Where are the flows? Developing remittance corridors in sub-Saharan Africa

Barry Cooper
Technical Director
Remittances are a vital capital flow to SSA.

- Average cost ~9.5% per transaction for sending to SSA – most expensive region in the world
- Growing use of digital, but cash still dominates. 90% of UK–SSA remittances are sent cash to cash.

Source: World Bank Development Indicators (2015); Isaacs (forthcoming)
Macro indicators show significant opportunities for growth in remittances

Flows to SSA:
$1.8bn (1990) → $35bn into SSA (2015)

→ $12bn intra SSA (2015)

Intra-Africa:

Out of Africa:

SSA mobile money accounts:
277 million (2016)

vs

SSA bank accounts:
178 million (2016)

“... but is this opportunity being realised?”
However, there is often a mismatch between the flow of migrants vs the flow of remittances...

1.09m official migrants
USD20.5bn official remittance; USD18,707 remittances per migrant

1.4 m official migrants
USD5m official remittance; USD3.36 remittances per migrant

753,492 official migrants
USD624m official remittance; USD829 remittances per migrant

Source: UN, 2015; World Bank, 2016
However, there is often a mismatch between the flow of migrants vs the flow of remittances...

Why?

• High-cost channels within and to Africa
• OTC
• Stickiness of informal
Africa has some of the most expensive remittance corridors in the world!

Sending money to Africa has high price tags...

Cost to send from UK to Africa

11% average intra-Africa corridors

Range of 1% to 29% in intra-Africa corridors

Source: FSDA, 2017; World Bank, 2017
Africa has some of the most expensive remittance corridors in the world!

Digitising payments can help to bring this cost down, but we must consider the real cost of digital remittances to the consumer.

“Sending money to Africa has high price tags...”

Cost to send from UK to Africa

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco</td>
<td>8%</td>
</tr>
<tr>
<td>Algeria</td>
<td>12%</td>
</tr>
<tr>
<td>Egypt</td>
<td>8%</td>
</tr>
<tr>
<td>South Africa</td>
<td>8%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>12%</td>
</tr>
<tr>
<td>Zimbabue</td>
<td>7%</td>
</tr>
</tbody>
</table>

Range of 1% to 29% in intra-Africa corridors

Source: FSDA, 2017; World Bank, 2017
The cost of accessing digital payments can exceed the fees of using the services...

...to drive financial inclusion and transformation to digital payments.

- Basic account cost: $0.65
- Travel cost: $3.84
- Opportunity cost: $1.07

Full cost to consumer of bank account encashment (Malawi)

Source: FinScope Malawi (2014), Mystery shopping (2014)
The cost if accessing digital payments can exceed the fees of using the services... to drive financial inclusion and transformation to digital payments.

<table>
<thead>
<tr>
<th>Cost to Access Bank</th>
<th>Opportunity Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.65</td>
<td>$1.07</td>
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<tr>
<td>$3.84</td>
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</tbody>
</table>

**Basic account cost**

Bank fees (12%)

Full cost to consumer of bank account encashment (Malawi)

17% of income!

Source: FinScope Malawi (2014), Mystery shopping (2014)
Cash is still king when it come to OTC transfers

Despite an array of digital solutions...

- Even in the UK, cash still dominates according to new DMA research.
- African countries are largely cash-dominated when it comes to remittances.

![Cash-based OTC transactions dominate...](chart)

Remittances received (South and West Africa)

<table>
<thead>
<tr>
<th>Country</th>
<th>Cash</th>
<th>Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
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<td>Botswana</td>
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<td>Ethiopia</td>
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<td>Kenya</td>
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<tr>
<td>Madagascar</td>
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<tr>
<td>Malawi</td>
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<tr>
<td>Mauritius</td>
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<tr>
<td>Namibia</td>
<td></td>
<td></td>
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<tr>
<td>Rwanda</td>
<td></td>
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<tr>
<td>South Africa</td>
<td></td>
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<tr>
<td>Tanzania</td>
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<tr>
<td>Uganda</td>
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<td>Zambia</td>
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<td>Zimbabwe</td>
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<td>Benin</td>
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<td>Niger</td>
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<td>Sierra Leone</td>
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<td>Burkina Faso</td>
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<td>Cote d'Ivoire</td>
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<td>Ghana</td>
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<td>Guinea</td>
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<td>Mali</td>
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<td>Nigeria</td>
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<td>Senegal</td>
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<tr>
<td>Togo</td>
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</table>

But, remittances provide the best gateway to the adoption of digital payments

Evidence from Thailand, Myanmar, Mozambique, Lesotho, Swaziland and Malawi

<table>
<thead>
<tr>
<th>Source: Cenfri (2016)</th>
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</thead>
<tbody>
<tr>
<td>% of adult population with payment needs</td>
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<tr>
<td>Local payments</td>
</tr>
<tr>
<td>95%</td>
</tr>
</tbody>
</table>

Proportion of adults that meet payment needs with cash or digital instruments:

<table>
<thead>
<tr>
<th>Local payments</th>
<th>Requited payments</th>
<th>Unrequited payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>99% cash</td>
<td>99% cash</td>
<td>48% cash</td>
</tr>
</tbody>
</table>

1% digital | 1% digital | 52% digital
Informal RSPs are real competitors to formal providers
... because informal often has a better value proposition than formal

“It is estimated informal remittances account for between 45% and 65% of formal remittances flows in SSA*.

Informal does not mean unsophisticated – it often mimics the formal market with greater efficiency.

Informal channels are often more trusted and more efficient than formal ones.”

Source: World Bank Findex (2014), DMA (2017; (Gupta, Pattillo & Wagh, 2007*)
• As long as there is no digital ecosystem, cash will still dominate.

• Digitising value chains is an important first step to digitising payments.

• DFS needs to be ubiquitous, reliable, trusted, universally accepted and interoperable with the cash economy in order to encourage the uptake of digital payments.

14 | Source: Cenfri (2016)
What is standing in the way of remittances development?
The main drivers of barriers are “disconnected” systems.

- Lacking policy mandate
- Disjointed regulatory frameworks
- Growing but disconnected infrastructure system
- Not designed for inclusion (of individuals)

Solution to drive FI?

“A coordinated, system-wide response is needed.”

Source: Cenfri (2016)
Solutions to connect and grow an inclusive system...

- Input at global standard-setting body level to drive global mandates
- Evaluate the cross-border mandate gaps per jurisdiction and align across region
- Update mandate to:
  - Develop inclusive payments systems
  - Coordinate regulatory action (cross-border)
  - Coordinate regulatory action (domestic)

Lacking policy mandate
Disjointed regulatory frameworks
Growing, but disconnected infrastructure system
Not designed for inclusion (of individuals)

Source: Cenfri (2016)
Solutions to connect and grow an inclusive system...

- Harmonise regional regulatory frameworks:
  - Prudential, risk, AML/CFT and consumer protection
  - Fill regulatory framework gaps on DFS
- Coordination between domestic regulators overseeing payments systems components
- Peer support to build capacity to develop and implement regulatory frameworks supportive of innovation

Lacking policy mandate

Disjointed regulatory frameworks

Growing, but disconnected infrastructure system

Not designed for inclusion (of individuals)
Solutions to connect and grow an inclusive system...

- Region-wide coordinated interoperable infrastructure development
- Harmonise cross-border technical standards
- Develop ubiquitous digital ecosystem to enable cash staying digital
- Grow skills in market to support effective payment systems operation

Lacking policy mandate

Disjointed regulatory frameworks

Growing, but disconnected infrastructure system

Not designed for inclusion (of individuals)

Source: Cenfri (2016)
Solutions to connect and grow an inclusive system...

- Enable system to support high-volume, low-value payments
- Develop system capabilities to support high volumes
- Enhance digital payments ecosystem and convenient first/last mile encashment points
- Promote market competition
- Implement standards that are sensitive to informal market access (e.g. KYC)
- Build better understanding of what value means to the consumer and drive system development that supports this

Lacking policy mandate
Disjointed regulatory frameworks
Growing, but disconnected infrastructure system
Not designed for inclusion (of individuals)
Thank you

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About Cenfri
The Centre for Financial Regulation & Inclusion (Cenfri) is a global think tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri’s people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa
FSD Africa is a non-profit company that aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in Sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK Aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or “FSDs” across SSA called the FSD Network.