African Institute for Remittances (AIR)

Send Money Africa

MAKING AFRICAN REMITTANCES
MARKETS MORE TRANSPARENT

Quarterly Report – September 2017

Remittance costs to Africa continue to fall but remain stubbornly high – why?

The latest Send Money Africa data shows that the average cost to send US$200 to and within Africa has fallen to its lowest level on record: 8.70 percent. However, this is still a long way from the Sustainable Development Goal 10.c which sets a target of 3 percent for the global average by 2030, with no single corridor being more than 5 percent. Whilst it is encouraging that prices have fallen by around 27 percent from 11.9 percent in 2012, there is still a long way to go and one statistic gives more cause for concern than any other. This being that Africa is still the most expensive region in the world to receive money. It is fully 1.49 percentage points higher than the global average or, to put it another way, it is 20 percent more expensive to receive money in Africa than the average around the world.

But why is this, is it likely to change and what can be done?

As always with African remittances, there are both obstacles and opportunities and we believe that on balance we should be optimistic.

Remittances to Africa are hindered by a number of challenges, which can be particularly severe or even entirely unique to this continent. These include:

- **Africa** is a ***continent*** of 55 countries with a population of around 1.3 billion people. This is slightly lower than the population of India which is the largest receiver of remittances in the world. Operating in 55 jurisdictions requires the ability to tailor each service to the particular requirements of every country and community. It is inherently more difficult to operate efficiently in 55 countries compared to just one.

- ***The laws of supply and demand*** come into play. In 2017 Africa is projected to receive around US$65bn in remittances. Coincidentally this is almost exactly the same as the amount received by India. As has been mentioned, it is more attractive from a money transfer operator's viewpoint to focus on one really large market to maximise its profits rather than divide that level of effort into multiple smaller portions. Additionally, it is logical that many of the markets for remittances are quite small in size, which makes it hard to justify the investment in infrastructure, compliance, partnership development and other areas that companies put into their decision making.

- ***Regulation*** is a major concern for all remittance operators. In Africa, there are a range of regulations that vary from country to country. Differences include what types of businesses can offer these money transfers, how compliance with anti-money laundering and counter terrorist financing criteria are met, whether mobile money is allowed and, perhaps most significantly, if there are exchange control restrictions. Exchange control restrictions often lead to a parallel 'grey' foreign exchange market which means that remittances do not go through formal channels. Policy and regulation harmonisation in Africa would help to improve these

situations, market competitiveness and efficiency in the African remittances market. In this line, the African Institute for Remittances (AIR) is working with the African Union Member States to improve their legal and regulatory frameworks on remittances.

- ***Infrastructure*** can be a difficulty in some African markets. At its most basic level this can be a lack of electricity, internet or phone signals in rural areas but also includes the level of sophistication of the domestic payments systems.

- ***Informal transfers*** are a common feature in Africa. With approximately two thirds of the cross-border remittances to Africa originating in another African country, weak infrastructures and other difficulties result in many cross-border payments avoiding any licenced business. As the global pricing indices (e.g. Send Money Africa, Remittance Prices Worldwide, etc.) can only measure formal remittances, it means that prices are probably kept higher than they might otherwise be due a lack of knowledge of and lack of access to formalised services.

- It also appears that ***predatory pricing*** is operating for sending money to and within Africa. This is evidenced by certain MTOs charging different prices to send to neighbouring countries in Africa despite the fact that the market conditions are broadly similar.

Whilst not all of these factors are unique to Africa, the way that they combine in the continent is not present anywhere else in the world (except perhaps for the Pacific Islands) and it helps to explain why there is a price gap right now. However, it need not remain like that in the future. Why do we think this?

The answer is because Africa is at the forefront of mobile payments and cross-border mobile money. In 2016, 45 out of 47 cross-border mobile money services were involved with Africa. It is making a tremendous difference at a domestic level in countries such as Tanzania and Senegal and is flourishing in many other African countries. It has a much lower cost operating model than traditional cash-based or bank account services. Studies by the GSMA show that sending money from mobile wallet to mobile wallet is significantly lower in cost than traditional cash-based methods. In 2016 for example, it was shown that mobile-to-mobile international remittances cost on average 2.8 percent, a whopping 63 percent lower compared to the then global average of 7.4 percent.

"Africa is at the forefront of mobile payments and cross-border mobile money"

Mobile money is starting to gain traction for cross-border remittances where the receiving country has a strong mobile money presence for domestic payments. Given the successful penetration of mobile phones in Africa and the proven low-cost model that it can bring for remittances, there is a chance, if the appropriate regulations, infrastructure and financial education tools are developed in a focused way, that the existing business model can really change how payments are made in Africa. It is going to take hard work combined with some bravery and commitment from multiple stakeholders, but it is possible.

So, despite the history of higher prices and inefficient services, there are grounds for optimism that Africa can not only close the gap and lose the unwanted tag of being the most expensive remittance region, but it can also lead the world in how to change the traditional remittances business model.

Appendix: Send Money Africa Data Analysis – Q3 2017

The Send Money Africa (SMA) remittance prices database provides data on the cost of sending remittances from selected countries worldwide to a number of countries in Africa, as well as for some transactions within the African continent. The data is collected on a quarterly basis from a sample of the most used Remittance Service Providers (RSPs). The data analysis in this report is based on the latest data collection, which was for Q3 2017 (25th-26th September 2017) and was obtained from a total of 531 different remittance services.

Key Findings

- The **average total cost** of sending money to and within Africa in Q3 2017 was **8.7 percent** – a slight decrease from Q4 2016, when the average total cost was recorded at **8.8 percent**.
- The cost of **sending money to Africa** in Q3 2017 was **1.5 percentage points** more expensive than the global average cost for the same period, which measured at **7.2 percent** according to **Remittance Prices Worldwide** (see http://remittanceprices.worldbank.org).
- The **10 most expensive corridors** were all **intra-African**, with seven of the most expensive originating from **South Africa**.
- The **least expensive corridor** was **Senegal to Mali**, followed by **UAE to Egypt** and **France to Côte d'Ivoire**.
- The **most expensive send markets** among those surveyed were **South Africa and Kenya**. The **cheapest send markets** were **Senegal**, followed by the **UAE, France and Italy**.
- **Commercial banks** continue to be the most expensive type of provider. The cheapest are **Mobile Network Operators** (MNOs).
- **Bank account products** are the most expensive services with the newer, technology-driven products of **mobile** and **online** remittances being among the cheapest.

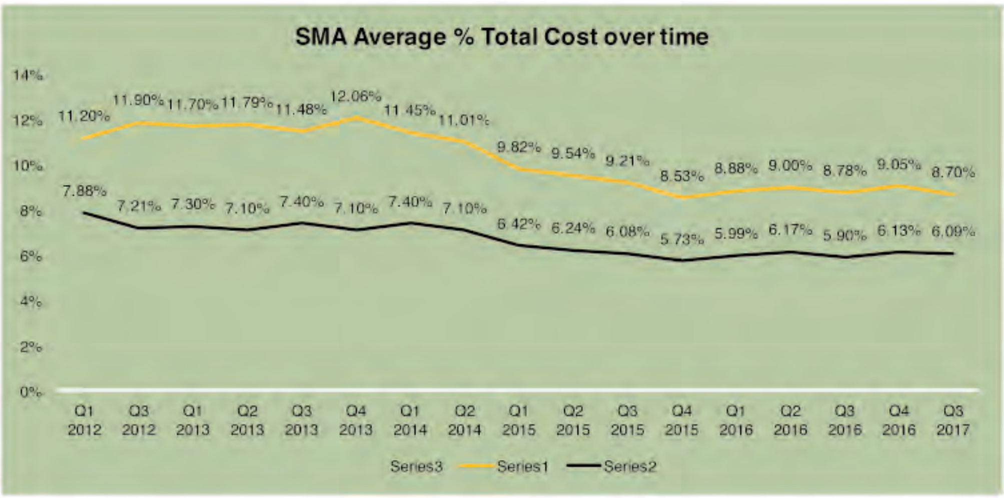


Figure 1: Total Cost of Sending Money to Africa

Pricing period	Global average remittance price	Price to send to Africa	Difference in percentages
Q3 2012	9.0	11.9	-2.9
Q3 2013	8.9	11.5	-2.5
Q3 2014	7.9	11.0	-3.1
Q3 2015	7.5	9.2	-1.7
Q3 2016	7.4	8.8	-1.4
Q3 2017	7.2	8.7	-1.5

Figure 2: The Africa Gap

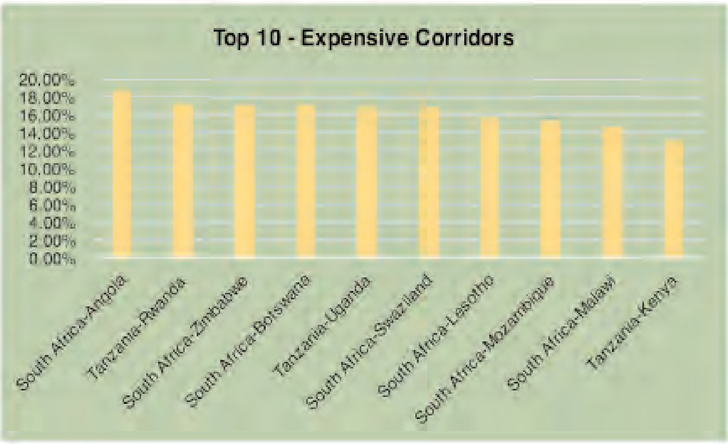


Figure 3: 10 Most Expensive Corridors

Figure 4: 10 Cheapest Corridors

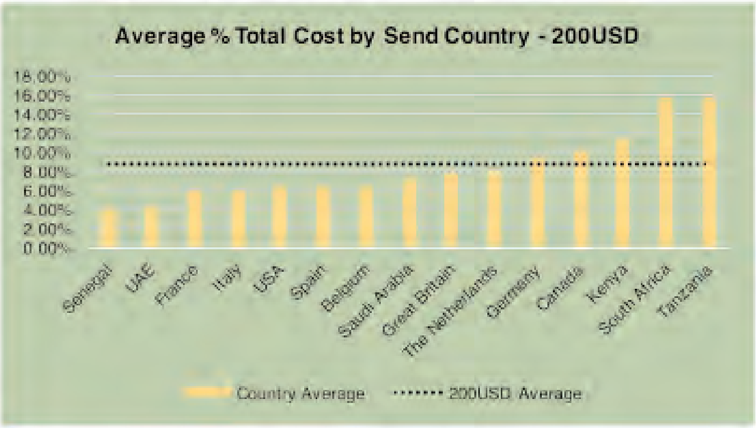


Figure 5: Average Total Cost by Send Country (USD200)

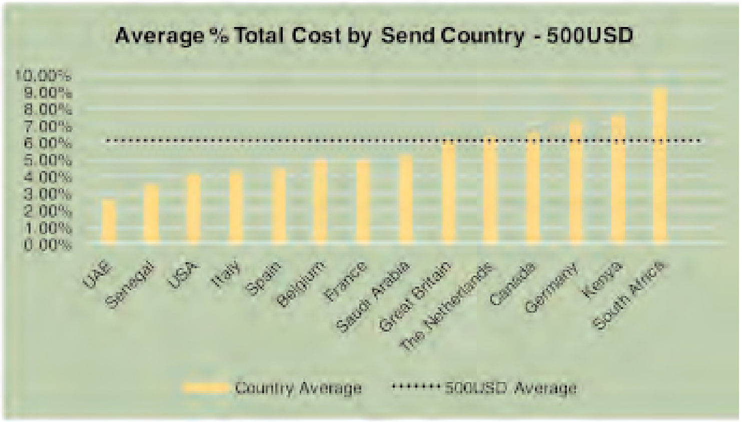


Figure 6: Average Total Cost by Send Country (USD500)

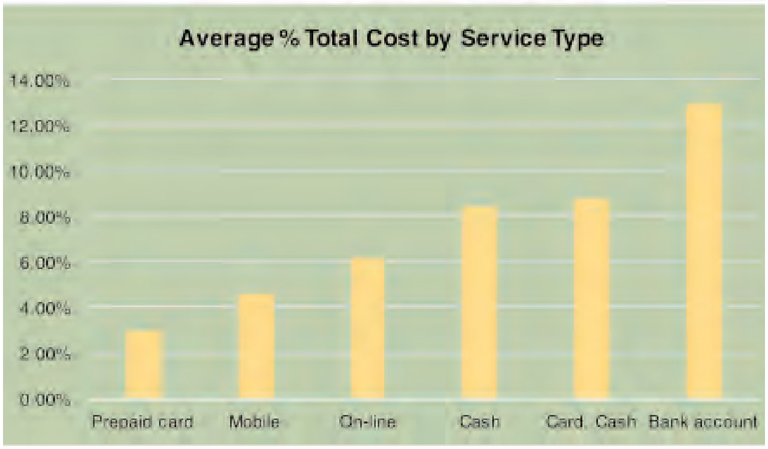


Figure 7: Average Total Cost by Service Type

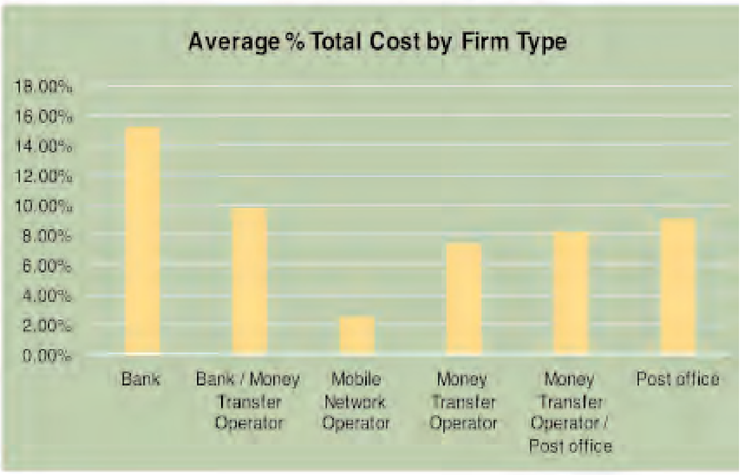
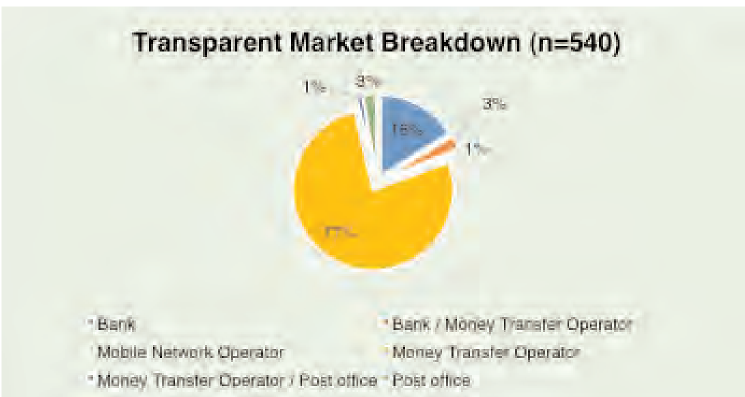
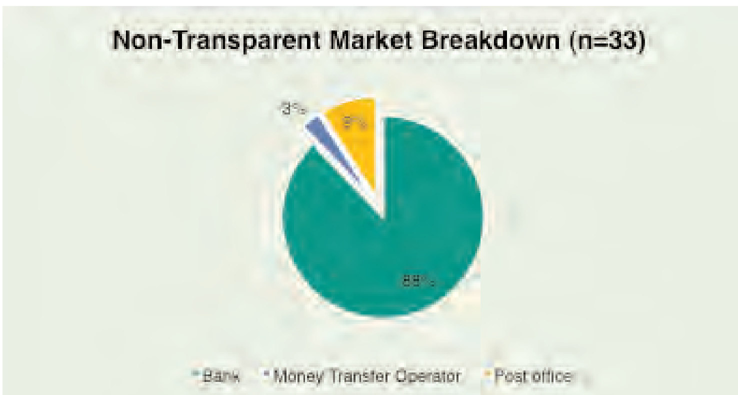


Figure 8: Average Total Cost by Firm Type





Figures 9 & 10: Transparent vs Non-Transparent Market Breakdown