FINMARK TRUST

20 years of making financial markets work for the poor

Remittances Market Assessment

South Africa to the Rest of SADC Remittances Market Assessment Report

UKaid from the British people

Background

FinMark Trust and remittances

FinMark Trust supports the SADC Secretariat, the South African Reserve Bank, and other stakeholders with the objective to increase the usage of affordable and convenient formal cross border remittance products by reducing the pricing, and increasing the safety of cross border remittance products.

The achievement of this is supported by five key strategic objectives:

- Provide relevant data to ensure that the market is monitored on an ongoing basis
- Develop product strategies and engage with regulators and potential partners to increase usage of formal products in more SA to SADC corridors
- Provide improved information and data on SA to SADC corridors and engage regulators and potential partners to help develop new ideas and products
- Support regulators to better understand and avoid the potential risk of AML/CFT measures impacting negatively on the growth of low-value cross border remittances and
- Support the implementation of the SADC automated clearing house (SADC AHC).

The regulatory timeline

1990s – Introduction of non-bank licences (ADLAs) in the late 1990s

2013 – SADC Secretariat and the European Union formed a partnership to support regional integration in the SADC region through selected interventions which included cross border remittances

2014 – SARB introduces authorised dealer with limited authority (ADLA) licenses to lower barrier to entry for non-banks, categories expanded to 3

2015 – Retailer model launch in SA to Lesotho corridor

2017 – FICA amendment allows Risk-Based Approach to KYC

2017 – ADLA licence 4 related to “goods” remittances introduced in 2017

2018 – Innovations in Market: non-banks offering services via WhatsApp, and goods remittances begin in the SA to Zimbabwe corridor

2019 – Retailer model launch in SA to Eswatini corridor

Methodology

The importance of cross border remittances

Cross border remittances enable access to basic services and support business enterprise activities in the SADC region. They have regional socio-economic development implications.

The United Nations Sustainable Development Goal 10.c is to reduce to less than 3% the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5% by 2030. The ultimate aim is to increase the disposable income of beneficiaries.

A strategic focus area of the SADC CCBG is to expand the usage of formal remittances through the reduction of pricing, increased digitisation, increasing the speed of transactions and ensuring transparency of product attributes

The SADC Secretariat supports regional integration to modernise and harmonise regional payments in developing the SADC remittances market.

Values and volumes outflow method

The formal values and volumes analysis was conducted using data sourced from the South African Reserve Bank Financial Surveillance Department, Balance of Payments data, covering the following categories (2016 – 2021) gifts; migrant worker remittances (excluding compensation) and; foreign national contract worker remittances (excluding compensation).

Market pricing assessment method

The assessment was conducted using a mystery shopping exercise focused on the South Africa to other SADC countries corridors, as this is the largest corridor in volumes in Africa.

Mystery shoppers completed a small (R400 or smaller) transaction from South Africa to the destination country (in SADC), and then extrapolated to USD55 (R 850)) and USD200 (R 3 100), via the various channels available. This included authorised dealers (ADs) or banks, and ADLAs.

The USD55 transaction size was selected as it is comparable to average transaction sizes made by migrants and the USD200 transaction size was selected as it is comparable to the World Bank remittance price database.

The mystery shopping exercise was done largely by requesting quotations. Some of the money transfer operators (MTOs) provided easy to obtain binding quotes for an exchange rate and others required the opening of an account to obtain the binding quote.

For the ADLAs it was not necessary to make any actual transactions to receive the quotations.

A transaction needed to be made to obtain a breakdown of the fees in the banking sector. This is in part because the sender and recipient hold accounts with the banks concerned, which allows there to be a gap between the transaction itself and the charging of the fees. Fees can be charged to either sender or recipient.

Remittance prices comprise both a direct transaction fee and an exchange rate margin.

Weighting

The pricing results are weighted by volumes across licence categories at a country level and by volumes across countries for the SADC level.

SADC migrants in South Africa

There is an estimated total of **3,709,220** SADC migrants in South Africa.

Country	Total SADC migrants in 2019 (estimated)
Botswana	30,790
Lesotho	402,015
Malawi	216,515
Mozambique	983,078
Eswatini	90,943
Zimbabwe	1,680,770

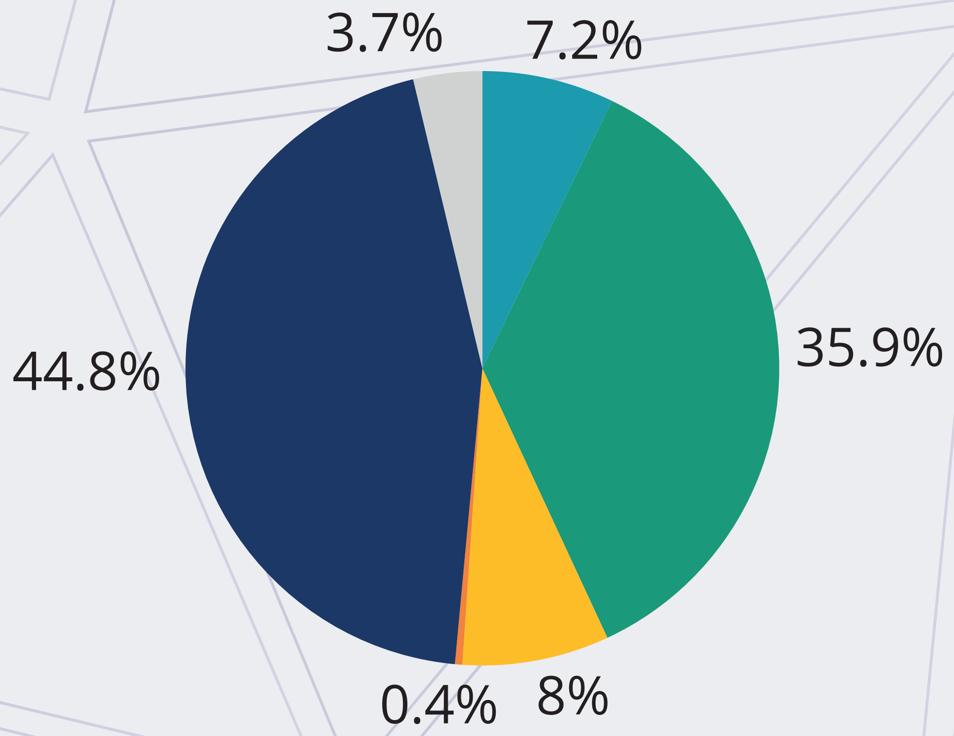
88.4%

of SADC migrants in SA are from Zimbabwe, Malawi, Lesotho and Mozambique

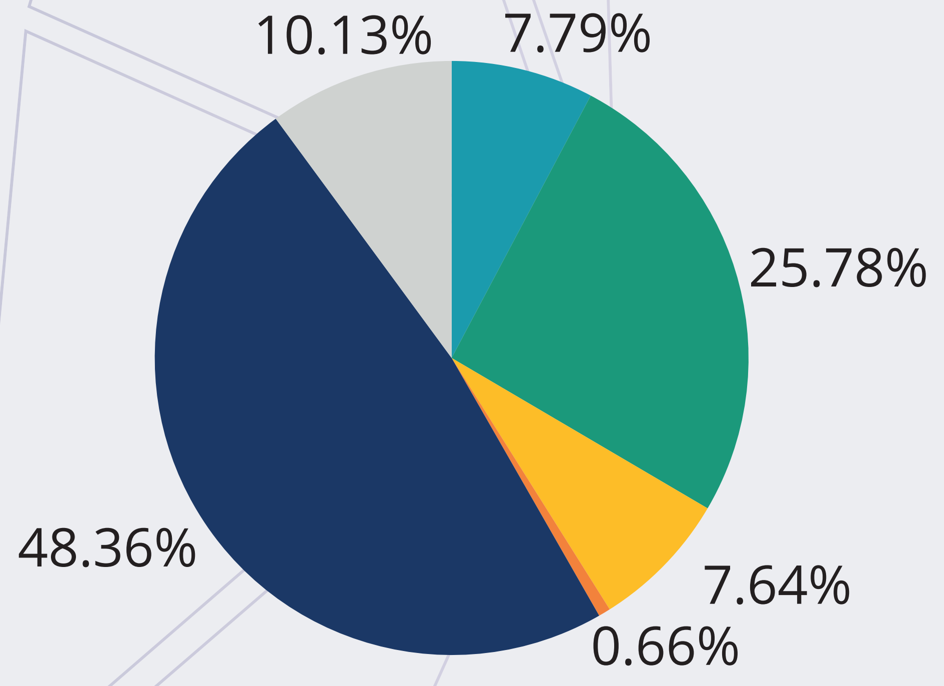
Formal values and volume outflow from South Africa

Total

% of Total remittances in volumes in 2021



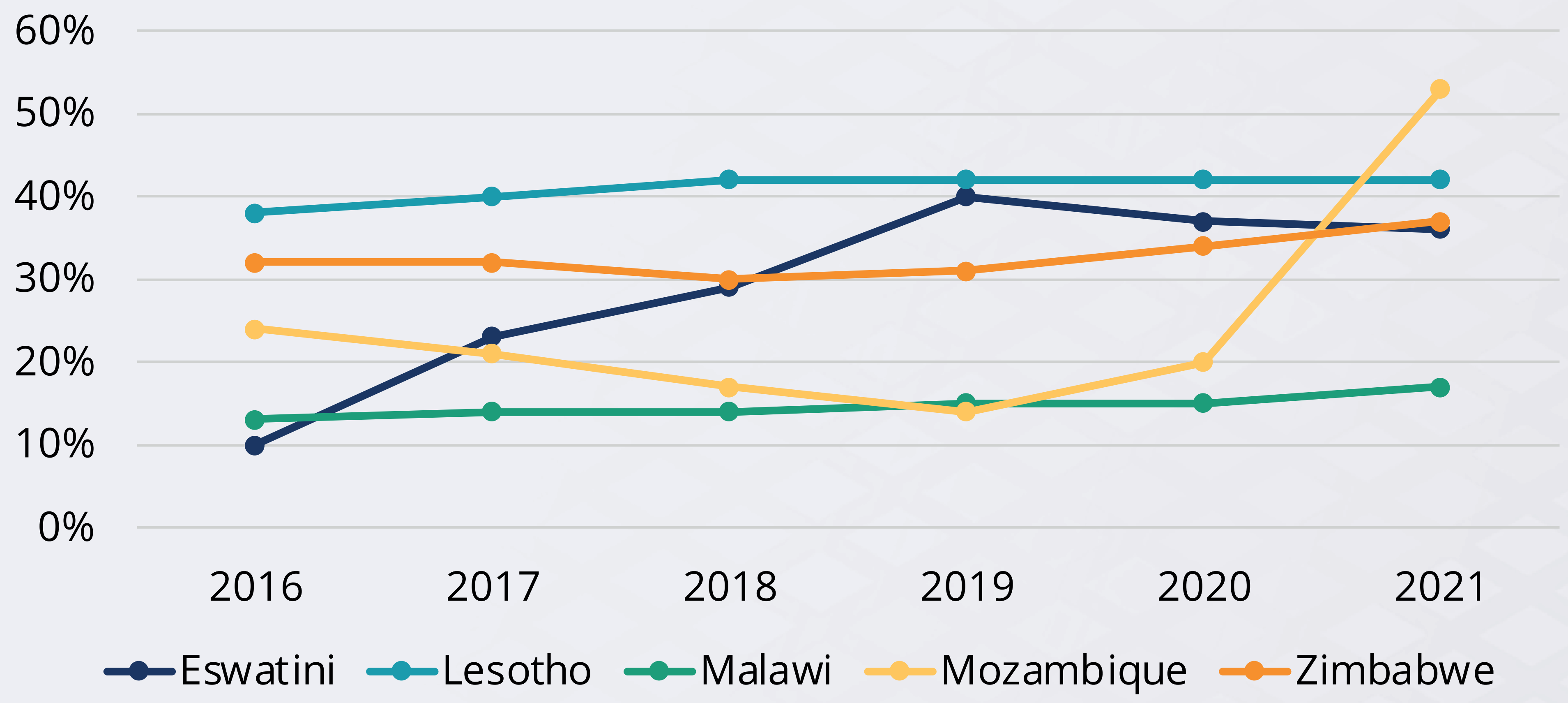
% of Total remittances in value in 2021



96.3% of total volumes and 90.2% of total values in 2021 are in the Zimbabwe, Lesotho, Mozambique, Malawi and Eswatini corridors.

Women

% of outbound remittances in value by women



Men are more likely to be migrant labourers in the SADC region, but this varies by the corridor. There was an increase in formal usage by women especially in the Mozambique corridor.

Detailed gender analysis was not possible for this report. There is a need to address data gaps on migrants in South Africa in terms of gender, level of financial inclusion and remittances behaviour to make this analysis richer.

Formal values and volume outflow from South Africa continued

Country	Total value remitted from SA (outflow), ZARmn		
	2016	2021	% change 2016 - 2021
Botswana	90.8	146.5	61%
Eswatini	21	82	290%
Lesotho	121.9	968	694%
Malawi	800.3	3,202.6	300%
Mozambique	184.7	949.7	414%
Zimbabwe	4,407.5	6,008.2	36%
Total	**6,029.90**	**12,424.50**	**106%**

Country	Number of transactions		
	2016	2021	% change 2016 - 2021
Botswana	12,276	42,115	243%
Eswatini	386	53,726	13,819%
Lesotho	130,005	892,308	586%
Malawi	783,890	4,429,529	465%
Mozambique	10,526	981,292	9,223%
Zimbabwe	3,724,580	5,534,122	49%
Total	**4,728,127**	**12,352,106**	**161%**

There was an increase of 106% in value and 161% in volumes between 2016 and 2021. Eswatini, Mozambique, Lesotho and Malawi have the highest levels of increase in volumes.

This is driven by:

- The introduction of Shoprite in Lesotho and Eswatini
- An increase in the usage of goods remittances
- An increase in the number of service providers in the corridors with the biggest market share and
- An increase in non-bank provider partnerships with mobile network operators to enable digital access in recipient countries

Information on all SADC markets is available in our **full report**

Level of formal usage – average values outflow

Country	Total average value remitted from SA (outflow), ZARmn		
	2016	2021	% change 2016 - 2021
Botswana	7,398	3,479	-53%
Lesotho	937	1,085	16%
Malawi	1,021	723	-29%
Mozambique	17,546	968	-94%
Eswatini	54,315	1,526	-97%
Zimbabwe	1,183	1,086	-8%

South Africa to Zimbabwe, Malawi, Lesotho and Mozambique are the four largest corridors. The average transaction size across these four corridors is ZAR 966 in 2021 compared to ZAR 5,172 in 2016 (USD 66 to USD 355). This indicates an expansion of access for low-income migrants and increasing financial inclusion through regional remittances or payments.

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Remittances to the SADC Common Monetary Area (CMA)

Region	2016	2017	2018	2019	2020
Commercial Banks only					
CMA* countries	1,249	1,085	1,136	1,157	1,364
Non-CMA* countries	1,553	1,296	2,036	7,082	9,726
Non-banks					
CMA* countries	n/a	606	668	670	772
Non-CMA* countries	1,189	1,086	986	904	941

***CMA - includes South Africa, Eswatini, Lesotho and Namibia.**

80% of SADC migrants are undocumented, have low levels of income, and are not likely to use banks. Non-banks are driving regional financial inclusion by providing formal services to SADC migrants using a risk-based approach to onboard customers.

Estimates of informality

Country	% informal remittances estimated	Total migrants, 2019 estimate
Zimbabwe	68%	1,680,770
Mozambique	67%	983,078
Lesotho	30%	402,015
Malawi	7%	216,515
Namibia	33%	101,438
eSwatini	69%	90,942
DRC	55%	76,890
Zambia	10%	75,135
Botswana	22%	30,790
Angola	90%	25,890
Tanzania	6%	17,217
Seychelles	2%	7,655
Madagascar & Comoros	1%	885
Total	**52%**	**3,709,220**

Given the overall increase in formal usage, it is expected that informality has dropped

The closure of borders due to COVID-19 would have reduced informality

There is a data gap on the level of informality post-October 2020 when the borders were re-opened

Remittance prices per licence category, and weighted remittance price per country (USD 55)

Country	AD (Bank)	ADLA 2 (Non-bank)	ADLA 3 (Non-bank)	ADLA 4 (Non-bank)	Weighted price by licencee, 2019	Weighted price by licencee, 2021
USD55 transaction size						
Botswana	47.6%	12.6%	5.2%	37.4%	30,8%	37.4%
Eswatini	0.0%	10.0%	2.9%	1.6%	1,0%	1.6%
Lesotho	0.0%	10.2%	2.9%	3.8%	2,7%	3.8%
Malawi	59.2%	8.7%	6.5%	9.0%	9,8%	9.0%
Mozambique	36.2%	8.1%	5.2%	8.4%	20,4%	8.4%
Zimbabwe	35.9%	8.5%	5.8%	9.2%	13,1%	9.2%

Lesotho and Eswatini are within the UN SDG target

Pricing is dropping in the majority of corridors

Pricing is increasing in Botswana

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Regional average prices 2021 - weighted (USD 55)

Region	2019	2021
SADC total	12.2%	9.6%
SADC total, excluding CMA	13.0%	10.2%
CMA only	2.6%	2.9%
LMMZ*	11.2%	8.5%

***LMMZ – Lesotho, Malawi, Mozambique and Zimbabwe**

Pricing tends to be cheaper through non-banks in the corridors that make up over 90% of volumes.

The large corridors, Lesotho, Malawi, Mozambique and Zimbabwe, have more service providers resulting in more competitive pricing. People in these corridors also tend to use non-banks more than banks.

The *CMA countries have low pricing because there are no forex costs and the currencies of the countries are pegged to the ZAR.

***CMA - includes South Africa, Eswatini, Lesotho and Namibia.**

Beyond the price of remitting, transparency must be improved

Ideally, remittance services are not only competitively priced, but pricing should be predictable and transparent. In the AD space, the mystery shopping exercise uncovered substantial evidence of adverse events relating to predictability and transparency.

- **Not all transactions were completed.** Some of the mystery shopping transactions failed. In some of these cases, the sender needed to submit multiple queries to confirm whether the transaction could be completed, and it is not clear that the bank involved would have reported the failed transaction and reimbursed the sender had they not submitted these queries.
- **Additional, non-transparent fees were incurred.** It was typically not possible to determine the basis on which these fees had been calculated. In one case, both the sending and recipient bank claimed that the fee had been charged by the other institution. There was often a significant delay between the transaction and when the additional fees were incurred.
- **Not all fees were billed to the sender.** In all cases, the sender opted to bear all fees, however, the recipient was nevertheless charged an additional fee in some cases.

The importance of taking AD vs ADLA volumes into account

Jan – Sept 2020	Banks	Non-Banks			Total
	AD	ADLA CAT 2	ADLA CAT 3	ADLA CAT 4	
Angola	91.0%	8.3%	0.5%	0.2%	100%
Botswana	71.6%	25.1%	1.4%	1.9%	100%
Comoros	82.0%	18.0%	0.0%	0.0%	100%
DRC	40.2%	40.4%	1.7%	17.7%	100%
Eswatini	49.0%	2.0%	49.0%	0.0%	100%
Lesotho	36.4%	27.2%	36.5%	0.0%	100%
Madagascar	81.7%	14.8%	3.5%	0.0%	100%
Malawi	1.1%	78.1%	0.1%	20.8%	100%
Mauritius	99.3%	0.7%	0.1%	0.0%	100%
Mozambique	4.9%	25.1%	0.6%	69.4%	100%
Namibia	96.1%	2.4%	1.5%	0.0%	100%
Seychelles	99.0%	1.0%	0.0%	0.0%	100%
Tanzania	21.0%	8.0%	4.2%	66.9%	100%
Zambia	44.3%	48.2%	2.4%	5.0%	100%
Zimbabwe	3.2%	86.0%	3.2%	7.6%	100%
Total	**10.6%**	**67.6%**	**5.3%**	**16.5%**	**100%**

The big corridors are dominated by non-banks requiring the pricing to be weighted according to these shares of volume

How FMT calculates pricing

The average remittance price targets will tend to overstate actual remittance prices unless they are weighted to reflect the market share of service providers. To evaluate the accuracy of the weights, consideration should be given to the price the largest group of remitters receive, the “modal” price.

Country	USD55			USD200		
	Modal price	Weighted average price	Unweighted average price	Modal price	Weighted average price	Unweighted average price
Botswana	47.6%	37.4%	18.8%	16.6%	14.5%	10.2%
DRC	22.5%	20.2%	17.1%	8.1%	7.9%	7.7%
Eswatini	1.4%	1.6%	3.2%	0.8%	0.6%	2.7%
Lesotho	1.4%	3.8%	3.6%	0.4%	3.0%	3.2%
Madagascar	46.1%	39.9%	23.4%	13.8%	12.8%	9.5%
Malawi	8.7%	9.0%	20.3%	8.0%	8.0%	9.8%
Mozambique	6.6%	8.4%	11.2%	6.6%	7.2%	7.6%
Namibia	0.0%	0.1%	2.2%	0.0%	0.1%	2.2%
Seychelles	34.9%	34.6%	19.8%	11.0%	10.9%	5.4%
Tanzania	9.9%	15.3%	13.6%	8.8%	9.0%	8.4%
Zambia	11.4%	22.3%	13.5%	9.0%	9.7%	8.0%
Zimbabwe	8.5%	9.2%	11.1%	7.0%	7.1%	7.1%

Data is not available for Angola, Comoros and Mauritius

To further reduce pricing in the SADC region

- Provide digital store of value to non-banks in South Africa to the reduce costs of cash handling and maintaining agent networks

- Enable a mobile money service from SA outbound to SADC

- Increase digitisation of the last mile in recipient countries to reduce cash handling and agent network costs

- Broaden the implementation of the SADC Transactions Cleared on Immediate Basis (TCIB) scheme

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