

Reviewing the policy framework for money transfers

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1. Introduction

According to the latest FinScope Survey, 63% of South Africans are now “banked”, up from 45% in 2004. For the LSM1-5 market, the figure has grown from 31% to 48%. This is no small feat and can to a large extent be ascribed to the rise of the Mzansi bank account. It has registered 3.5m clients, most of them first-time bank account holders, since its launch¹. The success of the Mzansi bank account, in turn, was facilitated by Exemption 17 to the Financial Intelligence Centre (FIC) Act, issued in recognition of the fact that KYC requirements may pose an access barrier for many in the low-income market.

The outlook for the formalisation of financial services in the remittances market is however less rosy. Though no hard data is available on the number of undocumented migrants in South Africa or the total volume of remittances, various sources estimate more than half the remittances flowing out of South Africa do so via informal channels. This is a significant “lost opportunity” for foreign exchange transactions through the formal sector. Informal channels cannot be monitored for suspicious transactions and undermine consumer protection, as users have no recourse and the services rendered are not subject to supervision, but rely entirely on trust. Such a large informal market is also not in line with South Africa’s commitment under the SADC Finance and Investment Protocol.

What lies at the root of the pervasive informality? The sections to follow will investigate the market forces and the role of regulation. Though regulation is not the only contributory factor, we will conclude that it sets an important “first round” barrier that immediately excludes a large proportion of the market. Regulation must in the first place ensure stability and integrity of the market, as well as adherence to immigration laws. Nevertheless, this note argues that regulation could be tailored to address these issues while still supporting government’s broader objectives of market development and consumer protection. Based on research to date, we outline an analytical framework to consider the key issues that affect money transfers from South Africa and to suggest feasible policy options for the formalisation of remittances.

The document is structured as follows:

- **Section 2** sketches the size and corridors of the remittance economy.
- **Section 3** unpacks the different channels available, the methods used to transfer money, the supply-side features that hamper formal remittances usage and the demand-side considerations in understanding the market dynamics.
- **Section 4** analyses the impact of regulation.
- **Section 5** synthesises the issues to understand the opportunities and challenges to formalisation, most notably the rationale for formalisation, the policy options for achieving it and the risks of opening up the remittance market.
- **Section 6** concludes with options for supporting the development of this sector.

¹ According to the FinScope 2008 results.

2. The remittance economy

What are remittances? Remittances can be defined as non-reciprocal transfers from one person to another across a distance². Most often, they are linked to migration, defined as the portion of migrant workers' earnings sent home to their families (IFAD, 2007). The Bank for International Settlements (BIS) and World Bank (2007) formulate the following common definition: cross-border person-to-person payments of relatively low value. Remittances are therefore fundamentally a *payment system* phenomenon.

Total size of the South African migrant population. In its migration and remittances fact book for 2008 the World Bank (Ratha & Xu, 2008) reports the stock of immigrants in South Africa to have totalled **1,106,214** (2.3% of the population) in 2005, based on official data on remittances and migration³. This is however an underestimation of the total market, as it is widely accepted that there is a substantial undocumented migrant population in South Africa. There are no clear answers as to how many migrants live and work in South Africa when including the undocumented or "illegal" immigrant population. Existing estimates vary widely, with some observers claiming figures as high as 8 million (Solomon, 1996, quoted in Shaw, 2007) on the back of extrapolations from repatriation and overstays data – a method which the World Bank (Shaw, 2007) regards as unreliable. As data captured at border posts measure flows rather than stocks of migrants, it is difficult to gauge migration figures via this route (Stone et al, 2009). Entry and exit data as collected by the Department of Home Affairs and published by StatsSA also do not distinguish between tourism and migration. Estimates of total immigration statistics are therefore informed guesswork at best.

The most comprehensive study to date on remittances from South Africa to the rest of SADC (Truen et al, 2005), prepared for CGAP and the Finmark Trust, estimated the stock of migrants from SADC in South Africa (documented and undocumented) to amount to **2,069,891** in 2005. This represented 4.8% of the South African population at the time. The calculation is based on a synthesis of available data sources, to which certain assumptions were applied. It however excluded Zimbabwe for various reasons. If we add the estimate of Makina (2007) as quoted in a recent study on the Johannesburg-Zimbabwe remittances corridor conducted for Finmark by Kerzner (2009) of up to 1m Zimbabweans in South Africa, this totals up to around **3m** people (about 6% of the South African population). The migrant population in South Africa is therefore substantial and the informal/undocumented component is about twice as large as the formal or documented one.

For the purpose of regulating and formalising remittances, it is essential to distinguish between three categories of migrants:

- *Legal migrants:* These are migrants who are legally present in South Africa, i.e. they entered the country with a valid passport from their home country and remain present in South Africa with a valid visa, work permit or other authorisation from the South African Government.

² Sander, 2003; International Year of Microcredit, 2005.

³ Noting the caveat that such data do not include the informal market and that national accounts data are not always an accurate reflection of actual migrant remittances sent home

- *Documented migrants*: These are migrants who entered South Africa with a valid travel document from their home country, but who no longer have a valid authorisation to remain in South Africa.
- *Undocumented migrants*: These are migrants who entered South Africa without a valid travel document and who never had a valid authorisation to remain in South Africa.

Main corridors: Zimbabwe, Mozambique and Lesotho. There are a number of sources for determining the most relevant migration corridors for immigration to South Africa. According to the official figures summarised by the World Bank (Ratha & Xu, 2008; Shaw, 2007), the first six out of the top eight source countries for documented immigrants are all in Southern Africa. They are: Zimbabwe (46.1% of all immigrants), Mozambique (24.4%), Lesotho (18.8%), Swaziland (7.3%), Botswana (2.2%) and Malawi (1%). These findings are confirmed by the Migration and Remittances Survey (MARS)⁴ conducted by the Southern African Migration Project in 2004-5. South Africa is the destination for 86% of all migrants from Botswana, Lesotho, Mozambique, Swaziland and Zimbabwe (Pendleton et al, 2006), a fact which is unsurprising given South Africa's role as regional economic powerhouse.

Another avenue for investigating the most important remittance corridors is to consider the official entry and exit data collected by the South African Department of Home Affairs and compiled into statistical releases by Statistics South Africa. The most recent annual immigration data (StatsSA P0351-03 for 2003) confirms the findings of the studies above that the most important source country for immigrants to South Africa is Zimbabwe. This however only covers people who have been granted permanent immigrant status. The P0351 Tourism and Migration Statistical Release of May 2009 tracks entry into and exits from South Africa. Though it does not distinguish between migrants and tourists, it nevertheless presents an interesting picture for travellers entering from other African countries. In May 2009, 414,608 Africans entered South Africa. Of them, 402,027 (97%) came from SADC, breaking down as follows by main source countries:

	Number of entrants into SA	Share in total SADC entry
Botswana	36 049	9%
Lesotho	81 034	20%
Mozambique	82 063	20%
Swaziland	56 723	14%
Zimbabwe	99 224	25%

Table 1. Entries into South Africa: May 2009

Source: Statistics South Africa (2009)

If entry is used as a proxy, it therefore confirms that Zimbabwe, Lesotho and Mozambique are the most important remittances corridors and should be prioritised from a policy perspective.

⁴ The Migration and Remittances Surveys (MARS) was developed to provide nationally-representative data on remittance flows and usage at the household level for five SADC countries: Botswana, Lesotho, Mozambique, Swaziland and Zimbabwe. In total, 4,700 household interviews were conducted in the five countries and information collected on over 30,000 people (Pendleton, 2006).

How much and how often do people send? In the MARS survey, about 80% of migrants say they send cash remittances at least once every three months. Botswana (62%), Lesotho (77%) and Swaziland (71%) have the highest percentages who say they remit once a month. In addition to making regular remittances, migrants send money home in times of need, or to meet unexpected costs (Pendleton et al, 2006). This is confirmed by Kerzner (2009) for the Zimbabwe remittance corridor. Though frequency depends largely on the remitters' capacity to save enough money and hence varied widely, most Zimbabweans interviewed tended to send between R500 and R1,000 home once every one to three months.

Various surveys and studies estimate the median or average amounts sent home by migrants. According to the MARS survey (Pendleton et al, 2006), the annual median amounts differ as follows by destination country:

Country	Median annual amount sent home
Botswana	R8 306
Lesotho	R7 800
Mozambique	R1 760
Swaziland	R4 800
Zimbabwe	R1 093

Table 2. Median annual amounts sent home: variation by country

Source: MARS Survey results as analysed in Pendleton et al (2006)

The findings for Zimbabwe are contradicted by the survey of Makina (2007), which finds that, on a weighted average basis, survey respondents each remitted R290 per month, equivalent to R3,480 per year (quoted in Kerzner, 2009).

Types of remittances. Remittances fall into two primary categories: cash and in-kind. The typical migrant sends home money, but also sometimes clothing, food and other goods such as consumer goods and other 'luxury' items (e.g. electronic goods), as they are more readily available and cheaper in South Africa (Dobson et al, 2008). The MARS survey revealed that 85% of migrant-sending households receive cash remittances. Two thirds of surveyed households in Mozambique and Zimbabwe also indicated that they received remittances in the form of goods from time to time, contrasted to only 17% in the case of Swaziland and 20% in Lesotho (Pendleton et al, 2006).

An interesting dynamic is introduced where the market in the home country is malfunctioning, as in Zimbabwe, where the availability of local goods tends to drive the type of remittances sent:

The evolution of in-kind versus cash remittances to Zimbabwe⁵

Cash remittances from SA to Zimbabwe are generally denominated in South African Rand. They are required for expenses such as school fees, rent, transport and other day-to-day expenses, and also seem to be preferred when items are available in Zimbabwe at a reasonable cost. In-kind remittances include products such as groceries, furniture, electronics, clothing and building materials. Remittance preferences seem to be determined largely by the circumstances of the recipient. In urban areas, where goods are more plentiful and better priced, cash remittances are preferred. In rural areas, in-kind remittances are more relevant depending on the price and availability of products, and the self-

⁵ Extract from Kerzner (2009).

sufficiency of the recipient.

The pattern of remittances from Johannesburg to Zimbabwe has undergone a series of significant changes in recent years, first caused by political and economic decline and then by early reforms at the beginning of 2009.

Since the year 2000, the volume of Zimbabwean migration to South Africa has intensified, resulting in a significant increase in the flow of remittances. The remittances required by their families have been influenced by the continued hyperinflationary environment and the limited availability of basic foodstuffs, with Zimbabwean migrants in South Africa sending both groceries and cash remittances to support their families. Consequently, the remittance business experienced rapid growth with buses, taxis and “oMalayishas”⁶ transporting large quantities of goods from Johannesburg-based migrants to their families in Zimbabwe on a regular basis.

The interviews conducted indicated that remittance flows from Johannesburg to Zimbabwe reached a peak in December 2008. Since that time, the remittance landscape has undergone significant changes in a very short period of time, impacted by political and economic changes. The main drivers of this change were the installation of the unity government in February 2009, early economic reforms such as the decision to allow the use of hard currencies in place of the Zimbabwe Dollar, the scrapping of price controls and the end of Zimbabwe’s drought. These initial reforms and renewed agricultural productivity have created greater price stability and enabled the restocking of grocery store shelves, particularly with basic foodstuffs.

Due to these recent reforms and the renewed availability of basic foodstuffs, customers and recipients have rapidly begun to change their remittance practices. Remitters with families in urban areas have begun to shift their remittances from groceries to cash. In rural areas, the trend is similar but not as clear, as different rural areas appear to have varying availability of groceries. Despite the renewed availability of groceries, Zimbabweans still struggle to afford these items, so the recent changes are likely to have had more of an impact on the method of remittances than the value of remittances sent. As a consequence of the renewed availability of groceries, transporters and other remittance service providers have witnessed a significant decline in business; however, at the time the study was conducted, it seemed too early for them to determine to what degree their business of transporting groceries would be replaced by the transport of cash.

Size of the remittance economy. Official outward remittance flows were estimated at US\$1,067m (or \$1.1bn) in 2006 (Ratha & Xu, 2008), amounting to 0.4% of SA’s 2006 GDP. This however includes all official remittance outflows captured in the national accounts, not just to the rest of Africa, while excluding informal remittances. Truen et al (2005) estimated the size of the total remittances market to SADC, excluding Zimbabwe, at **R6.16bn** in 2005. Though assumption-dependent and now somewhat outdated, this calculation is widely regarded as the most feasible and latest available.

Kerzner (2009) estimates the overall value of remittances sent to Zimbabwe based on the estimates of the size of the Zimbabwe migrant community in South Africa quoted above, as well as on the survey findings of Makina (2007) that calculate the average monthly remittance to amount to R290 per migrant. This renders an annual remittance market of between R2.8bn and R3.5bn for the Zimbabwean corridor alone. Adding that to the R6.2bn

⁶ Individual couriers, for example an individual with a pick-up truck that goes to Zimbabwe once or twice a month to deliver remittances.

estimate of Truen et al (2005) renders a total market estimate in the region of **R9bn to R12.5bn** per annum.

3. Channels and choices

Section 2 showed that R9bn or more in remittances is sent from South Africa to the rest of Southern Africa each year, most notably to Zimbabwe, Mozambique and Lesotho. How are these remittances sent and how much of it is intermediated through the formal financial sector?

3.1. Channel options

There are a variety of channels through which cross-border remittances can be sent from South Africa. Commercial banks offer account-to-account transfers through the SWIFT system. This presupposes the holding of an account. For non-account holders, options are limited to the Post Office, as well as Western Union and Moneygram (by law offered in partnership with banks), of which the clientele are mainly higher-income individuals and legal economic migrants who remit money home. The Mzansi Money Transfer product was launched in 2005 by the Big Four banks and Postbank. This service offers a person-to-person, cash-to-cash product based on the non-account money transfer model, but at a lower cost. However, Mzansi transfers are restricted to domestic transfers only.

Additional models found internationally, but not yet applied to cross-border transactions in South Africa include the m-payment and e-money models. M-payment models are available for domestic use in South Africa. M-payments can be defined as transactions where “customers issue instructions from their mobile phone that initiates a payment to a third party. The instructions can be to their bank, to a merchant or to a Payment Service Provider for the payment of a specified amount to a specified beneficiary on the customer’s behalf. Where an m-banking relationship is in place this will include m-payment. Where a m-payment relationship is in place this does not imply that a banking relationship is part thereof, only that electronic access is available to a value store owned by the customer and that that customer can issue payment instructions relating to the value store for execution” (BFA, 2008).

Where there is no underlying bank account, m-payments involve the issuance of electronic money (e-money). E-money can be defined as “monetary value represented by a claim on the issuer. This money is stored electronically and issued on receipt of funds, is generally accepted as a means of payment by persons other than the issuer and is redeemable for physical cash or a deposit into a bank account on demand” (SARB, 2000). This includes internet banking services, multipurpose smart cards that will enable electronic purse facilities, and mobile payments (m-payments).

Three main categories of **formal remittance models** can therefore be defined: account-based, non-account based, and e-money (as a variation on either). Below, we briefly consider each.

Bank account-based model

The basic account-based model looks as follows (with South Africa and Mozambique chosen as hypothetical corridor):

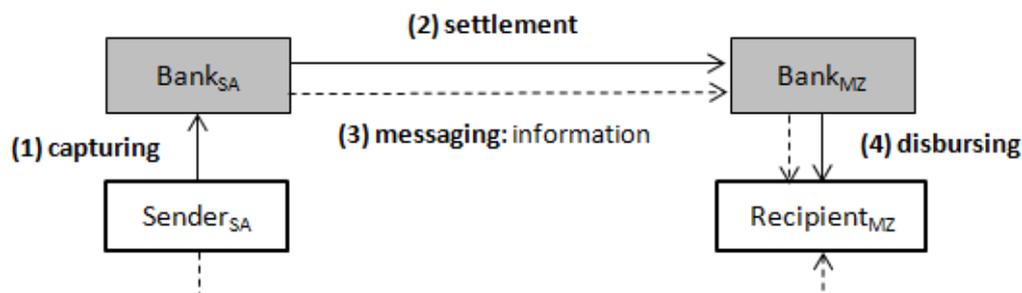


Figure 1. Representation of a simple account-based remittance model.

Source: authors' representation, drawing on BIS & World Bank (2007)

The diagram assumes a direct correspondent relationship between Bank_{SA} and Bank_{MZ}. Once again, the transaction and netting can however be facilitated via various other correspondent banking relationships. Capturing and disbursing can take place in cash, via internet banking, via a card transaction or a point of sale (POS) transaction.

The underlying payment system transactions will vary as follows depending on whether there is a direct link between the payment systems of the two countries (through bilateral agreement). Where there is no bilateral or multilateral link between payments systems:

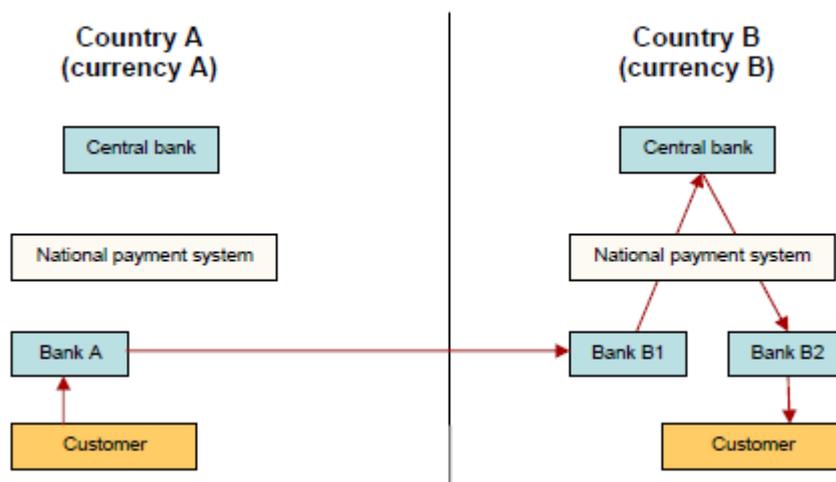


Figure 2. Representation of an account-based transfer: no link between national payment systems.

Source: BIS & World Bank (2007)

Where there is a link between payment systems:

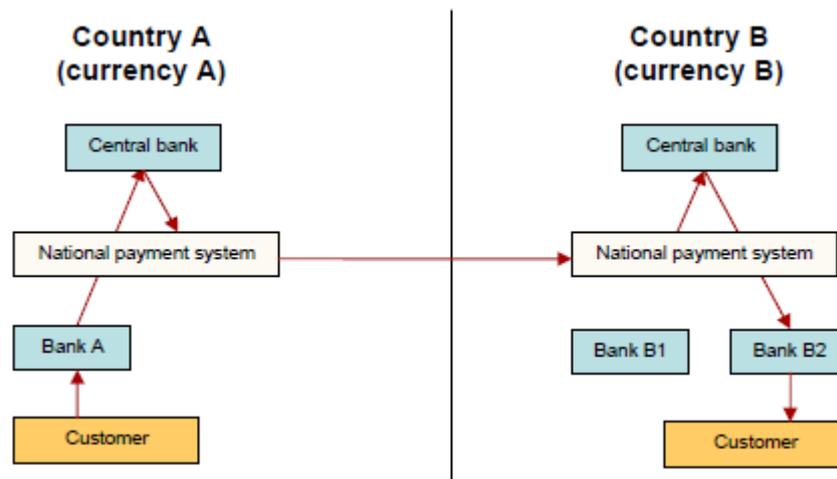


Figure 3. Representation of an account-based transfer: existing link between national payment systems

Source: BIS & World Bank (2007)

Bilateral or multilateral agreements that link the payment systems between countries therefore have the potential to simplify transactions where correspondent banking is involved. Movements in this direction are anticipated by the SADC Finance and Investment Protocol.

Non-account based model

Though there are a number of possible variations, the simple non-account based model can be represented as follows⁷:

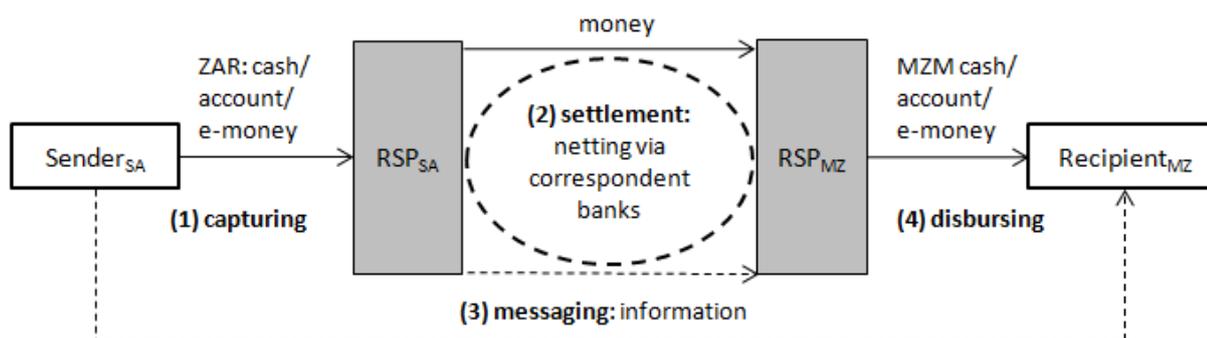


Figure 4. Representation of a simple non-account based remittance model

Source: authors' representation, drawing on BIS & World Bank (2007)

The remittance service provider (RSP) may be a dedicated money transfer operator such as Western Union or Moneygram, the Post Office, or another entity. The sender pays over money to the RSP, a process known as “capturing”. The RSP then settles the amount with an RSP in the receiving country. This may be conducted via agents, implying two additional links

⁷ The BIS and World Bank document on general principles for international remittances, Annex 3, gives a detailed explanation of correspondent banking and the variations on the possible models.

in the model. Concurrent with settlement, information of the transaction is conveyed to the receiving RSP and the recipient. This is known as “messaging”. The transaction itself takes place via correspondent banks. Either RSP_{SA} has an account with a bank that has a direct correspondent relationship with RSP_{MZ}’s bank, or, more likely, its bank will intermediate the transaction through another bank with whom it has an account and that has a correspondent relationship with a bank in Mozambique, with whom RSP_{MZ}’s bank in turn has a correspondent relationship. Up to four or more transactions may therefore take place between banks to intermediate a single cross-border money transfer. In reality, individual transactions do not take place, but are netted off, usually on a daily basis.

E-money model

The following diagram aims to give a simplified representation of the **e-money model** (once again using South Africa and Mozambique as hypothetical example countries):

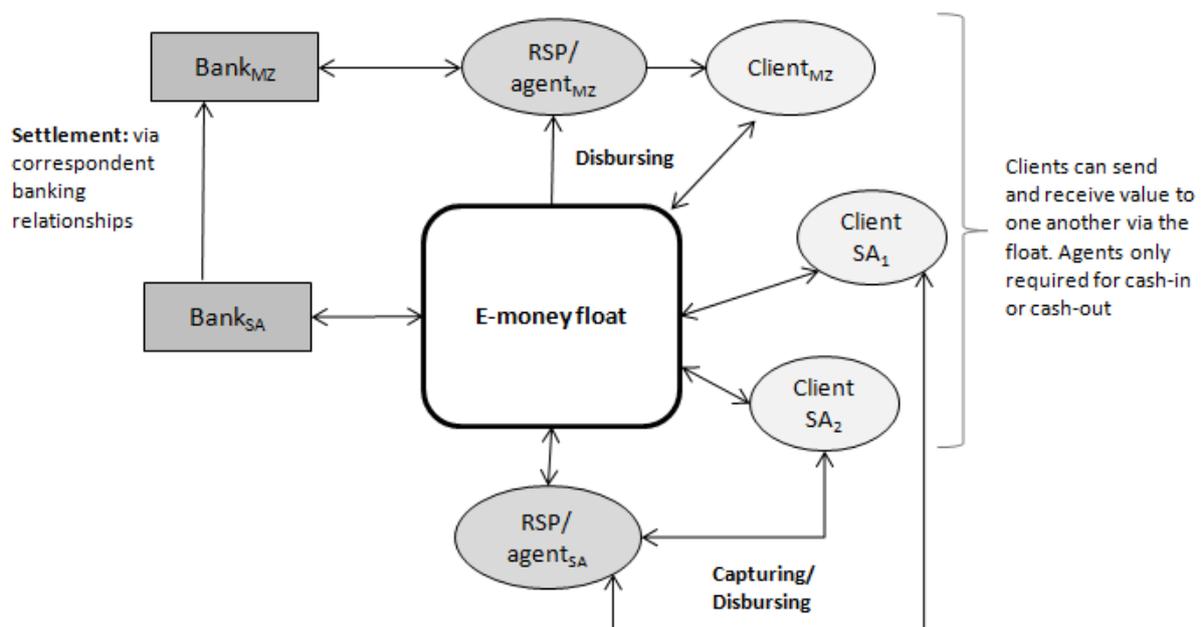


Figure 5. Simplified representation of an e-money or m-payment model with cash in and cash out

Source: authors' representation

This is the type of model underlying for example M-Pesa in Kenya and G-Cash in the Philippines. The messaging flows have not been indicated in the diagram for simplicity's sake. There will however be information flows between clients and between the client and agent for capturing and disbursing purposes. The e-money model can be executed via different channels, such as the internet, smart cards or mobile phones. Where mobile phones are involved, the term “m-payments” applies. This is where the most potential lies, as shown by the phenomenal success of M-Pesa.

The clients and agents each have an “account” with the Electronic Money Institution⁸ or EMI. When a client conducts a cash-in transaction, his/her account is credited with e-money in exchange for cash. In effect, a transfer takes place within the e-money float between the

⁸ This is the terminology used in the EU Directive.

agent's e-money account and the client's account. This e-money balance can be used to make transfers to other clients (at home or abroad). Should a client wish to make a cash-out transaction, the process is reversed, the client makes a transfer from their e-money account to the agent's e-money account in exchange for cash – all netted and settled within the float. All physical money going into the float is deposited in a bank account, often referred to as trust account. Importantly, this differs from the bank model in that each individual client does not have an underlying bank account⁹. Typically, the EMI will have a single trust account with a bank where the full e-money float is stored. Regulators normally require the value of the total e-money float to match the value in the trust account on a 1 to 1 basis.

Where cross-border transfers are involved various models are possible. In the most of these the Money Transfer Operator is a foreign agent of the EMI, holds a e-money account with the EMI. A client of the EMI transfers e-money to the foreign agent or directly to the recipient who then cashes it out with the foreign agent. The underlying flow of funds will take place via correspondent banking relationships between the domestic bank and the bank of the foreign agent.

On the **informal** side, the main option is to carry cash by hand, with the sending of goods in kind as a secondary option. Cash is transported personally or through a friend/relative or informal service provider such as a taxi or bus driver (Stone et al, 2009; Shaw, 2007). Internationally, there are also various organised informal channels such as the well-known "hawala" system where money is sent through an international network of un-registered money transfer operators. Such channels are however not pervasive in Southern Africa.

3.2. Channel usage

Remittance flows to SADC predominantly informal. Affordable formal options are not readily available to undocumented migrants and low-income clients wishing to send money cross-border. They continue to place their trust in informal money transfer mechanisms, either transferring money in person or using the extensive taxi and bus network. The Migration and Remittances Survey results (Pendleton et al, 2006) highlight the most popular ways of sending remittances to the rest of Southern Africa:

Channel	% of the sample using/preferring this channel
Bring money yourself	47%
Via a friend/relative or co-worker	26%
Via the Post Office	7%

Table 3. Top three remittance channels among survey respondents

Source: Southern African Migration Project, Migration and Remittances Survey (as analysed in Pendleton et al, 2006).

The focus group research conducted for Truen et al (2005) confirms this. 50% of all respondents use a friend/relative or third party such as a taxi driver, even on long-haul international routes, and despite the time-sensitivity of many remitters. This channel remains essentially trust-based. On the formal side, the most popular channel is likewise the Post Office.

⁹ Some m-payment models have underlying individual bank accounts. In this case, it will work in a similar way to the account-based model, but with communication of information via the cell phone network and with disbursing points not limited to the bank infrastructure, but to the full range of m-payment agents.

Other studies estimate a larger informal proportion. The informal interviews among Zimbabweans in Johannesburg by Kerzner (2009) revealed a clear preference for informal remittance channels. This is confirmed by Makina (2007)'s findings that only 2% of remittances were sent through official banking channels. In contrast, the survey found that almost 70% of remittances to Zimbabwe were sent via buses or taxi drivers, 20% were sent back with visiting family or friends and about 10% through other channels.

If, for the sake of deriving a lower bound/threshold estimate, we assume 50% of the market to be informal¹⁰, this amounts to between **R4.5bn and R6.25bn** in annual flows when applying the total market estimates developed in the previous section. This presents a significant untapped market for formally intermediated remittances and begs the question: why are remittances for the most part sent through informal channels? The answer to this question has three dimensions:

- **Regulatory** – the absolute barriers facing documented and undocumented migrants without valid authorisation to remain in South Africa.
- **Demand-side** - awareness, preferences, trust, perceptions and convenience.
- **Supply-side** – the availability, features, and cost of suitable money transfer products for the migrant market.

Here we consider the demand and supply-side aspects before turning to the effect of regulation in the next section.

3.3. Reasons for channel choice

Formal sector constraints. The current transfer system and models are not yet geared to deliver services in the most convenient and efficient way to the target communities. There are two main **supply-side** reasons that may explain the lack of take-up of formal remittance services:

Affordability. The formal money transfer market in South Africa is not competitive or well diversified. The available mechanisms are few and expensive. As will be discussed in the next section, this can largely be ascribed to foreign exchange rules. The findings from a database of remittance prices worldwide, built up by the World Bank since 2008, reveals that formal remittance channels from South Africa are the most expensive in the world, taking four positions on the bottom-five ranking of most costly corridors:

Corridor	Average cost in \$ to send \$200	% of principal amount
South Africa to Zambia	49.81	24.9%
South Africa to Malawi	41.16	20.6%
South Africa to Mozambique	39.76	19.9%
Germany to China	38.96	19.5%
South Africa to Botswana	37.99	19.0%

Table 4. The five most costly remittance corridors out of a database of 134 corridors

Source: World Bank (2009b)¹¹

¹⁰ This corresponds to estimates by the IMF (Gupta et al, 2007) that informal flows could add at least 50% to recorded flows, globally.

¹¹ Remittance prices worldwide. Making markets more transparent. Available at: <http://remittanceprices.worldbank.org/>

Remittance fees differ dramatically by modality (Shaw, 2007, quoting Gupta et al, 2006): a bank draft may cost 35-68% of the amount sent, electronic bank transfers 19-62%, postal orders 8%, Moneygram 25%, and an online transfer service 6%. *A comprehensive and recent overview of the features and cost structures of the various formal money transfer options for sending money from South Africa to the rest of Southern Africa as compiled by Kerzner (2009)¹² is provided in Appendix 2.*

A sometimes hidden cost of the money transfer model used is the cost of changing currencies. Whereas most transfer models will involve at least one foreign currency transaction, some models, for example Western Union, involve two foreign currency exchanges. The rates offered are usually not the most competitive, reducing the small value of remittances even more.

The last mile challenge. Next to affordability, physical proximity to formal money transfer outlets (and the cost and opportunity cost of travelling to formal distribution points) is equally important in determining access to formal remittance channels. The footprint of the formal financial sector is relatively big in South Africa, but the same cannot be said of neighbouring countries. The following table gives an indication of the reach of the financial sector infrastructure in South Africa versus its main corridor partners (World Bank, 2009):

Country	ATMs per 1m inhabitants	POS devices per 1m inhabitants
South Africa	743	13 821
Zimbabwe	39	119
Botswana	102	1287
Mozambique	19	492
Lesotho	29	n/a
Swaziland	83	n/a

Table 5. ATM and POS infrastructure in South Africa versus main corridor counterparts

Source: World Bank, 2009.

This implies that, even if a sender may have access to formal services in South Africa, it may not be the case for the recipient. Ultimately, the circumstances of the recipient will dictate the channel choice. Some consideration should therefore be given to particularly the so-called “last mile” business models and innovation needed to reach those traditionally beyond the formal sector’s distribution network¹³. There are some interesting international experiments utilising mobile and branchless technologies that will be of particular interest here and need to be explored further.

Demand-side considerations. Informal channels are not always significantly cheaper than formal alternatives. In contrast to the findings of Truen et al (2005), which estimated the cost of using a taxi driver to amount to 10% of the value of the remittances, the results for the Zimbabwe corridor (Kerzner, 2009) suggest that informal channels, despite being more affordable than formal sector alternatives for small amounts, also do not come cheaply. On average, remitters pay around 20% of the value of the amount sent through informal channels in remittances fees. Fees can be significantly higher for in-kind remittances, depending on the weight to value ratio of the goods sent. This confirms a recent study by

¹² The information was compiled specifically with remittances to Zimbabwe in mind, but is also applicable to remittances to other countries.

¹³ According to Yujuico (2008), the “last mile” refers to issues of access for remittances recipients, while the “first mile” refers to access problems for senders.

Cenfri of remittances in Zambia, where an average cost of up to 25% for the use of informal channels was found.

An important additional consideration is the cost of currency conversion in the informal or black market. A study for Zambia (Hougaard et al, 2008), for example, showed that, though Zambia has no foreign exchange controls, it is not always easy or even possible to exchange Zambian kwachas in other countries (and we can assume this to be the same for other local currencies that are not traded abroad). For this reason, people exchange local currency for dollars, send the dollars to the recipients, who then change the dollars into the other country's local currency. In this way, double exchange fees or spreads apply to informal cross-border transactions.

Furthermore, the focus group research conducted for Truen et al (2005), points out that people are not very aware of costs or very interested in comparing the costs of channels. Participants perceived the post office to be cheaper than the bank, but did not know the exact cost structure at either banks or the post office.

Therefore cost is not the only consideration that drives remittance behaviour. For the Zimbabwe corridor, Kerzner (2009) identifies the following drivers of the overwhelming preference for informal channels:

- At the time of the study, the rapid devaluation of the Zimbabwe Dollar would have discouraged remitters from sending money through formal channels, which would have been pegged at the official, much lower, exchange rate. Currency management and the existence of a black market therefore constrain formal remittance channels as currency transfers are exposed any macroeconomic instability that may exist.
- Makina (2007) also found that 59% of survey respondents had no access to banking facilities in South Africa, which may be an indication of the lack of legal status of many of these migrants.
- Based on interview feedback, despite the imperfection of the informal remittance channels, customers and their remittance recipients have long established relationships based on trust with the various transport networks. In contrast, interview feedback indicated that the banks in Zimbabwe are not well trusted, and have placed restrictions on the values that Zimbabweans can withdraw.
- Outside of the urban areas, there appeared to be limited access to financial services infrastructure in Zimbabwe, making it inconvenient and expensive to remit through these formal channels for those with families in rural areas, as it would necessitate travel to an urban centre to collect the remittances.
- In-kind remittances, which were strongly preferred until recently due to the scarcity of basic foodstuffs, could not be sent through formal channels.

More broadly, the reasons for channel choice can be summarised as:

- *Awareness and trust.* The relative popularity of informal channels can largely be explained by a lack of consumer knowledge of the features and trustworthiness of the formal system. Many people use informal channels because they know and have always used them. In many instances, users will build up a relationship with an informal service provider over time and feel that they can trust that person. This is particularly true

where friends or relatives are asked to take money home. In some cases, however, people do feel vulnerable to abuse and are aware that they have no recourse, should their money be lost or stolen (Kerzner, 2009). The formal sector could enhance its attractiveness by increasing its reach and efficiency, but must first convince the target market of its merits.

- *Ease of use and convenience:* With informal transfers there are no forms to fill in. Informal channels are usually easy to use and familiar to users and recipients. They are also convenient: in some cases informal channels may deliver transfers to the rural village or even the doorstep of the recipient, whereas formal channels are usually based in urban areas where the recipient has to go to collect the funds remitted. For many, bus routes are more accessible than the post office or banks. They use informal channels in the first instance because they are their only real option, and this shapes their perceptions.
- *Doorstep barriers and perceptions of cost.* Although focus groups have shown that people perceive bank channels as too expensive, they often do not know what the actual cost is. Research has also found that the poor often see banks as 'for the rich' and are intimidated by the 'officialdom' they have to engage with in obtaining services from the formal sector. Even if regulatory changes succeed in reducing cost and removing documentation barriers for migrants, effort will also be required to inform clients of the actual costs, improve the profile of banks in the minds of the poor, or provide alternative entry points more acceptable to this market.
- *Avoidance of authorities.* Documented and undocumented migrants (as opposed to legal migrants) will be concerned about potential/perceived repercussions of transactions documented by the formal sector even if this is not used to support migration control.

This is in line with the main reasons for channel choice revealed by the literature review and focus group research in Truen et al (2005).

4. Regulation

Regulation sets first order barriers. There are a number of ways in which regulation impacts the ability to send money formally. It causes documented and undocumented migrants¹⁴ to be ineligible as clients, thereby presenting an absolute barrier to formalisation. It also has more indirect effects through impacting on the cost and convenience of transacting. The three most important regulatory barriers are (Truen et al, 2005, Bester et al, 2008):

1. exchange controls;
2. anti-money laundering (AML) legislation; and
3. immigration laws

In addition, we will consider the framework for e-money regulation in South Africa and the likely implications for remittances.

¹⁴ See definition of these terms on Section 2 above.

These barriers function both individually and in concert to decrease the ability of remitters to access formal remittance systems, and to decrease the viability of remittance systems that have proved useful in other regions. Below, the impact of each is unpacked in turn¹⁵.

4.1. Exchange control

Although South Africa's exchange control ("excon") regulations have been loosened appreciably in recent years, they remain in force. Different exchange control rulings apply to the transactions of residents of the common monetary area ("CMA", which incorporates South Africa, Lesotho, Swaziland and Namibia) and non-residents. There are no trade and exchange restrictions between the member countries of the CMA and they form a single exchange control territory. Each CMA member has its own exchange control regulation and authorities, but in terms of the CMA Agreement, their application of exchange control must be at least as strict as that of South Africa. Thus transfer of funds from South Africa to other CMA countries does not require the approval of Exchange Control. For the South Africa-Lesotho corridor, this is therefore not a barrier¹⁶.

The problem with excon is not that it prohibits remittances. There are in fact allowance categories in the Exchange Control Handbook that suit the remittance patterns of many remitters –for example, a South African resident is allowed to send gifts of R30 000 per year outside the CMA. The issue lies in the method in which exchange control is applied, and in three key areas in particular, namely identity of the remitter, the issuing of authorised dealer licenses, and the reporting system requirements.

4.1.1. Identity of the remitter

The Exchange Control Regulations distinguish between residents and non-residents, as well as three additional categories, namely temporary residents, immigrants and emigrants (with the latter two not relevant for the purposes of this report).

Residents are persons, whether of South African or any other nationality, that have taken up residence, or are domiciled or registered in South Africa. This would therefore include South African citizens and permanent residents to whom South African national identity documents have been issued. Legal economic migrants working in South Africa and sending remittances to SADC countries would therefore be categorised as residents. The Exchange Control Regulations place no restrictions on the access of residents to banking and other financial services in South Africa.

Non-residents are defined as persons whose normal place of residence, domicile or registration is outside the CMA. As such, they can therefore not earn income from working in South Africa. Documented and undocumented migrants (as opposed to legal migrants) working in South Africa would meet the non-resident definition.

Temporary residents are defined as "foreign nationals of countries outside the CMA who have taken up temporary residence in the Republic excluding those who are purely on

¹⁵ In the rest of the regulatory discussion we draw directly on the text of Genesis Analytics (2006).

¹⁶ In a recently released working paper the UNDP (Makina, 2009) recommends that Zimbabwe join the CMA. Though it is much too soon to say whether this will realise, joining the CMA would imply that the exchange control barrier to the South Africa-Zimbabwe remittance corridor falls away.

temporary visits”¹⁷. They include contract workers. To purchase foreign exchange they must provide the authorised dealer with an original and valid work permit issued by the Department of Home Affairs. As far as access to banking and permissible transactions is concerned, the norm applied by Exchange Control is that “contract workers should, while they are in the RSA, be treated more or less like residents in order to avoid unnecessary administrative procedures which would have resulted from treating them as non-residents. That implies, for example, that they can keep bank accounts or obtain funds from financial institutions for the purchase of a house in the same way as a resident.”¹⁸

There is significant anecdotal evidence that most foreigners, including those that have a legal right to work, find it difficult to open a bank account¹⁹. With the introduction of anti-money laundering legislation, the onus on authorised dealers in this regard increased. Many foreign nationals effectively find themselves excluded from appropriate financial products and services.

4.1.2. Authorised dealer licenses

In order to deal in foreign exchange, which is a prerequisite for providers of cross border remittance services beyond the CMA, an institution must be awarded an authorised dealer license by the South African Reserve Bank (“SARB”). Although in the past the SARB has awarded such licenses to institutions other than banks (at the moment, two foreign exchange bureaux still hold such grandfathered authorised dealer licenses), it has decided to only award these licenses to banks going forward. This substantially limits the entry options of new and innovative businesses into the remittance market. It is also possible for a remittance business to partner with a bank to provide foreign exchange services, as is the case with Moneygram (Standard Bank) and Western Union (ABSA)²⁰.

4.1.3. Excon reporting system

Each authorised dealer must report every foreign exchange transaction, regardless how small, through the SARB’s Cross Border Foreign Exchange Transaction Reporting System. The reporting system is relatively expensive to install, and per transaction reporting requirements are onerous. Data required includes:

- For the domestic party: full names, residence permit number, address, and either an email address, phone number or fax number
- For the non-resident party: full name, residence permit number, country code and if available, address
- The size of the transaction, both in domestic currency and in the foreign currency concerned
- The purpose of the transfer

¹⁷ Page J1 of the Exchange Control Manual.

¹⁸ Page J1 of the Exchange Control Manual.

¹⁹ Please note however that the focus group participants in Truen et al (2005) did not confirm that this was the case. We are uncertain as to the cause of this discrepancy.

²⁰ However, the remittance business is then constrained by the bank’s transaction systems costs, which limits its ability to innovate and compete on price. In addition, the banks are cautious about the ability of remittance businesses to adequately handle money-laundering and fraud risks.

The requirement for the remitter's residence permit number effectively excludes documented and undocumented migrants²¹ from the formal remittance system. In addition, the effect of these reporting requirements is ultimately to increase the transaction cost of remitting substantially, and to raise the revenue threshold at which any remitting operation can break even (as any business must be large enough to justify the investment in reporting system compliance).

4.1.4. The post office

A curious anomaly within the exchange control framework is the position of the South African Post Office. The Post Office is empowered by law to remit money outside the country via money order, postal order "or [an]other document authorized to be used for the purpose of so remitting money."²² Within the CMA, the Post Office imposes no limits on the amount of money that can be remitted through its system, although the maximum size of a single transaction is R2 000. For remittances sent beyond the CMA, the maximum amount that can be sent in one month per individual is R2 000. The countries which the Post Office can send remittances to are as follows: Lesotho, Namibia, Swaziland, United Kingdom, Jersey, Northern Ireland, Botswana, Kenya, St Helena, Zambia, Brazil, Canada, Italy, Malaysia, Mauritius, Singapore, Sri Lanka and Switzerland. *This excludes two of the three most important remittance destination countries identified in Section 2, namely Zimbabwe and Mozambique.* It also excludes Malawi, another prominent corridor.

Post Office remittances are not reported via the SARB's reporting system.

4.2. Anti-money laundering

Remittances are a form of unrequited money transfer –in other words, they do not pay for a given good or service, and produce no invoice or other documentation. Unfortunately, this means that remittances are often difficult to distinguish from illegal, fraudulent or terrorist financing transactions, which are also forms of unrequited flows, with no invoicing. Anti-money laundering legislation targeted at these illicit flows may thus impact heavily on the remittance market. Whereas exchange control barriers are specific to South Africa, the prevalence and severity of AML and CFT controls are rising internationally.

In South Africa, the principal piece of AML legislation is the Financial Intelligence Centre Act ("FICA"), which was enacted in 2002. FICA was informed by the Financial Action Task Force ("FATF") Forty Recommendations, and the recommendations of the Basel Committee on Banking Supervision. South Africa has also passed legislation to implement the FATF Nine Special Recommendations on terrorist financing. This act is known as the Protection of Constitutional Democracy Against Terrorist and Related Activities Act, Act 33 of 2004. It criminalises the financing of terrorism. For practical purposes, however, its CDD requirements are no different from that of FICA.

A key obstacle for remittance formalisation are the FICA requirements for customer due diligence ("CDD"). In terms of FICA, before a financial institution can open an account or perform a single transaction, the bank must obtain the full name, date of birth, identity number (or nationality and passport number) and residential address of the person.

²¹ See definition of terms on Section 2.

²² Section 46 of the Postal Act of 1958.

Personal identity must be verified against a valid South African identification document or a foreign passport, and residential address must be verified against documentation such as a utility account. It is important to note that FICA requires the establishment and verification of the identity of the clients of financial institutions. It does not require the verification of the valid presence of the person in South Africa. i.e. by submitting a valid visa or work permit, if that person is not a South African citizen or resident.

Verifying client identity in South Africa has proved extremely difficult, particularly in the low income market:

- In low income areas such as informal settlements, verifying legal permanent address can be prohibitively difficult. At least one-third of South African households do not have formal addresses: according to the most recent census (2001), 30% of the approximately 9.1 million households in South Africa live in either traditional dwellings or informal structures
- Low income consumers increasingly prepay for their utilities. This means that no water, electricity or phone bills are available to confirm residential address, as prepaid systems don't create an audit trail
- Among the poor, telephone numbers, fax numbers, and e-mail addresses are typically not available

All of these factors are also of application in other SADC markets, which suggests that the rigorous application of AML principles, such as the FATF Forty Recommendations, would be of detriment to the regional remittance market and access to finance as a whole.

To address the access to finance impact of FICA, FICA Exemption 17²³ was introduced²⁴. This exemption allows banks to apply reduced CDD standards in relation to qualifying accounts and remittance transactions, provided, in the case of transactions processed by money remitters, that the remittances are within South Africa only. The exemption dispenses with the requirement to obtain and verify the residential address of clients, but maintains the requirement to present a South African identity document. The qualifying accounts for the exemption are those which enable the client to transfer or make payments not exceeding R5 000 per day or R25 000 in a monthly cycle (more than sufficient for the average size remittance in SADC). The balance held may never exceed R25 000. Transfers from an account as a result of a point-of-sale payment or cash withdrawal in a CMA country are allowed, but transfers beyond the CMA are not.

Although Exemption 17 has made a valuable contribution to the access to finance environment, its impact on cross-border remittances is very limited. It only brings relief for account-based remittances within the CMA. It does not apply at all to non-account based cross-border remittances.

From a wider perspective, FATF recommendation 7 requires financial institutions involved in cross-border banking and similar relationships to gather sufficient information about the respondent institution's business, reputation and quality of supervision. It must also assess the respondent institution's AML and CFT controls. This is relevant to the remittance market, as one of the easiest ways to provide an adequate remittance distribution network is to form

²³ Government Notice R1353 issued on 19 November 2004 in GG No 27011.

²⁴ For a case study, see Truen et al (2005) and Bester et al (2008).

a partnership with a financial institution in the destination country. However, South Africa is the only FATF compliant country in SADC and the only FATF member in Africa, which will probably create some reluctance to rely on the KYC abilities of partner institutions²⁵. This will not be the case where the partner institution is a division of the financial institutions in South Africa or another institution, such as a retailer, with whom the financial institution has a relationship in South Africa.

4.3. Immigration laws

Some traces of the apartheid legacy can still be seen in South African immigration law. In particular, the corporate permit system used to control the immigration (and ensure the deportation) of labour needed by farmers and miners remains in place. What is noticeably absent is any form of work permit that would allow an unskilled person to enter South Africa outside of these corporate permits. Immigrants seeking informal or temporary work in the construction or hospitality industries, or as domestic workers, are thus only able to enter the South Africa illegally. The undocumented nature of the bulk of South African unskilled migration has important consequences for the formalisation of this market.

All immigrants, unless they are permanent residents in South Africa, are prohibited from using the Mzansi account, as it requires presentation of a South African ID book. Documented and undocumented migrants (as opposed to legal migrants) face a further barrier to the rest of the formal financial system, as they cannot provide proof of residence status. As both excon and AML regulations require this proof of residence status, the undocumented migrant is unable to either open an account or make once-off transactions to remit money cross-border. Undocumented migrants therefore cannot access formal remittance channels at all, and must make use of informal channels.

The Immigration Act, 2002, places further obligations on financial institutions. S.45 of that Act, read with its regulations, places a legal duty on financial institutions, “including micro financiers” to “endeavour to ascertain the status or citizenship of the persons with whom they enter into commercial transactions (including money transfers) ... and shall report to the Department any illegal foreigner, or any person whose status or citizenship could not be ascertained”.

4.4. E-money

Though South Africa has no e-money regulation at present, the SARB’s has taken a policy stance on dealing with e-money. This policy position was originally contained in the Electronic Money Position Paper of April 2006. In November 2009, an updated position paper was published to clarify SARB’s position regarding e-money in light of recent investigations into the feasibility of allowing non-banks to issue e-money and other issues. The main tenets of the updated position are:

Managing risks without discouraging innovation. The Bank (SARB) will continue to assess new developments in e-money, the risk implications for the national payment system (NPS), as well as the benefits that innovation or new technological developments can hold by enhancing efficiency and access to financial services. The Bank acknowledges that electronic

²⁵ However, most SADC countries are members of ESAAMLG (the Eastern and Southern Africa Anti-Money Laundering Group), so some commitment to compliance with anti-money laundering proposals has been expressed.

money products are based on constantly evolving technology. In an attempt not to stifle development, the Bank's position is to regulate e-money products and schemes appropriately as innovation occurs.

Payments versus deposit-taking. The position paper distinguishes between *payments due* and *deposits*. Under Directive 1 of 2007, non-banks may accept funds from one person to make a payment on behalf of that person to a third person to whom the payment is due. This covers for example bill payments. However, this does not extend to person-to-person payments where a payer sends electronic value to a beneficiary who is then able to encash that value. As the money is not due to the beneficiary as an obligation, the position paper classifies such transactions as deposit-taking. Deposit-taking may only be conducted by registered banks (SARB, 2009).

Only banks may issue. Given the distinction between payments and deposits, the SARB's position is firm that only banks registered under the Banks Act will be permitted to issue electronic money. E-money deposits would have to be held in a separately identifiable e-money account for each holder of e-money and comply with the relevant sections of the Banks Act and its Regulations (SARB, 2009).

Partnerships with non-banks allowed. Under Section 52 of the Banks Act non-banks may enter into arrangements with banks to offer payment-related services in partnership with the bank. To be authorised do so, the bank needs to make an application to the Registrar of Banks (SARB, 2009).

Cross-border e-money permitted. The regulation of e-money becomes important for remittances where cross-border payments are conducted using e-money platforms. The position paper states that banks may conduct cross-border e-money activities in consultation with SARB and based on normal correspondent banking arrangements. In doing so, they must comply with Exchange Control and any other relevant legislation (SARB, 2009). Therefore cross-border m-payments or other e-money based remittances will be limited to registered banks or entities acting in partnership with a bank.

5. Opportunities and challenges for formalisation

The picture emerging in this document is clear: a large migrant population, mostly sending money informally, presents an untapped market for formal cross-border remittance intermediation of as much as R5bn or more per annum. Yet there are a number of barriers to the formalisation of remittances. This includes consumer perceptions and preferences, but also the supply of appropriate and affordably priced products. This, in turn, is in large part shaped by regulatory barriers and restrictions which set absolute barriers for documented and undocumented migrants without a valid visa or work permit, entrench the lack of competition and inhibit incentives for cost-reducing innovation to overcome the last mile challenge.

5.1. Rationale

The discussion above showed that there are a number of reasons why people may prefer to use informal channels over formal alternatives, even if they should have access to formal money transfer services. Furthermore, "regularising" the remittances of undocumented

migrants in Southern Africa is likely to be a politically controversial issue. For example, undocumented migrants are in contravention of the Immigration Act and can per definition only earn money through illegal employment. Initiatives to incorporate “illegal” money into the formal financial system are therefore likely to encounter significant resistance, unless some way can be found of making them legal or at least quasi-legal (Stone et al, 2009; Southern African Migration Project, 2009 – personal communication).

Why, then, formalise remittance intermediation?

There is a wide literature²⁶ arguing the macroeconomic benefits of remittances (through the balance of payments, as a source of external finance and by promoting savings and investment), as well as the specific benefits that remittances hold for financial sector development. Formalising remittance flows increases the multiplier effect of funds received. Remittances have the potential to introduce migrant families to the formal financial sector, which can lead to the use of other products such as transaction banking, savings, credit or insurance (Ambrosius et al, 2008). In order to unlock these benefits, it is however important that remittances be intermediated through the formal sector. These benefits apply at both the sending and the receiving side.

In addition, demand-side research emphasises that perceptions may vary and tend to justify the chosen channel. In a set of informal street-level interviews to gauge remittance behaviour in Zambia (Hougaard et al, 2008), it was found that, without exception, the interviewees using informal channels such as bus drivers reported that they do so because these channels are quicker, more reliable and more convenient, and because they trust the bus driver. They see formal channels as unreliable, inconvenient and slower²⁷. In contrast, those who use formal channels point out that they do this precisely because such channels are quicker and more trustworthy than using buses. They emphasise that the money is available instantly and that the recipient can collect it at his or her convenience. Some even said that the bus driver could not be trusted to deliver the full amount to the recipient.

This shows that, even though informal channels often perpetuate themselves through perceptions, it does not mean that there cannot be real efficiency and value gains to consumers from using appropriate formal sector alternatives.

The World Bank (Quillin et al, 2007) therefore argues that it is “of paramount importance for policymakers, operators and the donor community to encourage the formalization of remittance transfers and the introduction of migrants and remitters to banking, intermediation, savings and investments, as well as to develop the financial sector infrastructure”.

5.2. What are the policy options?

Quillin et al (2007) recommend five main streams of interventions to formalise remittances:

1. Improve **data** on remittances

²⁶ See for example Siddiqui & Abrar, 2003; Aggarwal, Demirguc-Kunt & Martinez Peria, 2006; Hernandez-Coss, 2005; Agunias, 2006; Fritz et al, 2008; World Bank, 2009

²⁷ In reality, the bus may take many hours to reach its destination and arrive at any time of the day or night, requiring the recipient to stop all other activities and wait at the bus station at the designated time. If the bus is delayed, the recipient may have to spend several productive hours waiting for it.

2. Promote formal remittance channels by building the **financial sector infrastructure**, increasing confidence in the banking system, and developing the payment system
3. Promote **competition and transparency**. Freund and Spatafora (2005, quoted in Stone et al, 2009) argue that, from an efficiency standpoint, a large share of informal remittances in an economy may suggest the need to stimulate greater competition among formal financial service providers such as banks and money transfer operators.
4. Maximise development impact, including by promoting the development of **specialised products** for migrants and the cross-selling of financial products and by promoting **financial literacy and public awareness**.
5. Encourage the use of **technological innovations** for remittances, e.g. the use of cell phones.

The Global Forum on Migration and Development, in a background paper prepared for its roundtable discussion on increasing the development value of remittances, suggests a number of core policy options for improving the formalisation of transfers and reducing their cost. This includes financial literacy training to migrants, the dismantling of monopolies in the remittances industry, publicly disseminating information on prices for different remittance service providers, bilateral agreements for improving the efficiency of money transfers and multilateral engagements for regional payment systems. Importantly, it also argues that the issuance of identification cards to migrants, the relaxation of foreign exchange controls and the provision of certain tax incentives and privileges to remittances have proved effective.

Hernandez-Coss (2006) also considers policy options for the regulation of money transfer operators/money remitters and highlights the need to overcome the barriers created for small money transfer providers in jurisdictions where money transfer operators are treated like banks by regulatory authorities. This limits access to formal money transfers.

Ambrosius, Fritz & Stiegler (2008), drawing on evidence from three heavily remittance-dependent Latin American countries (Mexico, El Salvador and the Dominican Republic) investigate the policy options for facilitating the role of remittances in development. They group remittance-related policies into four categories:

1. Diaspora policies that try to influence remittance flows in a rather indirect manner, e.g. by providing support services to citizens abroad, thereby indirectly increasing the capacity for remittances. This may also include education of the diaspora on formal remittance options.
2. Cost reduction of formal remittances and improvement of payment systems.
3. Formalisation of flows and improvement of access to financial services for the unbanked (promoting greater financial inclusion), and
4. The channelling of remittances towards 'productive' or 'non-consumptive' use

Below, we unpack options (b) and (c) in more detail, as they are deemed to be of most relevance to SANT and SARB.

Bringing down costs. Where reducing remittance costs is concerned, various policy approaches are possible: enhancing competition in the remittance market, improving payment systems and increasing transparency. For example:

- In the US-Mexico corridor, the Federal Reserve Bank of Atlanta reached an agreement with the Mexican Central Bank whereby their respective payment systems are coordinated in order to lower the costs of transfers from US bank accounts to Mexican bank accounts. It applies a favourable exchange rate that gives bank account transfers an advantage about money transfer operators.
- Another interesting policy measure, also for the Mexican corridor, was the creation of an internet platform called the “Remittance calculator”, launched by the Mexican national consumer protection body. It enables remitters to compare the costs of money transfers of a wide range of operators. Operators themselves are responsible for updating the database. Both initiatives have contributed to the significant shift from informal to formal remittances taking place in the US-Mexico corridor (Ambrosius et al, 2008, quoting Hernandez-Coss, 2005).

Increase financial inclusion. Another important policy area concerns increasing financial inclusion among remittance senders and receivers. An important barrier to financial inclusion of remittance senders is the fact that migrants are often undocumented and can therefore not access money transfer services in the formal financial sector. Government initiatives for the “quasi-formalisation” of migrants can improve their access to the formal financial sector (Ambrosius et al, 2008):

- The most well-known example is that of the Matricula Consular de Alta Seguridad (Matricula card for short) issued by Mexican consulates since 2003. Despite criticism by some of the matricular card as an “ID for illegals” (Diner-Stein, 2003), it is now accepted as an alternative form of identification by a wide range of banks and other institutions in the USA. This grants access to formal financial services, including the sending of remittances, to otherwise undocumented migrants (Ambrosius et al, 2008, referring to Hernandez-Coss, 2005). According to the IMF (2006, quoted in Bester et al, 2008) there were 4m matricula cards in circulation in 2006. *Appendix 1 contains a case study on the matricula card.*
- Another example quoted in GFMD (2007) is Tunisia, which issues similar ID cards for migrants called “carte consulaire”.

In 2006 the Washington-based Migration Policy Institute (Agunias, 2006) conducted a literature review on the development impact of remittances and the policy options for developing remittances. It confirms the importance of increased financial inclusion for migrants highlighted above, stating that there is increasing consensus on the need to strengthen the infrastructure supporting remittances through reducing transaction costs, to address last mile challenges and to facilitate the formalisation of remittance.

It is argued that attempts to ban informal channels have been unsuccessful. Instead, the policy debate regarding the formalisation of remittances now centres on: (i) how to encourage banking among migrants; and (ii) how to design appropriate, balanced regulatory frameworks for remittances. Policy options to do so include (Agunias, 2006):

- *Issuing identity cards* to overcome the substantial barrier that a lack of documentation poses. Here the matricula card is once again quoted as prime example.
- *Improving financial literacy* is a policy option argued in many if not most studies, including Orozco (2005²⁸), who suggests a number of possible strategies for building confidence among unbanked migrants.
- *Implementing appropriate regulation and laws*. The need for financial security through the application of the FATF Recommendations is widely recognised. At the same time, a number of authors have raised concerns about the detrimental impacts of KYC requirements on access to formal financial services, exacerbated by the fact that financial regulators and institutions tend to interpret any ambiguity in the FATF recommendations strictly. It is very difficult to find the right balance between development and security concerns (Hernandez-Coss, 2006).

A number of solutions have been proposed, including registering informal players such as hawaladars with a relatively light touch in recognition of the fact that there may be a split between money transfer operators as entities and their abuse for criminal purposes, as well as that restrictive regulation of money transmitters risks pushing them underground, thereby undermining the goal of financial security. It is also important that money transfer operators themselves be granted access to banking services (Hernandez-Coss, 2006). These considerations, while very important for some international corridors, are less relevant in the Southern African context due to the fact that informal money transfer operators are not widespread and most people send money in cash.

5.3. What are the risks?

When considering the various policy options to formalise remittances the various risks must be considered. Such a risk-assessment should be twofold:

1. *The risks to individuals and the system posed by illegal/informal money transfers*. The main risk is to individuals themselves. Informal channels rely solely on trust and do not provide any consumer protection mechanisms to users or any guarantees that money will be delivered safely. Furthermore, the risk is that a large but unknown amount of currency is leaving the country annually which the regulators cannot monitor.
2. *The implied risks to individuals and the financial system of opening up the formal channels in an effort to rope in more informal remittances*. At least four potential risks can be identified, depending on the policy route chosen:
 - **Risk of money laundering**. The aim of the anti-money laundering barriers is to protect the integrity of the financial system, thereby minimising economic crimes. Will the relaxation of remittance requirements undermine this aim by increasing the risk of money laundering? Generally speaking, small value transactions carry lower money laundering risk. Furthermore, monitoring for suspicious transactions can mitigate the risk of money laundering. As argued by Bester et al (2008), it is desirable to rather incorporate flows into the formal system where they can be monitored than to leave them under the radar screen.

²⁸ Orozco, Manuel "Migration, Money, and Markets: The New Realities for Central America," In *Beyond Small Change: Making Migrant Remittances Work for Development*, edited by Donald F. Terry and Steven R. Wilson (Washington, DC: Inter-American Development Bank, 2005), pp. 193-218.

This is in line with the reasoning of the General Principles for International Remittances Services released by the BIS and the World Bank in 2007. It states that regulation of remittances is needed for various reasons, including to prevent the misuse of remittances for money laundering and terrorist financing. However, as with all laws, regulators must caution against badly designed legislation with unintended side effects, or that is disproportionate to the risks of the problem they are trying to tackle. For this reason, the third General Principle is that remittances should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework (BIS & World Bank, 2007).

Furthermore, it is stated that the relatively small values involved in remittance transfers mean that it is unlikely that they will pose systemic risk. This underlies General Principle 5, namely that remittance services should be supported by appropriate governance and risk management practices that are appropriate for the size and type of transactions (BIS & World Bank, 2007).

- **Risks related to the business of money transfer operators.** Remittance service providers, as other financial service providers, face liquidity, credit, financial, legal, operational, fraud and reputational risks. The remittance economy could also pose systemic risk to the financial system (i.e. that the failure of one or more remittance service providers will lead to the failure of other financial institutions). Generally, however, the relatively small values involved mean that systemic risk is unlikely and that remittances will not lead to stability problems (BIS & World Bank, 2007).

Other financial risks can however arise, particularly if the market is not transparent, if there is a weak legal basis or where the financial system is not well developed (as is often the case in Africa):

- *For senders and receivers*, the risk is that the funds will be lost while in transit (e.g. due to bankruptcy, error or fraud on the part of the transfer provider or intermediary). This risk is minimised in franchised or unilateral networks, where the capturing RSP has a contractual obligation to provide the money, even should funds get “lost”. In this sense, the risk is lower in the formal than informal sector (BIS & World Bank, 2007).
- *For the RSP*, the extent of the risk that funds will not be disbursed (credit or liquidity risk of a loss in transit) depends on the nature of the remittance service and the relationship with the agents (e.g. whether the RSP provides the agent with a float or not). In addition, RSPs are subject to operational risk that they will fail. Inadequate governance and risk management practices will exacerbate this. Reputational risk could also arise, should the service be misused for e.g. anti-money laundering. The service provider therefore has an incentive to limit the chances of money laundering (BIS & World Bank, 2007).
- **Risk of allowing undocumented migrants or documented migrants without legal tenure²⁹ into the formal financial system.** The aim of immigration regulation and the restrictions posed on foreigners without legal tenure or work permits is to protect the economy from an uncurbed inflow of individuals that do not find formal

²⁹ i.e. those with a passport, but without a valid visa and/or work permit

employment and risk becoming the responsibility of the South African tax-payer. Will this aim be undermined by allowing undocumented migrants or documented migrants without legal tenure access to the formal financial system? What are the specific risks involved? The likely political sensitivities of incorporating “illegal” employees into the formal system, thereby entrenching their stay, have already been discussed. At the same time, many argue that the immigration problem is a very real part of the South African landscape and will continue to be so. Therefore risks can be reduced rather than increased by documenting or “quasi-legalising” such individuals and in so doing granting them access to the formal financial system, while at the same time not legalising their tenure. A more in depth assessment of the actual risks posed is required.

- **Risks of e-money and m-money.** M-payments based on e-money are emerging as a particularly relevant channel for low-value, low-cost remittances worldwide. This can pose certain risks. The GSM Association (2009) however argues that e-money institutions incur less risk than banks. The nature of a bank’s business implies systemic risk to the wider financial system, through credit risk (the risk that credit offered will not be paid back), market risk (possible losses incurred when trading) and operational risk (related to people, processes and systems). In the case of e-money institutions such as m-payment remittances operators, the volume of flows is very low compared to a bank. They furthermore cannot use customers’ money to finance for example lending activities. Normally, regulation would also require e-money to be backed up by the same amount in a secured and liquid float. In this way, the risk to the consumer of e-money transactions is minimised. Nevertheless, e-money issuers remain subject to foreign exchange risks and operational risks. Forex risks may be hedged through the use of derivatives. Operational risk, the GSMA argues, can be regulated proportionately without having to impose compliance with banking regulation.

Any regulation should aim to balance the benefits thereof, in terms of increased safety and soundness, against the potential costs in terms of lost efficiency, competition and innovation (BIS & World Bank, 2007). The risks of informal remittances on the one hand and of opening up the formal system on the other hand should therefore be weighed up against each other to derive a conclusion on the costs versus benefits of policy steps aimed at opening up the formal market for remittances.

5.4. Comparative international examples

There have been a number of international experiments and events that could provide some guidance to policy makers in South Africa. These include:

- *Mexico.* The Matricula card and the broader Mexican experience as discussed above. Appendix 1 elaborates on the matricula card case.
- *Kenya.* The astounding success of M-Pesa, the Vodafone-owned telecommunications operator Safaricom’s m-payment model in Kenya, has been a wake-up call to the international community of the potential of m-payments in overcoming the last mile challenge in the remittance market. It has built up a customer base of nearly 7m since its launch in March 2007 (CGAP, 2009) – all the more remarkable in a country with less than half that number of bank accounts. Though M-Pesa is only relevant for domestic

transfers³⁰, implying that the issues of undocumented migrants and foreign exchange control do not come into play, it nevertheless presents an interesting regulatory case study. It developed as a non-bank-based payment system model in the absence of dedicated regulation. This has meant that no strict KYC requirements are applied (only a national identify card is required to register as an M-Pesa client). At the same time, money laundering risk is reduced by the fact that M-Pesa transfers are limited to a maximum of Sh35,000 (~R3,500) per day. Government has now initiated the process to draft a regulatory framework for m-payments that will address the risks while ensuring that financial inclusion is promoted rather than hampered.

- *Pakistan*: The inflow of remittances is a major source of foreign exchange for the Pakistan. The Central Bank, the State Bank of Pakistan, has thus made considerable (non-AML-related) efforts to increase the flow of remittances through formal channels. These include (SBP, 2006):
 - *Reducing transfer costs*. A subsidy equivalent to SAR25³¹ (\$6.70) for every remittance transaction sent through bank channels where the transaction is converted to rupees and where there is no charge to the sender or recipient is paid to banks.
 - *Increasing competition*. The creation of a regulatory framework to facilitate formalisation of money changers by registering such institutions as either category A foreign exchange companies (who can remit money cross-border and trade in foreign exchange) or category B operators who cannot remit cross-border, but can buy foreign exchange and sell rupees.
 - *More attractive exchange rate*. Reducing the differential between the official exchange rate and the kerb rate.
 - *Support for Pakistanis abroad*. The establishment of a loyalty programme (through the Overseas Pakistanis Foundation (OPF)) for Pakistanis working abroad to support, amongst other things, the sending of money through formal channels.
 - *Improving efficiency of the formal channels*. A code of conduct for formal channels was drafted, requiring, amongst others, a maximum delivery time through formal channels of 48 hours (rather than the reality of 2 to 3 weeks).
- *Philippines*: the Philippines abolished exchange control in 1995, and in the same year found that private remittances through formal channels had quadrupled (Truen et al, 2005, quoting Buencamino & Borkunov, 2002). It has furthermore taken specific steps to facilitate formal remittances, for example by entering into a bilateral agreement with Japan to facilitate workers' remittances and access to financial institutions in Japan (Hernandez-Coss, 2006). Furthermore, the Philippines has a very liberal exchange control regime. Filipino workers in many countries can transfer money home via GCash, a non-account based m-payment service, in the same way as they would in the Philippines. This is made possible by the fact that the Central Bank supported the provider of GCash, G-Exchange, to negotiate arrangements with reliable suppliers in a variety of host countries, on a corridor by corridor basis. This would not have been possible, did the

³⁰ Safaricom announced in December 2008 that it would pilot the extension of M-Pesa to the UK-Kenya remittances channel. It will enable customers to send money from select locations in the UK directly to M-Pesa clients in Kenya. These cross-border remittances are however not subject to the same issues that form the topic of this note.

³¹ Saudi Arabia Riyal

Philippines not have an open capital account and liberal foreign exchange regime (Stone et al, 2009).

6. Way forward

6.1. Window of opportunity

It is a very opportune time to review the policy framework for cross-border money transfers. The three most important institutions that will determine future policy changes are the Ministry of Finance, the SARB and the Department of Home Affairs. All three of these institutions have signalled their intension to consider the money transfer environment.

SANT. Treasury has recognised remittances as a key sector and has started an internal process to consider policy options for change.

Department of Home Affairs. Recent policy signals from the DHA also bode well for the formalisation of remittances. On 1 May 2009³², the Department of Home Affairs announced that free 90-day visa waivers would be granted to Zimbabwean passport holders entering South Africa, also allowing them to do casual work, in order to reduce the number of undocumented migrants in the country. The Department furthermore announced that it would begin granting special residency permits to Zimbabweans already in South Africa illegally, granting them the right to live and work in the country, and access healthcare and education for a period of six months, on a renewable basis³³. However, at the beginning of June 2009 the Department of Home Affairs announced that both the 90-day visa waiver and special residency permits were being reassessed under the new South African government, as there had not been sufficient consultation before their announcement (Kerzner, 2009).

SARB. The SARB has publicly recognised the high cost of transfers as a major problem and committed to investigating ways of addressing this as a key policy issue. The Reserve Bank's main concern in bringing more flows into the formal sector is the high cost of transfers.

6.2. Recommended actions

In charting the way forward, the policy objectives that the government wishes to achieve in the cross-border money transfer environment should be clearly articulated, the options and priorities for change should be considered, and a sound process incorporating all the parties who impact the final outcome, should be formulated. We consider these briefly. We then suggest some immediate activities to advance policy formulation.

6.2.1. Policy objectives

What would the government want to achieve with its cross-border remittance policy and what principles should policy changes adhere to? Three core public policy objectives can be identified:

³² Kgomo Mathe, SA Eases up on Jobless Zimbabwe Migrants, Business Day, 05 May 2009

³³ Wilson Johwa, Zimbabweans Get Visa-Free SA Entry, Business Day, 03 April 2009

1. Ensuring the **safety and efficiency of the payment system**. To this end, the markets for remittances services should be contestable, transparent, accessible and sound (BIS & World Bank, 2007).
 - a. *Contestable*. The best way to reduce the price of remittance services is to encourage a competitive market for remittances. Because competition in the provision of remittance services helps to improve the services being provided, the market should be open to new entrants.
 - b. *Transparent*. There should be clear information about the price and other features of the services.
 - c. *Accessible*: there should be easy access to remittance services.
 - d. *Sound*. There should be reasonable protection from operational failures and criminal abuse.

2. **Strengthening the regional financial system**. South Africa is already committed to regional financial integration through the SADC Finance and Investment Protocol. This includes not only cooperation in establishing a regional cross-border payment strategy for SADC³⁴, but also to strengthen the regional financial system as a whole and also to increase levels of financial inclusion in all the member states.

3. **Maximising the development impact** of any actions in the receiving countries. Increasing the flow of formal remittances to SADC countries will have various positive development impacts for those countries, including greater stocks of foreign exchange, larger savings and increased financial intermediation. However, to the extent that such “extra territorial” impact is an express policy objective of the South African government, it must ideally be pursued in cooperation with the authorities of the relevant countries.

6.2.2. Options and priorities for change

There are a number of policy changes that can be investigated and implemented. The most important of these are the following:

1. **Introduce greater competition into the cross-border money transfer market**: This will require various regulatory changes, including changes to the policy of licensing dealers in foreign exchange.

2. **Reduce the cost of transfers**: Besides the impact of increased competition, this will require changes to the current forex controls, particularly the reporting system. E-money and m-payment models that are lower cost can also reduce cost. Extending exemption 17 to certain cross-border transaction beyond the CMA will also contribute to cost reduction.

3. **Permit documented migrants to access transfer services**: It is highly unlikely that undocumented migrants will ever be granted access to formal remittance services given the levels of AML and immigration controls in place. However, consideration can be given to allow persons with valid travel documents from their home countries but without valid work permits or visas to access formal financial services. It is also possible to cooperate with the home governments of undocumented migrants to

³⁴ SADC Finance and Investment Protocol, Annex 6 (Cooperation on Clearing, Payment and Settlement Systems), article 3.

provide them with valid identification in South Africa, similar to the matricula card. Such a reform will require changes to forex controls and immigration regulations.

4. **Communication and awareness:** Irrespective of any regulatory changes, moving migrants from informal to formal channels will require a combination of public and private education and awareness initiatives.

Due to the end-to-end nature of cross-border transfer channels, unilateral policy changes undertaken in South Africa will not necessarily produce the policy outcomes desired. This may be due to regulatory and infrastructure blockages in the receiving countries. It is therefore advisable to understand the end-to-end conditions applicable to South Africa's main remittance corridors (notably Zimbabwe and Mozambique, since Lesotho is not subject to the same restrictions since it is located within the CMA) and to investigate to what extent policy changes can be made in both sending and receiving countries to optimise improved formal flows. If certain countries prove intractable, other corridors may be given priority.

6.2.3. Process implications

Cross-border remittances imply that South Africa is not the only jurisdiction of relevance. Policy steps taken in isolation without taking into account the regulatory realities and last mile challenges in the destination countries will not achieve the desired uptake and impact at home. It is therefore important to ground any activities in a coherent framework allowing for the relationship and realities of partner countries. There are three main options:

- *Multilateral.* The “textbook” option would be to find a SADC-wide, multilateral solution that builds on regional agreements and a regional payment system. Given the challenges facing SADC on various fronts, the likely timeline and political difficulties that such a process will encounter, the chances of achieving the policy goals may be limited in the short to medium term. While multilateral cooperation within SADC in this direction should remain an ongoing process, it should not be pursued in isolation.
- *Bilateral.* The second way in which the activities can be implemented to reach the goals would be through a set of bilateral agreements between South Africa and partner governments in the corridor countries. Though authorities can only have a direct influence on the framework in their own country, they may need or want to work with the authorities in another country to resolve issues in an important bilateral corridor (BIS & World Bank, 2007). The aim would be to ensure the smooth, one-step foreign exchange flow of remittances between the two countries, and to address the last mile challenges such as the regulatory framework and infrastructure on the other side. Once again, this will however be subject to diplomatic processes and political sensitivities and some countries will be more amenable than others.
- *Unilateral.* The last option, and the easiest in the short to medium term, is for South Africa to implement unilateral changes on the sending side, but with bilateral cooperation where possible on the receiving end. This would require changes that are fully informed by the situation in the recipient country, in terms of financial sector infrastructure, demand-side characteristics, possible regulatory challenges, foreign exchange transaction realities and the features and costs of the informal alternatives in that particular corridor. In this way, South African policy makers can choose the highest-

impact unilateral actions, while in parallel engaging bilaterally to address last-mile challenges.

6.2.4. Activities

To inform policy, the following specific activities could be undertaken:

1. Undertake a **cost benefit analysis** of various policy options based on:
 - A quantification, in the form of a matrix of likely impacts and mitigating factors, of the various risks associated with opening up the formal remittances market;
 - A description (and quantification if possible) of the benefits to be had in terms of financial inclusion and the orders of magnitude of the impact on the economy in South Africa and destination countries.
2. **Focused investigation of the key corridors** (notably Zimbabwe and Mozambique) to determine total costs of remittances (formal and informal) as well as options for formalising remittances to those countries. The following should be considered:
 - financial sector footprint and accessibility (physical proximity, eligibility of recipients to access the formal sector and affordability, including foreign exchange costs of formal channels); and
 - the domestic regulatory environment and any regulatory barriers that may exist (e.g. domestic KYC requirements) in the receiving country. This includes an investigation of the national identify infrastructure and whether recipients will be in possession of the necessary documentation to access formal channels.

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Appendix 1: The Matricula Card, its development and impact³⁵

The roots of the Matricula Consular, a card-based identity document issued by Mexican consular offices to Mexicans living abroad, dates back to 1871 (Institute for Mexicans Abroad, 2006). The initial purpose of the document was to provide Mexicans residing in other countries access to consular services, but with the large growth in Mexican immigrants (legal and illegal) residing in the United States, the Matricula (as commonly known) has started to be accepted by FSPs as proof of identity.

Wells Fargo became the first bank to accept the Matricula card in November 2001 and it is currently accepted by 175 banks as proof of identity (Orozco, 2006). However, the card only became a generally acceptable form of identification in the financial sector after concerted lobbying efforts by the Mexican government and, more specifically, by the Institute for Mexicans Abroad (that forms part of the Ministry of Foreign Affairs). Banks were offered the incentive of being able to open a small bank counter in Mexican consular offices in the U.S. if they accept the card as an identity document. Also, a special database was established in Mexico to eliminate duplications and allow banks to confirm the authentic nature of cards (see discussion below) (Institute for Mexicans Abroad, 2006).

The Mexican government also mobilised support for the card amongst the Mexican immigrant community in the U.S. During 2003, members of Congress indicated that they had some concerns on the wide use of the Matricula (Porter, 2003). The U.S. Treasury Department, consequently, created a period of public comment on the acceptability of the Matricula as official form of identification. Individuals were able to log their comments on the card on the website of the U.S. Treasury Department. Initially, the majority of comments opposed the use of the card. The Institute for Mexican Abroad reacted by sending e-mails to “hundreds” of leaders in the Mexican-American community in which they asked leaders to communicate their support for the card on the Treasury Department website. By the end of the public comment period, the vast majority of comments were in favour of the Matricula card and the Treasury Department announced that they would not oppose banks’ acceptance of the card as identification documents (Porter, 2003).

Undocumented migrants should be able to satisfy the following requirements to obtain the card (Institute for Mexicans Abroad, 2006):

- *Proof of nationality.* A Mexican birth certificate, passport or certificate of Mexican naturalisation has to be presented.
- *Proof of identity.* Any official identity document issued by the Mexican or foreign authority has to be presented. This can include Mexican or U.S. passports, driver licenses, State ID cards, the U.S. Green Card, INS working permission, the Mexican Federal Electoral ID card, etc.
- *Proof of residential address.* Official documentation proving establishment in the foreign country, e.g. utility bill, has to be provided.
- *Fee.* A fee of US\$29 is charged to issue the card.

The integrity of the card is protected by a number of features (Institute for Mexicans Abroad, 2006):

³⁵ Extract from Bester et al, 2008

- A number of visible and hidden security provisions to avoid easy falsification, e.g. SRE ultraviolet logos, micro lines, high security lines design, ultraviolet text in security laminate. In total, there are 7 visual security features and 5 hidden features.
- The Matricula card is backed by a comprehensive centralised database/system to eliminate duplications and confirm the authenticity of required documents. This was established after U.S. banks voiced concerns about the integrity of the card.
- The card relies on the same procedures and requirements of the Mexican High Security Passport System. The card may, in fact, be used as a passport when entering Mexico.

A number of statistics have been generated on the need and use of such of the Matricula during recent years. A survey of migrant remitters between February and April 2006 revealed that 59% of the Mexican remitters surveyed did not have a bank account because of their legal status (Orozco, 2006), while a survey of Mexicans that were interviewed while applying for Matricula cards at Consulate offices found that 32% of respondents required the card to open a bank account in the U.S. (Pew Hispanic Centre, 2005). In a survey conducted at 30 FSPs in 12 U.S. states to assess the quality of remittance products currently being offered, it was found that 83% of the organisations accept the Matricula card as an official form of identification (Orozco, 2006).

Appendix 2: Formal channel features and costs³⁶

Banks offer two types of remittance services to their customers, bank telegraphic transfers and money transfers. While these services are fairly efficient, they are priced out of the reach of the average migrant. Service fees and the margins on the exchange rates are both very high.

Bank Telegraphic Transfers

Bank Telegraphic Transfers (cross border bank transfers from one account to another) can be offered by any bank that is appointed by the South African Reserve Bank as an authorised dealer. This service takes two to three working days to reach the recipient and can be undertaken in any currency. Service fees charged by the Big 4 South African retail banks are compared in Table 6 below. With minimum fees approaching R200 (equivalent to US\$21) at each bank, Zimbabwean migrants, for example, would need to remit nearly R1,000 to match the 20% fees being charged by the informal service providers they use to send money; however, very few if any interviewees reported sending as much money as this. Based on the average remittance value of R290 (equivalent to US\$30) in Makina (2007), clients would pay fees between 59%-69% of the value of the money they sent.

	ABSA	FNB	Nedbank	Std Bank
Commission Rate	0.4%	0.5%	0.45%	0.425%
Minimum Commission	R114	R100	R95	R105
Maximum Commission	R570	R600	R550	R580
Swift Fee	R57	R100	R100	R80
Minimum Total Charge	R171	R200	R195	R185

Table 6: Comparison of Bank Telegraphic Transfer Fees

Note: All prices are quoted inclusive of VAT

Source: ABSA, FNB, Nedbank and Standard Bank branch staff

The exchange rate margins being charged by the banks were also very high. On 28 April 2009, with a spot rate of R8.85 / US\$1.00, Standard Bank for example quoted a 'buy' price of R8.73 and a sell price of R9.07. This translates into a margin of 1.4% to purchase US Dollars and a margin of 2.5% to sell US Dollars.

Money Transfer

In South Africa, the two largest global money transfer services, Moneygram and Western Union, are represented by Standard Bank and ABSA, respectively. Under South African foreign exchange legislation, money transfer operators must partner with a registered bank. These services wire funds within 15 minutes and only operate in US Dollars, so all transfers must be exchanged into US Dollars before being transmitted, after which they can be exchanged into the local currency of the recipient. Fees for the money transfer services are

³⁶ This appendix is an extract from Kerzner (2009). All text is directly quoted from the original document.

priced in US Dollars and converted into the local currency at regular intervals, so they fluctuate with the US Dollar exchange rate. Prices for the money transfer services are also very expensive for smaller amounts in comparison to the standard fee of 20% charged by informal channels; however, they are not as expensive as bank telegraphic transfer services because they do not impose minimum fees. They also seem to approach a floor of about 10% for larger transactions, although Western Union fees are somewhat cheaper than Moneygram, most likely due to their desire to win market share as the new entrant in the market. Table 7 below illustrates the fees on a range of remittance values as priced on 20 June 2009. On this date, the spot exchange rate was R8.14 / \$1.00³⁷ and the Moneygram and Western Union rates for purchasing US Dollars (and calculating sending fees) were R8.37 / \$1.00 and R8.27 / \$1.00, respectively.

Value Remitted	R250	R500	R1,000	R1,500	R2,000
Moneygram					
Fee Charged	R 114.57	R 114.57	R 143.22	R 143.22	R 190.95
Fee %	46%	23%	14%	10%	10%
Value Received	\$29.85	\$59.70	\$119.40	\$179.10	\$238.80
Western Union					
Fee Charged	R 66.01	R 94.29	R 113.16	R 132.01	R 150.87
Fee %	26%	19%	11%	9%	8%
Value Received	\$30.22	\$60.45	\$120.90	\$181.35	\$241.80

Table 7: Comparison of Money Transfer Fees

Note: All prices are quoted inclusive of VAT

Source: Moneygram and Western Union branch staff

Post Office

The Post Office is in a unique position in the formal South African remittance market. It is empowered by law to remit money outside of South Africa and is exempted from exchange control legislation as its services were initiated prior to the passage of these laws. For remittances to CMA countries, no limits are imposed on an individual's ability to remit other than a per transaction limit of R2,000 (equivalent to US\$206). For remittances to non-CMA countries, individuals are restricted to sending R2,000 each month.

The Post Office offers two money transfer services:

- **Money Orders** are electronic transfers, which require the same proof of residence as bank telegraphic transfers. They are not currently available to Zimbabwe.
- **Postal Orders** are issued in the form of physical cheques, and are available to Zimbabwe. Postal Orders can be sent up to a maximum value of R2,000 and do not require proof of identity. However, staff advised against using them warning that they would get lost if sent. They suggested that it would be better to send cash using informal channels.

³⁷ www.oanda.com

Current prices for Post Office services were not available either from staff or in the newly printed brochures, but staff offered prices from last year, which they estimated had gone up by about R5 per transaction.

- **Money Orders** to African countries were charged at R22.50 (equivalent to US\$2.30) + 3% commission on the value of the remittance.
- **Postal Orders** were priced according to the data in Table 8 below and are considerably cheaper than competing bank telegraphic transfer and money transfer services.

Amount Sent		Commission	Commission Rate	
From	To		From	To
R0,01	R49.99	R11.40	NA	23%
R50.00	R99.99	R14.00	28%	14%
R100.00	R149.99	R16.80	17%	11%
R150.00	R249.99	R20.60	14%	8%
R250.00	R499.99	R25.50	10%	5%
R500.00	R999.99	R30.35	6%	3%
R1,000.00	R2,000.00	R34.70	3%	2%

Table 8: Post Office Postal Order Fees

Source: Post Office branch staff

Therefore, the Post Office services are reasonably priced relative to other channels, yet are undermined by a lack of availability or reliability. With a lack of competitive pressure due to their luxury of operating under 'special status', the Post Office may be unlikely in the near future to upgrade their services to make them more compelling.