



**Southern African Development Community (SADC)
Payment, Clearing and Settlement Subcommittee**

Remittances Project Status – 2011-09-05

Remittance flows from South Africa to other Southern African Development Community (SADC) member countries are predominantly informal. Affordable formal options are not readily available to undocumented migrants and low-income clients wishing to send money across the border. These clients continue to place their trust in informal money transfer mechanisms, either transferring money in person or using the extensive taxi and bus network. The World Bank has placed an emphasis on reducing the cost of worker remittances globally.

The World Bank database lists South Africa as having four of the most expensive “corridors” for workers to remit money from. This was highlighted in a presentation at the World Bank conference held in Cape Town in April 2009.

The database stores the costs of remittances between the different countries, and reflects that the costs incurred by migrant workers when repatriating funds to family in their home countries are generally very high, hence the World Bank initiative to reduce these costs.

The SADC payment system project team (the project team) was granted approval at the Committee of Central Bank Governors meeting in May 2009 to address the costs of remittances between countries in the SADC region on a bilateral basis. Country corridors identified in the World Bank database pinpoint both remitting and recipient countries. Bilateral investigations by the project team involve role-players in the remitting and recipient countries, and include central banks, commercial banks, regulators and, in some instances, government departments.

The project team is formulating a solution in the South African context and will determine if a similar solution cannot be applied in the other SADC countries, particularly those in the high-cost corridors identified by the World Bank.

There are three stages in a remittances transaction. The stage where a remitter of funds initiates the transaction is known as the “first mile”. The actual transfer of funds between the countries, a bank-to-bank transfer, is known as the “middle mile”. The “last mile” involves the disbursement of the funds. Each of the three stages has different challenges. Some of the challenges relate to regulatory and infrastructure issues.

Over the past 18 months the project team has worked with commercial banks and the regulators in the South African environment to understand the “first mile” issues. In this process, the project team held meetings with the commercial banks in South Africa in 2009, to ascertain factors that contribute to the high cost of worker remittance transfers from South Africa to neighbouring countries. Commercial banks in South Africa indicated that the main contributor to the high cost of worker remittances was inappropriate regulatory compliance requirements placed on the banks and money transfer operators.

In 2010 the project team initiated interaction with relevant regulators in South Africa, to explore possible relaxation of regulatory requirements on low-value cross-border remittances. In order to facilitate proposals for possible relaxation, research for a proposed threshold that could be used to exempt low-value remittances from unnecessary regulatory compliance requirements was conducted with the assistance of agencies operating in the area of financial inclusion. The outcome of the consultation with regulators resulted in the Financial Intelligence Centre producing a draft proposal of possible relaxations that could be recommended to the Minister of Finance for implementation, on condition that the relaxations would result in the desired outcome of lowering remittance costs.

Commercial banks were subsequently presented with the proposed relaxations, and are being requested to identify ways to translate these relaxations into cost reductions for the general migrant worker population.

Members of the project team have also travelled to Malawi and Zambia to participate in remittance workshops with stakeholders in the remittances environment in those countries. The objectives of the workshops were for the project team and stakeholders in those

countries to identify and find solutions to “last mile” issues. The central banks of Malawi and Zambia would subsequently work with national regulators, money transfer operators and commercial banks to implement solutions that they would agree upon. The regulatory authorities and commercial banks in the respective countries participated in the workshops.

Should the relaxations proposed in South Africa be approved by the Minister of Finance and implemented, the project team will initiate a project to implement and monitor the effects of the envisaged cost-reduction measures. Plans are also under way to work with regulators in Malawi and Zambia to establish areas in which processes may be simplified to enable recipients of funds to access these funds as conveniently as possible.

The project team will continue to work with the regulators, money transfer operators, commercial banks, and national authorities in the SADC region to ensure transparency and reduce fees for cross-border worker remittances. In this process, regulators have to establish the relaxations that may be implemented without introducing unnecessary risk when implementing such relaxations.