative survey. The quantitative survey findings were supplemented with in-depth interviews (qualitative survey) of 250 participants (identified from the four groups in Table 8); the interviews were conducted to get a clearer understanding of the findings derived from the quantitative survey data analysis and explore the questions that were not asked in the quantitative survey: mostly questions around financial literacy and financial capability.

Research findings

Education levels. The micro-entrepreneurs have the lowest level of education: 41% have only primary or no formal education. However, among remittance receivers, a third have low levels of education (i.e. a third of domestic remittances receivers, and a third of cross-border remittance receivers). Of the total domestic remittance senders (605), 19% have tertiary education, which would have implications for their ability to earn a living.

Occupation/source of income. Of the total domestic senders (605), 53% mainly earn wages from a private or government organisation, while 25% earn a living from piecemeal jobs. Only 5% mainly live off agriculture or farming.

Among domestic receivers, the segment 'Dependents' predominates, non-farm business common. Receivers of domestic remittances (772 in total) are mostly dependents (48% of total domestic receivers), living off a benefactor. Their additional sources of income include mostly running a non-farm business (63%) or living off agriculture (25%).

Among cross-border receivers, the segment 'Dependents' is extremely high. Of the total receivers of cross-border remittances (166), 88% depend mainly on their benefactor for a living, while 5% earn wages in government or the private sector.

Income levels by target group. Table 9 shows monthly income categories by target group, with 1,671 of the total of 2,055 respondents providing details on their income (survey respondents find such questions sensitive).

Research findings cover:

Education levels.

19% *domestic remittance senders have tertiary education*

1/3 *of domestic remittances receivers have low levels of education*

Occupation/source of income.

53% *mainly earn wages from a private or government organisation*

25% *earn a living from piecemeal jobs*

5% *mainly live off agriculture or farming*

Among domestic receivers, the segment 'Dependents' predominates, non-farm business commo

48% *are mostly dependents*

63% *draw their additional income from running a non-farm business*

25% *living off agriculture*

Among cross-border receivers, the segment 'Dependents' is extremely high.

88%

depend mainly on their benefactor for a living

Table 9: Monthly income categories

Monthly income (in SZL)	Domestic remittance senders	Domestic remittance receivers	Cross-border remittance receivers	Micro-entrepreneurs
1–1,000 (US$0-65)	20%	48%	19%	37%
1,001–2,000 (US$65–130)	18%	27%	54%	23%
2,001–3,000 (US$131–196)	13%	9%	27%	13%
3,001–5,000 (US$197–327)	15%	7%	18%	13%
5,000+ (US$327+)	30%	8%	7%	11%
Average monthly income	SZL9,524.04 (US$624)	SZL7,776.54 (US$509)	SZL7,637.77 (US$500)	SZL9,344.77 (US$612)

Domestic remittance senders are mostly (30%) represented in the income category SZL5,000+ compared to the other target groups. This is not surprising since they are most likely to work in relatively high-paying jobs in the formal economy (in government or private enterprises) and they also have the highest levels of educational attainment.

Domestic remittance receivers and micro-entrepreneurs have lowest income. In terms of poverty levels:

- The receivers of domestic remittances earn the least income monthly, with 75% earning SZL2,000 or less.
- This is followed by micro-entrepreneurs, with 60% earning SZL2,000 or less per month.
- Of the receivers of cross-border remittances, 46% earn SZL2,000 or less, with 27% earning between SZL1,000 and SZL2,000 a month.

High level of reliance on remittances. With a poverty line of SZL2,500 (US$204), it is expected that a majority of micro-entrepreneurs and domestic remittance recipients would have liquidity challenges if there is no government safety net or if they do not have social networks that can support them. And cross-border remittance receivers are the most vulnerable to falling below the poverty line if their benefactors in South Africa lose their jobs.

Willingness to save – but limited ability. Nonetheless, 91% of the total respondents keep track of income and expenses, with 54% claiming their income is insufficient to cover monthly expenses. This implies that saving would be a challenge – and particularly saving for speculative and productive purposes. This is confirmed in the survey by the fact that 50% of respondents claim that in the six months preceding August 2020 there was an inability to save for long-term goals.

Females most likely to be remittance-dependent. Domestic senders are mostly male (73%). Remittance receivers, domestic and cross-border alike, are mostly female, representing 66% and 85%, respectively. Micro-entrepreneurs are mostly female (67%). Essentially, this shows that females are most likely to be dependent on domestic and cross-border remittances.

Relationship of remittance receivers to senders varies by gender. Figure 27 shows the relationship of receivers (by gender) to senders of both domestic and cross-border remittances. When females receive remittances, it is mostly from their spouse or children, whereas when males receive remittances, it is mostly from a business partner, a friend, a parent or an organisation (such as labour brokers).

Domestic remittance receivers and micro-entrepreneurs have lowest income.

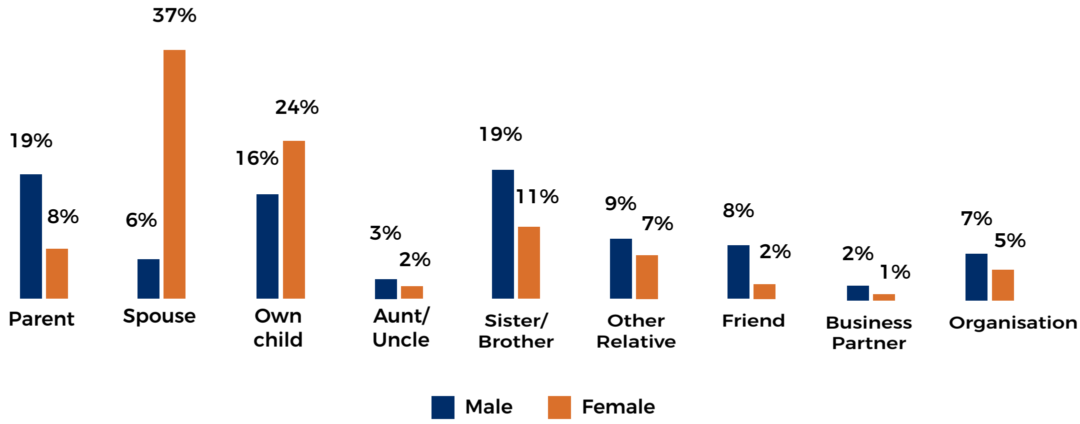
75%
of the receivers of domestic remittances earn the least income monthly, earning SZL2,000 or less.

60%
of micro-entrepreneurs earn SZL2,000 or less per month.

46%
of the receivers of cross-border remittances, earn SZL2,000 or less, with 27% earning between SZL1,000 and SZL2,000 a month.

Roles and responsibilities in cross-border recipient households. According to the qualitative study, where a marriage or partnership is involved, it is the husband that is usually the one working in South Africa, with the wife staying behind to take care of the household. As mentioned, the cross-border remittent families are greatly dependent on the remittance, and very few have means to supplement income through micro-businesses or other income-generating activities.

Figure 27: Remittance receivers by gender, by relationship to sender (domestic and cross-border)



Breakdown of remittances received, by source. In the 12 months between August 2019 and 2020, 938 of the study respondents received remittances:

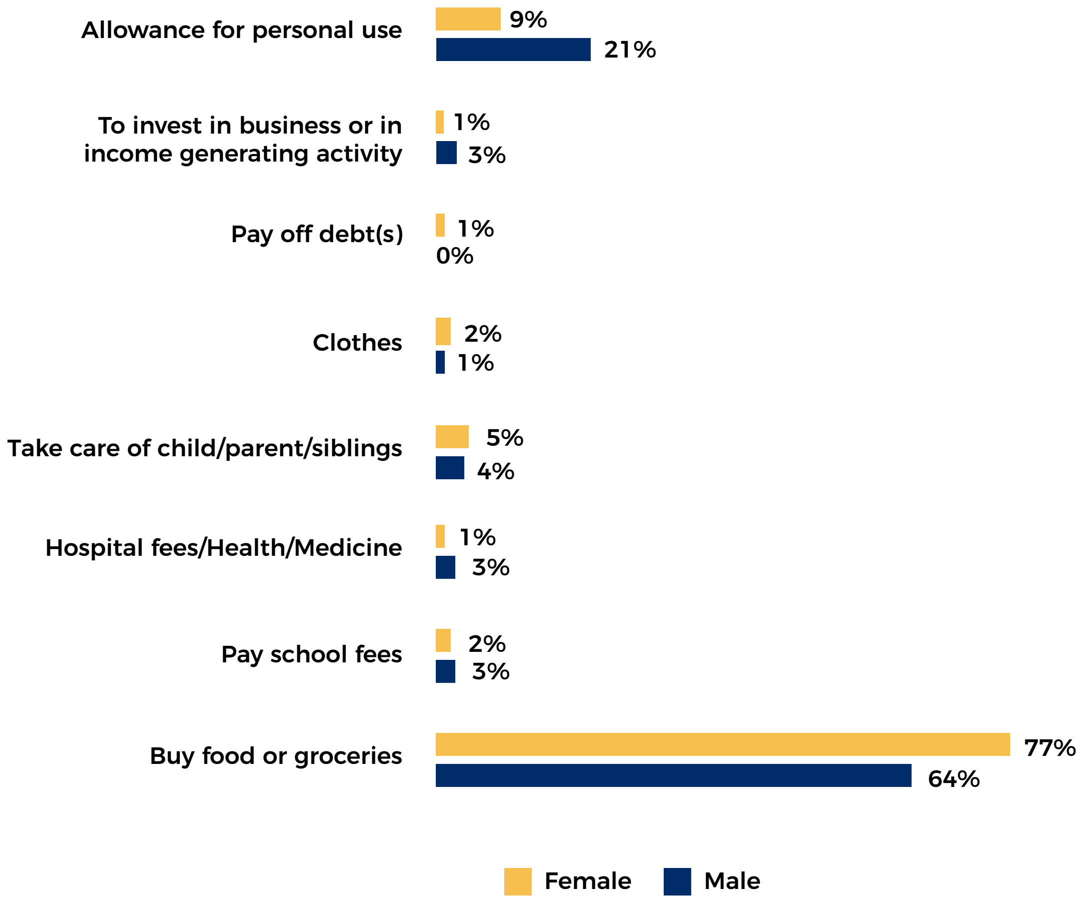
- 61.6% of remittances were domestic – received from rural Eswatini.
- 35.8% of remittances were cross-border – received from South Africa.

Use of the remittances received, indicating priorities. Figure 28 shows how remittances are being used, with buying food/groceries representing the main use for male and female receivers alike. This shows that the basic need for nutrition/food is the main driver for earning remittances.

Liquidity and long-term saving out of reach for most. It also corroborates the initial finding: that half the respondents are unable to maintain liquidity to cater for monthly expenses or save for long-term goals.

Form of remittances, indicating priorities. The remittances are mostly in cash. There are, however, instances of non-cash transfers, with airtime, electricity units and groceries being the top three non-cash transfers for domestic receivers. This demonstrates the importance of communication, access to energy (basic services) and, again, food in the lives of the domestic remittance receivers.

Figure 28: Use of remittances



Domestic remittance receivers – salient findings

In the 12 months preceding the survey in August 2020:

- **Monthly:** 595 respondents received domestic remittances – of which 78% received their remittance on a monthly basis.
- **Mobile money:** 70% of receivers accessed their remitted funds via a mobile money platform.
- **Formal platform:** Domestic remittances are mostly transacted on formal platforms; 95% of receivers claimed to have received via formal platforms (with mobile money being the most popular).
- **Geographical location:** 56% of the receivers reside in Shiselweni, while 71% reside in Lubombo.

Reasons for popularity of formal platforms among domestic receivers. Cost, speed, reliability and ease of use are the top four reasons cited for using the (mostly) formal platforms for receiving funds: over 90% claimed to be satisfied with their formal RSP.

Domestic receivers prefer, are comfortable with digital financial services, especially mobile money. The qualitative study findings revealed most participants are comfortable with using digital financial services, especially mobile money. There is also a preference for mobile money over commercial banks because banks are perceived to be more expensive, requiring additional costs with respect to travelling to, and withdrawing from ATMs. Moreover, mobile money is perceived to be more accessible (which could lead to misuse of funds – warranting some financial literacy and capability training).

Few additional costs for domestic receivers. Only 26% of total receivers of domestic remittances incurred transport costs to withdraw the amount received – supporting the importance of improved data on cash distribution to support interventions that can reduce this cost.

Average amounts received by domestic receivers: SZL1,000 (US$65) or less monthly. As expected, response rates were low for the question on average amount received. Only 338 of receivers of domestic remittance receivers responded, of which 79% received SZL1,000 (US$65) or less monthly.

Level of agency of domestic receivers over remittance spending. Over 70% of the domestic remittance's receivers have full agency over the amounts received; that is, they make independent decisions on how the amounts received are spent.

Cross-border remittance receivers – salient findings

Geographical location: 45.8% of remittance receivers reside in Shiselweni.

Average amounts received by cross-border receivers: SZL2500 (US$204) or less. Of the 104 that responded to this question, 69% received SZL2,500 (US$204) or less monthly.

Monthly: of the total receivers of cross-border remittances (334) that received an amount in the 12 months preceding August 2020, 89.2% got paid monthly. Of these monthly receivers:

- **Formal platforms:** 80% got their money through formal financial service providers:
    - 42.5% receiving directly into their bank accounts.
    - 5.4% getting it via e-wallet transfers.
    - Curiously: 31.1% claiming to have received via mobile money. This could be indicative of the inability to distinguish banks from mobile money services – a case for financial literacy programmes.

Transport costs for some cross-border receivers to withdraw. Of total cross-border remittances (in the 12 months preceding the survey), 62% receivers claimed to have incurred transport costs to withdraw the amount sent. The qualitative study corroborates this and generally, 'receiving money is too costly because of transportation costs besides withdrawal fees'.

Cashing out at ATMs inconvenient for cross-border receivers. Another challenge raised is the waiting time at ATMs, which makes using banking cash distribution points such as ATMs inconvenient, and adding an opportunity cost to the process.

Cross-border receivers would prefer mobile money for receiving. Mobile money is the most preferred means of receiving cross-border remittances – *even though it is not currently available.*

Mobile phone-based services most trusted, most popular – viewed as most trusted and affordable. *Awareness* of financial services is assumed to be a first step towards usage. Given a non-exhaustive list of financial services, 'transfer via cellphone/mobile phone' is the most popular with both domestic and cross-border remittance receivers. There is a possible conflation, in respondents' understanding and responses, of the e-wallet/instant money services offered by commercial banks, and mobile money; this shows that mobile phone is relatively the most popular channel for engaging in remittances services.

Mobile phone-based services (e-wallet and mobile money) are viewed as the most trusted and affordable options for remittances.

Cross-border remittance receivers

80%
got their money through formal financial service providers

42.5%
receiving directly into their bank accounts.

5.4%
getting it via e-wallet transfers.

31.1%
claim to have received via mobile money.

Micro-enterprises – salient findings

Of the 512 respondents that run a micro-enterprise:

- **Geographical location:** 92% reside in rural areas: most are in Shiselweni (58%) and Lubombo (25%).
- **Age:** 34.5% are in the 18–34 year age category; most are over 35 years of age.
- **Gender:** 67% are female.
- **Education level:** 40% of micro-entrepreneurs in urban areas and 43% in rural areas have a secondary school education.

Most of the business owners mainly depend on the business for *survival*:

- **Cash:** most use mainly cash: 80% receive income in cash rather than via digital platforms.
- **A single business:** 88% have one business, while 11.2% run two businesses.
- **Mostly informal:** most of the businesses are informal: only 3.3% of the businesses have a trading licence; 85% are not registered or licensed businesses.
- **Main challenge:** cash flow is the main challenge faced.

In terms of **business sector/activity**:

- 36.8% of the businesses grow something/rear livestock to sell (smallholder farming).
- 25.2% buy and sell (trading).
- 11.5% either work piecemeal work in construction or provide services such as plumbing.
- 10.7% make crafts to sell.

In terms of the **MSME sub-sectors** they belong to:

- 43% are in the agriculture sector.
- 26% are in the retail sector.

In terms of **employment creation**:

- Most of the micro-enterprises do not employ others: only about 25% of the micro-enterprises employ one or more people.

In terms of **financial inclusion**:

- 94% have a mobile money account.
- 38% have a bank account.
- 50% belong to an informal *stokvel*.
- 41% belong to a formal savings and credit group (licensed SACCO with the FSRA).

Uptake/usage of other services (based on total respondents) in Eswatini

Mobile money most ubiquitous financial service. The survey also tracks the uptake and usage of other financial services besides remittances. Of the total respondents, 995 have a commercial bank account in their name, 1,885 have a mobile money account, and 411 have formal insurance. This shows that mobile money is the most ubiquitous financial service in Eswatini with the potential to deepen financial inclusion.

***Formal* has delivered improvements to respondents' lives.** The uptake and usage of formal financial services was claimed to have led to an improvement in the management of the lives of a majority (over 70% of respondents) of the respondent.

Mobile money seen as service with highest value for money. Of those with a mobile money account, 88.3% claim the cost paid to use mobile money is worth the benefits derived.

Micro-enterprises – salient findings

Geographical location:

92%
reside in rural areas

Gender:

67%
are female.

Education:

40%
of micro-entrepreneurs in urban areas and

43%
in rural areas have a secondary school education.

In terms of financial inclusion:

94%
have a mobile money account.

38%
have a bank account.

50%
belong to an informal stokvel.

41%
belong to a formal savings and credit group (licensed SACCO with the FSRA).

Information asymmetry in relation to costs. In terms of cost of use:

- **Mobile money is perceived as the most transparent:** 89.7% (of those with a mobile money account) claim they are aware of the cost implications.
- **Commercial banks are perceived as less transparent:** 67.4% (of those with a bank account) claim they are aware of the cost implications.

In control of their finances due to their financial product/service – mobile money scores highest. Of those that have a bank account, 80.6% claim to be in control of their finances due to the service, while 95.5% of registered mobile money users claim the service has allowed them more control over their finances.

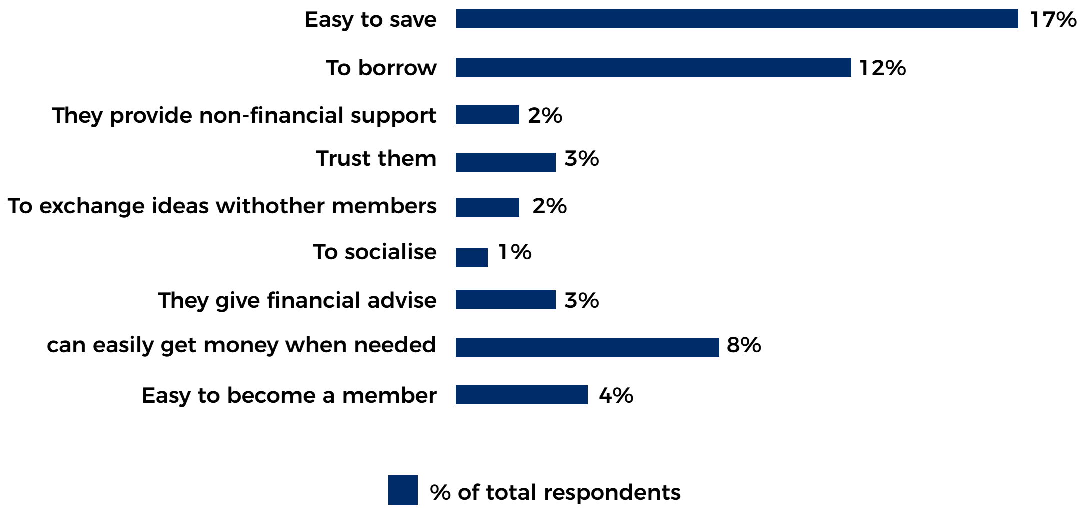
Popularity and appeal of savings groups. Participation in savings groups is quite popular among the respondents, with 1,141 belonging to one or more savings group directly or through someone else (see Table 10).

Table 10: Participation in savings groups

	Total	% of total respondents
Formal savings and credit group – Tinhlangano	412	20%
Community-based group/solidarity system	279	14%
Farmer association	109	5%
Informal stokvel	643	31%

Participation in savings groups integral to financial health. The top reasons for participating in savings groups are not surprising (see Figure 29). Savings, access to loans and the ease of accessing funds when needed are the top three reasons, which shows that savings groups are integral to the financial health of the respondents. From a policy perspective, non-financial support was not as prominent as one would expect given the activities of development agencies that provide non-financial support to households in Eswatini (e.g. the FINCLUDE programme). This finding is important for the design of non-financial support to households/micro-enterprises: the value to be derived must be foregrounded and clarified for beneficiaries.

Figure 29: Reasons for joining savings groups



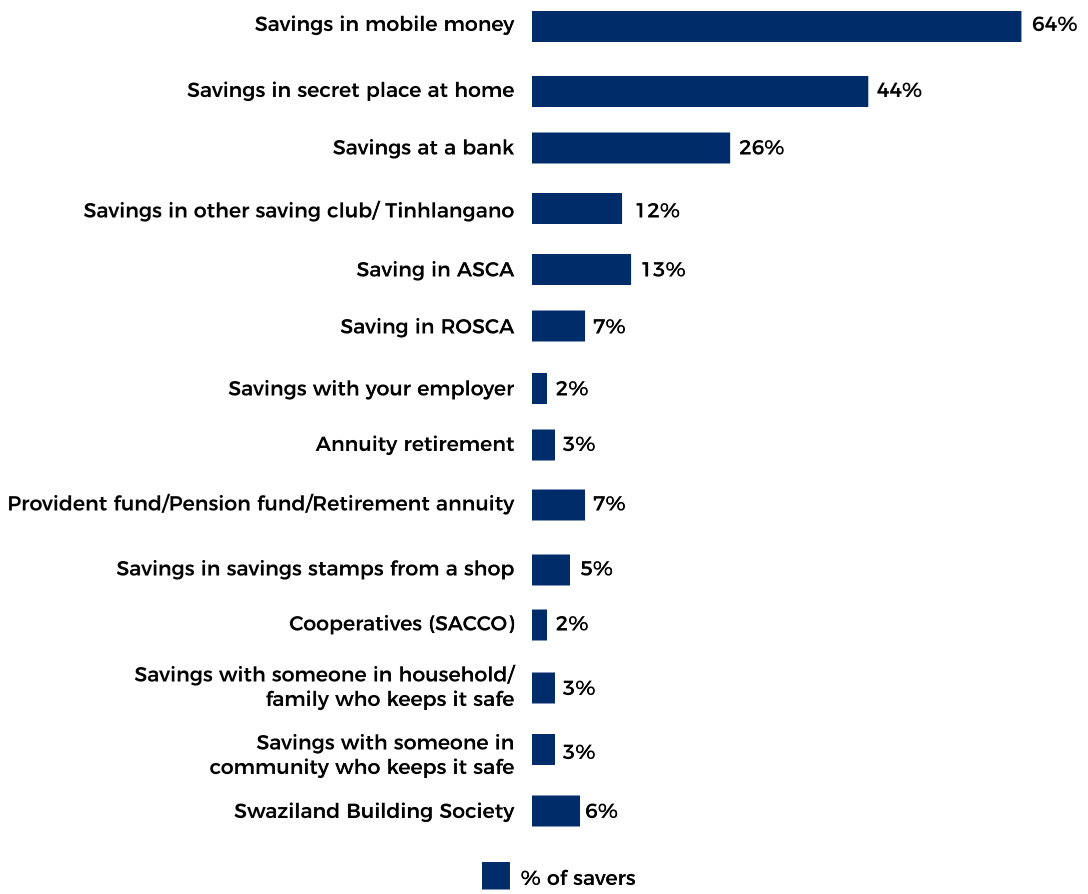
Propensity to save (formally vs informally)

Just under three-quarters of the total sample save. In the 12 months preceding August 2020, 72% of the total sample saved or put some money aside.

Mobile money is preferred mechanism. Figure 30 shows how the respondents save. A majority of respondents in total and those that are micro-enterprises or receivers of remittances use mobile money (top choice), followed by banks, and then saving at home. It is worth noting these are not mutually exclusive, as saving in multiple places is a common practice in general.

A significant predisposition towards cash. However, quite a sizeable percentage of respondents are saving at home, which is indicative of the need to keep cash. The proclivity for cash could either be due to old habits (digital platforms are relatively new in Eswatini) or that digital merchants' payments are still mostly in cash.[43]

Figure 30: Saving methods



43 UNCDF Making Access Possible. (2019). *Measuring Progress. Financial Inclusion in Selected SADC Countries*, available at: https://finmark.org.za/system/documents/files/000/000/266/original/Measuring_Progress_Financial_Inclusion_in_selected_SADC_countries_-_2019_Report.pdf?1603091586

Using all saving mechanisms available. In terms of savings behaviour, saving to grow and accumulate funds, and precautionary reasons (for when needed) are the top two ways in which people think of savings, while purposeful saving (e.g. lifecycle reasons) is ranked third. Furthermore, 74% of total respondents save for over a period that spans a month to a year. This implies that the respondents are using all the mechanisms available to meet short-term and long-term financial needs.

Financial literacy and capability levels

The Eswatini Financial Capability FinScope Survey (2018)[44] highlights the importance of defining existing financial literacy and capability levels of the country's citizens as part of efforts to launch a national financial capability strategy with remittances as a main pillar. To that end, the survey gathered data on financial literacy levels of cross-border remittance receivers, domestic remittance receivers, domestic senders, and micro-entrepreneurs.

Cross-border remittance receivers – financial literacy and capability levels

In terms of **financial planning and decision-making**:

- 41% make financial decisions alone.
- 51% share the responsibility with their spouse/partner.

In terms of **financial health**:

- 46% claim their monthly income is always inadequate to meet their monthly expenses.
- Only 19% claim to have sufficient monthly income.

In terms of **keeping track of income and expenses**:

- 55% claim to keep track of their income and expenses.
- Only 6% claim not to keep track of their income and expenses.

In terms of **saving for long-term goals and emergencies**:

- 48% are unable to save for long-term goals.
- 42% are able to save but not adequate to meet financial need.

Domestic remittance receivers – financial literacy and capability levels

In terms of **financial planning and decision-making**:

- 64% make financial decisions alone.
- 21% share the responsibility with their spouse/partner.

In terms of **financial health**:

- 60% claim their monthly income is always inadequate to meet their monthly expenses
- Only 4% claim to have sufficient monthly income.

In terms of **keeping track of income and expenses**:

- 42% claim to keep track of their income and expenses.
- Only 8% claim not to keep track of their income and expenses.

Cross-border remittance receivers - In terms of financial planning and decision-making:

45%
are unable to save for long-term goals.

51%
are able to save but not adequate to meet financial need.

Domestic remittance receivers - In terms of financial planning and decision-making:

64%
make financial decisions alone.

21%
share the responsibility with their spouse/partner.

44 It is a subsection of the 2018 Eswatini Consumer FinScope Survey.

In terms of **saving for long-term goals and emergencies**:

- 60% are unable to save for long-term goals.
- 35% are able to save but not adequate to meet financial need.

Domestic senders – financial literacy and capability levels

In terms of **financial planning and decision-making**:

- 54% make financial decisions alone.
- 34% share the responsibility with their spouse/partner.

In terms of **financial health**:

- 53% claim their monthly income is always inadequate to meet their monthly expenses.
- Only 8% claim to have sufficient monthly income.

In terms of **keeping track of income and expenses**:

- 36% claim to keep track of their income and expenses.
- Only 10% claim not to keep track of their income and expenses.

In terms of **saving for long-term goals and emergencies**:

- 43% are unable to save for long term goals.
- 46% are able to save but not adequate to meet financial need.

Micro-entrepreneurs – financial literacy and capability levels

In terms of **financial planning and decision-making**:

- 59% of micro-enterprises make financial decisions alone.
- 33% share the responsibility with their spouse/partner.

In terms of **financial health**:

- 52% claim their monthly income is always inadequate to meet their monthly expenses.
- Only 3% claim to have sufficient monthly income.

In terms of **keeping track of income and expenses**:

- 37% claim to keep track of their income and expenses.
- Only 8% claim not to keep track of their income and expenses.

In terms of **saving for long-term goals and emergencies**:

- 45% are unable to save for long-term goals.
- 51% are able to save but not adequate to meet financial need.

In terms of financial health for micro entrepreneurs

53%

claim their monthly income is always inadequate to meet their monthly expenses

8%

claim to have sufficient monthly income.

In terms of financial health for domestic remittance senders

52%

claim their monthly income is always inadequate to meet their monthly expenses.

3%

claim to have sufficient monthly income.

5. CONCLUSION AND RECOMMENDATIONS

The IFAD Financing Facility for Remittances partnered with FinMark Trust (in collaboration with the CFI) to support the FINCLUDE programme in enhancing the resilience of resource-constrained households (smallholders and micro-entrepreneurs) in rural areas of Eswatini by leveraging the development impact of remittance flows.

The two key assumptions informing the project are that:

- Given Swazi migration to South Africa, the remittances sent back to Eswatini can expand and deepen financial inclusion. FINCLUDE thus targets remittance senders and receivers as a subset of its core target groups (youth and women), in order to leverage remittances and balance the costs and the benefits of migration with the investment opportunities the programme seeks to promote in rural areas of Eswatini.
- Receivers of remittances via formal channels can manage that income to enable access to additional financial services, including saving and especially credit – needed for household consumption smoothing and expansion of rural businesses (whether farm or non-farm enterprises).

Cross-border remittances (South Africa–Eswatini corridor): findings

The research into cross-border remittance flows comprised a comprehensive supply-side component and a survey conducted for the purpose of understanding the remittance behaviour of Swazi migrants in South Africa.

The demand-side findings should be viewed in the context of a sample of mostly legal Swazi migrants with the requisite identification documents that would allow them to use formal financial services in South Africa.

The research into cross-border remittance flows comprised a comprehensive supply-side component and a survey conducted for the purpose of understanding the remittance behaviour of Swazi migrants in South Africa.

The demand-side findings should be viewed in the context of a sample of mostly legal Swazi migrants with the requisite identification documents that would allow them to use formal financial services in South Africa.

Unemployment back home drives migrancy. Eswatini's unemployment rate of about 23% has led to (mostly male) Swazis seeking employment opportunities in South Africa. The migrant workers to South Africa are usually from the rural areas in Eswatini – indicative that households in rural Eswatini are the most likely to be vulnerable to falling below the poverty line: in need of social assistance, government support and donor interventions such as FINCLUDE.

Need for cost-effective, fast, convenient and non-discriminatory remittance services. While the Eswatini migrant population continues to grow in South Africa, employment in the mining industry (where most male migrants are employed) has fallen steadily. The number of Swazi mineworkers employed in South African mines reduced from 7,123 (in 2006) to 2,712 (in 2018), which is likely to have negative implications for the level of remittances sent from South Africa to the geographical regions in Eswatini where the majority of mineworking migrants have families. Nonetheless, it is expected that Swazi migrants will continue to find employment in South Africa, in the formal or informal economy, to maintain the level of income support required by their families back in Eswatini, and will require cost-effective, fast, convenient and non-discriminatory remittance services.

Formal remittance channels preferred. The research does consider pre-COVID-19 remittances behaviour but, even at that, only 26% of total respondents used informal channels to send money back to Eswatini.

Most migrants are from rural Eswatini, with limited economic opportunities. Swazi migrants are most likely to send money back home monthly, with 89% sending money in the 12 months preceding October 2020; 59% of those that sent money in those 12 months sent money to

FINMARK TRUST

rural areas in Eswatini – confirming the assumption that most Swazi migrants come from rural Eswatini with limited economic opportunities.

Regulatory attempts made to better serve low-income migrants. The research found that the South Africa–Eswatini market has commercial bank and non-bank-led RSPs governed by the AD and ADLA regulations. The ADLA regulations were passed in 2014 to allow non-bank participation in the cross-border market, which led to new products specifically designed to meet the needs of users that are sending low-value remittances to their families (including the South Africa–Eswatini corridor). Since 2019, the participation of Mukuru and Shoprite Money Transfer has been notable given that their target market is not commercial bank customers but rather those unlikely to have the required documentation or income to maintain a bank account in South Africa. Amendments were also made in 2017 to the South African FICA law to allow for the use of RBA to onboard customers. The implication is that formal remittances services are then made available to migrants in South Africa (including Swazi migrants).

Formal remittance services are instant, safe, affordable. The direct cost (i.e. transaction fee) of sending money from South Africa to Eswatini is under 2% of a value of US$55 via banking rails (especially if the user is sending from a bank with a subsidiary in Eswatini). Using the Shoprite option is also about 3% of a remittance of US$55, while Mukuru charges about 9% on US$55. These remittances offerings can be instantly accessed by receivers in Eswatini – making it safer, less expensive, and quicker than using informal service providers (e.g. minibus taxi drivers).

Need to reduce fees and costs. To further reduce the pricing in the South Africa–Eswatini corridor, cash-handling fees and cost of maintaining agent networks will need to drop. This can be achieved if Swazi migrants can access a store-of-value product (a savings account) in order to send money back home via fully digital rails. This is a priority strategic area for FMT in 2021.

Increasing use of formal remittances platforms. There has been an increasing use of formal remittance platforms. We argue that COVID-19 has been the main driver of the uptake given that informal options were not permitted during the hard lockdown from March–October 2020 when the South African national borders were reopened.

Drawing a link between migrant senders' and receivers' financial inclusion. In terms of financial inclusion, 90% of the total Swazi migrants have a formal financial services account in their name (in South Africa and Eswatini). Given that the use of formal remittance services enables receivers that might be otherwise unserved to be financially included, the survey findings give the impression that the behaviour of senders could possibly have a positive effect on the financial inclusion level of receivers. When the remittances get to Eswatini, a different regulatory and supply landscape enables the domestic remittances landscape.

Domestic remittances in Eswatini: findings

Like the research into cross-border remittances (South Africa–Eswatini corridor), the research into Eswatini's domestic remittances ecosystem included a comprehensive supply-side component. It also comprised a quantitative and qualitative demand-side focus on the following segments: domestic remittance senders, domestic remittance receivers, cross-border remittance receivers, and micro-entrepreneurs.

Remittances key to achievement of Eswatini's NPS vision and strategy. Remittances is one of the key pillars of the National Payments System Vision Strategy 2009–2016 (which is currently undergoing a review). The CBE allows for full and partial KYC to allow access to domestic remittance services by all Swazi citizens. For bank-led e-wallets, transaction limits were increased for customers with a partial KYC (in June 2020) as a COVID-19 response measure, to ensure that regulation does not inhibit flow of funds to vulnerable households. There is also bilateral interoperability between banks and mobile money operators facilitating bank-to-mobile-wallet transaction and not the other way round.

Mobile money key driver of financial inclusion: four-fifths of adults have mobile money account. In Eswatini, remittances are accessed and used through services provided by commercial banks, mobile money service providers and retailers. Mobile money has been the key driver of financial inclusion in Eswatini: this is reflected in the volumes of P2P transactions using mobile money:

- **Number of mobile money transactions (wallet-to-wallet):** in June 2020 this figure stood at just over 800,000 transactions.
- **Shoprite:** withdrawals in June 2020 stood at only 40 transactions.
- **Combined bank-to-wallet (bank-led) transactions:** these stood at just over 150,000 transactions (including ATM to wallet, online to wallet, and mobile phone to wallet).

Therefore, mobile money has been the most important driver of domestic remittance service usage in Eswatini, with four in five adults having a mobile money account.

Financial access points good – but service quality to be improved. Mobile money also has the most extensive access points through its agent networks of about 10,000 agents (as of August 2020) compared to 240 ATMs, 18 bank agents, 49 commercial bank branches, 124 merchants (that accept digital payments) and 3,444 POS devices. Accessibility to financial access points does not seem to be a challenge given the widespread reach of the aforementioned financial access points, especially with mobile money agents. The key policy question should be how to improve the quality of the services received by customers at these access points.

The cost of remittances in Eswatini is relatively affordable, with most offerings under 2% of a transaction value of US$66. Thus, transaction costs alone do not appear to be prohibitive in enabling the use of the NPS to serve the domestic remittances market.

Remittance receivers and micro-enterprises in Eswatini – salient findings

- **Remittances mainly spent on food.** Domestic and cross-border remittance receivers alike use the money received mostly to buy food or groceries. Remittances are supporting basic livelihood needs; without this stream of income, many families would be vulnerable to sliding into food insecurity or poverty.
- **Remittances mainly received monthly.** Domestic and cross-border remittance receivers alike tend to receive money/goods on a monthly basis. More domestic remittance receivers than cross-border remittance receivers indicated they received money/goods on a seasonal basis.
- **Mobile money and bank accounts used for receiving.** Most domestic remittance receivers receive money via mobile money, while most cross-border remittance receivers receive money via bank accounts.
- **Most receivers satisfied with method.** Domestic and cross-border remittance receivers alike indicated they are satisfied with the method they are using to receive money/goods. Cross-border remittance receivers had a higher percentage of those who reported being unsatisfied with the method (via bank accounts).
- **Mobile money considered affordable, accessible.** The most common financial platform is mobile money (in all four regions). This is associated with the belief that mobile money is affordable, and accessible (i.e. that mobile money agents are within 30 minutes of the survey respondent's vicinity). Rural respondents walk longer distances – up to 59 minutes – to access their nearest money transfer platform compared to their urban counterparts, who have transfer platforms within 5–15 minutes' proximity.
- **Education level plays role in choice of receiving mechanism to use.** Respondents with a lower level of education tend to receive remittances using mobile money while respondents with a higher level of education tend to receive remittances using both mobile money and banks.

- **Relatively strong saving culture prevalent.** Compared to the other regions, the majority of people in the Shiselweni and Lubombo regions belong to savings groups. The data shows that Eswatini generally has a relatively strong saving culture: more than half of the respondents in all four regions had saved money in the previous 12 months.
- **Lower education levels correlated with inability to save.** Most respondents who indicated not to have been able to save to take care of long-term goals had a lower level of education.
- **Remittance receivers plan financially – and stick to it.** Domestic and cross-border remittance receivers alike often keep to the plan in terms of how they use the funds they receive.
- **Effect of Covid-19 felt more by cross-border.** Cross-border remittance receivers have a higher percentage of respondents who had the amount of money they receive impacted due to COVID-19 compared to domestic remittance receivers.
- **Micro-entrepreneurs have ambitions beyond survival – but cash flow is barrier.** The majority of business owners have plans to grow/expand their businesses, but the main barrier is cash flow challenges. Micro-entrepreneurs are mostly women and tend to be over 35 years old.

Financial literacy and capability finding

In terms of the second key assumption of this project – that income received from remittances via formal channels can be managed in such a way as to enable access to additional financial services, including savings and especially credit, which is needed for household consumption smoothing and expansion of rural businesses (whether farm or non-farm enterprises) – the findings from the survey are that almost half of the respondents are not able to pay for all their monthly expenses given their monthly income, or to save enough to meet a long-term goal but they are able to keep track of their expenses.

More effort needed to define financial capability needs and strategy, including remittances. While the CBE, FSRA and the service providers have financial literacy and capability programmes to reduce information asymmetry between the providers and the market, the programmes are mostly geared towards product marketing rather than scaling up financial capability. There needs to be a more concerted effort at defining the financial capability needs of Eswatini citizens (as shown in the Eswatini Financial Capability FinScope survey 2018)[45] and launching a national financial capability strategy that has remittances as one of the key pillars.

Recommendations, rationales and responsibilities

Five main recommendations are made. They flow out of the findings of the research into the cross-border and domestic remittance sectors while also speaking to the pressing needs the FINCLUDE programme has identified in aiming to increase the supply of financial services in rural areas: the need to bridge the information divide between supply and demand for credit and other financial services; the need to strengthen partnerships with financial institutions to increase FINCLUDE beneficiaries' access to loans and savings services; the need to develop financial instruments for risk management, which will provide the necessary security to the banks and other financial institutions in extending loans to farmers and non-farm rural micro-entrepreneurs; the need to enhance capacity and develop policy across all the programme's activities pertaining to financial inclusion; the need to support savings and credit groups' apex bodies to strengthen their networks and capacities; and the need for partnerships with external organisations working to improve livelihoods of youth, women and rural people, with the aim of increasing the quality of credit demand on a wider scale.

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45 This is a subsection of the 2018 Eswatini Consumer FinScope Survey.

For each recommendation, we provide a rationale and contextualise the recommendation within the NFIS 2017–2022[46] and other existing and applicable national policy frameworks. We also indicate – given that overlapping objectives are unavoidable and integration is crucial to achieve synergies – whether the bulk of responsibility for implementation lies with FINCLUDE or the Remittances Technical Committee.

1. Develop a national financial capability strategy that targets the needs of remittance senders and receivers

Rationale: The 2017 Eswatini Financial Sector Development Implementation Plan (FSDIP) [47] includes the objective of developing a Financial Sector Consumer Protection Strategy and Financial Literacy Strategy; this was taken up by the NFIS 2017–2022, which states that a National Financial Literacy and Consumer Protection Strategy should be developed and launched by 2019 (an objective not yet achieved).

This report shows there are financial literacy and capability programmes driven by regulators and financial services providers. With remittances being a 'gateway' service to potential use of other formal services, it is recommended that the design of the National Financial Literacy and Consumer Protection Strategy include a financial capability component targeting specifically *remittance senders and receivers*.

Responsibility: According to the NFIS 2017–2022, responsibility for developing the National Strategy rests with the CFI, CBE and the FSRA, as members of the Remittances Technical Committee.

2. Strengthen the multilateral interoperable (open-loop) payments environment

Rationale: The FSDIP (2017) sets out the need to 'establish a fully interoperable card payment system that is national and/or regional in nature'. Accordingly, the NFIS 2017–2022 highlights 'achieving payments (multilateral) interoperability' as 'a key factor in expanding geographical access to and usage of payment services'. Non-bank payments service providers are not explicitly mentioned in that document; but with mobile money driving uptake and usage of formal payment services, the need for a multilateral interoperable (open-loop) payments environment becomes increasingly urgent: it would almost certainly drive increased usage of formal remittance services and potentially increase usage of digital mechanisms to pay for goods and services. This is in line with the Draft NPS Strategy (2021–2025): 'Advance efforts towards interoperable, 24/7 and real-time payment functionality'.

Responsibility: The CBE is the payments system regulator and the NPS is a member of the Remittances Technical Committee. Therefore, it is recommended the Remittance Technical Committee drive the implementation of this objective.

3. Provide further support to savings groups

Rationale: As discussed, low-value remittance senders and receivers are likely to be members of savings groups – which have positive financial functions for consumption smoothing and operating micro-enterprises. Furthermore, as of March 2020, there were 58 SACCOs registered with the FSRA, with 60,580 members. Therefore, SACCOs should be treated as an explicit target group of FINCLUDE, enabling the programme to target larger numbers of people to benefit from SACCO-based policies.

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46 Government of the Kingdom of Swaziland. (2016). National Financial Inclusion Strategy for Swaziland 2017–2022. Prepared by the Ministry of Finance, available at: https://www.afi-global.org/sites/default/files/publications/2018-01/Swaziland%20National%20Financial%20Inclusion%20Strategy%202017%20-2022.pdf

47 Government of Swaziland. (2017). Financial Sector Development Implementation Plan, available at: https://www.fsra.co.sz/media/notices/FinancialSectorDevelopmentImplementationPlan.pdf

SACCOs are also a key target group in the FSDIP (2017), which argues the need to 'expand permissible activities for healthy MFIs, SACCOs and the building society via a community banking or tiered licensing structure to include the range of savings products, direct access to the payment system and crisis frameworks'. Therefore, targeting remittances users (senders and receivers) that are members of SACCOs is recommended to leverage on existing non-bank/semi-formal financial infrastructure, which already serves the rural population groups that are the target of the FINCLUDE programme.

Furthermore, the NFIS 2017–2022 has the 'objective of linking informal/semi-formal SACCOs to digital platforms'.

Responsibility: This will require a collaboration between the FINCLUDE implementation team (led by the CFI) and the FSRA. The Remittances Technical Committee will also be instrumental, however, in developing policies to drive the linking of SACCOs to digital payment platforms.

4. Improve the quality of geospatial data on financial access points

Rationale: The NFIS 2017–2022 has the expansion of financial access points as a key objective; and, in the context of this report, cash distribution networks are crucial to domestic and cross-border remittances. It is critical to develop more precise monitoring of the extent to which cash distribution networks are serving households in Eswatini. It is therefore recommended that payments service providers be required to provide geospatial information on access points, to allow for an audit of barriers to access. While this report contains some information on cash distribution networks, only a fraction of mobile money agent location data was made available – leading to an analytical gap in an important area. The missing data and analysis are also crucial for tracking barriers to payments service points for FINCLUDE beneficiaries that are likely to depend on remittances. This recommendation thus provides an M&E component to track progress on the NFIS, FSDIP and NPS strategies related to the expansion of cash distribution points.

Responsibility: This will be driven by the Remittances Technical Committee, which includes all the payments service providers and the regulator (CBE).

5. Cross-border remittances sent directly to a mobile wallet

Rationale: The NFIS 2017–2022 goal statement includes both mobile money and remittances as central to increasing financial inclusion. Mobile money has the highest level of uptake across formal financial services in Eswatini. Therefore, getting cross-border remittances directly onto mobile wallets (i.e. mobile money) would further reduce the cost of remittances, especially for receivers, while increasing convenience. This does not negate the need for cash-out points, however, as levels of merchant payments are relatively low – reinforcing the importance of the second recommendation (strengthening the multilateral interoperable payments environment). In that regard, this recommendation is in line with the SADC Bankers Association Transactions Cleared on an Immediate Basis (TCIB) project: 'Deep and wide interoperability between all authorised payments service providers in SADC should facilitate cost-effective, low-value payments – direct into bank accounts or mobile wallets'. This recommendation is also in line with the Draft NPS Strategy (2021–2025): 'Drive the development of a more enabling cross-border remittance licensing regime'.

According to the CBE, the regulatory environment is already able to accommodate this recommendation: thus, it will be driven by commercial incentives of the mobile money operators in Eswatini.

Responsibility: This will be driven by the CBE and mobile money operators in Eswatini looking to provide this service who are members of the Remittances Technical Committee.

ANNEXURE 1: LIST OF INTERVIEWS

Interviews were conducted with the following stakeholders:

Country	Category	Stakeholder
South Africa	Banks	FNB Standard Bank
	RSPs	Mukuru Shoprite Money Transfer
	Regulators	SARB
Eswatini	Regulators	Central Bank of Eswatini Financial Services Regulatory Authority
	MNO	MTN Eswatini
	Worker associations	SWAMMIWA
	Banks	Standard Bank Eswatini FNB Eswatini

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