Exploring barriers to remittances in sub-Saharan Africa series

Volume 2

Market barriers to remittances in sub-Saharan Africa (SSA)

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Acronyms

ACH	automated clearing house
AML/CFT	anti-money laundering and the combating of financing of terrorism
API	application programming interface
BoP	balance of payments
DLT	distributed ledger technology
FATF	Financial Action Task Force
ID	identification document
ILP	Interledger Protocol
IMTS	informal money transfer service
KYC	know your customer
KYCC	know your customer's customer
MFI	microfinance institution
MMO	mobile money operator
MNO	mobile network operator
MTO	money transfer operator
OTC	over the counter
POS	point of sale
PSP	payment service provider
RSP	remittance service provider
RTGS	real-time gross settlement
SADC	Southern African Development Community
SSA	sub-Saharan Africa
USSD	unstructured supplementary service data

About the barriers to remittances in SSA series

This note is the second in a series of seven notes that explore the supply-side barriers to remittances in sub-Saharan Africa (SSA). Currently, the average cost of remittances to SSA is 9.4% of the value of the transaction, compared to the global average of 7.1% (World Bank, 2018a). Informal flows are rife, especially in SSA, and the trend is increasing in many corridors. The relatively low formal penetration compared to informal flows coupled with the high cost of remittances are indicative of a formal market that is not functioning optimally to serve people's needs. To reduce the cost to between 3% and 5% of the transaction value as agreed by the G20 and Sustainable Development Goals without compromising the access of consumers in hard-to-reach areas, there needs to be an understanding of the current market impediments that are preventing formal costs from decreasing. This includes an understanding of both informal and formal flows and the various barriers that constrain the formal market.

This series seeks to provide an overview of the remittances market in SSA, the gaps and the barriers, to conclude on what is required to enable the formal market to fulfil its true potential.

The series is organised as follows:

- Volume 1 provides an overview of key remittance corridors in SSA, from the perspective of both the receiving and sending countries. It analyses the correlation between migration and remittances and introduces a categorisation of countries.
- Volume 2 outlines and ranks the market barriers to the efficient flow of remittances in SSA, drawn from existing literature and in-depth stakeholder interviews.
- Volumes 3 to 6 explore how the barriers manifest in the region by presenting four country case studies from SSA (namely Uganda, Ethiopia, Nigeria and Côte d'Ivoire).
- Volume 7 draws conclusions and recommendations for SSA on how to overcome the barriers to reduce informality and costs without compromising access in the region.

1. Introduction

A lifeline for households. Remittances are non-reciprocal transfers of money from an individual or household in one place to another individual or household in another place[1] (Hougaard, 2008). They can take many forms but are typically associated with working migrants that send regular amounts of money to support their families and communities back home. The advantage of these payments is that they usually flow directly into the hands of households, which increases household income and reduces the likelihood of households falling into poverty (International Organisation for Migration, 2005). This monetary support has positive effects on both education and health outcomes, and it has been shown to support human capital development particularly in children (Gupta & Pattillo CA, 2009; Hassan, et al., 2017).

Pervasive informality. Vol. 1 of the series took a deeper look at the relationship between formal remittance flows and migration in SSA. It showed that there are a number of underestimated corridors, where formal flows and migration do not match. The gap most likely stems from a high rate of informality in these markets and corridors. In many cases, the combination of barriers in the formal sector means that consumers prefer or are compelled through circumstance to use informal services to meet their needs. Informal remittance channels can be as simple as sending money through friends and relatives who are travelling or using public transport providers such as buses and taxis. However, this is by no means always the case. Remittance services that operate outside the formal system are often highly professional and organised with brick-and-mortar structures and receipts. Such services run on highly sophisticated back-end systems to provide low-cost and efficient payments, which are processed almost instantaneously (FinMark Trust, 2016). A FinMark Trust (2016) study on remittance corridors in Southern Africa found that informal remittance service providers (RSPs) tend to have ties to the communities of both the senders and the receivers, meaning that they are more familiar, accessible and trusted than formal providers.

Formal sector barriers fuelling informality. Most senders and recipients in SSA conduct transactions in cash and hence rely on access to remittance service providers (RSPs) to deposit or withdraw funds. The lack of convenient access points for cashing in or cashing out remittances increases the opportunity costs to the consumer. In addition, RSPs usually require official documentation, such as national identification documents (IDs) or proof of address when sending or receiving remittances. These add cost and are often hard to obtain, particularly for those consumers who live in rural areas or immigrants who do not have all the requisite documentation[2] (Bester, et al., 2008). In South Africa, for example, many customers are explicitly excluded from sending formally even if they have a form of ID

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[1] Remittances can be "domestic", meaning that the sender and receiver of the remittances are within the same country (but still in disparate locations), or "international", meaning that the sender transfers money from one country to a recipient in another country (Hougaard, 2008).

[2] Regulators and financial institutions are required to comply with Financial Action Task Force (FATF) guidelines on anti-money laundering and combating the financing of terrorism (AML/CFT) requirements, which require that certain identification documentation (ID) be present in order to use certain financial services, of which money transfer is one. The lack of official national ID and address systems in SSA often means that people in rural areas cannot access financial services due to regulatory barriers. For undocumented migrants, the precarity of their immigration status often precludes them from accessing official identification altogether, thus creating a barrier to accessing formal financial services (Bester, et al., 2008).

because the providers require proof of the residency/immigration status. In a country with many unregulated migrants it means none of them can use formal providers even if they want to. These barriers for the consumer translate into barriers for the RSPs, as they hamper the scale of flows that run through their systems and increase the cost of doing business.

Cost as a symptom. On average, SSA is the most expensive region in the world to send remittances to – It costs 9.4% of the transfer value to send into the region. In fact, for some countries, remittance fees can make up 22% of the transfer value[3]. However, these costs also reflect the complexities of doing remittances business in SSA. Costs are high (exorbitant in some corridors) for providers due to a number of barriers on the supply side.

This note explores what is driving up the cost of doing business in the region, which is increasing informality in the market.

Four barrier categories at different links in the value chain. A thorough literature review and in-depth interviews with regional experts, RSPs and payment providers reveal four distinct categories of such barriers: commercial/business case, regulation, infrastructure and consumer-related barriers. Each of these barriers can manifest at the first, middle and last mile. The following chapters explore each category of barriers to document and make recommendations in an attempt to ultimately remove these market constraints:

- Section 2.1 provides an overview of each barrier category at the first and last mile.
- Section 2.2 lists middle-mile barriers.
- Section 2.3 ranks the barriers according to the times they were mentioned in literature and interviews, as well as their impact on remittances cost and access.
- Section 3 draws conclusions.

Appendix 1 and 2 provide a more detailed overview of each barrier category for those who wish to dive deeper into the content.

[3] This value refers to the total average cost of transferring NGN40,000 (roughly USD200) from Nigeria to either Benin, Mali or Togo in the third quarter of 2017 (World Bank, 2017a).

2. Barriers to remittance markets in sub-Saharan Africa

To unpack the barriers to formal remittances in SSA, it is important to understand the different elements in the remittance value chain. Figure 1 shows the different players and functions in the first, middle and last mile of remittance provision.

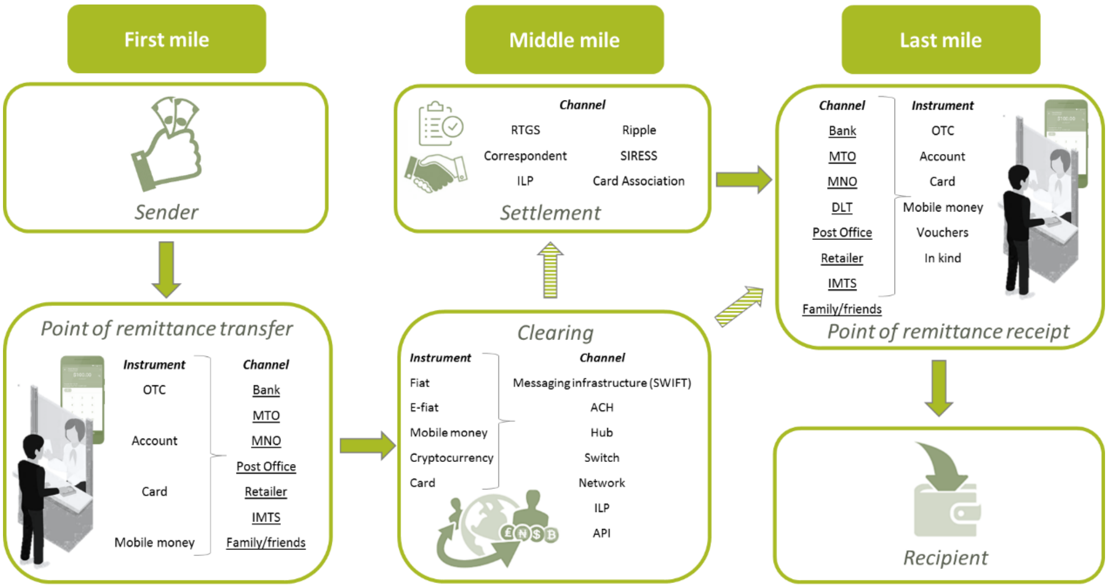

Figure 1: First, middle and last mile of remittances services

Source: Adapted from Isaacs, et al., 2017

First mile. At the first mile, the sender makes the payment instruction and pays for the transaction. The sender and receiver's personal information is collected, and the sender is provided with all the relevant information regarding the transfer (including pricing, documentary requirements, transaction identification details and information about the collection process). Many different types of RSPs offer remittance transfer in the first mile. These include commercial banks, money transfer operators (MTOs), mobile network operators (MNOs) or mobile money operators (MMOs), the post office, retailers as well as informal money transfer services (IMTSs) and family and friends. The most used instrument in SSA remains cash, i.e. over-the-counter (OTC) services, but digital options like account-to-account transfers, card payments and mobile money exist and are slowly gaining momentum.

Middle mile. At the middle mile, the information is exchanged and the actual transfer between the first-mile and the last-mile institutions takes place. The process covers the back-office functionality, namely all the technical elements required to make the transaction work. Functions performed by the RSP include: transmission of payment instructions, exchange of value into pay-out currency, settlement of pay-out funds, anti-money laundering (AML) and counter-terrorist financing (CTF) checks, and reconciliations. At the clearing stage, the payment message is transferred from the first-mile operator to its counterpart at the last mile via various channels such as SWIFT, automated clearing houses (ACH), hubs, switches, networks, interledger protocols (ILP), application programming interfaces (API) or via text/Unstructured Supplementary Service Data (USSD) channels. To clear the funds, the payment message is identified, verified and then redirected from the sender institution to the recipient institution. The message is then translated from data into funds. The funds can be injected in the system as fiat, e-fiat or mobile money, cryptocurrency or card.

At the settlement stage, the funds are settled between sending and receiving institutions. This can happen via different channels, such as real-time gross settlement systems (RTGS), SWIFT via correspondent banking, ILP (clears and settles simultaneously), Southern African Development Community (SADC) Integrated Regional Electronic Settlement System (SIRESS), card associations like VISA and MasterCard, as well as Ripple. This stage falls away if there is no external settlement necessary, for example, on-us transfers that occur between branches of the same bank. The timing between clearing and settlement coupled with the bilateral or multilateral contractual arrangements can create or mitigate counterparty, operational and other associated risks that ultimately translate into risk mitigation costs to the entire remittance value chain.

Last mile. At the last mile of remittance delivery, the recipient obtains the funds. In SSA, most recipients still collect funds at a physical location in cash from a paying-out agent, such as a bank, MTO, MNO, merchant or IMTS. As with the first mile, the preferred pay-out instrument remains largely cash, which may also include vouchers or in-kind goods, but digital instruments are on the rise.

Overview of middle-mile and first/last-mile barriers. Figure 2 (on the next page) summarises the market barriers at the first, middle and last mile in SSA into four distinct categories: business case barriers, regulatory barriers, infrastructure barriers and consumer-related barriers. These barriers were collated from the various challenges noted in the literature and stakeholder interviews. First-mile and last-mile barriers are combined given the similarity of the issues encountered.

Sections 2.1 and 2.2 unpack the first/last-mile and middle-mile barriers, respectively, before 2.3 ranks the barriers according to how often they were mentioned during interviews and in the literature, as well as the relative impact on cost reduction and enhanced access for consumers, should they be removed.

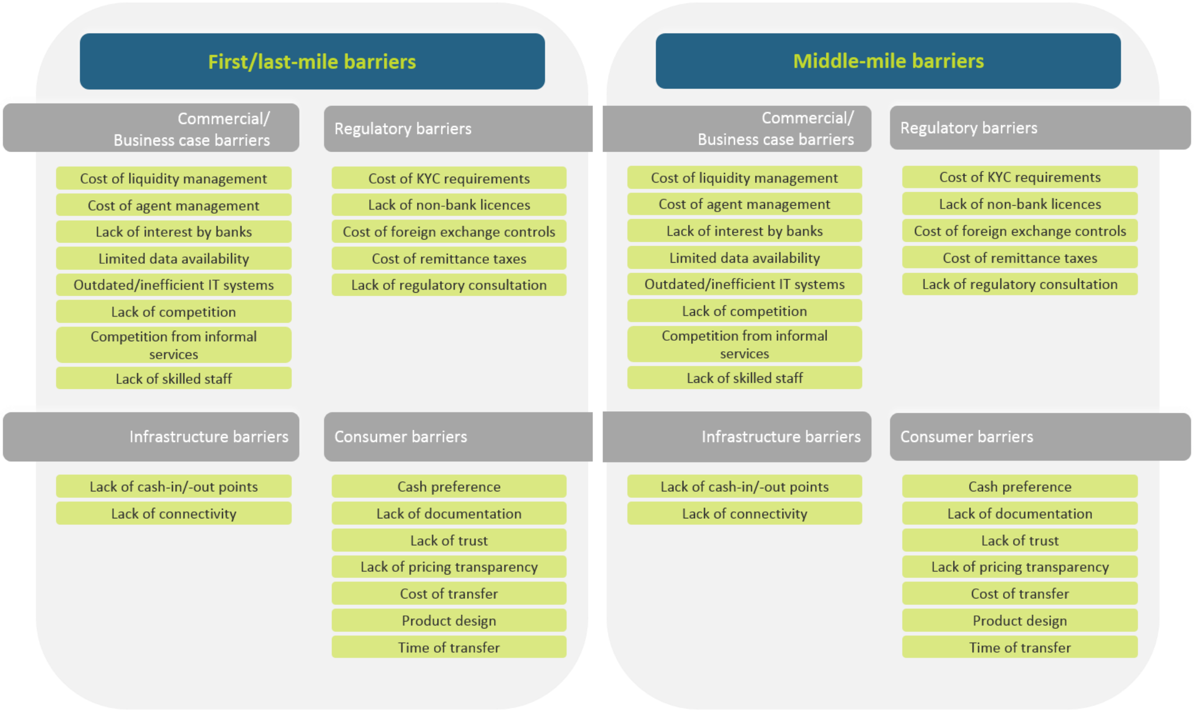

Figure 2. Barriers to remittances

Source: Authors' own, based on data from various literature sources and stakeholder interviews, 2017[4]

2.1. First and last mile barriers

This section outlines the first-mile and last-mile barriers as depicted in Figure 2. Refer to Appendix 1 for a more detailed description of each barrier.

Commercial/business case barriers. The highest number of barriers in the first and last mile can be found in the business case category. The business case barriers relate to:

- *Lack of competition.* The SSA remittance market suffers from a lack of competition. This results in high costs and a lack of choice for the consumer, which may increase the use of informal mechanisms. Incumbent MTOs have by far the largest market share in the region, with many outdated exclusive partnership agreements with banks still in place. The lack of competition means little incentives for MTOs to reduce their prices. Even where exclusive partnerships have been removed by law, commercial practices have resulted in a form of "quasi" exclusivity. Remittance licences are often only granted to banks, forcing non-bank RSPs into costly partnerships.
- *Agent management and cash logistics*. Given that remittance recipients prefer to, or have no choice but to, cash out the remittance, RSPs have to employ agents to ensure that cash-in/cash-out is possible. The agents have to manage their cash, which adds cash logistic costs for RSPs, as they need to ensure that sufficient cash be available at the points of service. Recruiting, training and managing agents adds a big cost layer.

[4] For a list of the stakeholders interviewed, please consult Appendix 3.

- ***Limited data availability***. Remittance data is mostly collected by central banks through balance-of-payments reporting. However, balance-of-payments reporting is not standardised across countries, which makes it difficult to build a coherent picture of the market across countries. In some countries, there are up to 5,000 codes to choose from, which affects data reliability. Moreover, the high prevalence of informal flows distorts the true size of the market.
- ***Outdated IT systems and lack of skilled staff.*** Incumbent MTOs and especially banks have invested heavily in legacy systems, which in many cases are too outdated to be able to accommodate more efficient technological advances. Integration costs can be immense. This is coupled with a lack of skilled staff, both in terms of integration and in terms of agent management systems and compliance.
- ***Lack of perceived business case by banks.*** Due to the limited availability of remittances licences for non-bank RSPs, they are forced to partner with banks to be able to participate in the remittance value chain. Banks de-prioritise their remittance business over other business lines, creating several partnership issues for non-bank RSPs. There is also the perception of undermining the banks' own future business case.
- **Informal competition.** IMTSs are often better positioned to serve remittance customers, given their lax stance towards official documentation required by formal institutions. It is not uncommon to find informal providers heavily modelled on formal institutions with formal structures, tellers and instant transfers. Informal providers also frequently offer better foreign exchange rates. In corridors that have been shut by formal providers due to de-risking, IMTSs can be the only way to transfer funds across borders. Informal channels are often more trusted than banks given their knowledge of consumer communities.

Regulatory barriers. A number of hurdles stem from domestic or cross-border regulation:

- ***Lack of licensing for non-bank RSPs.*** The lack of remittance licences for non-bank RSPs in many SSA markets not only negatively affects competition but also places a disproportionate burden on these entities in terms of regulatory compliance. The non-bank RSPs are being held to the same compliance standards as their partner banks despite the relative lower-risk profile of their lines of business, including low-value, high-volume remittance payments, and particularly with regard to AML/CFT compliance and monitoring. Costly, excessive delays in licensing in markets where non-bank RSPs can obtain a licence deters innovation. Regulators in the region are not able to keep up with the fast-paced technological advances, leading to licensing delays for innovators.
- ***Inappropriate and costly KYC and AML/CFT requirements.*** Many SSA regulators have a rigid approach to AML/CFT compliance and/or enforcement, often not effectively implementing the risk-based approach[5]. This leads to several complications for RSPs, including licensing delays, disproportional scrutiny by partner banks, exclusion of consumers due to the lack of documentation, costly face-to-face onboarding of new consumers as well as the lack of harmonisation of AML/CFT standards across countries.

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[5] The 2012 FATF Recommendations on the risk-based approach are intended to assist countries and their competent authorities, as well as the practitioners in the money transfer sector and in the banking sector that have or are considering providers as customers, to apply the risk-based approach associated to money or value transfer services. The risk-based approach, the cornerstone of the FATF Standards, requires that measures to combat ML/TF be commensurate with the risks. Such measures should not necessarily result into the categorisation of all providers as inherently high-risk. The overall risks and threats are influenced by the extent and quality of regulatory and supervisory framework as well as the implementation of risk-based controls and mitigating measures by each provider (FATF, 2012).

- ***Prohibitive foreign exchange controls.*** In countries where exchange controls exist, some or all cross-border transfers may be subject to review and/or government authorisation before a transfer may occur. As a result, these transactions typically must occur in a bank branch and/or authorised dealer in foreign exchange. This has severe cost and logistics implications for digital services, such as mobile money remittances and other non-bank RSPs that rely on banks.
- ***Lack of consultation when drafting regulation***. RSP compliance teams are often not up to date on the latest requirements. Regulators, in turn, are often unaware of the realities and nuances of the market. This lack of consultation hampers innovation and imposes an unnecessary compliance burden.
- ***Remittance taxes as deterrent.*** The planned taxation of remittances in some markets can have severe effects on the flow of formal remittances and can drive up informality as remitters end up sending less money via formal channels or remit less frequently.

Infrastructure barriers. Two infrastructure-related constraints hamper remittance business at the first and last mile:

- ***Lack of connectivity***. Unstable and unreliable electricity and mobile networks, especially in rural areas, have a severe impact on RSPs that rely on real-time fund transfers. Transfers over distance require reliable connections to ensure fast and secure payments. In their absence, trust in the sector is eroded, especially in the case of digital services.
- ***Limited cash reticulation infrastructure***. In many SSA markets, rural and peri-urban customers have to travel far to reach RSP outlets to cash their remittances in or out. Rural RSP penetration is limited, as agents struggle to rebalance their cashflow efficiently the further they are away from a bank. The use of alternative partners such as retailers and petrol stations for cash rebalancing is still in its infancy.

Consumer-related barriers. The literature and stakeholder interviews cite a number of demand-side features and preferences that place constraints on remittance business models:

- ***Consumers drawn to informal channels.*** Informal channels severely affect RSPs' business models, as they prevent corridors from reaching vital scale in volume and value. Informal flows are also likely to hide illicit activity and are not regulated or monitored. Several reasons push consumers towards informal providers, namely the high cost of using formal channels, the lack of pricing transparency, a lack of official documentation such as ID or proof of address, inconvenient operating hours and queues, and the lack of disclosure on the length of a transfer.
- ***Cash preference.*** Consumers perceive cash to be free, and they hence still overwhelmingly use over-the-counter transactions both at the first and the last despite the increasing availability of digital solutions mile in the region. Often, remittance receivers do not have bank accounts or even bank relationships, and they rely entirely on cash. Providing and circulating cash is extremely expensive for providers where no efficient partnerships with alternative distributors such as retailers and petrol stations exist. As long as digital value cannot rival cash as a universal payment instrument, cash will remain the preferred form of receiving remittances.
- ***Mistrust of digital channels.*** In terms of new technologies, consumers are still sceptical. To increase trust in these new services, remittances should be processed in real time and effective consumer recourse mechanisms should be available. Unfortunately, neither of those aspects are in place in many SSA markets.

- ***Products do not meet the needs of consumers.*** Remittance senders would like to have more control over how the money they are sending is spent. Apart from investing in opportunities back home, they would like to earmark money for education and health expenses for relatives or friends. For-purpose remittances, such as sending money straight to a building company, are only available to a limited extent. Consequently, in some cases senders send less money overall or send money less frequently, which results in lower flows going through the system.

2.2. Middle-mile barriers

This section outlines the middle-mile barriers encountered. Appendix 2 provides a more granular description of each barrier:

Business case barriers. Like the first/last mile, there are a number of business case impediments that affect providers in the middle mile:

- ***Lack of competition.*** Banks are often the only licensed entity allowed to offer remittance services in certain SSA markets. This also creates barriers in the middle mile, especially for non-bank RSPs. Operational costs are higher when working through banks, as RSPs can be charged excessive per-item processing costs, as well as other integration costs despite the aggregation function of the RSP. As discussed in Section 2.1, non-bank RSPs are also at risk of competing with banks' own service lines, which results in banks neglecting their partner in favour of their own business. The compliance burden is high for non-bank RSPs.
- ***Outdated and inadequate IT systems.*** In the middle mile, non-bank RSPs are affected by banks' outdated or inefficient legacy systems, which cause delays in processing domestic and cross-border payments. Often the systems are so old that the technical specifications cannot be understood by infrastructure engineers. This constrains integration of more efficient technologies, which results in delayed transactions and the inability to satisfy compliance standards set by the regulator.
- ***Expensive foreign exchange margins.*** There is a lack of transparency around foreign exchange charges, especially by MTOs whose business model evolves around these margins. Foreign exchange is by its nature a centralised middle-mile function where MTOs and banks transact and price the foreign exchange component in the middle mile and then apply charges and additional spreads in the first and sometimes last mile. The limited number of settlement or switching currencies available often requires multiple foreign exchange transactions in the middle mile. This prevents both consumers and RSP partners from fully understanding the foreign exchange spread, which is often significantly higher than wholesale rates. Apart from the cost burden on partners, this practice can have negative reputational consequences for the whole industry.
- ***Skills gap.*** In the middle mile, the staff skills gap is especially pronounced in system integration in SSA. In a long value chain such as remittances, technical skills are necessary to understand all partners' system requirements to integrate their systems. The fast pace of technological changes in this sector has not been accompanied by a proportional rise in the number of skilled professionals in the sector.
- ***Unreliable volume and value data.*** In addition to the limited reliability of value data in the remittances space (as outlined in Section 2.1), the middle mile also suffers from a lack of volume data. A lack of understanding of the frequency of remittance flows

hampers business strategy, as it is crucial to understand whether payments can be sent through the system in real time or require aggregation before being sent through.

Regulatory barriers. A number of regulatory barriers affect the middle mile:

- ***Regulatory inconsistency and uncertainty.*** SSA suffers from a lack of harmonisation in regulatory requirements. Each country has its own set of frameworks, for example in the case of AML/CFT measures, i.e. minimum and maximum transaction amounts, required documents etc. This inconsistency can lead to de-risking by banks where they believe that partner institutions cannot satisfyingly comply with the different requirements. Most countries in the SSA market have gaps in their remittance legislation, which causes regulatory uncertainty and costly delays for RSPs. A set of regulatory requirements can be found in Section 5.2.
- ***AML/CFT requirements.*** KYC or CDD regulation or guidelines are too stringent and disproportionate to the level of risk of low-value transactions in many SSA markets, despite the FATF recommendations on the risk-based approach. It seems that regulators are not all equally able to provide clarity around KYC requirements in their jurisdiction, which causes confusion in the region. This can result in banks terminating partner relationships as they cannot establish whether the partner institution fulfils the KYC requirements to the right standard.
- ***Lack of competition.*** The fact that licensing is often restricted to banks places a heavy cost burden on non-bank RSPs, as they have to compensate their partner bank for the clearing and settlement of cross-border payments. While exclusive partnership agreements in many jurisdictions have been banned, stakeholder interviews revealed that the practices often continue under the radar and take many different forms, adversely affecting market entry of new players.
- ***High regulatory compliance costs.*** Regulators in SSA require an array of onerous and costly documentation and licence applications from RSPs. As these requirements can differ from jurisdiction to jurisdiction, RSP compliance costs are unnecessarily high, both in terms of compiling documentation and in terms of uncertainty around licensing approval. Where new technologies are involved, some regulators deploy costly sandboxes instead of conducting independent regulatory impact assessments (RIAs), which are a lot cheaper.
- ***Lack of understanding of new technologies.*** Regulators in the region do not have sufficient understanding of new technologies in the remittances space. This hampers innovation due to delays in licensing or the complete ban on certain technologies based on a perception of unknown risk.
- ***Lack of consultation when drafting regulation.*** Players in the first, middle and last mile are usually not consulted when regulation pertaining to remittances or cross-border payments is drafted. This can create a hostile remittance sector where regulation is removed from the realities of conducting business in the market.

Infrastructure barriers. On the infrastructure side, remittance players in the middle mile face the following hurdles:

- ***Underdeveloped national payment systems.*** SSA suffers from a substantial underinvestment in payment infrastructure. Especially when it comes to national payments infrastructure, developments happen opportunistically rather than systematically, which leads to costly inefficiencies and complexities. In the absence of national or regional switches, RSPs have to switch abroad, which is expensive. Clearing often happens manually and in a slow, unstructured manner, which affects business. In markets with an underdeveloped banking system, non-bank RSPs struggle to link into the national payment system, which causes timing and business risks. In general, the differences in infrastructure development between countries increase integration costs.

- ***Lack of interoperability.*** Many SSA countries have established both high-value and low-value payment systems based on their own security standards. Because of this largely independent development, there is a lack of standardisation and automation in inter-bank and intra-RSP networks. Thus, many manual interventions are made to collect and repair data. Once RSPs have invested in their own systems, integration becomes onerous and many are unwilling to adapt to new or more efficient systems. It is often within the regulator's mandate to specify minimum standards, but they are perceived as unwilling to do so due to the potential backlash from incumbents.
- ***Weak telecommunications and electricity infrastructure.*** The lack of reliable telecommunications and electricity infrastructure in many SSA markets adds a significant cost layer to RSPs' business. To ensure secure and timely transfers, many RSPs have to invest in backup and co-generators that meet the security measures demanded by the regulator. The more partners are involved in a cross-border remittances value chain, the higher the risk of delays or interruptions.

2.3. Ranking of barriers

Section **Error! Reference source not found.** outlined the various barriers experienced in the f irst, middle and last miles. But which of these barriers carry the most weight?

Citations and impact dictating ranking. Figure 3 (on the next page)**Error! Reference source n ot found.** ranks the first-mile and last-mile barriers discussed in this note according to three variables. "Cited" refers to the relative number of times a specific barrier was mentioned in the 32 remittance studies reviewed and in the 19 qualitative interviews conducted with supply-side providers, experts and stakeholders in the region. The cost and access columns refer to the relative impact it would have on cost or access for the consumer to remove the barrier in question, based on the information collected throughout the study. The most prominent barriers feature at the top while the relatively less mentioned barriers can be found at the bottom.

Figure 3. Ranked first/last mile barriers based on citations and impact on cost/access for consumer

Source: 32 remittance studies and 19 supply-side interviews

Cash reliance and KYC compliance stand out at first and last mile. Two first-mile and last-mile barriers stand out both in terms of the number of times they were mentioned in literature and interviews, and in terms of the impact that removing them could have on the cost and access to remittances for consumers:

- *Costly KYC requirements.* KYC requirements were the single most-mentioned barrier in the first and last mile in both interviews and literature. The fact that regulators often favour banks in remittance provision forces non-bank RSPs to partner with banks. This not only affects competition, but it places an unnecessarily strict compliance burden on non-bank RSPs partnering with banks. It stands to question whether a bank compliant with Basel II or III should be engaging in low-value, high-volume retail business at all. The costing structure of a bank (which includes the compliance costs associated with Basel II and III) determines the viable payments threshold. A number of UK banks have stepped away from unprofitable low-value payments. Furthermore, RSPs tend to interpret FATF guidelines around KYC documentation too stringently. For example, a proof of address is not mandatory in cases where an official ID exists as per FATF guidelines, yet many RSPs insist on proof of address. Lowering the KYC burden on consumers and RSPs could have an immense impact on access to remittance services as well as cost and could reduce informal remittance flows considerably[6].

[6] There is wide academic and regulatory acceptance that proof of address (PoA) offers little to no risk mitigation value and is not required in terms of FATF 10, where there is an adequate form of identity. The cross-correlation of multiple paper copies of address is transient evidence at best and yet contributes extensively to compliance cost with negligible impact on risk. A report by Cenfri/FSDAfrica on Biometrics and financial inclusion from March 2018 discusses this in detail and can be accessed here: https://cenfri.org/publications/biometrics-and-financial-inclusion-a-roadmap-for-implementing-biometric identity-systems-in-sub-saharan-africa/.

- *Cash reliance.* Despite the rising number of fintech solutions, cryptocurrencies and mobile phone ownership, cash remains king in the remittance business. Yet, as discussed in Section 2.1, cash adds a significant cost layer, both in terms of managing agents and making cash-in and cash-out points available to the consumer. Reducing the reliance on cash by increasing trust in digital money and digital use cases would have a big impact on cost and access. However, consumers' persistent preference for cash highlights the uphill battle that digital uptake still faces: It is not enough to facilitate cost-efficient digital solutions like sending from or receiving funds into mobile phones. If the consumer cannot utilise the digital value as easily and as widely as they can use cash, the preference for cash will remain.

Figure 4 ranks the middle-mile barriers:

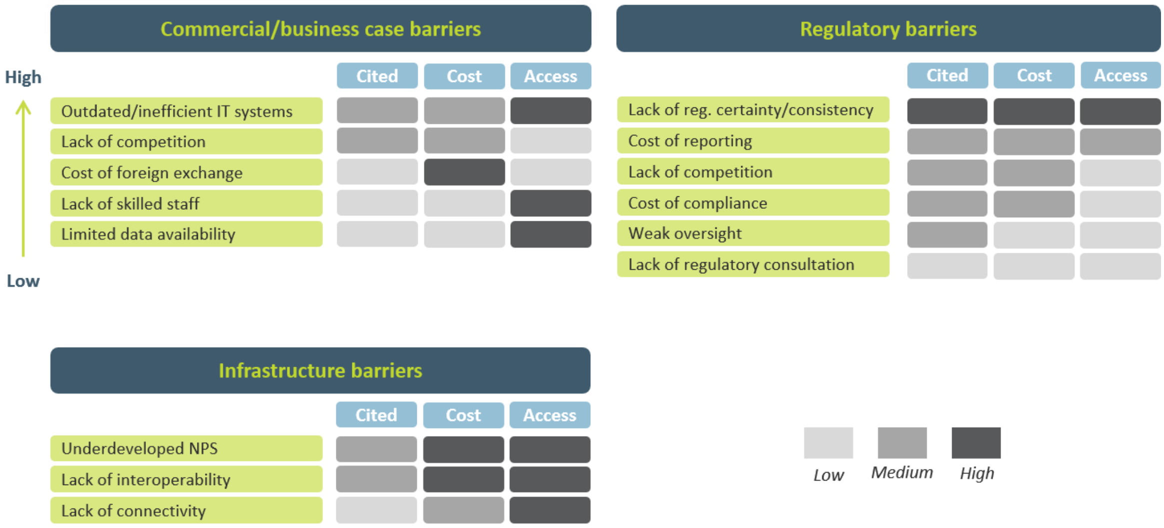

Figure 4. Ranked middle-mile barriers based on citations and impact on cost/access for consumer

Source: 32 remittance studies and 19 supply-side interviews

Middle-mile ranking. Two challenges stand out at the middle mile, especially in terms of their impact on cost and access for the consumer:

- *Regulatory uncertainty and inconsistency.* A lack of guidance by the regulator, the absence of memoranda of understanding between regulators in many jurisdictions as well as the countless differing compliance standards across countries introduce supply-side frictions. Regulators' uncertainty and unfamiliarity regarding new technical solutions cause expensive delays in licensing. Clarifying and harmonising regulation can have a substantial impact on cost and access, as it reduces business risk and diverts funds to more productive uses.
- *Underdeveloped payments infrastructure.* Reliable domestic and regional infrastructure in the form of a well-developed national payment system that can integrate efficiently regionally is required to reduce costs and increase access for the consumer. To be able to operate sustainably, payment systems need to operate at scale. The lack of interoperability between instruments and channels causes unnecessary integration costs for RSPs and consumers, and it limits the volume of flows going through the system. Expensive but outdated IT infrastructure, coupled with a lack of skilled technicians to optimise said infrastructure, hampers innovation.

The ranking exercise highlights that it is important to critically evaluate the impact on cost and access for the consumer when designing policy interventions in the cross-border remittances space. The value chain is so long and diverse that any change could have unintended consequences, especially in terms of access points. For example: If it is no longer profitable to service certain areas because costs are artificially reduced, the cost of transfer might be lower for the consumer, but travel and opportunity costs will increase. Hence, informal flows in some areas actually rise.

3. Conclusion

The remittance market in Africa is on average the most expensive in the world. Sending and receiving funds in the region is not only costly in terms of price for the consumer but also in terms of access of remittance service points. Especially the rural population often has to travel long distances or spend an entire day in a queue to pick up over-the-counter remittances. To reduce the cost to the consumer, the cost of doing business over the entire remittances value chain needs to be reduced while ensuring improved access at the first and last mile for consumers. The remittance value chain requires a fine balance between cost, price and access from a consumer perspective. Merely reducing a price does not mean that the effective cost or level of access to a consumer remains static. On the contrary, consumers often face increased costs and reduced access. A multi-barrier value chain approach is essential to move markets towards more pervasive and cost-appropriate services, as outlined in this note. Several pressing issues exist. Among them are:

- The many illiquid currencies in Africa coupled with consumers' preference for cash-out instead of retaining digital value do add a significant cost layer in terms of foreign exchange and liquidity management.
- Onerous KYC requirements drive consumers away and increase the compliance cost for providers. The documentation requirements imposed by the regulator are disproportionate to the level of risk posed by low-value, high-volume remittance transactions and are often not required by international bodies.
- The lack of competition in the region contributes to high charges as the incumbents control the largest share of the market, mostly due to outdated regulatory practices. In some SSA remittance markets, competition has arguably stagnated into an equilibrium where it is not in the interest of any provider to introduce more efficient mechanisms, as these would entail costly changes for all incumbents. However, not implementing change can result in a lack of churn as consumers turn to informal mechanisms.
- Cross-border partnerships are tough to form in an uncertain cross-border regulatory space. Remittances are often not at the forefront of politics, i.e. there is little push to develop, harmonise or optimise the value chain, resulting in a slow-moving market. Cross-border remittances fall into multiple jurisdictions, which complicates the business model and increases integration costs. Furthermore, fast-paced advances in technology make it hard for the regulator to keep up, resulting in licensing delays and further increases in integration costs for providers.
- Outdated yet expensive legacy systems can prevent cost gains even if the remittance solution is innovative, especially where a lack of skilled technicians causes integration issues.
- Not all providers are necessarily overcharging consumers, given that often the basic payment infrastructure is not in place to run their services on. If costs were simply reduced to the Sustainable Development Goals' target of between 3% and 5% of the transaction value, RSPs might opt to only offer services in the urban or easy-to-reach

areas, effectively reducing the access for the harder-to-reach consumers. This should be kept in mind when considering the complexities of the remittance value chain.

Prioritising the removal or reduction of the barriers according to the impact on cost and access for the consumer outlined in this note can be a first step towards achieving greater efficiencies in the region. This, in turn, leads to greater formal remittance flows and a reduction in informality.

Volumes 3 to 6 of this seven-part series will provide insight into four countries and their perspective on the four remittance barrier categories. The remittance sectors of Uganda, Ethiopia, Nigeria and Cote d'Ivoire will be described in detail, offering unique insights into the realities of cross-border and domestic remittances in those markets.

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Appendix 1: Detailed first/last mile barriers

To provide an even deeper understanding of the barriers outlined in Section 2.1 and 2.2, the following sections discuss each barrier in further detail.

Business case

As introduced in Section 2.1, the business case barriers that come into play at the first or last mile can be grouped into eight categories:

Lack of competition increases cost. The SSA remittance market suffers from a lack of competition. This results in high costs and a lack of choice for the consumer, which may increase the use of informal mechanisms (Beck & Martínez Pería, 2009; Langhan, 2011). At least two factors suppress competition:

- ***Tendency towards bank partnerships.*** Historically, the practice across the region was to grant remittance licences only to banks, meaning that every RSP had to enter into a partnership with a bank to operate in SSA markets. While remittance licences to non-bank RSPs are on the rise, the prudential and compliance requirements to obtain these licences are stringent in relation to the risk posed. Many RSPs hence choose to still partner with banks. The tendency for bank-RSP partnerships increase integration and partnership costs. Often, new business is put on hold until partnership issues are resolved. Moreover, in many SSA markets, banks do not prioritise their remittance business as much as other product lines given the high rate of disintermediation in remittances, i.e. consumers withdrawing all received funds. Thus, there is little incentive to reduce costs and build scale. Forcing unnecessary participants into the remittances value chain as a type of outsourced regulatory function, creates more parties and points of interaction and hence a more costly overall value chain.
- ***Exclusive partnership agreements.*** Exclusive partnership agreements between providers, which effectively pre-determine the channel available to the consumer, are decreasing in the region. They still exist in some markets, however. This limits the consumer's choice and keeps costs artificially high (Bourenane, et al., 2011). An ODI report in 2014 found that two major money transfer companies (Western Union and MoneyGram) account for two-thirds of remittance transfers in Africa. Both companies have contractual clauses in many SSA countries that ensure that entities such as banks or post offices wishing to partner with them will work exclusively with them. This effectively "locks in" more than half of all available pay-out locations in Africa to one of the two MTOs (Watkins & Quattri, 2014). The effect is that agents are tied to one RSP only and cannot offer services from multiple, competing RSPs. This increases cost and hampers interoperability as each player invests in setting up its own, often overlapping infrastructure. As a result, all RSPs face tough competition from informal mechanisms, which are often better positioned to offer value to consumers and circumvent many regulatory issues that formal providers face. Where exclusive partnership agreements

have been abolished by law, in practice there is still a form of contractual exclusivity whereby partners receive less money if they decide to offer another money transfer service as well (Isaacs, 2017).

Costly agent management. Stakeholder interviews revealed that remittance senders and recipients alike still prefer cash, as opposed to digital channels. This implies that RSPs need to deploy agents to cash in and cash out the remittance. Especially in rural areas, finding available cash-out partners is tricky and recruitment is often onerous. Many SSA jurisdictions require an agent to be licensed, which is time-consuming and expensive to attain and deters potential candidates from becoming agents (Todoroki, et al., 2014; Stakeholder interviews, 2017). Once agents are recruited, a multitude of additional agent management-related costs and challenges arise:

- ***Training and oversight.*** Agents need to be trained and managed in customer service, know-your-customer (KYC) compliance, IT systems and cash management. In many markets, there is a high churn of agents, which results in high training and management costs (Thom, et al., 2015). In partnership models, the regulatory compliance burden of managing agents falls on the banks, which entails additional cost and attention as banks are subject to strict compliance regimes under Basel II and III[7]. If non-bank agents were supervised under a more proportionate scheme compared to banks due to the differing risk profile, the supervisory costs would likely be lower.
- ***Remuneration.*** Agents are mostly remunerated through commissions when hired by non-bank RSPs. In partnership models, MTOs or other non-bank RSPs need to share revenue with partner banks, which adds to remuneration costs.
- ***Misaligned agent incentives.*** Agent management can also prove tricky and costly where agent incentives are misaligned with the interests of the RSP. For example, agents deployed by MNOs might have an incentive to cash out mobile money or money in the mobile wallet when they have excess cash at hand that they would like to distribute due to safety concerns. The MNO, on the other hand, would like to keep the money in the wallet and rather have the agent accept digital payments. The agent, however, is disincentivised to do so if he/she is charged a fee for digital or card payments and hence prefers cash-out. In another example of misaligned incentives, stakeholder interviews revealed that agents are reluctant to use point-of-sale (POS) devices in some countries because the rounding of amounts is not possible and hence they lose a chunk of their revenue.
- ***Reputational risks.*** Agent management challenges also arise where the remittance service quality is poor at the cash-in and cash-out point, for example where agents face liquidity constraints or did not charge their POS, meaning that the transaction cannot be completed. This negatively affects the RSP's reputation even though the RSP has not directly caused the inconvenience (Bourenane, et al., 2011).

Limited data availability affecting service offering and infrastructure expansion. Reliable remittances value and volume data is scarce in the region. While central banks collect high-level data through balance of payments reporting by RSPs, this information is often incomplete, for a number of reasons:

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[7] Basel II is the international framework for the assessment of international banks' capital adequacy, the second of the "Basel Accords" issued by the Basel Committee on Banking Supervision in 2004. Basel III (issued December 2010) provides a regulatory framework that targets governance and risk management and the introduction of two global liquidity standards (ICAEW, 2017).

- *BoP reporting challenges.* Stakeholder interviews revealed that balance of payments reporting can be onerous with, at times, thousands of codes to choose from when submitting information to the central bank. Furthermore, the type of submitted data differs across jurisdictions, making it hard to compare between countries. It was suggested that some central banks currently do not have the resources or systems to process data of this sort.
- *Constraints to data sharing.* There seems to be an unwillingness to share data between entities, even where consumer privacy is not impaired.
- *Informal sector below the radar.* The high level of informality in the remittances sector and challenges around measuring the size of informal markets mask the true size of flows, both cross-border and domestically. Migration numbers, which correlate with remittance volumes and value, also lack reliability.

The lack of reliable data affects the RSPs' business case, as certain remittance channels are neglected due to missing evidence that a valuable business case exists. All in all, inadequate or insufficient data leads to underserved markets and limited remittance infrastructure expansion (Dia Kamgnia & Murinde, 2012; Isaacs, 2017).

High cost of liquidity management restricts expansion of last-mile delivery. The literature and interviews alike highlight the disproportionate cost of liquidity management compared to the value of remittances. This has several reasons:

- *Inadequate infrastructure.* SSA often lacks the infrastructure needed to deliver remittances to the last mile, especially in the rural areas. In the absence of durable roads, electricity and reliable network supply, cash management adds a significant cost layer, as restocking cash can be an ordeal. Some countries, such as Zimbabwe, suffer from a chronic cash shortage. The quality of cash notes can also be an issue.
- *Partnership costs.* Many RSPs rely on banks or pick-up MTOs for cash-out, as they cannot afford to invest in their own liquidity management systems. These partners then need to be compensated.
- *Uncertain daily cash flows.* Agents who manage their own cash flow often suffer from volatile daily cash levels, making it hard to guarantee cash-out. This, in turn, affects the quality of service for RSPs as outlined under the agent management barrier above (Isaacs, et al., 2012). In areas with low penetration of banks or retailers, agents have to leave their shop to restock cash to pay their suppliers or pay out consumers. This is inconvenient for the agent and can result in underserved rural areas where agents decide to leave the business (Chamberlain, et al., 2014; Thom, et al., 2015).

Outdated IT systems hampering remittance service provision. Stakeholder interviews revealed that IT systems in many SSA RSPs are too outdated to deliver cost-effective remittances services. The traditional OTC providers, including banks, have invested heavily in hard-to-change legacy IT systems over the years, which they are unwilling to change due to the high costs involved. This introduces inefficiencies from servicing to integration and prevents major price reductions to materialise in the first and last mile (Stakeholder interviews, 2017).

Technological advances, especially in the digital financial services space for the first and last mile, show great potential for overcoming these challenges. Pilot schemes that link mobile phones to global standards and networks of card schemes, for example, have shown promise (Vorrips, 2009). Fintech providers are offering digital onboarding and identification checkers, thereby cutting out the need for an agent. Remittance processing hubs are also capitalising on technological advancements, including API technology that can integrate systems to get them to be interoperable. Yet, the volumes going through these innovative channels are still relatively small, and the vast majority of remittance transactions within and into SSA is still conducted over the counter at the incumbent providers (Isaacs, et al., 2017).

Lack of skilled staff increasing cost. During the interviews, RSPs lamented the lack of skilled staff in the region. Remittance operations require the processing of many payments a day, which, when coupled with the aforementioned inadequate IT systems, rely on high-quality operational capabilities. Especially banks often do not have enough skilled staff to manage such systems effectively. Skilled IT personnel to manage integration with remittance partners are equally scarce (Stakeholder interviews, 2017).

Lack of perceived business case for banks affecting RSPs. As mentioned above, there is an uneven remittances licensing playing field in SSA, where non-bank RSPs struggle to operate without partnering with a bank. Banks, however, provide an inconsistent approach in terms of the services they offer to non-bank RSPs, for a number of reasons (World Bank, 2013):

- ***Remittances not a priority.*** Given the relatively low value, high-volume flows of remittances, banks do not perceive remittances as particularly profitable unless they can take advantage of foreign exchange margins or other fees (IFAD, 2017). This, in turn, increases the cost for non-bank RSPs who rely on banks.
- ***Lack of bank branch reach.*** Non-bank RSPs' business is restricted to areas where they can rely on partner banks' infrastructure. Since many rural areas are typically outside of the banking sector footprint, RSPs are similarly constrained in their reach.
- ***De-risking.*** Banks are increasingly cautious about remittance business in certain corridors where others have been heavily fined or even been shut down due to AML/CFT non-compliance that was unrelated to the remittance industry. These corridors are hence hard to serve by non-bank RSPs.

Competition from informal mechanisms. Stakeholder interviews and literature alike mentioned the high level of competition from informal channels as an important business case barrier. Furthermore, RSPs' business cases can be affected where informal flows mask the true extent of corridor sizes, affecting business decisions. A 2016 FinMark Trust study found during a mystery shopping exercise that informal channels from South Africa to the Democratic Republic of the Congo served consumers much more conveniently and efficiently and that they were more trusted than formal channels. There are several reasons for this:

- ***No need for documentation.*** These informal points of sending and receiving remittances are sophisticated and transfer money in minutes at a much cheaper rate, without requiring documentation (FinMark Trust, 2016). Especially undocumented migrants are not able to satisfy the overly stringent documentation requirements by either the regulator, remittance partner bank, correspondence bank or even by the formal provider itself based on a highest-compliance-standard approach across multiple jurisdictions.
- ***Better forex rates.*** Many SSA markets have shadow foreign exchange markets due to restrictive exchange controls, where consumers can get a much better rate for foreign currency. Oftentimes, remittances are masked as trade flows where currency is in reality

never exchanged in the market but is offset by payments in goods in a trading partner country (Stakeholder interviews, 2017).

- *Underserved markets.* Informal mechanisms are often the only way to get money from one place to another, especially where formal corridors have been shut down due to de-risking (Stakeholder interviews, 2017).

Regulation

The next category of barriers that have an impact at both the first mile and the last mile derives from regulation. At least five regulatory barriers arise:

- *Limited licensing of non-bank RSPs raising costs.* In most SSA markets, licensing for remittance services is reserved for banks and a handful of non-bank RSPs (Nalane, et al., 2012). This forces other actors in the value chain into costly partnerships with these entities. Costs arise due to regulatory uncertainty as well as compliance costs:
  - *Regulatory uncertainty.* Partnerships are risky in SSA markets where there is uncertainty around regulation. While systems are often ready to be implemented, a governance mismatch exists where regulation cannot keep up with innovation. Often there is no clear timeframe or framework for regulation to be passed, increasing waiting times and hence costs for RSPs, especially in the case where multiple regulators are involved (e.g. the payments and telecommunications regulator). Long waiting times are prevalent in the region; at times up to seven years (Stakeholder interviews, 2017).
  - *Cost of compliance.* The disproportionate prudential and supervisory burden indirectly placed on RSPs by being tied to banks leads to an inefficient transaction chain that would not normally be assembled in an effective market. Banks are held to regulatory compliance on a wide range of services beyond remittances and, by association, partners are expected to comply on the same level even though they are only involved in one line of business. These disproportionate compliance costs hinder non-bank RSPs from cost-effectively serving the market.

- *KYC and AML/CFT requirements costly.* Most SSA regulators have a rigid approach to AML/CFT compliance and/or enforcement, often not effectively implementing the risk-based approach[8]. Several complications arise for the remittance market:
  - *Licensing delays.* The uncertainty around the risk-based approach creates delays in licensing for RSPs, especially because different rules may apply for banks and non-bank RSPs.
  - *RSPs subject to strict bank compliance regimes.* The banks are under special scrutiny under AML/CFT standards and are cautious around the documentation required for both senders and recipients. The compliance costs are high for banks, increasing the cost for the remittance sender (FinMark Trust, 2017). The FATF recommendations provide a significant level of flexibility to countries, since they do not mandate the types of ID documents allowed for verification as long as it is

[8] The 2012 FATF Recommendations on the risk-based approach are intended to assist countries and their competent authorities, as well as the practitioners in the money transfer sector and in the banking sector that have or are considering providers as customers, to apply the risk-based approach associated to money or value transfer services. The risk-based approach, the cornerstone of the FATF Standards, requires that measures to combat ML/TF be commensurate with the risks. Such measures should not necessarily result into the categorisation of all providers as inherently high-risk. The overall risks and threats are influenced by the extent and quality of regulatory and supervisory framework as well as the implementation of risk-based controls and mitigating measures by each provider (FATF, 2012).

verifiable. For example, proof of address (often mandatory for remittance senders) is not actually a mandated set of documents. However, research shows that often the FATF guidelines are interpreted in an excessively strict way, based on practices or examples documented in countries with more reliable ID systems (Todoroki, et al., 2014)).

  - *Many consumers excluded due to lack of documentation.* Because of the rigorous approach to AML/CFT, RSPs require onerous KYC procedures, even for small transactions that are difficult to comply with due to the lack of documentation by consumers (FinMark Trust, 2016; Isaacs, et al., 2017). A stakeholder mentioned in an interview that at times the mother's birth certificate is required when receiving remittances. These lengthy processes may create a bias against low value-added customers and reduce profitability (IFAD, 2015a).
  - *Costly onboarding.* As regulators often want to know both sender and recipient information – despite FATF guidance on know your customer's customer (KYCC)[9] – and often requires face-to-face onboarding and physical paper copies, digital RSPs have to pay for costly onboarding agents or partner with institutions such as banks that can provide or collect this information. This increases the cost of acquiring clients as well as reaching them.
  - *Lack of cross-border harmonisation.* Cross-border remittances are hampered by the lack of harmonisation of AML/CFT standards as well as minimum and maximum transaction limits. This was mentioned extensively in stakeholder interviews. As every regulator has a different set of regulations around AML/CFT compliance, RSPs struggle to put efficient systems in place that satisfy both sender and recipient country conditions (World Bank, 2013; IFAD, 2015b).

- *Expensive foreign exchange controls.* The use of formal channel remittances plays an important role in alleviating foreign exchange constraints and supporting the balance of payments in the region (DMA, 2011). In countries where exchange controls exist, some or all cross-border transfers may be subject to review and/or government authorisation before a transfer may occur. As a result, these transactions typically must occur in a bank branch dealer in foreign exchange. This has implications for digital services, such as mobile money remittances and other non-bank RSPs that rely on banks (Grossman, 2014). Furthermore, payments regulators are often not suited to deal with cross-border transfers, which should rather be handled by the foreign exchange regulator. This creates confusion and costly delays in some SSA markets.
- *Lack of consultation with remittance sector when drafting regulation.* Regulatory compliance is one of the main cost drivers identified in the interviews. Stakeholder interviews highlighted the apparent mismatch between regulatory requirements and realities in the market. Compliance teams are often not aware of realities, and regulators fail to consult all remittance players when drafting or amending regulation. For example, for-purpose remittances (such as investments in a migrant's home country, which would benefit the domestic economy) are burdensome or impossible in many SSA markets, given that the investor needs to be physically present. Therefore, investing as a use case

[9] FATF clarifies: "The FATF Recommendations do not require financial institutions to conduct customer due diligence on the customers of their customer (i.e., each individual customer). In a correspondent banking relationship, the correspondent institution will monitor the respondent institution's transactions with a view to detecting any changes in the respondent institution's risk profile or implementation of risk mitigation measures (i.e. compliance with AML/CFT measures and applicable targeted financial sanctions), any unusual activity or transaction on the part of the respondent, or any potential deviations from the agreed terms of the arrangements governing the correspondent relationship […] There is no expectation, intention or requirement for the correspondent institution to conduct customer due diligence on its respondent institution'customers." (FATF, 2016).

is often overlooked given that no regulation around it exists (Stakeholder interviews, 2017).

- ***Taxing of remittances costly.*** In a worrying trend, several high-income countries (some of them host to many African migrants) are considering taxation of outward remittances, in part to raise revenue and in part to discourage undocumented migrants. These countries include Bahrain, Kuwait, Oman, Saudi Arabia, the United Arab Emirates and the United States. Uganda has recently passed a 1% levy on domestic mobile money transactions (AfricaNews, 2018). The taxing of remittances can have severe effects on the flows of formal remittances, as it discourages frequent sending and receiving and is likely to drive up informality in a bid to circumvent such charges (KNOMAD, 2017).

Infrastructure

In addition to the business case and regulatory barriers, there are at least two major infrastructure-related barriers that affect the first and last mile:

- ***Lack of connectivity affecting business.*** The underlying infrastructure to support the national payment systems as well as cross-border transfers is inadequate in many markets in SSA (Nalane, et al., 2012). The most notable infrastructure barriers are a lack of reliable rural, and at times urban, electricity provision, as well as mobile network problems. Transfers over distance require reliable connections to ensure fast and secure payments. Where infrastructure constraints undermine the reliability of connections, trust in the formal remittances sector declines (Isaacs, et al., 2017). Limited connectivity hits digital services especially hard, given that their business model revolves around fast transfer.
- ***Cash reticulation challenges limit cash-in and cash-out points.*** The literature as well as stakeholder interviews point out that many RSPs do not expand their network into rural areas. Thus, rural inhabitants often have to travel far to reach the nearest outlet of a bank or an MTO to cash in or cash out their remittance (IFAD, 2015a; Isaacs, 2017). This necessitates them to incur travel expenses, which add to the effective cost of remittances for consumers. One of the reasons for the limited reach of rural cash-in and cash-out points is the costs and risks associated with cash reticulation. Poor road infrastructure and limited bank reach increase the cost of getting money into rural or hard-to-access areas. Given the cost of cash management, many RSPs opt to open branches close to urban centres. For example, GIS data from Zambia indicates that over 97% of mobile money agents are situated within 15 kilometres of a bank branch or ATM. While this increases the density of cash-out points, it does not substantially increase the physical reach of banking infrastructure (Cooper, et al., 2018a).

Consumer-related

The last category of first-mile and last-mile barriers refers to how the nature of the remittance service offering creates barriers for consumers and how consumers' persistent preference for cash shapes remittances business models:

- ***Consumers drawn to informal channels.*** Consumers in many SSA markets make persistent and, in some cases, increasing use of informal channels, as discussed throughout the document. Informal channels severely affect RSPs' business models, as they prevent corridors from reaching vital scale in volume and value. Informal flows are also likely to hide illicit activity and are not regulated or monitored. Several reasons push consumers towards informal providers, which are often sophisticated brick-and-mortar structures with qualified personnel and quick transfer.

- ***High formal costs and lack of pricing transparency.*** One reason to opt for informal mechanisms is the high costs for formal transactions (World Bank, 2013; Isaacs, 2017). In many corridors, transfer costs are so high that senders opt to send less often to accumulate funds over time. This increases the risk of the sender tapping into the money earmarked for remittances, which would negatively affect the remittance recipient. Informal channels often offer cheaper rates, as they can circumvent the costly foreign exchange component of the transfer by setting values off with trade goods, for example (Stakeholder interviews, 2017). Also, the majority of RSPs in SSA do not disclose detailed pricing information to the remittance client. For example, there is a lack of clarity about the all-in price given that foreign exchange margins are not disclosed at the moment when a transaction is executed. Other fees, such as SWIFT fees, are often also not accessible to the consumer and are hence hard to compare between providers. Poor disclosure of pricing hinders consumers' ability to make informed decisions while also undermining their trust in formal providers (IFAD, 2015a; FinMark Trust, 2017). The result is that they take the set price as standard and do not shop around for cheaper alternatives (Nalane, et al., 2012; FinMark Trust, 2017) or end up opting for informal channels.
- ***Lack of official documentation.*** Given the strict regulation around AML/CFT, even remitters who want to send or receive low values of remittances have to produce a range of official KYC documentation at the cash-in and cash-out points for customer due diligence at the financial institution (World Bank, 2014, IFAD, 2017). In many SSA countries, certain segments of the population do not have legitimate ID documents due to an underdeveloped and inadequate ID infrastructure, which creates a challenge in the design and fulfilment of CDD obligations. Where irregular migration is high, many migrants are automatically excluded from accessing remittance channels in the send country, due to not having formal identification to meet KYC requirements for cross-border transfers. This is particularly acute in the Horn of Africa and East Africa (Isaacs, 2017). According to the 2017 World Bank Findex, over 40% of the financially excluded adult population in a number of SSA countries attributed their status to a lack of proof of identity (World Bank, 2017b). The result is that consumers are pushed towards informal remittances services with less stringent rules.
- ***Inconvenience and lack of financial education.*** Consumers regularly cite the queues and hours of operation of formal institutions as a hinderance (IFAD, 2015a; Isaacs, et al., 2017). Remitters also mention that banks intimidate them, given that many cater for a higher-income clientele and often not for illiterate consumers. This may be indicative of insufficient consumer education, as stakeholder interviews revealed that RSPs at times shy away from customer education, given that this might benefit their competition as well. Informal solutions often offer better operating hours and have a close bond to their consumer base, speaking the same language for instance (Stakeholder interviews, 2017).
- ***Time of transfer or lack of disclosure thereof.*** Consumers lose trust in formal remittance provision if there is no clarity around the length of the transfer. Especially OTC services often only give rough guidance around the time the recipient can collect the remittance (GIZ, 2007). In the age of mobile phones and real-time transfer services, consumers are put off by long waiting times and opt to use informal mechanisms instead.
- ***Cash preference costly.*** Literature and stakeholder interviews highlight the stickiness of cash in remittances (IFAD, 2015a; Isaacs, et al., 2017). Consumers perceive cash to be

free and hence prefer over-the-counter transactions both at the first mile and the last mile. In SSA, over 90% of all transactions are still conducted in cash (Bester, et al., 2016). This means that while digital remittance solutions into mobile wallets are increasing, consumers still need to cash out the remittance and will go to great lengths to do so. **Error! Reference source not found.** shows the percentage of received remittances in c ash versus digital value in selected SSA countries. The clear majority of remittances in 2014 were still received in cash, even in countries with relatively high levels of digitisation, such as Kenya and Tanzania. Providing and circulating cash is extremely expensive for providers where no efficient partnerships with alternative distributers such as retailers and petrol stations exist.

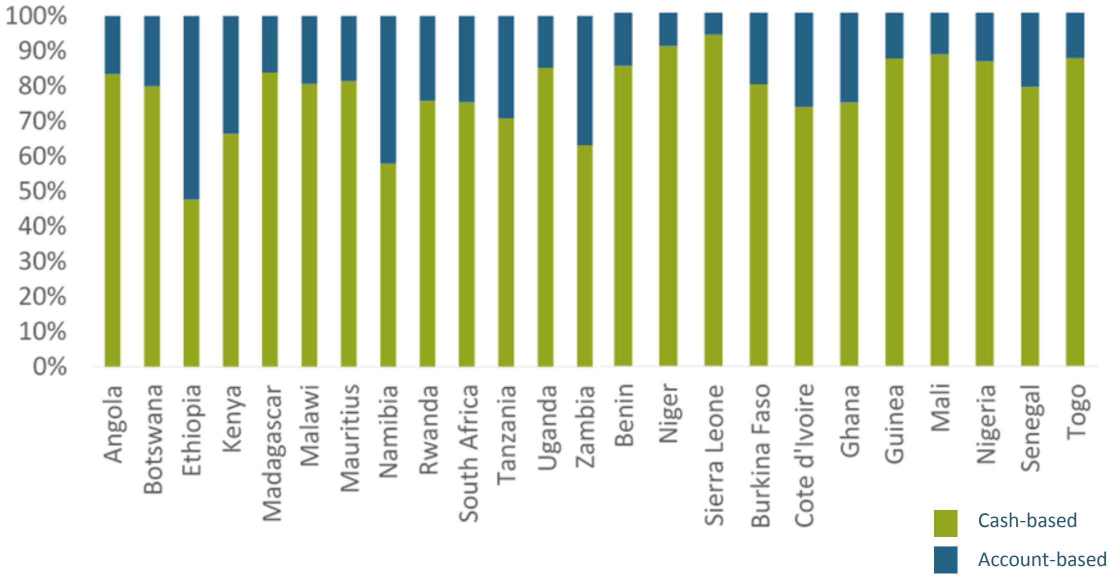

Figure 5. Remittances received in cash versus account in selected SSA countries

Source: World Bank, 2014

- ***Trust in digital channels lacking.*** In terms of new technologies, consumers are still sceptical. To increase trust in these new services, remittances should be processed in real time, and proper consumer recourse mechanisms should be available. Unfortunately, in many SSA markets neither of those are reliably in place. While digital solutions are gaining traction for some forms of payment (such as airtime purchases), digital remittances have yet to capture the mass market (Bester, et al., 2016). The status quo bias towards incumbents such as Western Union and MoneyGram is strong; and trust in digital channels still needs to be built. As long as digital value cannot rival cash as a universal form of payment instrument and meeting people’s needs, cash will remain the preferred form of receiving remittances.
- ***Products not meeting the needs of consumers.*** A survey with the Ghanaian diaspora in the UK revealed that remittance senders would like to have more control over how the money they are sending is spent. Senders would like to contribute to household expenses such as education fees, health, community projects or financial credits for specific purposes (DMA, 2011). There is a major gap in the SSA market for for-purpose remittance products, which hampers the frequency and amount sent by the diaspora (IFAD, 2015b).

Appendix 2: Detailed middle-mile barriers

Barriers to the business case, the regulatory framework and the infrastructure that underlie market provision also manifest in the middle mile.

Business case

Pre-determined partners creating middle-mile costs. Similar to the lack of choice when it comes to first-mile and last-mile partners, the middle mile suffers from a lack of competition. Most SSA countries only allow banks and, at times, a handful of selected MTOs to access or plug into the payment system (Dia Kamgnia & Murinde, 2012). The lack of choice in partners for non-bank RSPs creates a number of costs:

- ***Compliance.*** Relying on bank operations and systems is expensive and increases compliance costs for non-bank RSPs considerably. When partnering with a bank, there is likely to be a duplication of responsibilities (such as KYC checks) between the partners, as banks are much more regulated. In other words, reporting costs might be double if the bank does not trust the partner institution to conduct its due diligence to the same high standard as the bank. One could argue that a Basel II-compliant or Basel III-compliant institution such as a bank should not be the only player in low-value retail payments given the disproportional level of costly governance and scrutiny needed for low-value and hence low-risk payments.
- ***System rents.*** System costs are also high when working through banks. RSPs with existing payment capabilities face per-transaction payment processing costs (messaging and switching fees) while RSPs without internal payment capabilities need to pay additional integration costs. Both of these increase the costs of doing business (FinMark Trust, 2017). Non-bank stakeholder interviews revealed that having to partner with banks increases their cost, as the banks' legacy infrastructure is often antiquated and cannot accommodate newer technical solutions. Integration becomes expensive, especially where the legacy systems were set up by technicians that have long since then left without leaving behind manuals.
- ***Anti-competitive behaviour.*** Non-bank RSPs also compete with banks' own service lines. A potential conflict arises where banks can deny RSPs access to bank accounts if the two businesses are in competition (World Bank, 2013). Stakeholder interviews revealed that banks protect the market to avoid losing ground to MNOs. This behaviour is, however, not limited to banks. It was also highlighted that where MNOs have remittance licences, they tend to cut ties with their partner MTOs if these get too large and threaten the MNOs' market share (Stakeholder interviews, 2017).
- ***Exclusive partnerships.*** Incumbent MTOs dominate across the continent, taking full advantage of their dominance in terms of pricing, especially on the foreign exchange spread. The spread is not transparent and hence unpredictable for partners. The dominant MTOs were able to get into this position by years of exclusive partnership

agreements, as outlined in Section 2.1. This regulatory head start, while now prohibited in most SSA countries, makes business tough for new market entrants.

Outdated and inadequate IT systems increase costs. Especially banks have in the past invested heavily in their systems. Stakeholder interviews revealed that banks are reluctant to install newer technologies. Moreover, the systems in many SSA countries are so old that the technical specifications cannot be understood by infrastructure engineers who want to plug their service in the existing systems. This creates several hurdles:

- ***Delays in transactions.*** Payment confirmations from partner banks are delayed because the banks do not have the capacity to handle high-frequency and/or complicated transactions.
- ***Compliance standards.*** Many SSA money transfer IT systems are not configured to acceptable standards that meet the demands of financial regulators in compliance and financial procedures. Most technical money transfer systems are built by in-house IT engineers who do not have the capacity and/or capability to factor in all security requirements necessary for cross-border transactions (Hassan & Liberatore, 2016).
- ***Infrastructure capabilities.*** There is often a system versus a governance mismatch. An example: RSPs in South Africa have to include both sender and recipient information in their clearing messages; however, the existing messaging infrastructure limits the characters per message, making it impossible to comply with this request (Stakeholder interviews, 2017).

Expensive foreign exchange margins. Currency exchange rates add one of the biggest, if not the biggest, cost layer on remittance pricing. SSA has many illiquid and volatile currencies, which are hard to trade. Exchange rate margins are generally determined by exchange rate trends, with currency volatility and liquidity being key risks. However, the actual foreign exchange spread is often a lot higher than the wholesale rate. This is because the reliance on bank branch networks and the associated branch costs are a major cost driver for MTOs, accounting for 98% of all incremental transaction costs. Because of this cost structure and the relatively fixed nature of fees, MTOs charge significantly higher foreign exchange margins as a way to improve average profitability (FinMark Trust, 2017). Foreign exchange pricing practices by MTOs also lack transparency, which prevents the partner as well as the consumer from understanding the foreign exchange spread added by the MTO. This can have reputational consequences for the whole industry.

Skills gap in SSA inhibiting partnership building and undermining service provision. Forming a partnership in the remittance value chain requires different levels of system integration. In the absence of the adequate technical skills – a common middle-mile feature in SSA – integration becomes a major issue and can prevent the formation of effective partnerships. New technologies and processes such as interledger protocols (ILPs), distributed ledger technology (DLT) and interoperable platforms have brought many innovations, yet the managerial and technical capabilities to increase the use of these technologies are scarce. Skills gaps also affect service provisioning. Stakeholder interviews lamented the quality of service from partners such as MNOs, where, for example, the quality of mobile wallets is not up to standard to allow cross-border payments (Stakeholder interviews, 2017).

Unreliable value and volume data affecting business. Remittance data is collected by central banks in SSA and consolidated by various institutions. Yet, stakeholders question the quality and reliability of this data. With limited reliable country data available, new and existing market players planning to enter or to expand their business have limited ability to substantiate their business case. There is a united call for better quality data in terms of both values and volumes:

- ***Value data.*** While the World Bank collates central bank data on remittance values from the majority of countries worldwide, it is unclear how comparable this data is between countries. RSPs report their data back to central banks based on balance of payments (BoP) flows recorded, and there can be a multitude of balance of payments codes in each country (at times up to 5,000 codes; current, obsolete or invalid). No clear regional framework exists on how to consolidate these codes, although some jurisdictions or regions have consolidated their codes into between four and seven to choose from. This results in questionable remittance value data. Stakeholders lamented the lack of harmonisation of BoP codes and limited guidance on which ones to use for remittances.
- ***Volume data.*** Especially in the middle mile, a lack of understanding on the frequency of remittance flows can seriously affect business strategy. Typically, to run a profitable payment system, there needs to be scale in flows running through the system. It is also crucial to understand whether payments can run through real-time or whether they need to be aggregated before sending through. The African Institute for Remittances (AIR) has been tasked with lowering the costs of sending money to and within Africa since 2016 and engages key market players, including regulators, RSPs, technology providers and remittance senders and receivers to make remittance volume data publicly available (African Union, 2016). However, its experience is that volume data is often not well collated at the central bank level. Therefore, comparable volume data is thin, and more time is needed to iron out the reporting process (Stakeholder interviews, 2017).

Regulation

Regulatory uncertainty leading to de-risking. Cross-border payments such as remittances require compliance with a large number of regulatory requirements, which differ from country to country in the region. Where the regulatory framework is not clear, it can lead to institutional de-risking[10]. As banks could face prohibitively high fines, should they not comply with actual or perceived AML/CFT standards of their partners, they are inclined to act risk-aversely towards their partners and rather opt out of the market to protect themselves. This could mean that an RSP loses access to a bank account and hence there being no mechanism to service a corridor for remittances. De-risking has the potential to reverse the progress made in reducing remittance costs and adversely affects broader development objectives. For example: In Somalia, the de-risking of banks led to a remittance cost increase of 1% from the UK to Somalia (Isaacs, 2017). Where regulated and legal remittance providers exit the market or are priced too high, flows are diverted towards informal channels, which in turn could increase money laundering and the financing of terrorism (KNOMAD, 2017).

Incomplete or vague regulations fuel uncertainty. Many SSA jurisdictions have large gaps in their legislation. Certainty around regulatory requirements is necessary to establish cross-

[10] Institutional de-risking refers to financial institutions indiscriminately closing the accounts of partners perceived as high risk for money laundering or terrorist financing abuse, which can lead to entire corridors being shut down. This includes both de-risking by banks to MTOs, i.e. the refusal to offer a bank account (or to close an existing account) because of the nature of their business, and larger banks de-risking smaller banks who require correspondent relationships to access other currencies and markets (World Bank, 2013).

border partnerships in payments. For example, RSPs often find it challenging to establish relationships with correspondent banks due to specific AML/CFT regulation that is missing in the sender country but required in another. Therefore, access to cross-border payment systems is denied to many RSPs. At a minimum, the following elements should be in place to ensure a good basis for negotiations (Cooper, et al., 2018b):

- National payment system law: to establish the rules around who is allowed to participate in the national payment system
- Electronic communications and transactions law: to understand what is required in terms of paper records, electronic signatures, biometrics, etc.
- Financial intelligence act/anti-money laundering law: to establish the rules around KYC requirements
- Privacy law: to specify rules around data privacy
- Risk-based approach guidelines: to clarify where customer due diligence is required

Stakeholder interviews furthermore pointed out that regulation in SSA tends not to include clear definitions of instruments. This leads to cross-border integration issues. For example, mobile money or e-money is not defined clearly in many markets, which restricts the possibility to connect the instrument to a hub system in both countries when conducting a cross-border transaction; it effectively is no longer a like-for-like connection. Furthermore, there does not seem to be a standard around mobile reporting. This stems from the uncertainty around which regulator should be regulating MMOs, given that they fulfil both financial and telecommunication functions. Regulation also tends to be vague around compliance with AML/CFT regulation in the case of mobile money (Todoroki, et al., 2014; Hassan, et al., 2017). The different approaches to regulation in each country hamper regional harmonisation and the ability to find a sponsor bank.

High regulatory compliance costs. Many central banks in SSA markets require an array of onerous and costly documentation and licence applications from RSPs. Stakeholders mentioned, for example, an annual recertification of the payment card industry (PCI), which is expensive. This cost is often passed on to the consumer and increases remittance prices. Main compliance cost barriers include:

- ***Cross-border differences.*** When non-bank RSPs want to apply for licensing with a partner in certain SSA countries (given that they are not allowed to conduct remittance business themselves), the lack of harmonisation across the region means that they have to submit different sets of documentation in each country of business and for each partner. This administrative burden leads to costly delays in business and deters many players from entering the markets. Even if they apply, the long waiting periods and the uncertainty around approval carry big business risks (Stakeholder interviews, 2017).
- ***Onerous reporting requirements.*** Stakeholder interviews suggest that balance of payments reporting can be very onerous; in some cases, there are thousands of codes to choose from and there is often a lack of guidance around the codes from the regulator (Stakeholder interviews, 2017). Nigeria has recently consolidated their array of codes into only eight codes to choose from, while SADC has reduced its number of codes to seven.

- ***Onerous and disproportionate licensing requirements.*** There seems to be a growing trend among regulators towards regulatory sandboxes[11], especially for new technologies. Yet, the prior step of conducting independent regulatory impact assessments (RIAs) to streamline the regulatory environments is often overlooked. An area where there is a particular need for RIAs is the time and discretions applied to MTO and payment service provider (PSP) licences. The remittance market stagnates if most licence applicants go out of business before the onerous and often disproportionate licensing requirements are fulfilled.

AML/CFT regulation driving up middle-mile cost and limiting access to sector. Stakeholder interviews revealed that, while the FATF recommendations from 2012[12] were aimed at reducing the regulatory burden through the risk-based approach (RBA), in practice regulation around KYC requirements often remains too stringent and disproportionate to the level of risk of low-value transactions. The movement to an RBA is also causing confusion in the region, as regulators are often not able to give clarity around AML/CFT guidelines. Notably, as per the FATF recommendations, know your customers' customer (KYCC) is no longer a requirement, as greater emphasis is placed on understanding the partners' KYC processes. However, there is no consistent rating of these processes, and regulators have not been able to implement the changes around RBA and KYCC fully. The upshot is that it is hard for the bank to judge whether its partner institution fulfils the requirements to the right standard. An example from the stakeholder interviews is the case where a correspondent bank could not establish the length of time a transfer would take as its partner had antiquated IT systems. The relationship was then terminated because the risk was deemed too high. Stakeholder interviews revealed that the risk-based approach to KYC is different between bank and non-bank RSPs, adding to the confusion around who is allowed to deliver which service and on which bases.

Regulation restricts effective competition. As mentioned above, many SSA markets only allow banks to conduct cross-border remittance services. This means that non-bank RSPs have to find a sponsor bank for clearing and settlement. This increases the cost for non-bank RSPs drastically, given that they have to reimburse the sponsor banks for costly bank account transfers. The essentially forced partnership between non-bank RSPs and banks results in a significant risk of anticompetitive behaviour and/or market position abuse, which limits effective competition. The use of commercial banks as outsourced supervisors is equally problematic and undermines the role of the central bank. The central bank is putting the responsibility of supervising the remittance partner to the bank, in some cases. In some cases, RSPs have to report to both the bank and the regulator, effectively doubling reporting requirements and costs (Stakeholder interviews, 2017). Banks are forced into a supervisory relationship for which they are not set up, and they build this supervision role into their cost structure. This, in turn, increases costs for the partner RSP. While exclusive partnership agreements in many jurisdictions have been banned, stakeholder interviews revealed that the practices often continue under the radar and take many different forms, adversely affecting market entry of new players (Stakeholder interviews, 2017).

Weak understanding of new technologies. Many regulators seem out of their depth, especially where new technologies are concerned. Their capacity and capabilities are not

[11] Regulatory sandboxes are defined as a set of rules that allows innovators to test their products/business models in a live environment without following some or all legal requirements, subject to predefined restrictions (World Bank, 2016).

[12] Full list of recommendations: http://www.fatf-gafi.org/media/fatf/documents/recommendations/pdfs/FATF_Recommendations.pdf

advanced enough to review and assess innovative products, companies and processes. This hampers innovation, as regulators then either do not react to new technologies at all, or they exclude such technologies in fear of perceived risks.

Lack of consultation with remittance sector when drafting regulation. Many stakeholders complained during interviews that the regulators do not engage around draft regulations and are unwilling to negotiate or even have conversations around proposed changes to regulations (Stakeholder interviews, 2017). This creates a hostile business environment with regulation removed from realities, as in the case of too stringent KYC regulation for low-value transactions (Todoroki, et al., 2014).

Infrastructure

Underdeveloped national payment systems increasing costs. SSA suffers from a substantial underinvestment in payment infrastructure (Endo, et al., 2011; Mohapatra & Ratha, 2011; Isaacs, et al., 2017). Stakeholder interviews revealed that there is often a mismatch between the products and infrastructure that providers offer, and the ecosystem needed by RSPs. The development of national payment systems (NPS) at times happens opportunistically rather than systematically, with donors tying certain payment system infrastructure requirements to loan instruments without considering the market conditions. This leads to overly complex or inappropriate systems that, on the one hand, are very expensive to run and, on the other hand, are not tailored a to a country's need (Stakeholder interviews, 2017). Specific challenges include:

- ***Expensive switching.*** Many SSA markets lack a functioning national or regional switch. This forces RSPs to switch abroad, which inflates costs (Stakeholder interviews, 2017). On the other extreme, there may be too many local switches. In one example, a single SSA country has eight different switches, which causes inefficiencies and integration issues.
- ***Outdated clearing and settlement systems.*** Clearing often happens manually and in a slow, unstructured manner. This causes time delays and hence costly business risk. The business risk arises because there can be an increased rate of obligations where there is a clearing delay. The longer the delay, the greater the value at risk. Non-bank RSPs often do not have access to clearing and settlement directly (FinMark Trust, 2017). Where non-bank RSPs have to operate through a sponsor bank settlement account, time delays in bank transfers and EFTs cause settlement fund uncertainty.
- ***Underdeveloped banking systems.*** In general, the underdeveloped banking systems in SSA inhibit non-bank RSPs' ability to develop links into the national payment systems. This causes timing and business risk issues (Hassan, et al., 2017).
- ***Cross-border differences.*** Systemic translation of messaging happens in the middle mile: If standards between entities and countries are too different, the costs of integration and message translation can be prohibitive or at least add to the cost of doing business. In the absence of regional switching hubs, expensive networks (such as SWIFT) have to be deployed for cross-border transactions. Costs rise if a remittance is received in a jurisdiction where the provider has no operations and has to rely on a chain of correspondent banking relationships. Costs are also affected where remittances are sent from a jurisdiction with a weaker, volatile or illiquid currency to one with a stronger, stable currency (FinMark Trust, 2017).

Lack of interoperability restricting access. Many SSA countries have established both high- and low-value payment systems, including security standards in isolation. Because of largely independent development, there is a lack of standardisation and automation in inter-bank and intra-RSP networks. The results are many manual interventions to collect and repair data (Park, 2007). The lack of interoperability between different entities and countries adversely affect RSPs. For example: MMOs in Kenya and Tanzania want to partner on cross-border payments but have incompatible systems with different specifications. Stakeholder interviews pointed out that once RSPs have invested in their own systems, integration becomes onerous and many are unwilling to adapt to new or more efficient systems. It is often within the regulators' mandate to specify minimum standards, but they are often unwilling to do so due to the potential backlash from incumbents. In SADC, ISO 20022[13] has been specified and is being implemented over an extended period, reducing the cost of integration and increasing the robustness of national and regional systems. Not all countries have implemented a standard ISO, which increases integration costs (Stakeholder interviews, 2017).

Weak telecommunications and electricity infrastructure. The lack of reliable telecommunications and electricity infrastructure in many SSA markets adds a significant cost layer to RSPs' business. To ensure secure and timely transfers, many RSPs have to invest in backup and co-generators that meet the security measures demanded by the regulator. The more partners are involved in a cross-border remittances value chain, the higher the risk of delays or interruptions. Hence, these weak infrastructure systems can play a significant role in deterring RSPs from conducting business in certain corridors (Mohapatra & Ratha, 2011; Stakeholder interviews, 2017).

[13] ISO 20022 is a universal financial industry message scheme (which used to be also called "UNIFI") and the international standard that defines the ISO platform for the development of financial message standards. Its business modelling approach allows users and developers to represent financial business processes and underlying transactions in a formal but syntax-independent notation. These business transaction models are the "real" business standards. They can be converted into physical messages in the desired syntax. The first edition of ISO 20022 was published in December 2004. The second edition of the standard was published in May 2013 (ISO 20022, 2013).

Appendix 3: List of stakeholders interviewed between May and December 2017

- African Institute for Remittances
- BankservAfrica
- Consultative Group to Assist the Poor / International Finance Corporation
- Crown Agent Bank
- Diaspora Interlink
- Equity Bank
- First National Bank
- Glenbrook Partners
- International Organisation for Migration
- MFS Africa
- MTN
- Mukuru
- Ripple
- SADC Bankers Association
- Traderoot
- VISA – Technical
- World Remit
- Zoona

About Cenfri

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.