



Reducing remittance costs: consolidating trends and harnessing gains

Background paper for the EU-AIR Webinar

Organised within the framework of the AU-EU Continent-to-Continent
Migration and Mobility Dialogue (C2CMMD)

November 2021



AFRICAN UNION
AFRICAN INSTITUTE
FOR REMITTANCES (AIR)

Implemented by



ICMPD

International Centre for
Migration Policy Development



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Acronyms

AIR	African Institute for Remittances
C2CMMD	Continent-to-Continent Migration and Mobility Dialogue
CDD	Customer due diligence
DRSI	Distributable Remittances for Savings and Investment
EC	European Commission
FX	Foreign exchange
GBP	Great British Pound
GCM	Global Compact on Safe, Orderly and Regular Migration
GIZ	German Agency for International Cooperation
GSMA	Global System for Mobile Communications
KYC	Know-your-customer
MENA	Middle East and North Africa
MMPI	Mobile Money Prevalence Index
NRPs	National Remittance Plans
RPW	Remittance Prices Worldwide
RSPs	Remittance service providers
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
USD	United States Dollar



Introduction

This document is to function as a background paper for the African Institute for Remittances (AIR) and the European Commission (EC) webinar, *Reducing remittance costs: consolidating trends and harnessing gains*, planned for 25th November 2021. The 2021 virtual meeting builds on the 2019 and 2020 meetings and adheres to the mandate of the AU-EU Continent-to-Continent Migration and Mobility Dialogue (C2CMMD), anchored in the Nairobi Action Points.

This document will broadly follow the structure and focus areas for the November 2021 webinar, with special consideration paid to the impact of the COVID-19 pandemic. As such, this document will be split into two chapters: (1) An Overview of EU-AU Remittance Corridors from 2015-2021 with a special focus on pricing trends and (2) The Growth of Digitalisation and Opportunities for Leveraging Remittances for Development and Financial Resilience.

The webinar objectives are:

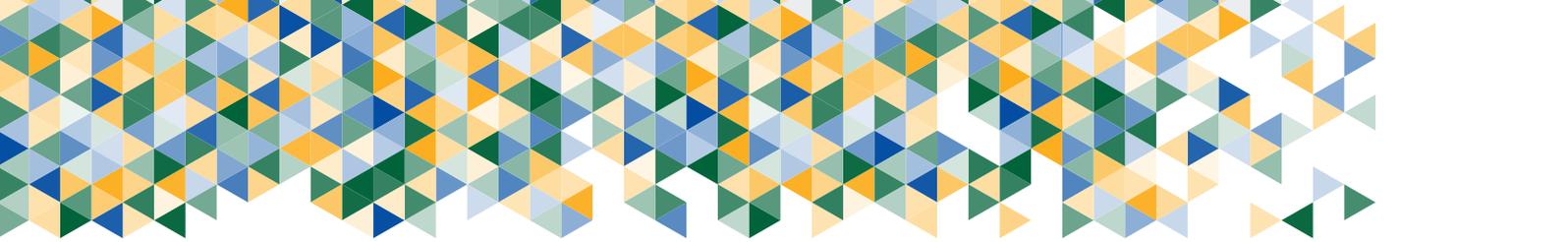
- a. To take stock of the past five years in achieving a reduction of remittance costs between EU-AU as per the global commitments, including the Sustainable Development Goals (SDGs) and the Global Compact on Safe, Orderly and Regular Migration (GCM) as well as relevant EU and AU objectives and policies;
- b. To showcase examples of EU-Africa corridors where the reduction of costs has been successful, and where it has not, and to identify the key factors that affected the outcomes;
- c. To highlight the opportunities and challenges in leveraging the reduction of costs to build the resilience of beneficiaries, including, for example, to withstand the consequences of the COVID-19 pandemic;
- d. To explore penetration of the use of digital channels including mobile-money, in both sending and receiving countries, subsequent to the closure of the traditional brick-and-mortar services. Also, explore best practices of introducing incentives to attract remittances through digital channels or other formal channels;
- e. To explore further actions and priorities beyond the reduction costs for the EU-Africa corridors where the reduction of costs has been comparatively successful, for example, in terms of leveraging remittances for development, financial inclusion, and so on.

The first chapter covers the webinar objectives (a) and (b) and provides an in-depth review of pricing trends from 2015-2021 with an exploration of factors underpinning successful reductions in costs and an overview of the remaining challenges.

The second chapter covers the webinar objectives (c), (d) and (e) and provides an overview of the increasing digitalisation of remittances, including remittance service providers' (RSPs) and policymakers' initiatives to encourage use of digital channels during the COVID-19 pandemic. Further, this chapter examines additional future priority areas for EU-AU corridors that have seen successful remittance cost reductions, such as leveraging remittance flows to achieve greater financial inclusion and increased investments into receive countries, and provides examples of existing initiatives that help to achieve these aims.

There is a comprehensive annex which contains pricing graphs showing overall corridor costs and a breakdown of costs by method, from 2015-2021.

The background paper was prepared by a team of independent consultants, Leon Isaacs and Kimberley Watson, and does not necessarily reflect views or position of either AIR or the EC and should not be quoted as such.



1. An Overview of EU-AU Remittance Corridors from 2015-2021

1.1. Cost reduction trends and developments over the past five years

In total, the global amount sent to Africa in 2020 was USD 82.8 billion, a 2.8 percent from USD 86.3 billion in 2019.¹ In 2015, USD 70.2 billion was sent to Africa from around the world and remittances have therefore grown by 19 percent. Whilst up-to-date data on the proportion of these inflows which originate in the European Union (EU) is not available, the 2018 Bilateral Remittance Matrix shows that flows from the EU amounted to 24 percent of the total, making the EU the largest sending region to Africa in 2018.

Many African Union (AU) countries do not publish regular (monthly or quarterly) remittance data disaggregated by source. However, information from the Central Bank of Kenya does show that flows from Europe² declined from 2019 to 2020, falling from USD 663 million in 2019 to USD 536.8 million in 2020 (or 19 percent), despite a rise in overall flows³ to the country. Nevertheless, flows from Europe to Kenya now appear to be rebounding to higher levels than in 2019: comparing January-August year-on-year, total inflows from Europe are considerably higher (40 percent) in 2021 (USD 487.0 million) than in 2020 (USD 347.4 million), and are also slightly higher (1 percent) than in 2019 (USD 481.8 million).

However, the resilience of remittance flows during the pandemic did vary across receive countries. Excluding Nigeria (which accounts for 21 percent of all flows to Africa and where there was a significant decrease of 23 percent), remittance volumes to the continent increased by 6 percent in 2020. Kenya (9.2 percent), Ghana (5.9 percent) and Zimbabwe (31.2 percent) all reported strong growth.⁴ The Gambia has also published data showing a substantial increase in flows, which stand at USD 598 million for January-September 2021, compared to USD 421 million and USD 250 million for the same period in 2020 and 2019 (42 percent and 139 percent, respectively).⁵ It is reported that

1 DMAG calculations based on World Bank (2020). *Inflows: Annual Remittances Data (updated as of May 2021)*. and KNOMAD (2021) *Migration and Development Brief 34: Resilience: COVID-19 Crisis Through a Migration Lens. Plus M&D brief 32 and 35*.

2 To note, the Central Bank of Kenya's figures include the UK, which is a key source country. For instance, in the 2018 BRM, 27 percent of remittance inflows to Kenya were from the UK.

3 The increase in flows to Kenya can mainly be attributed higher volumes from the United States, host to over 25 percent of Kenyan migrants (KNOMAD, 2021).

4 KNOMAD (2021). *Migration and Development Brief 34: Resilience: COVID-19 Crisis Through a Migration Lens. Plus M&D brief 32 and 35*.

5 The Central Bank of the Gambia Macroeconomic Data Warehouse (2021). *Remittance Inflows*.

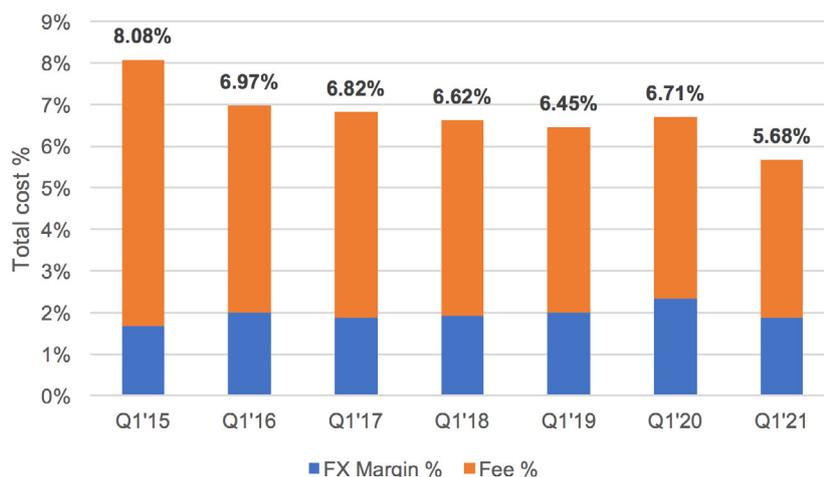
Italy, Spain, Sweden and Germany combined account for nearly a quarter of remittance inflows to the Gambia.⁶ Flows to Egypt, the fifth highest remittance receiver in the world, grew by 10.5 percent, flows to Morocco grew by 6.5 percent and flows to Tunisia increased by 2.5 percent from 2019 to 2020.⁷ The Moroccan Central Bank (Bank Al-Maghrib) forecasts a 7.6 percent increase in remittance receipts from 2020 to 2021⁸ and, with 70 percent of Moroccan migrants residing in France, Spain and Italy,⁹ it can be presumed that a large volume of these flows originate in the EU.

Despite this increase in official recorded flows, KNOMAD (2021) reports that household phone surveys with remittance-receivers in several AU countries – such as Somalia, Ethiopia and the Gambia – found that a large proportion of those surveyed (both rural and urban households) experienced a decrease in remittances during 2020.¹⁰ Thus, it can be presumed that at least some of the increases in recorded inflows must be attributed to the shift many senders and recipients made from informal to formal remittance channels as a result of the pandemic.

There are a variety of reasons behind the stability of some remittance flows during the COVID-19 pandemic. There was a concerted policy push towards digitalisation and formalised channels from many public and private sector actors and travel restrictions closed borders which prevented informal remittance providers from operating normally. Further to this, many migrants in the main EU send countries were supported by furlough schemes or were working in sectors classified as essential services and so remained actively working throughout lockdowns. Finally, migrants in more economically stable host countries frequently send altruistic transfers in the face of crisis, even if this means drawing from savings to send remittances.

1.1.2. Remittance costs from the EU to Africa

Figure 1: Average total cost percentage to send USD 200 from EU to AU countries, Q1 2015 to Q1 2021¹¹



6 RemitScope Africa (2021). *The Gambia Country Diagnostic*.

7 World Bank (2020). *Inflows: Annual Remittances Data (updated as of May 2021)*.

8 Bank Al-Maghrib (2021). *Monetary Policy Report*.

9 UNDESA (2019). *Migrant Stock By Origin and Destination*.

10 KNOMAD (2021). *Migration and Development Brief 34: Resilience: COVID-19 Crisis Through a Migration Lens*.

11 All pricing data in this report is from the World Bank (2021). *Remittance Prices Worldwide*.

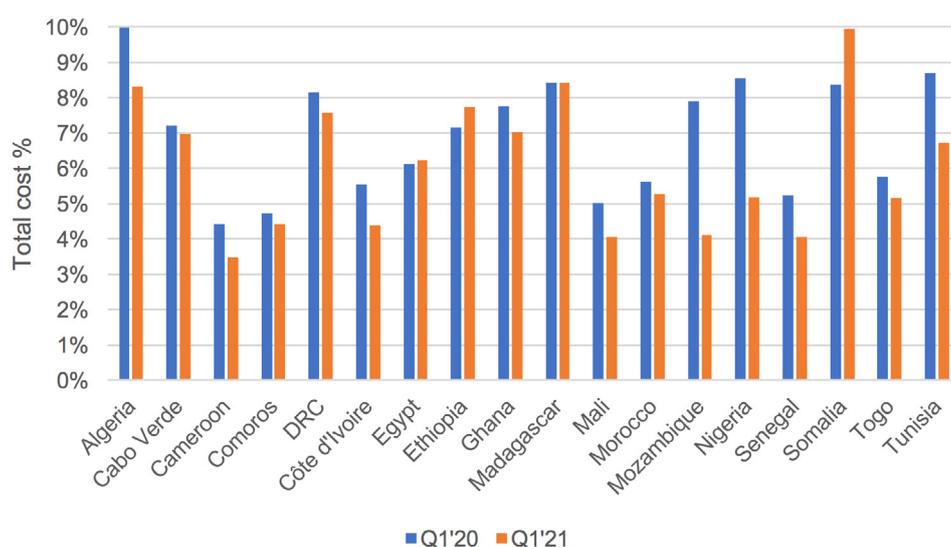
In Q1 2021, for sending USD 200, only 19 percent of EU-AU corridors included in the Remittance Prices Worldwide (RPW) Index have costs that meet the United Nation’s SDG 10.c to reduce remittance costs to an average of 3 percent. Costs have steadily been declining but progress is being achieved at a fairly slow pace: no corridors met this target in Q1 2015 and only 13 percent had by Q1 2017.

Nevertheless, decreasing costs to send from the EU to the AU has continued despite the challenges of the COVID-19 pandemic, with the average overall cost of transfers standing at 5.68 percent in Q1 2021, a reduction from 8.08 percent in Q1 2015. Encouragingly this is lower than the global average of 6.38 percent in Q1 2021.¹² For EU-AU corridors, progress between Q1 2020 and Q1 2021 has been faster than in recent years, dropping 1.03 percentage points (representing a 15 percent fall).

The lowest cost corridor in Q1 2021 was from France to Cameroon, at 3.5 percent of the total send amount; the highest cost corridor was from Sweden to Somalia at 10.8 percent. These are driven by different factors. For France to Cameroon (as with most of West Africa) there is no foreign exchange margin due to the Central African (CFA) Franc, used by 14 countries in Central and Western Africa, and hence only a fee is charged. For the Sweden to Somalia corridor prices are high due to a combination of lack of competition, some companies leaving the market due to de-risking and a relatively small market.

Spain to Morocco has the lowest fees (at 2.4 percent, the FX margin is 2.2 percent and a total cost of 4.6 percent) and Portugal to Cabo Verde has the highest priced fees (at 6.82 percent fees, an FX margin of 0.15 percent and a total cost of 6.97 percent). Please see Figure 6 in Annex 1 for a graph showing the FX margin and fee cost breakdown for each EU-AU corridor. Pricing is, of course, driven by competitive pressures, and the split between fee and FX is driven by the commercial policies of the individual remittance service providers.

Figure 2: Average total cost percentage to send USD 200 from EU to AU countries, Q1 2020-Q1 2021



From Q1 2020 to Q1 2021, costs to send to Mozambique from the EU saw the largest drop (of 3.78 percentage points), followed by a drop from the EU to Nigeria of 3.36 percentage points. In contrast, costs to send to Somalia from the EU rose by 1.61 percentage points and for Ethiopia they rose by 0.5 percent (although the only EU country collected for this corridor is Italy).

Table 1: Changes in cost to send USD 200 from EU to AU countries by send country, Q2 2016 versus Q1 2021

Send Country	Receiving Country	Q2 2016 Average Total Cost % (USD 200) ¹³	Q1 2021 Average Total Cost % (USD 200)	Difference
Belgium	Algeria	10.25%	8.48%	-1.77%
	DRC	7.40%	7.56%	0.16%
	Morocco	5.20%	5.20%	0.00%
France	Algeria	8.34%	8.16%	-0.18%
	Cameroon	4.57%	3.50%	-1.07%
	Comoros	4.84%	4.41%	-0.43%
	Côte d'Ivoire	5.74%	4.39%	-1.35%
	Madagascar	6.78%	8.42%	1.64%
	Mali	5.21%	4.07%	-1.14%
	Morocco	5.29%	4.80%	-0.49%
	Senegal	4.97%	3.83%	-1.14%
	Togo	5.32%	4.41%	-0.91%
	Tunisia	6.88%	6.56%	-0.32%
Germany	Ghana	9.09%	8.24%	-0.85%
	Morocco	8.63%	6.00%	-2.63%
	Nigeria	8.35%	6.65%	-1.70%
	Togo	7.28%	5.84%	-1.44%

13 Please note, Q2 2016 is the first collection period where all the EU-AU corridors included in the Q1 2021 collection period have been surveyed. Q2 2016 data has therefore been used as the baseline here to simplify comparisons between corridors.

Send Country	Receiving Country	Q2 2016 Average Total Cost % (USD 200) ¹³	Q1 2021 Average Total Cost % (USD 200)	Difference
Italy	Egypt	7.75%	6.23%	-1.52%
	Ethiopia	8.59%	7.74%	-0.85%
	Morocco	6.38%	5.44%	-0.94%
	Nigeria	9.82%	5.69%	-4.13%
	Senegal	5.62%	4.30%	-1.32%
	Tunisia	8.90%	6.84%	-2.06%
Netherlands	Ghana	7.92%	5.59%	-2.33%
	Morocco	7.23%	5.58%	-1.65%
	Nigeria	6.50%	4.88%	-1.62%
	Somalia	8.24%	8.02%	-0.22%
Portugal	Cabo Verde	7.26%	6.97%	-0.29%
	Mozambique	8.80%	4.11%	-4.69%
Spain	Morocco	5.56%	4.60%	-0.96%
	Nigeria	9.12%	3.52%	-5.60%
Sweden	Somalia	9.38%	10.80%	1.42%
EU Average	AU Average	7.04%	5.68%	-1.36%

As shown in Table 1, the majority of surveyed EU-AU corridors have seen moderate cost reductions between Q2 2016 and Q1 2021, with an average reduction of 1.36 percentage points. There is some notable variation in progress between different corridors. The Spain to Nigeria corridor has seen the largest average decrease, falling a substantial 5.60 percentage points. Portugal to Mozambique (4.69 percentage points) and Italy to Nigeria (4.13 percentage points) have also seen a considerable decline in cost. The receive countries in these cases have all had challenges with their countries around either significant informal flows or parallel markets. These make the currencies volatile and mean that RSPs build in additional margins for this.

However, a number of corridors have seen a minimal reduction in costs over this time period, such as France to Algeria (a 0.18 percentage point decrease) and Portugal to Cabo Verde (a 0.29 percentage point decrease). Other corridors have even a sizeable rise in costs: the France to Madagascar corridor has seen a 1.64 percentage point rise and the Sweden to Somalia corridor has seen a 1.41 percentage point rise. These corridors require a more concerted effort to increase the number of operators offering services to ensure greater competition to drive down costs in time to meet the SDG 10.c. Please see Annex 1 for a comparable chart sorted by AU receive country.

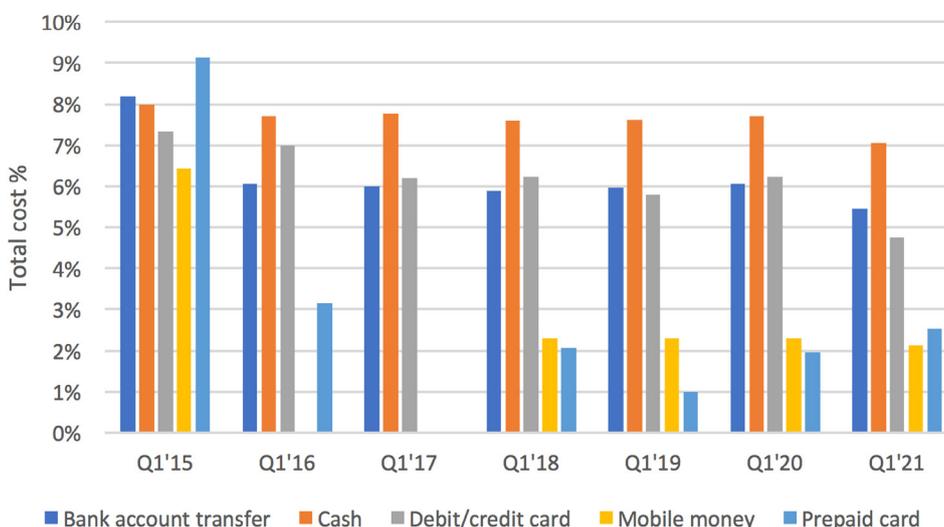
Amongst sending countries measured since Q1 2015, costs from Germany have seen the largest average decrease, falling from 11 percent in Q1 2015 to 6.77 percent in Q1 2021. In this time period, the largest drop has been in the Germany-Togo corridor, where costs have fallen by 4.85 percentage points, followed by the Germany-Nigeria corridor (4.52 percentage points) and the Germany-Morocco corridor (4.35 percentage points). After Germany, Spain (3.28 percentage points); Portugal (2.49 percentage points); Netherlands (1.46 percentage points); Italy (1.14 percentage points); Belgium (0.54 percentage points); and France (0.38 percentage points) all saw falls in average costs through all of their networks.

In summary, all of the main EU sending countries have seen drops in the costs of remittances in 2016-21 period. The main drivers for this are: increased competition as a result of the Payment Services Directive 2 introduced by the EU, increased availability of digital solutions and increased availability of distribution networks for collecting funds in Africa. The only country to see an increase is Sweden for the reasons mentioned above. The different rates of change are normally driven by local market conditions around the level of competition, the level of automation in the send countries, and the availability of mobile options in the receiving country.

1.1.3. Sending methods

Remittance costs from the EU to the AU vary depending on the provider or type of service used. In Q1 2021, cash was the most expensive sending method at 7.04 percent, followed by 5.46 percent for bank account transfers and 4.74 percent for debit/credit card payments. Mobile money and pre-paid cards were considerably cheaper sending methods, at 2.14 percent and 2.52 percent, respectively. Interestingly other options compared to cash have fallen much faster in cost since Q1 2015. In Q1 2015, cash was the third cheapest option but other methods of sending money have become significantly cheaper over the time period whilst cash has only fallen slightly. It should also be noted that there are, in practice, very few pre-paid card and mobile money services originating in Europe. Care should therefore be taken in drawing conclusions about these options. It is anticipated that mobile based options will grow but it is unlikely that this will be the case for pre-paid cards.

Figure 3: Average total cost percentage to send USD 200 from EU to AU countries using different sending methods, Q1 2015-Q1 2021



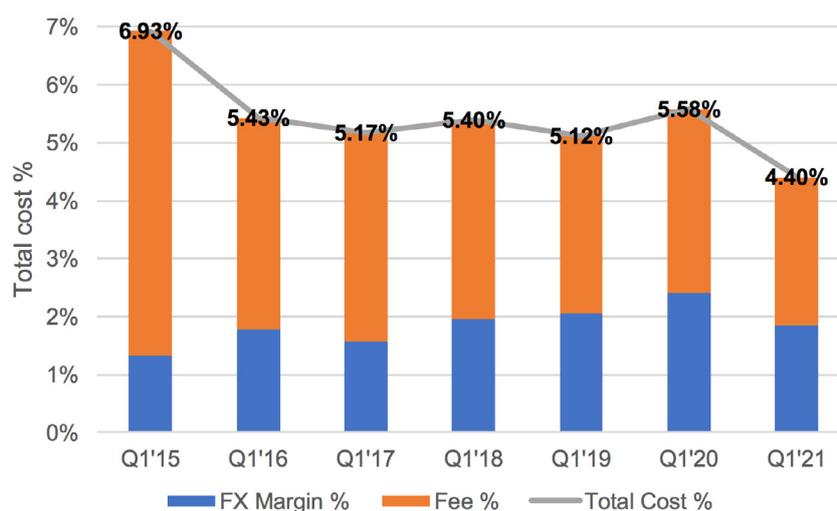
1.1.4. Digital channels

The growing digitalisation of remittances has meant the pandemic did not have as significant an adverse impact on inflows as initially anticipated, though experiences have varied greatly across countries and corridors.

Send-side digital methods

Using a digital send method to send USD 200 from the EU to the AU cost 4.4 percent of the total cost in Q1 2021.¹⁴ As such, digital remittance channels are considerably cheaper than the Q1 2021 5.68 percent average cost for all sending methods. Though progress on decreasing costs had plateaued for several years, the cost of using digital methods has seen a 1.18 percentage point drop from 5.58 percent in Q1 2020, which is a larger decline in costs than the decrease seen for costs across all sending methods between 2020 and 2021.

Figure 4: Average total cost percentage to send USD 200 from EU to AU countries using digital methods, Q1 2015-Q1 2021



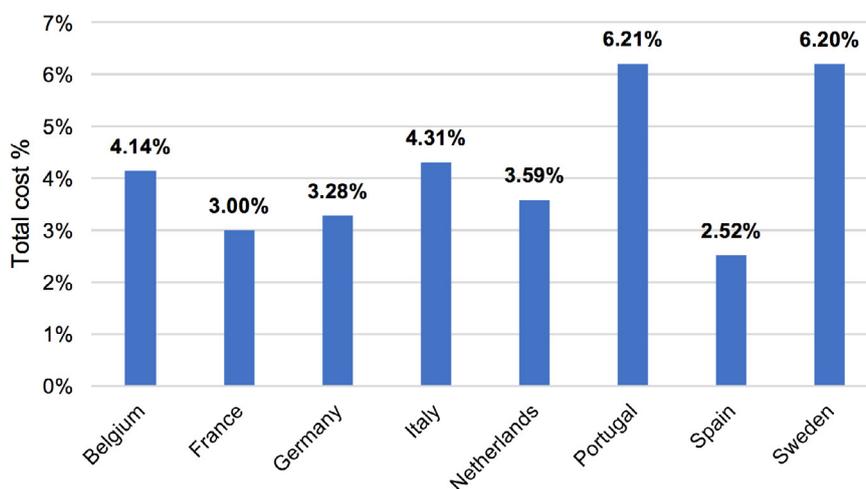
End-to-end digital methods

Using end-to-end digital methods (where both the EU send side and AU receive side of the remittance transaction are digital) cost, on average, 3.79 percent of the total send amount in Q1 2021. This is nearly 2 percentage points lower than the average cost for all sending methods, demonstrating the importance of switching people to digital in order to reduce remittance costs. The cheapest end-to-end digital corridor is France to Comoros, at 0.22 percent, and the most expensive is Portugal to Cabo Verde, at 11.85 percent. Overall, the cheapest EU country to initiate an end-to-end remittance transaction is Spain, at 2.52 percent of the total cost, and the most

¹⁴ Data for the cost of an end-to-end digital remittance transaction (sending and receiving) for all receive countries only became available from the Q1 2021 RPW collection cycle. For Figure 4, the cost shown is for digital only on the send-side. Our definition of digital here covers any transaction that involved online payment; this could be using mobile money but also paying via a bank account transfer or debit/credit card on the internet, rather than paying with these methods at a brick-and-mortar store.

expensive is Portugal, at 6.21 percent. Currently, the vast majority of AU surveyed countries offer digital receive options, with the exception of Algeria, which only has cash-based receiving services.

Figure 5: Average total cost percentage to send USD 200 from EU to AU countries using digital send and receive methods, Q1 2021



1.2. Reasons behind reduced remittance costs

There are a variety of factors that contribute to the successful and consistent reduction in remittance costs. These include:

1. Increased competition

- The EU's Revised Payment Service Directive (PSD2)¹⁵ has played an important role in boosting competition as it has created a more level-playing field for new payment service providers and has made it easier for non-bank players and FinTechs to offer cross-border payment services¹⁶
- There has been an increase in the number of operators offering services in several EU-AU corridors, as captured by RPW. For instance, the number of operators serving the Italy-Morocco corridor has grown from 12 in Q1 2015 to 19 in Q1 2021; similarly, the number of operators serving the France-Senegal corridor has increased from 9 in Q1 2015 to 16 in Q1 2021.
- The use of aggregators, such as MFS Africa, Thunes and TerraPay, has been increasing; aggregators offer extensive pay out networks and competitive rates to RSPs (particularly on the FX margin) and interoperability for customers. They bring the benefit to

15 European Banking Authority (EBA) (2017). *Payment Service Directive 2 (PSD2)*.

16 European Commission (2018). *Payment Services Directive: frequently asked questions*.

new market entrants that they can rapidly open up new corridors by partnering with consolidators who bring turnkey solutions. They do not need to spend significant sums creating bilateral relationships.

2. Regulatory reform

- Regulatory reform in certain AU countries has simplified the process of crediting mobile wallets and enabled new types of businesses to enter the market
- The removal of exclusivity clauses has also played a role
- Of the 45 AU countries listed on the GSMA Mobile Money Regulatory Index in 2020, only four – the Gambia, Liberia, Mauritania and Seychelles – have not implemented regulations enabling mobile money customers to send and/or receive international remittances or do not permit this in practice.¹⁷

3. Improved infrastructure

- Widening agent networks allowing underserved or financially excluded populations access to formal and digital remittances has occurred in many African receive markets. This increased reach, often accompanied by greater competition and has led to lower prices, great access and broader geographic availability
- The enhanced availability of physical mobile networks has led to benefits including enhanced financial inclusion as shown in the following point.

4. Increasing mobile penetration and digital financial inclusion

- There are now 562 million registered mobile money accounts in Africa. Since 2015, registered mobile money accounts have grown by 146 percent in Central, Eastern, Southern and Western Africa combined (from 222.8 million accounts).¹⁸ Mobile money is less prevalent in North Africa (14 million accounts as of 2020).¹⁹
- GSMA also reports an increase in consumers utilising mobile money-enabled savings accounts, with many customers starting to use these tools in light of the COVID-19 pandemic (15 percent in Kenya; 15 percent in Mozambique; 14 percent in Nigeria).²⁰

Several EU countries have also introduced initiatives to further drive down remittance costs. For EU countries in the G20, in many cases these initiatives are linked to the G20 Leaders' National Remittance Plans (NRPs), committed to as part of the G20 Plan to Facilitate Remittance Flows.

17 GSMA (2020). *The Mobile Money Regulatory Index*.

18 GSMA (2015). *State of the Industry Report on Mobile Money*.

19 GSMA (2021). *State of the Industry Report on Mobile Money*.

20 GSMA (2021). *State of the Industry Report on Mobile Money*.

- Germany,²¹ Italy²² and France²³ have developed their own price comparison websites. These tools promote remittance price transparency by presenting simple and consumer-friendly information on the cheapest and fastest remittance services available in each country.
- As part of Italy's G20 Presidency, the Intergovernmental Table on Remittances has been re-launched; this is a dialogue between the Bank of Italy, Ministry of Economy and Finance, Ministry of Foreign Affairs and International Cooperation, and the main trade associations and remittance market operators (both banks and other payment services providers).²⁴ The aim of the working group is to identify collective measures for improving the use of formal remittance channels, offering low cost remittances in line with SDG 10.c and developing specific financial services tailored to migrants' needs.

1.3. Recommendations for addressing the remaining challenges

Overall, there is still progress to be made in order to reach the original targets set at the 2009 L'Aquila Summit and the subsequent 2015 Valletta Summit, and United Nation's SDG 10.c to eliminate corridors with remittance transaction costs of more than 5 percent and achieve an average of 3 percent. This commitment is also reiterated in the Global Compact on Migration Objective 20 to promote faster, safer and cheaper transfer of remittances and foster financial inclusion of migrants.²⁵

Key actions to further drive down costs, widen the uptake of digital products, and encourage transition from informal to formal channels include:

- **Making a concerted push to improve financial and digital education amongst remittance senders and receivers.** This will facilitate wider uptake of digital products and overcome trust barriers through increased awareness of transparency and consumer protection measures. The focus needs to be particularly on groups that will benefit most from digital access and are currently underrepresented, such as women, lower socio-economic groups and older generations.
- **Improving digital operating environments in receive countries.** Measures within this could include: (a) enhancing connectivity coverage for receiving populations and improving the local digital payment environment to prevent the cashing out of digital remittances; (b) ensuring there are a range of digital remittance receive services available for each EU-AU corridor; (c) creating an up-to-date digital financial services policy within each AU country and (d) implementing the necessary regulatory measures for building an effective digital payments ecosystem.

21 Geldtransfair (2021). *Compare Prices*.

22 Manda Soldi a Casa (2021). *Trova e confronta i prezzi*.

23 Envoidargent (2021). *Comparez les coûts de transfert d'argent depuis la France*.

24 Banca D'Italia (2021). *Intergovernmental Table on Remittances: Italy's G20 Commitment to Financial Inclusion at Global Level*.

25 Global Compact for Migration (2018). *Global Compact for Safe, Orderly and Regular Migration*.

- **Capitalising on know-your-customer (KYC) changes necessitated by the pandemic to simplify future on-boarding of low-risk potential customers.** For instance, Ghana's amended regulations that allow previous mobile phone SIM card registrations (and the identification documentation required for this) to function as adequate customer due diligence (CDD) for new mobile money accounts during the COVID-19 pandemic could be taken as a model for other countries (see section 2.1.2.).



2. The Growth of Digitalisation and Opportunities for Leveraging Remittances for Development and Financial Resilience

2.1. The Growing Digitalisation of Remittances

The COVID-19 pandemic has been pivotal for increasing the use of digital channels and expediting online money transfers in many countries. The rapid shift to digital was made necessary due to the initial disruption of in-person services: many brick-and-mortar stores were initially not classed as essential services and were forced to close as a result of national lockdowns and there were also hygiene concerns around over-the-counter cash transactions. Access to agents was also reduced due to liquidity issues and falling revenues from reduced cash-in-cash-out transactions.²⁶ Thus, for many people the only way to send remittances was through digital channels.

Globally, international remittances sent using mobile money increased by 65 percent (USD 5 billion) in 2020, demonstrating the particular resilience of this channel.²⁷ At the global level, Western Union has reported a 45 percent year-on-year increase in revenues from digital money transfers from Q1 2020 to Q1 2021.²⁸ Similarly, digital payments accounted for 30 percent of MoneyGram's business in February 2021, compared to 18 percent in February 2020.²⁹ Digital-only providers such as World Remit, TransferWise, Azimo and Remitly all experienced a substantial growth in customer and transaction numbers: for instance, World Remit saw a 150 percent year-on-year rise in new customer activations in March and April 2020 and Remitly and Azimo experienced an 100 percent month-on-month growth in customer numbers.³⁰

For EU-AU corridors, there has been a growth in the number of available digital services, as shown by the increase in services surveyed on RPW. In Q1 2021, there were 273 digital remittance services to AU countries being offered in EU send countries. 84 percent of EU-AU corridors

26 Remittance Community Task Force (RCTF) (2020). *Remittances in crisis: Response Recovery Resilience: Blueprint for Action*.

27 GSMA (2021). *State of the Industry Report on Mobile Money*.

28 Western Union (2021). *Western Union Reports First Quarter Results*.

29 MoneyGram (2021). *MoneyGram Customer-Centric Growth Strategy Contributes to Another Strong Month of Digital Growth*.

30 Forbes (2020). *How Money Transfer Companies Squeezed Four Years Of Digital Growth Into Just Two Months*.

surveyed on RPW offered five or more digital services on the send side in Q1 2021 compared to 26 percent of those surveyed in Q1 2015.

Mobile money is a very popular payment method across many AU countries and is central to the increasing digitalisation of remittances. According to the GSMA Mobile Money Prevalence Index (MMPI) (2021), 24 AU countries are ranked very high or high for mobile money prevalence.³¹ The GSMA Deployment Tracker lists 56 mobile money services across 31 AU countries that allow customers to send or receive international remittances³² and there are 4.4 million registered mobile money agents in SSA alone, the largest concentration globally.³³

2.1.1. Public sector policies and regulatory changes

The shift to digital services has, in part, been catalysed by the efforts of certain governments to create an accessible environment for digital financial services and remittances. Governments introduced a variety of new policy measures, including: reducing fees for digital transfers, relaxing mobile wallet and transaction limits and allowing remote mobile money registration.

For example, The Central Bank of Egypt extended the account limit for mobile wallets and prepaid cards while a daily cash withdrawal and deposit limit was set for branches and ATMs to reduce the use of cash. Until December 2020, e-wallets and pre-paid cards were issued free-of-charge and transactions fees between mobile wallets were eliminated. Further, simplified KYC requirements were issued to on-board low-risk banking customers and the customers were able to register for internet banking using their existing banking information.³⁴

Similarly, the Ghanaian government amended various regulatory requirements for digital financial services to encourage wider use of digital payments during the COVID-19 pandemic.³⁵ These included the removal of fees for low-value mobile money transfers; relaxing daily mobile money transaction size limits and increasing wallet limits; and allowing the use of previous KYC from SIM registrations so customers could open new mobile money accounts remotely.

2.1.2. Private sector initiatives

At the start of the COVID-19 pandemic, many RSPs provided financial incentives (primarily reduced fees) to encourage greater use of their digital remittance services and attract more customers to their digital products. For instance, in most send countries, for two weeks in May 2020 Western Union halved fees for essential workers and front-line-responders remitting using digital channels.³⁶ Azimo, WorldRemit and Remitly attracted new digital customers by offering

31 GSMA (2021). *The Mobile Money Prevalence Index (MMPI)*.

32 GSMA (2021). *Mobile Money Metrics: Deployment Tracker*.

33 GSMA (2021). *State of the Industry Report on Mobile Money*.

34 Central Bank of Egypt (December 2020). *Central Bank of Egypt's Measures to Offset the Impact of COVID-19*.

35 News Ghana (2020). *Ghana sees 9.5 percent increase in half-year 2020 remittances, despite COVID-19*.

36 Western Union (2020). *Western Union Pays Tribute to First Responders & Essential Workers Globally*.



zero fees for the first two transactions as well as a heavily subsidised FX rate.³⁷ However, once the pandemic had been ongoing for several months, many providers returned their pricing to normal levels.

In 2020, the 1 Billion Lives Challenge was launched as a joint public-private sector digital inclusion initiative by the EDISON Alliance.³⁸ The initiative was established in recognition of the accelerated digitalisation engendered by the COVID-19 pandemic and the need to prioritise digital inclusion and investment in the new era. As key private sector partners in this initiative, Western Union has committed to enabling 300 million people to be digitally connected through mobile wallets while MTN has committed to financially including 100 million people and 2 million small and medium enterprises, both by 2025.

2.2. Opportunities for Leveraging Remittances for Development and Financial Resilience

Remittances can be a crucial catalyst for enhancing financial inclusion given that the use of formal remittance channels acts an important touchpoint with the formal financial system for many senders and beneficiaries. Reducing the cost of sending remittances provides migrants and their families with increased capital that could be channelled into longer term productive purposes that enhance financial resilience such as pensions, insurance, savings and investments. Thus, for those EU-AU corridors that have seen successful cost reductions, the agenda could be expanded to include improving the leveraging of remittances for development through enhancing the productive use of remittances and improving financial inclusion and resilience amongst migrants and their families.

Digitalisation has strong potential to play a role in increasing diaspora's financial resilience and several AU countries have established diaspora banking services or offer diaspora-specific financial products. One innovative example is Equity Bank's Diaspora Self-Service Portal which offers a variety of digital banking solutions for the Kenyan diaspora, including the ability to: send remittances; buy and sell stocks and shares; and purchase insurance for themselves and their families in Kenya.³⁹

WIDU.africa⁴⁰ is an innovative example of using existing remittance flows and behaviours to offer investment opportunities to the diaspora. It is GIZ-sponsored initiative that provides matched funding up to EUR 2,500 between diaspora donors in Europe (currently Germany, Austria, France and Switzerland) and entrepreneurs, mainly start-ups and micro and small businesses, in Africa (currently Cameroon, Ethiopia, Ghana, Kenya and Togo). Crucially, the entrepreneur must already be known to the diaspora donor (either a friend or family member); WIDU will not match donors with entrepreneurs because the project seeks to re-direct existing remittance flows into small business investments. In order to qualify for WIDU matched funding, the remittance must be

37 Remittance Community TaskForce (RCTF) (2020). *Remittances in crisis: Response Recovery Resilience: Blueprint for Action*.

38 EDISON Alliance (2021). *1 Billion Lives Challenge*.

39 RemitScope Africa (2021). *Kenya: Country Diagnostic*.

40 WIDU Africa (2021).

sent through official, recognised channels, and proof of payment is required. This is an important mechanism for promoting formal channels and further bringing migrants and beneficiaries into the formal system. WIDU.africa also has business coaches on-the-ground who follow-up with the grant beneficiaries to provide strategic support and verify how the funding has been invested in the business.

Remittance-linked insurance products can mitigate the financial impact faced by migrants and their families as a result of unexpected adverse events, such as employment loss, illnesses, accidents, and death, particularly for those working in the informal sector lacking basic social protections such as sick pay and pension contributions.⁴¹ As a model for EU send countries, Western Union and the insurance company AXA launched a pilot product in June 2020 called ‘Transfer Protect’ which allows customers digitally remitting money from France to ‘sign up for life and disability insurance seamlessly when they transfer money.’⁴² PayAngel (which operates across various EU-AU corridors) has begun offering ‘RemitCare’ life insurance in Ghana, in partnership with Allianz.⁴³ This insurance covers both hospital admission (to be paid to the migrant) and death cover (to be paid to the elected beneficiary). Access to the insurance is contingent on a minimum amount being remitted by the migrant through PayAngel each month and the eligibility for different grades of the insurance (Bronze, Silver and Silver PLUS) depends on the amount remitted; for the Bronze cover, the minimum sending amount is GBP 100 (USD 138) per month. **Offering insurance products in tandem with remittances has the potential to attract more migrants to formal remittance channels and ensures remittance receivers have a secure stream of income and can remain financially resilient in the case of an unexpected life event.**⁴⁴

The availability of remittance-linked financial products targeted specifically at remittance beneficiaries remains limited across the AU. Remittance-linked products have the potential to increase receiving families’ financial resilience and inclusion through simplifying the acquisition of formal savings, loans and investment products. As cash-based transfers do not present a strong opportunity for leveraging remittances, there is a particular need to develop digital (including mobile money) solutions.

There is also a need to expand product offerings to non-bank financial institutions given that large swathes of the AU population remain unbanked. In Ghana, some FinTechs have explored providing digital financial services and payments linked to remittances using funding from the Swiss-backed Remittance Grant Facility.⁴⁵ For instance, PayInc (the PayAngel parent company) conducted a 24-month pilot of the Distributable Remittances for Savings and Investment (DRSI) product in Ghana which (a) promotes digital channels; (b) connects both ends of the remittance value chain through serving senders and receivers; and (c) enables the unbanked/underbanked to directly access investments and savings products.⁴⁶

41 Cenfri (2020). *The potential of remittance-linked insurance products in sub-Saharan Africa*.

42 AXA (2020). *AXA & Western Union Partnership: Affordable Insurance through Money Transfers*.

43 PayAngel (2021). *RemitCare*.

44 Cenfri (2020). *The potential of remittance-linked insurance products in sub-Saharan Africa*.

45 RemitScope Africa (2021). *Ghana: Country Diagnostic*.

46 Remittance Grant Facility (2021). *PayInc Ghana Limited*.



The way forward: Conclusions and recommendations

Over the last six years remittance costs from the EU to Africa have fallen by 30 percent (from 8.1 percent to 5.7 percent). Indeed, remittances from the EU to Africa are now lower than the global average of 6.38 percent in Q1 2021.⁴⁷ Crucially, progress has been faster than in recent years, dropping 1.03 percentage points between Q1 2020 and Q1 2021.

Looking forward, there is still progress to be made to secure further price reductions – particularly around meeting the SDG 10.c goal to eliminate corridors with remittance transaction costs of more than 5 percent – and to start expanding the agenda for those EU-AU corridors that have seen successful cost reductions and work to develop innovative products for better leveraging remittances for development. It is crucial to harness the rapid progress made during the pandemic through the greater uptake of formal and digital channels and the implementation of innovative initiatives and regulatory policies by the public and private sector to secure the continued flow of remittances. It is important to note that blanket solutions across all EU-AU corridors should be avoided, and the following recommendations vary in priority for each country, depending on the extent to which progress has already been made.

However, whilst not advocating for ignoring further reductions in the cost of remittances, the rate of progress is such that attention should be shifted to now focus on how to harness and leverage remittances for greater developmental impacts. Initiatives that use remittances to deliver other benefits in line with the SDGs, such as financial inclusion, diaspora investment and remittance-linked products, warrant greater support and interest.

Focus areas that will enable EU and AU countries to consolidate the progress that has been made and overcome the remaining challenges include:

1. Enhancing migrants' financial education and digital literacy

National education programmes in EU send countries should include trainings that are designed to address migrants' particular financial education needs, including information on formal remittance channels, remittance price comparison tools and remittance-adjacent financial products. Financial education is crucial for improving financial inclusion. It will equip migrants with an understanding of how to choose the cheapest and most efficient remittance options (including digital products), and provide knowledge of which remittance-adjacent financial products exist and are, therefore, most appropriate for their financial position and goals.

47 Remittance Prices Worldwide (2021). *An Analysis of Trend in Cost of Remittance Services Issue 37*.

2. Data collection

A central part of making effective and accurate policy change is having robust and reliable data to underpin these decisions. The EU and AU should work together to encourage the publication of monthly remittance inflows within each AU country, disaggregated by send country. This frequent data collection will improve policymakers' understanding of how crises like the COVID-19 pandemic are impacting remittance flows in individual EU-AU corridors. KNOMAD's 2020 household survey⁴⁸ also reveals the need to use multiple data collection tools to obtain a comprehensive picture of the remittance landscape. The EU should support AU countries in developing annual household remittance surveys for receiving households that cover remittance corridors, channels and uses; household surveys are also an important way for gauging the scale of informal remittance channels and the motivations for using these channels.

3. Building on the transition to digital channels catalysed by the pandemic

AU countries should seek to include remittances and remittance-linked products in any existing or planned digital transformation programmes or digital financial services policies. There is also a need to upgrade the regulatory environments for digital payments and wider financial services in certain AU receive countries, as outlined in section 1.3. Improving the availability and use of digital remittance products (including mobile money) not only provides migrants with access to cheaper remittance channels but presents a stronger opportunity for leveraging remittances than cash-based transfers. Efforts should be made to simplify remittance users', and particularly receivers', access to digital channels, including through automating and improving KYC processes through streamlining the on-boarding of low-risk customers.

4. Improving remittance-linked products for migrants and receiving families

There is a need to develop a much more comprehensive array of remittance-linked products that enable the channelling of remittances into longer term productive purposes. These products – which include pensions, insurance, savings and investments – could be offered on either side of the remittance value chain but there is a particular need to create products that are tailored to remittance receivers. Developing digital and non-bank product offerings should also be a priority. These products not only have the potential to attract more migrants to formal remittance channels but can enhance the financial resilience of migrants and their families through simplifying and incentivising the accumulation of savings and investments.

It is apparent that African banks and non-bank financial institutions have the key role to play in product design and implementation in this area. It would, therefore, be important to have more Africa-based businesses operating in the EU and the AU, at both ends of the remittance transfer corridor, in order to bring efficiency and lower prices.

5. De-risking

De-risking, the phenomenon where a whole category of business is not able to open or retain bank accounts, has been in existence for over ten years. It results in less competition as it is a significant barrier to entry. Efforts have been made over the years by various stakeholders to address this but the problem still exists and its impacts continue to affect the whole remittance market. They are particularly significant for African businesses wishing to work in Europe. Despite addressing the issue in the PSD 2, the practical application has not solved the issue. Further work is needed to improve the situation.

A dark green world map is visible in the background, showing the continents of Europe, Africa, and Asia. The map is slightly faded and serves as a backdrop for the text and other elements.

Annexes

Annex 1: Overall costs charts and tables

Figure 6: Average total cost percentage to send USD 200 from EU to AU countries, Q1 2021

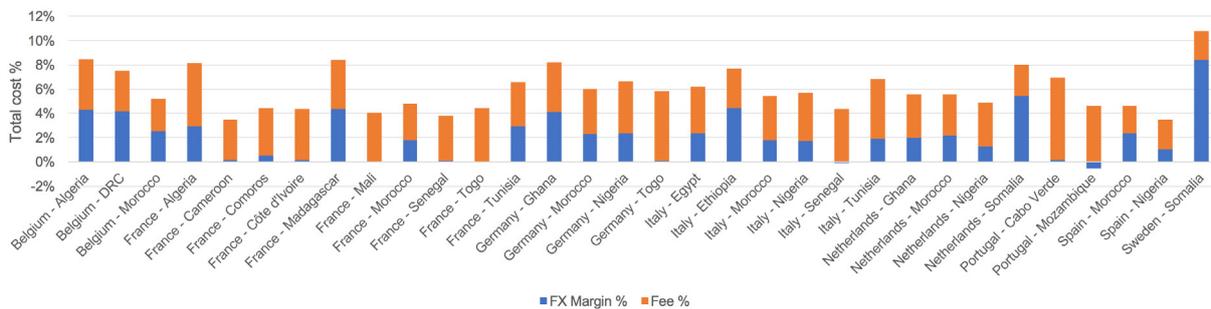


Figure 7: Average total cost percentage to send USD 200 from EU to various AU receive countries, Q1 2021

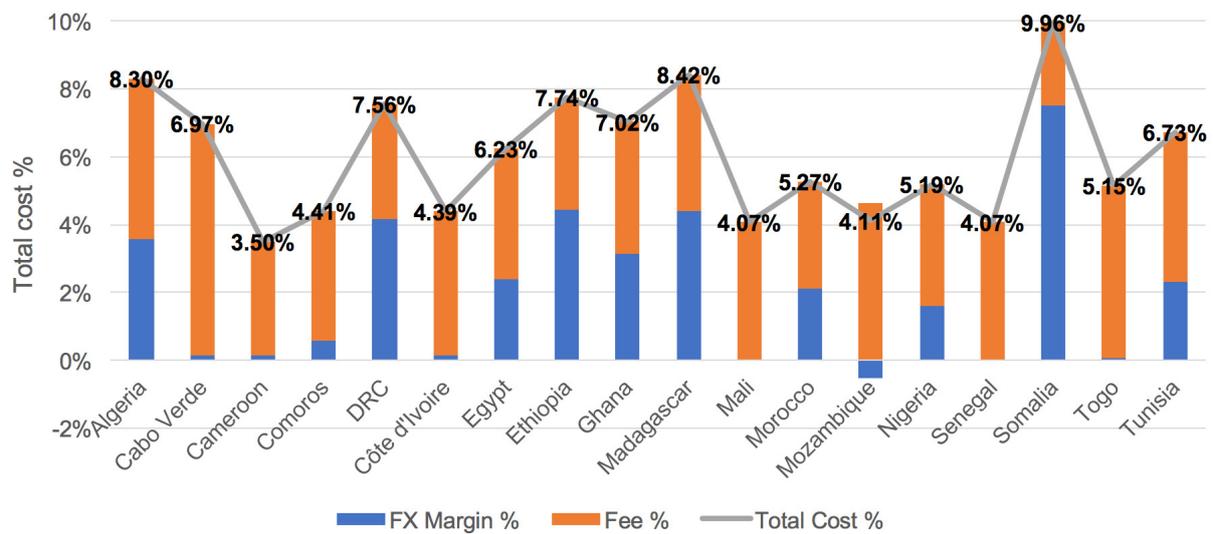
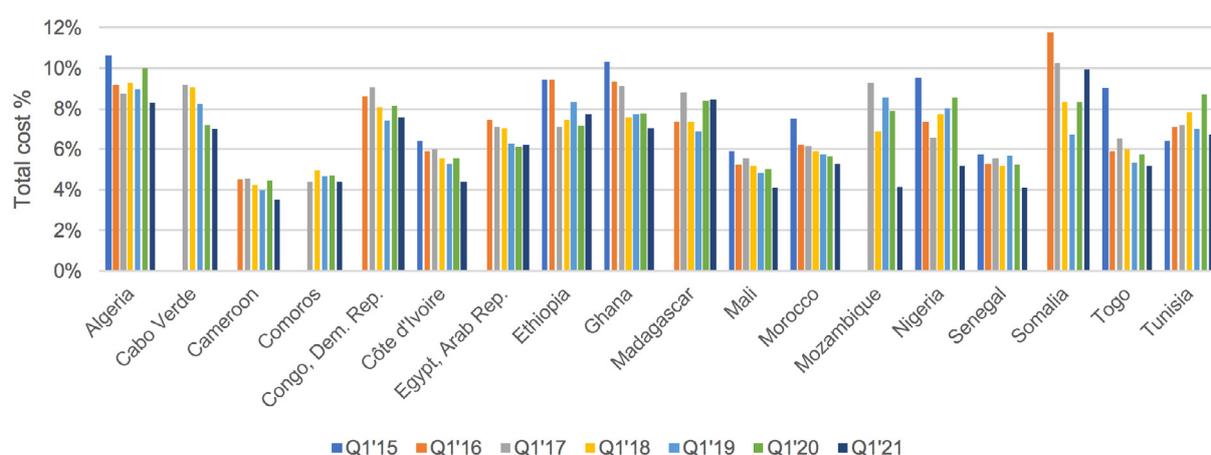


Figure 8: Average total cost percentage to send USD 200 from EU to AU countries, Q1 2015-Q1 2021

Table 2: Changes in cost to send USD 200 from EU to AU countries by receiving country, Q2 2016 versus Q1 2021

Receiving Country	Sending Country	Q2 2016 Average Total Cost % (USD 200)	Q1 2021 Average Total Cost % (USD 200)	Difference
Algeria	Belgium	10.25%	8.48%	-1.77%
	France	8.34%	8.16%	-0.18%
Cabo Verde	Portugal	7.26%	6.97%	-0.29%
DRC	Belgium	7.40%	7.56%	0.16%
Cameroon	France	4.57%	3.50%	-1.07%
Comoros	France	4.84%	4.41%	-0.43%
Côte d'Ivoire	France	5.74%	4.39%	-1.35%
Egypt	Italy	7.75%	6.23%	-1.52%
Ethiopia	Italy	8.59%	7.74%	-0.85%
Ghana	Germany	9.09%	8.24%	-0.85%
	Netherlands	7.92%	5.59%	-2.33%
Madagascar	France	6.78%	8.42%	1.64%
Mali	France	5.21%	4.07%	-1.14%

Reducing remittance costs: consolidating trends and harnessing gains

Receiving Country	Sending Country	Q2 2016 Average Total Cost % (USD 200)	Q1 2021 Average Total Cost % (USD 200)	Difference
Morocco	Belgium	5.20%	5.20%	0.00%
	France	5.29%	4.80%	-0.49%
	Germany	8.63%	6.00%	-2.63%
	Italy	6.38%	5.44%	-0.94%
	Netherlands	7.23%	5.58%	-1.65%
	Spain	5.56%	4.60%	-0.96%
Mozambique	Portugal	8.80%	4.11%	-4.69%
Nigeria	Germany	8.35%	6.65%	-1.70%
	Italy	9.82%	5.69%	-4.13%
	Netherlands	6.50%	4.88%	-1.62%
	Spain	9.12%	3.52%	-5.60%
Senegal	France	4.97%	3.83%	-1.14%
	Italy	5.62%	4.30%	-1.32%
Togo	France	5.32%	4.41%	-0.91%
	Germany	7.28%	5.84%	-1.44%
Tunisia	France	6.88%	6.56%	-0.32%
	Italy	8.90%	6.84%	-2.06%
Somalia	Netherlands	8.24%	8.02%	-0.22%
	Sweden	9.38%	10.80%	1.42%



Annex 2: Sending methods price charts

Figure 9: Average total cost percentage to send USD 200 from various EU countries to the AU using digital only methods, Q1 2015-Q1 2021

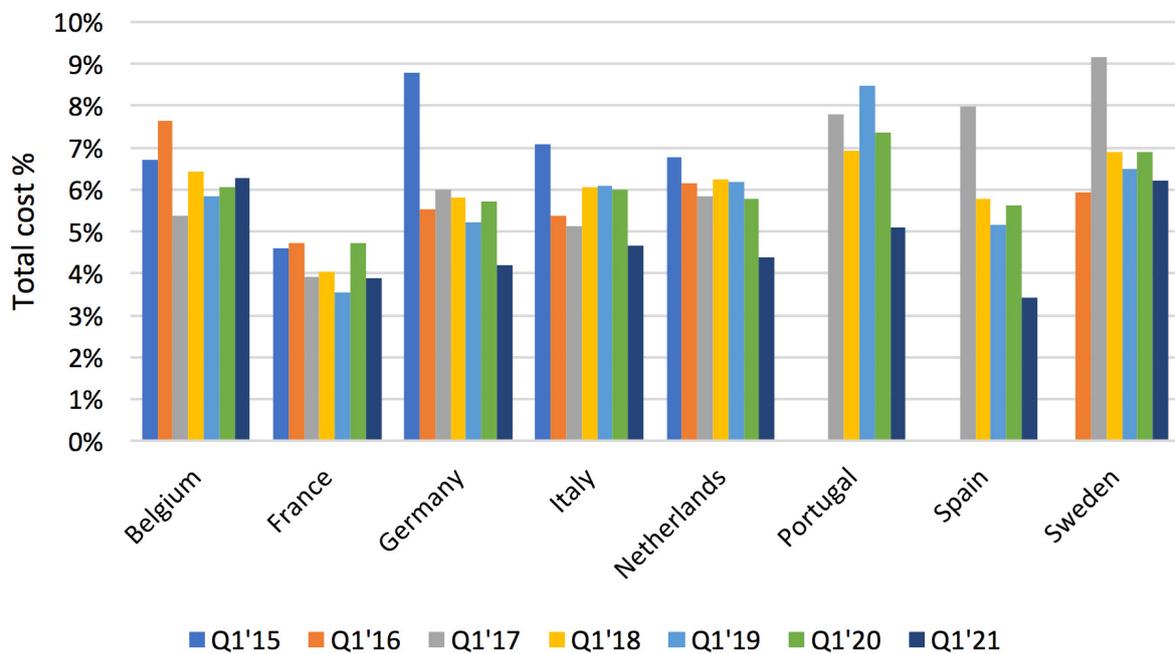


Figure 10: Average total cost percentage to send USD 200 to various AU countries from the EU using digital only methods, Q1 2015-Q1 2021

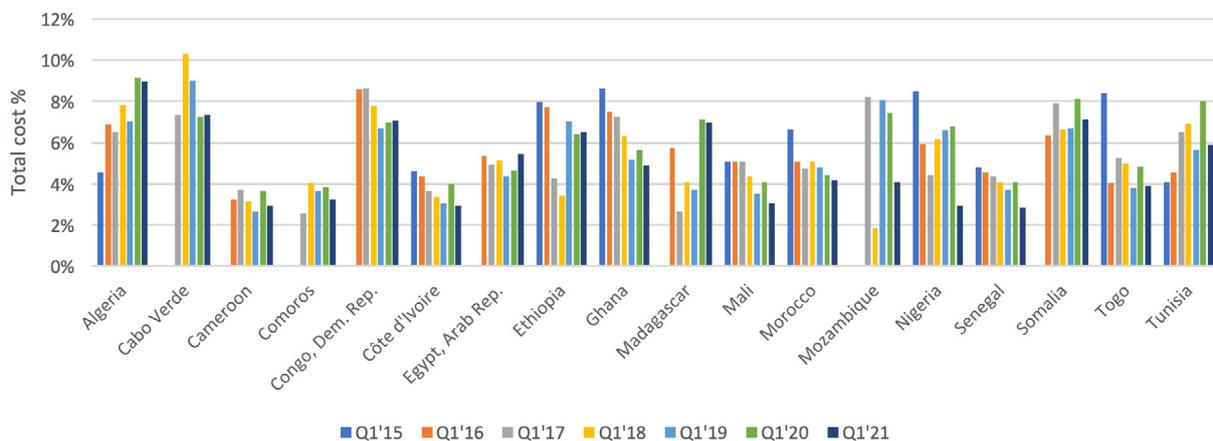
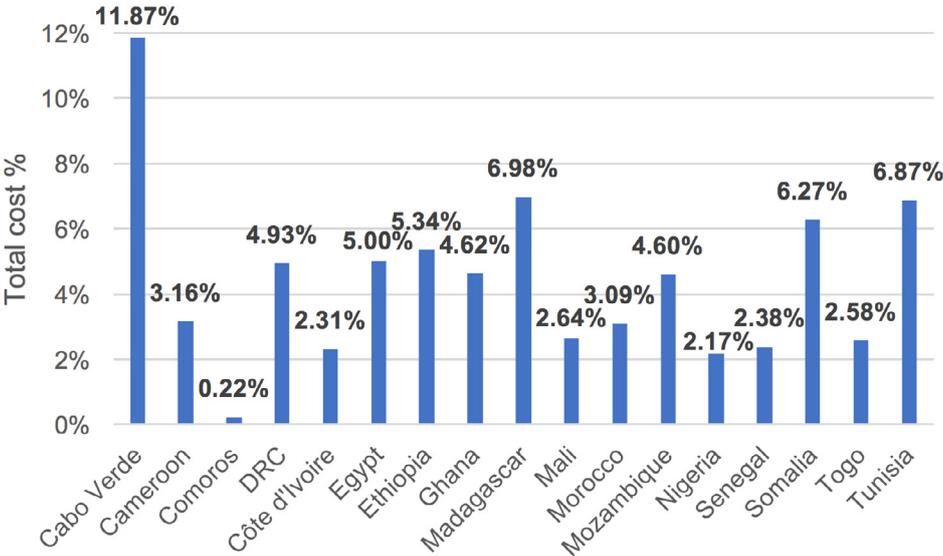
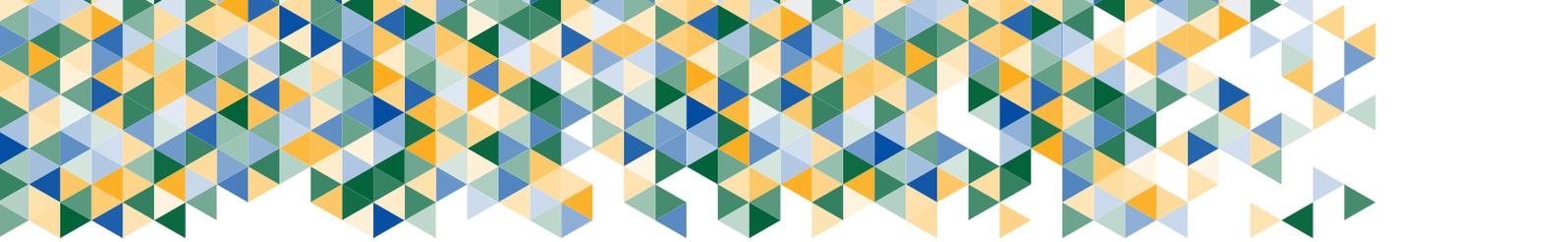


Figure 11: Average total cost percentage to send USD 200 to various AU countries using digital send and receive methods, Q1 2021





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