



Trade

in Financial Services

Mobile Banking in Southern Africa



THE WORLD BANK
MOZAMBIQUE

Acknowledgments

This report was prepared by Robert Stone, Jerry Grossman, Philippe Breul, Abigail Carpio & Mateo Cabello (Oxford Policy Management) under the leadership of Samuel Munzele Maimbo and Tânia Saranga (World Bank) of the Africa Finance and Private Sector Department managed by Gerardo M. Corrochano (Sector Manager) and Marilou Uy (Director). Adelina Mucavele (World Bank) provided administrative support for the report. Peer reviewers for the paper included John R. Wille, Ismail Radwan, Mark Pickens and Vincent Palmade.

Preface

This Consolidated Draft Report is submitted to the World Bank by Oxford Policy Management (OPM) and The IRIS Center at the University of Maryland, College Park (IRIS) under World Bank Purchase Order 1272039, for consulting services for Trade in Financial Services: Mobile Banking in Southern Africa.

The objective of the project, as set out in the Terms of Reference (TOR), is to positively influence the expansion of access to finance through the rapid, but safe, take off of domestic and cross-border branchless banking, with appropriate protections for customers and the financial system by encouraging (i) the use of incentives that encourage innovative bank and non-bank led domestic and international m-banking solutions; (ii) the establishment of appropriate financial system infrastructure, and its good governance; and (iii) the establishment of proportionate regulation which provides an open but safe environment.

The focus countries for the project are Angola, Malawi, Mozambique, South Africa and Zambia.

The work that has led to the current report, in accordance with the TOR, consisted of:

- A literature review in September/October 2008 resulting in an inception report submitted in October 2008, confirming or modifying the proposed work plan as appropriate, and firming up the questionnaire for the diagnostic template;
- Discussion of the inception report and agreement of the work plan with the World Bank Task Team Leader (Sam Maimbo);
- A visit by the Tânia Saranga (World Bank) and Jerry Grossman to the target countries in November-December 2009;
- Draft country diagnostics for each of the five countries submitted to the World Bank in February 2009, and a synoptic table, draft policy recommendations and a draft workshop presentation submitted early in March.
- Feedback from a peer review of the main documents received in mid-March.

This Consolidated Draft Report draws together the previous documents into a single report, taking account of the feedback in the peer review and of further research by OPM and IRIS.

We are very grateful to the World Bank, and particularly to Sam Maimbo and Tânia Saranga for their invaluable support in organizing the country visits and in facilitating the development of the reports. We are also grateful to those who gave of their time to speak to us during and after the country visits and to those who provided feedback in the peer reviews, which gave us useful new insights into the subject and pointers on presentation.

The responsibility for any remaining errors in the present report, however, lies entirely with the authors. It should be borne in mind that this is a very fast moving field, so it is quite likely that some of the information in this report (written in April 2009), will already be out of date by the time the report is circulated!

Executive summary

The objective of the project under which this report is submitted is to positively influence the expansion of access to finance through the rapid, but safe, take off of domestic and cross-border branchless banking, with appropriate protections for customers and the financial system. The key focus of the study is on cross-border payment services

The **migration patterns** in Southern Africa have important implications for domestic and cross-border remittances, the two key migration corridors being (a) Namibia-Angola-Zambia; and (b) South Africa-Mozambique-Malawi. In some cases, refugees tend to constitute a significant proportion of immigrants in a country, and the flow patterns tend to be significantly influenced by proximity (and much less by income). The patterns of cross-border migration are complex, and do not appear to conform entirely to the normal distinctions between migrant-sending and migrant-receiving countries. Similarly, there is a complex mix of skilled and unskilled migrants, and there therefore is no simple correlation between migration and financial exclusion. While most migrants in the region continue to be male, there is an increasing pattern of feminization of migration in the region.

Domestic migration is also widespread, linked to rapid urbanization in the focus countries. Internal migrations have greatly contributed to the enlargement of the informal sector within the countries and in some cases, to the growth of urban agriculture. Rural-urban migration has also resulted in many “geographically split households,” with important implications for the demand for m-banking.

The means of sending **remittances** for both cross-border and domestic migrants include banks or other formal financial intermediaries, post offices, money transfer operators (e.g. Western Union and Moneygram), or by carrying cash by hand (personally or through an agent such as a friend, a relative or a taxi driver). The informal channels are inextricably linked with the informal nature of migration in the region, with important consequences for the relative ease and security of money transfers. The relatively high costs of sending remittances through the formal financial sector are also an important factor in determining patterns of demand.

In relation to **trade** patterns, it is informal cross border trade that is the main potential source of demand for cross-border m-banking services. Individuals cross borders to sell small amounts of goods – for example, as informal street traders. While such individuals are not strictly classified as migrants, some studies describe these informal traders as “amongst the most enterprising and energetic of contemporary migrants” Interestingly, the same study noted that informal traders crossing the borders tend to be mostly female (70%). Thus, informal cross-border trade is said to be closely linked to the feminization of migration described earlier.

Despite the importance of informal cross border trade – especially with respect to livelihood and income generation among the poor in the region – policies tend to favour formal (and often larger) trade activities. Efforts have, however, been made in some countries to address some of the key challenges being faced by informal traders. As with migration, the problem is that it is difficult to make an estimate of the true size of informal trading activity and the volume of informal trade-related payment transactions between the countries. One might expect that – as in the case of labour migration – income, proximity and networks will likely be the factors influencing the magnitude and direction of informal trading across borders.

In terms of the **financial sector landscape**, most of the focus countries have either fully or substantially implemented financial sector reform programmes. In the last decade, countries’ financial markets have expanded, with a noted increase in the number of commercial banks operating in countries like Zambia, and measures have also been taken to reduce government ownership or privatize state-owned banks such as in Malawi. However, despite these recent developments in several

areas, the degree of competition in financial markets in a number of countries still remains limited to a few operators, and there is only a thin supply of financial instruments. In general, the financial sectors (especially in most of what may be considered migrant-sending countries) are characterized by: weak competitive environment (especially in the remittance market); lack of access to technology-supporting payments and settlement system; and burdensome regulatory and compliance requirements (for banks).

The countries in Southern Africa are all at different levels of **information and communications technology** (ICT), with comparatively more developed ICT sectors among the higher income countries like South Africa and Namibia. In Zambia, Angola and Malawi, the telecommunications sector is still mainly characterized by the monopoly of state-owned operators or service providers. Only a few countries in the region already have extensive telecommunications backbones in place that employ a combination of microwave radio relays and fibre-optic cables with other countries in advanced stages of deploying their backbones. Some of the countries in the region are landlocked (Zambia and Malawi) without the possibility of direct connection to submarine fibre. Such countries will have to rely on expensive satellite links for their international traffic and may be unable to afford or access high bandwidth links. Moreover, there are few countries with an extensive and high-speed backbone and access network to reach out to many users, which creates an artificially “low” demand for bandwidth. And even where an extensive broadband-capable backbone and access network exist, such as in South Africa and Namibia, the prices of high-speed connectivity are still very high, way beyond the affordability of a greater proportion of the population. This factor, in turn, also contributes to an artificially low demand for international bandwidth. Thus, most telecommunications providers in the region aim for low-volume-high margin rather than high-volume-low margins in the provision of their services.

These considerations form the background for the detailed Country Diagnostics set out in Annex A and summarized in Chapter 4. The diagnostics reveal a wide range of regulatory approaches to BB, from the very permissive approach of Zambia to the very restrictive approach of Angola. All countries take a more restrictive approach to cross-border transactions than to domestic ones. Table 4.2, a visual summary view of the regulatory landscape, is reproduced below for ease of reference.

Key

	Permissive
	In between, or in transition
	Restrictive
	Unclear

	Angola	Malawi	Mozambique	South Africa	Zambia
Domestic Branchless Banking Regulatory Framework					
Nonbank-based branchless banking model permissible?					
Outsourcing to retail agents permissible?					
Regulator/ Policymaker Perspectives on outsourcing					
Electronic money services					
Effect of AML/CFT ¹					
Regulatory Framework for Cross-Border Transactions					
Who can offer them?					
Transaction limits ²					
Identification requirements					

Not only do the focus countries have very different regulatory regimes in relation to the potential for m-banking in general and for cross-border m-banking in particular, they are also at very different stages in the development of their m-banking facilities, with m-banking being widespread only in South Africa, though its use is also expanding for commercial users in Zambia..

A number of policy recommendations are made for each country in the course of the Country Diagnostics, and these are developed in the draft workshop presentation at Annex D (in a separate document) and summarized in chapter 5. The key recommendations might be briefly summarized as follows:

Key recommendations for regulators and policy makers:

- Continue to improve regulatory framework for domestic branchless banking and low-value cross-border transfers in Mozambique, South Africa and Zambia
- Permit in parallel, as in other pioneer countries (Philippines, Kenya) the development of pilots for domestic (when not existing) and cross-border transactions

¹ Information on the effects of AML/CFT for Angola is incomplete

² Transaction limits in South Africa are restrictive for PostBank, but not very restrictive for banks.

- As a first step, create regulatory space for domestic branchless banking and low-value cross-border transfers in Angola and Malawi
- In the same way, permit pilots for domestic (as a first stage) transactions

Recommendations regarding pilots

Considering the relatively favorable environment, it seems possible to start pilots with 3 objectives

- Validate the feasibility (technical, business models and processes, etc.)
 - Validate the potential positive impact (adoption, usage, etc.)
 - Enable stakeholders to gain experience and allow regulatory framework to evolve in tandem with market
- Variations of (a) service provider models and (b) banking-led models are suggested for each country.
 - The two models have
 - positive aspects:
 - make the service available for all mobile clients,
 - the service is developed by security-focused stakeholders who can inspire confidence
 - negative aspects:
 - promotion of the services could be less extensive than with a strong, motivated mobile operator
 - Potentially, some operator-led model can be promoted (for example in Mozambique)

Finally, a **follow up action plan** is proposed, consisting of

- Support for branchless banking initiatives targeting the unbanked
- Providing opportunities for stakeholders in target countries to learn from branchless banking pioneers worldwide
- Creating opportunities for extensive stakeholder collaboration and
- A possible pilot project for cross-border transfers

Table of contents

Preface	i	
Executive summary		iii
List of tables and figures		viii
Abbreviations		ix
1	Introduction	1
1.1	The Layout of this Report	1
1.2	The Focus on Cross-Border Payment Services	1
1.3	The Exchange Control Context	3
2	Understanding the Demand for Mobile Banking Services in Southern Africa	4
2.1	Migration patterns in Southern Africa: implications for domestic and cross-border remittances	4
2.2	Trade patterns in Southern Africa: implications for cross-border payments	13
3	The Financial and Telecommunications Landscape	15
3.1	The financial sector	15
3.2	The telecommunications sector	18
4	Summary of Country Diagnostics	21
5	Summary of Recommendations	27
5.1	Introduction	27
5.2	Summary of Key Recommendations	27
5.3	Elements of the proposed follow up action plan	28
	References	34
Annex A	Country Diagnostics	37
A.1	Angola Country Diagnostic	38
A.2	Malawi Country Diagnostic	43
A.3	Mozambique Country Diagnostic	50
A.4	South Africa Country Diagnostic	55
A.5	Zambia Country Diagnostic	61
Annex B	Regulatory Issues Addressed in the Country Diagnostics	66
Annex C	Selected International Comparisons	68
Annex D	Draft Workshop Presentation:	In separate document

List of tables and figures

Table 2.1	Basic country data	4
Table 2.2	Migration patterns	6
Table 2.3	Bilateral estimates of migrant stocks	7
Table 2.4	Remittance patterns: inflows (in millions US\$)	9
Table 2.5	Remittance patterns: outflows (in millions US\$)	10
Table 2.6	Method of transfer used in South Africa (based on a study by Pendleton et al, 2006)	11
Table 2.7	Method of transfer used in South Africa (based on the results of a study by FinMark Trust, 2005)	12
Table 2.8	Cost of sending a remittance in South Africa (based on the results of a study by FinMark Trust, 2005)	12
Table 3.1	ICT development in Southern Africa	19
Table 3.2	Networked Readiness Index in Southern Africa	19
Table 4.1	Synoptic Table Summary View	21
Table 4.2	Synoptic table	22
Table 4.3	Current m-banking provision	25
Table C.1	Country Comparisons	70
Table C.2	Smart Money, GCash, M-Pesa and WIZZIT	71
Figure 1.1	The Most Common Uses for M-Pesa in Kenya	2
Figure 2.1	Countries of study	5
Figure C.1	Regional Overview of Main World Telecommunications and ICT Indicators, 2006	68
Figure C.2	Mobile Penetration in Selected African Countries	68
Figure C.3	Mobile Penetration in Selected Asian Countries	69
Figure C.4	Mobile Penetration in Selected American Countries	69

Abbreviations

AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	Automated Teller Machine
BB	Branchless banking
BI	National Identity Card (Billete de Identidad), Angola
BIS	Bank for International Settlements
BoA	National Bank of Angola
BoM	Bank of Mozambique
BoZ	Bank of Zambia
CDD	Customer Due Diligence
E-banking	Electronic banking
EMIS	Interbank Services Company (Empresa Interbancaria de Serviços)
FATF	Financial Action Task Force
FI	Financial Institution
FX	Foreign exchange
ICT	Information and communications technology
IRIS	The IRIS Center at the University of Maryland, College Park
ITU	International Telecommunications Union
KYC	Know Your Customer
M-banking	Mobile phone banking
MFI	Microfinance Institution
MNO	Mobile Network Operator
MTC	Money Transfer Company
MTZL	Mobile Transactions Zambia Limited
OPM	Oxford Policy Management
POS	Point of Sale (terminal)
RBM	Reserve Bank of Malawi
SADC	Southern African Development Community
SARB	South African Reserve Bank
SARDC	Southern African Research and Documentation Centre
TOR	Terms of Reference

1. Introduction

As indicated in the Preface, this Consolidated Draft Report is submitted to the World Bank by Oxford Policy Management (OPM) and The IRIS Center at the University of Maryland, College Park (IRIS) under a project for consulting services for Trade in Financial Services: Mobile Banking in Southern Africa. The various documents prepared during the project are here drawn together into a single report, taking account of the feedback in the peer review and of further research by OPM and IRIS.

It is intended that the report will be discussed at a Policy Discussion Workshop that will bring together a select group of policy champions from each of the focus countries to discuss appropriate incentives that encourage innovative bank and non-bank led domestic and international m-banking solutions.

In this Introduction, we summarize the layout of the report, and then touch upon two over-arching issues that need to be taken into account in reading the report: section 1.2 explains why the focus of the study has been on *payments* services, and specifically on *cross-border* payments services; section 1.3 is a reminder that it needs to be borne in mind that the report covers a region in which most countries operate a relatively restricted exchange control regime, which has a bearing on both the analysis and the recommendations in the report.

1.1. The Layout of this Report

To set the context for m-banking services in the focus countries, chapter 2 reviews the demand for m-banking services in Southern Africa, particularly in relation to migrant remittances and cross-border payments of trade-related transactions. This analysis is complemented by some international comparisons set out in Annex C.

On the supply side, chapter 3 briefly describes the financial and telecommunications landscape in which the development of m-banking is set.

The heart of this study is the Country Diagnostics set out in Annex A, which examine, for each country the regulatory issues that are listed in Annex B. For ease of reference, the results of the Country Diagnostics are summarized in chapter 4.

The Country Diagnostics include a number of recommendations to overcome the constraints on the development of accessible m-banking in each country and the region, which are developed further in the draft presentation for the Workshop in Annex D (a separate document). The main threads of the key recommendations are brought together and summarized in chapter 5.

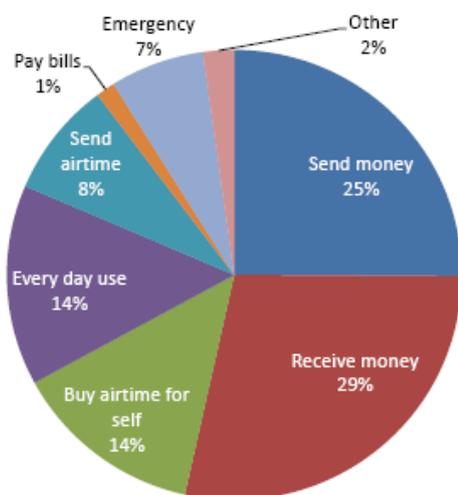
1.2. The Focus on Cross-Border Payment Services

This report focuses mainly on the *payment* component of m-banking application, which offers the greatest potential for trade in financial services. There are two reasons for this focus. Firstly, the objective of the project (as stated in the Terms of Reference) “is to help [the regulatory authorities to] ensure that their current and/or future strategies for developing their domestic m-banking platforms are sufficiently robust to accommodate the cross border financial transactions of their migrant populations (largely migrants to South Africa) and their trading partners”. In this sense, although the TOR also indicate that this project aims “to positively influence the expansion of access to finance through the rapid, but safe, take off of domestic and cross-border branchless banking”, the focus needs to be mainly cross-border trade and remittances payments.

The second reason is a more substantive one. Experience shows that customers use branchless banking channels primarily to make payments and send transfers,, even in situations where most BB channels offer a broader range of services.³ It is notable that most providers focus their marketing efforts almost exclusively on these services. M-Pesa is a good example of this: they advertise their services as “an affordable, fast, convenient, and safe way to transfer money by SMS anywhere in Kenya.”

The uses of M-Pesa by its customers illustrates very well the predominance of the use of money transfer services by m-banking customers in developing countries, as shown in Figure 2.1: some 54 percent of M-Pesa activities are used to send or receive transfers of money while, for example, bill payment accounts for only 1 percent of the total use of M-Pesa .⁴

Figure 1.1 The Most Common Uses for M-Pesa in Kenya



Source: Jack. and Suri. (2009).

This focus on payments and transfers is partly explained by the fact that most m-banking projects have been led by mobile operators. This is the case of the Philippines or Kenya, where GXI and Safaricom designed mobile banking initiatives without any banking participation at all. The main implication of that is that BB providers have valued ease of implementation and adoption over depth of services, which sometimes constrains customer choices.

The predominance of payment services over other services also reflects the perceived relative value that each service brings to its users. Thus, for example, the Banco Postal in Brazil has reported that BB has not yet succeeded in changing poor people’s perception of the limited value proposition of saving in formal financial institutions. When they receive a payment or remittance, an overwhelming majority of people go to the agent to withdraw the full amount received.⁵

³ This is, for example, the case for WIZZIT in South Africa – its customers buy airtime more than twice as often as they withdraw funds from a branch or ATM: *CGAP Focus Note No 46*, The early experience with Branchless Banking. (CGAP 2008b)

⁴ Jack and Suri. (2009).

⁵ For a detailed discussion of the relative impact of different models of branchless banking, and their implications for Southern Africa, see OPM (2008).

1.3. The Exchange Control Context

It is important to note that most of the Southern African countries included in this review have relatively restricted exchange control regimes. This has obvious implications for cross-border remittances, including mobile phone remittances. Many countries where cross-border mobile phone transfers are well established and of high volume, like Mexico and the Philippines, have very liberal exchange control regimes. In the case of the Philippines, for example, Filipino workers in many countries can very easily transfer money home directly through GCash, in the same way as they would send money if they were in the Philippines. That is possible because G-Xchange,⁶ with the support of the Central Bank of the Philippines, has negotiated similar arrangements with reliable suppliers in a variety of host countries on a corridor by corridor basis. According to the Central Bank, this would not have been possible if the Philippines did not have an open capital account with a very liberal foreign exchange regime.⁷

⁶ GCash is a service offered by G-Xchange, a wholly-owned subsidiary of Globe Telecom.

⁷ Conversation with Pia Bernadette Roman, Head of Inclusive Finance Advocacy, Bangko Sentral ng Pilipinas, London, 12 March 2009.

2. Understanding the Demand for Mobile Banking Services in Southern Africa ⁸

In this chapter, we explore the demand for mobile banking services in the Southern African countries covered in this assignment. The countries include: Angola, Malawi, Mozambique, Zambia, South Africa and Namibia.⁹ The discussion covers the two key areas where there is a strong demand for mobile banking services, namely: (i) migrant remittances, and (ii) cross-border payments of trade-related transactions..

In Annex C we have also set out some international comparisons, to put the situation in Southern Africa in its international context. These comparisons are drawn upon as required in the report.

2.1. Migration patterns in Southern Africa: implications for domestic and cross-border remittances

Table 2.1 below provides the key data on the countries covered, to help contextualize the findings on the patterns in migration between the countries in the region.

Table 2.1. Basic country data

	South Africa	Namibia	Zambia	Malawi	Mozambique	Angola
GDP per capita (PPP, in US\$)	9,736	5,137	1,359	756	796	5,467
Total population	47.6 million	2 million	11.7 million	13.9 million	21.4 million	17 million
<i>Male (% of population)</i>	49.1	49.6	50.0	49.6	48.3	49.3
<i>Female (% of population)</i>	50.9	50.4	50.0	50.4	51.7	50.7
Population growth (%)	1.0	1.3	1.9	2.6	2.3	2.8
Total labour force (as of 2004)	19 million	1 million	5 million	6 million	9 million	7 million
<i>Male (% of total labour force)</i>	62.0	56.0	58.0	50.0	46.0	54.0
<i>Female (% of total labour force)</i>	38.0	44.0	42.0	50.0	54.0	46.0
Adult literacy rate (%)	---	85.0	---	---	---	67.0
<i>Male (% of total males)</i>	84.1	87.0	76.3	74.9	---	83.0
<i>Female (% of total females)</i>	80.9	83.0	59.8	54.0	---	54.0

Source: World Bank – World Development Indicators and key country data and statistics, as of 2007 (unless otherwise indicated).

2.1.2. Cross-border migration

The available data on migration capture the flow of registered migrants only. Thus, it is difficult to determine the true size of migration flows within the region and the relationships between the different countries. Nevertheless, the estimates of migration flows (as presented in Tables 2.2 and 2.3 below), while only capturing formal labour migrants, suggest the existence of migration corridors, namely: (a) Namibia-Angola-Zambia; and (b) South Africa-Mozambique-Malawi.¹⁰ It is important to note that

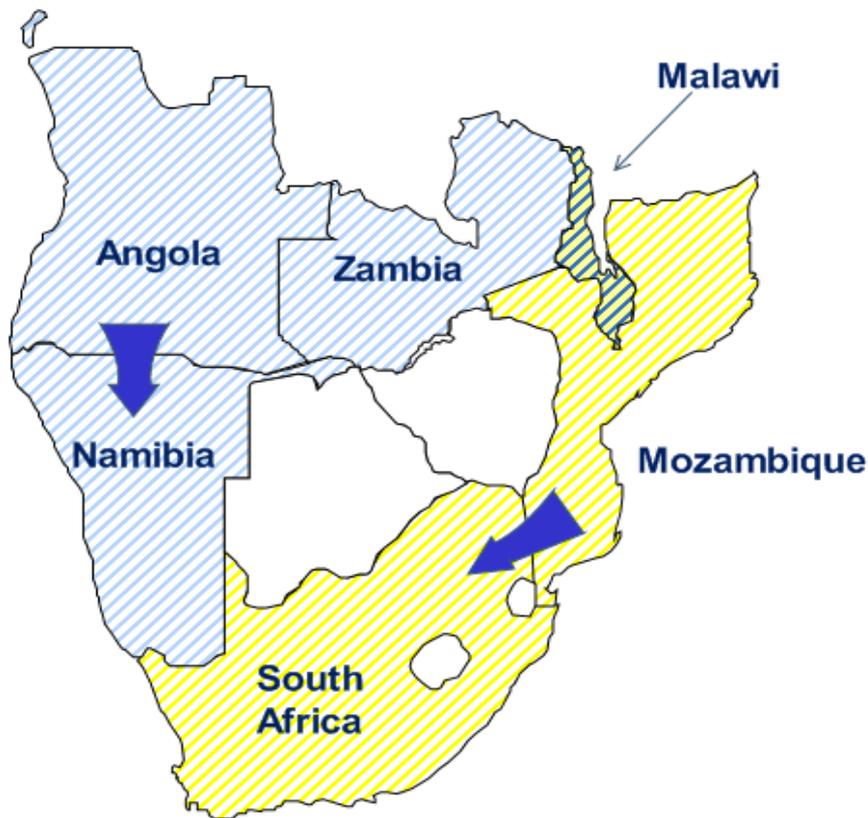
⁸ This chapter and chapter 3 are based on the material presented in the Inception Report (after the literature review), modified as required following the field visits.

⁹ Although Namibia is not a focus country for this study, we have had to take account of data for Namibia in the current chapter because it is the principal receiving country for migrants from Angola.

¹⁰ The South Africa-Mozambique corridor is considered among the top ten migration corridors in the Sub-Saharan African region.

there is some traffic between Angola, Zambia and Malawi, although it is difficult to ascertain at this point to what extent this is driven mainly by movements of refugees. Figure 2.1 below shows the flow patterns between the countries.

Figure 2.1 Countries of study



In some cases, refugees tend to constitute a significant proportion of immigrants in a country (e.g. 55.4% in Zambia, and 25.3% in Angola), which makes it difficult to clearly establish the relationships between them (i.e. between migrant-sending and migrant-receiving countries). In 2004, 445,000 Angolan refugees were registered abroad, the majority of whom were in the Democratic Republic of Congo (DRC), Namibia and Zambia. Zambia has experienced major refugee influxes in the last decade

In Southern Africa, the flow patterns tend to be significantly influenced by proximity (and much less by income). This is consistent with the World Bank findings on what they refer to as South-South migration flows (World Bank, 2006): as the income differentials between these countries tend to be relatively modest (compared to North-South relationships), proximity and networks are likely to have a proportionally greater influence on movement patterns. The study adds that motivations for South-South migration also include seasonal patterns and flight from ecological disasters or civil conflict, which characterize some of the countries in this study (e.g. Angola and Malawi).

Table 2.2. Migration patterns

	Zambia	Malawi	Mozambique	Angola	Namibia	South Africa
Stock of emigrants	150,281	93,223	803,261	522,964	15,101	713,104
Stock of emigrants, as a % of population	1.3%	0.7%	4.1%	3.3%	0.7%	1.5%
Emigration rate of those with tertiary education	10.0%	9.4%	42.0%	25.6%	3.4%	5.4%
Southern African countries included in the top ten countries of destination	Tanzania, Malawi, Namibia, Mozambique,	Tanzania, Zambia, South Africa, Mozambique	South Africa, Tanzania, Malawi, Swaziland, Zambia	Zambia, Namibia, Rep. of Congo	Mozambique, Tanzania, Zambia	Mozambique, Namibia, Swaziland
Stock of immigrants	274,842	278,793	405,904	56,351	143,275	1,106,214
Stock of immigrants, as a % of population	2.4%	2.2%	2.1%	0.4%	7.1%	2.3%
Refugees as a % of total immigrants	55.4%	1.4%	0.2%	25.3%	8.9%	2.6%
Top 10 source countries (in Southern Africa)	Angola, DRC, Zimbabwe, Malawi, Rep. of Congo, South Africa, Mozambique	Mozambique, Zambia, Zimbabwe, Tanzania, South Africa	South Africa, Zimbabwe, Lesotho, Cape Verde, Tanzania, Malawi, Zambia	---	Angola, South Africa, Zambia, Botswana.	Zimbabwe, Mozambique, Lesotho, Swaziland, Botswana, Malawi,

Source: World Bank Fact Book on Migration and Remittances, 2008.

The relationship between the border countries is also explained by the strong historical and socio-economic ties between the populations (or sub-groups within the population). For example, given the historical and linguistic linkages with Angola, Portugal is the main destination for Angolan migrants outside Africa. However, the “majority of Angolans first migrate to one of the neighbouring countries - Namibia and Zambia mainly” (Ammassari, 2005, p.34). Studies show that most of the undocumented migration into Namibia comes from Angola, given the ties between Namibians living in the central north of the country and Angola. Zambia is in a similar situation: given the links between Lozi-speaking people in southern Zambia and Caprivians in north-east Namibia, it is very likely that there is a lot of undocumented border-crossing in this part of the region (Frayne and Pendleton, 2002).

Namibia’s porous borders with Angola and Zambia and the absence of policing are other reasons given to explain the movements of migrants. In a study by Frayne and Pendleton (2002), they found that majority of the people crossing the border were doing so on foot, while 2% crossed the border using bicycles. This suggested a high tendency of circular movements within the vicinity of the border – mostly short stays for commercial purposes. This is confirmed by the frequency of crossing: nearly 20% crossed the border every day; 16% a couple of times per week; and 17% once a week.¹¹

Thus, estimating the true size of migration flows between the Southern African countries is very difficult, given the extent of illegal movements in the region. Various studies emphasize that the nature of current migration in the region – especially of flows from migrant-sending countries such as Malawi and Mozambique – is for work in the informal sector. This is partly demonstrated by the massive deportations which have occurred in some of the migrant-receiving countries: in 2001, for example, the Department of Home Affairs in South Africa deported more than 150,000 illegal

¹¹ This is also confirmed in another study by Crush et al (2005): the majority of cross-border migrants in Southern Africa remain circular migrants. “Although many stay for longer than initially intended, their visits are generally seen as temporary” (p.8).

immigrants. 60% of these came from Mozambique, while 1.3% came from Malawi (Truen et al, 2005).

Table 2.3. Bilateral estimates of migrant stocks

Source country	Destination country						TOTAL	TOTAL
	Angola	Malawi	Mozambique	Namibia	South Africa	Zambia	(country cases)	(all countries)
Angola		0	0	69,683	0	110,220	179,903	522,964
Malawi		0	10,555	0	10,662	20,605	41,822	93,223
Mozambique		161,651	0	0	269,918	1,619	433,188	803,261
Namibia		0	6,232	0	0	291	6,523	15,101
South Africa		5,307	139,426	36,355	0	4,573	185,661	713,104
Zambia		23,439	6,699	12,972	0	0	43,110	150,281
TOTAL (for the country cases)	0	190,397	162,912	119,010	280,580	137,308	890,208	
TOTAL (for all countries)	56,351	278,793	405,904	143,275	1,106,214	274,842		190,589,829

Source: University of Sussex and World Bank estimates, 2006.

Notes: Bilateral migration data were created by applying weights based on bilateral migrant stocks (from population censuses of individual countries) to the UN Population Division's estimates of total migrant stocks in 2005. See World Bank (2006).

Our initial assumption was that given the relative differences in employment and wage standards between the countries (e.g. relatively higher incomes in countries like Namibia and South Africa), a classification of countries can be made, allowing the distinction between those which are sources of migrant populations or *migrant-sending* countries and those which receive migrant populations or *migrant-receiving* countries.¹² However, the available data on bilateral estimates of migration (Table 2.3) show what we consider at this point some form of possible anomaly. For example, while both Namibia and South Africa received more migrants than they sent to their neighbouring countries, countries like Malawi and Zambia also show a similar pattern (i.e. these countries tend to be net receivers of migrants in the region). Considering the results of studies undertaken on migration in the region and observations made on the ground in these countries, we assume that the data available will not be able to provide us with a true representation of the magnitude of flows between the said countries.

The repatriation (in countries like South Africa) is likely to indicate high levels of poor and unskilled migrants in the region - which can be expected to be the group that experiences the greatest financial exclusion (Truen et al, 2005). For example, a recent study showed that most migration out of Mozambique is of unskilled workers: only 15% of the migrants have secondary education, most (70%) have primary education only, while 8% have no education at all.

On the other hand, there is a significant proportion of highly skilled migrant workers from some of the countries. This is especially true of Zambia where emigration is not high by regional standards, but the pattern is skewed towards the skilled. A study by Amin and Mattoo (2007) shows that the emigration

¹² In Africa, there is a more pronounced pattern of emigration from low-income than middle-income countries, and most emigrants from low-income economies go to neighbouring countries. This is in contrast to emigrants from middle-income countries in the region, more of whom go to industrial countries (Lucas, 2005).

rate amongst those with tertiary education in Zambia is about 35 times that of those with secondary education. The available data (Table 2.2) also shows very high proportions of skilled migrants leaving Mozambique (42% of total emigrants) and Angola (25.6%). “The pressure of uncertain economic conditions in several countries has acted as a push factor sending skilled professionals to the booming economies of Botswana, Namibia and South Africa. These professionals work mostly in South Africa’s tertiary institutions, medical establishments and the private sector” (Waller, 2006, p.4). This characterization of the migrating population in some of the countries will have important implications on what constitutes the target market for mobile phone banking – especially in terms of the level of financial literacy, asset ownership, cell phone usage, etc.

Interestingly, while most migrants in the region continue to be male, there is an increasing pattern of feminization of migration in the region. Women migrants tend to have proportionally higher educational levels than their male counterparts. Despite this, however, “they are more likely to be involved in less skilled and informal work and therefore may be more likely to be irregular migrants” (Crush et al, 2005, p. 14). Traditional areas of employment for women (internal and cross border) have been agriculture, domestic work, the service sector and trade. Men are more likely to have formal employment, particularly in the industrial, agricultural and construction sectors.

With regard to age, migration streams were traditionally dominated by young people. However, recent studies show that “41% of migrants coming to South Africa were over the age of 40” (Pendleton et al, 2006, p.2). This suggests that migration has evolved into a “livelihood strategy of the middle-aged”. Nevertheless, migrants in the region will still largely cover the economically-active age range (i.e. >25 years). For example, almost half (47%) of the migrants from Mozambique were found to be 25-39 years old.

2.1.3. Domestic or internal migration

In addition to cross-border movements, there is also of course a pattern of domestic or internal migration within the countries. This has contributed to rapid urbanization, which is largely linked to rural poverty. Environmental shocks – such as droughts and flooding, have accelerated the process, as has the failure to develop the rural/agricultural sector in many of the countries. Internal migrations have greatly contributed to the enlargement of the informal sector (within the countries) and in some cases, the growth of urban agriculture. Rural-urban migration is part of what has been referred to as the “geographically split household” phenomenon (Crush et al, 2006, p. 16), where domestic (or even cross-border) migrants who find employment or economic activities in the urban areas generate income to support their families in the rural areas and thus maintain strong rural linkages.

- Data from FinScope South Africa (2003) suggested that about 5.7 million South Africans live away from their immediate families. The results show that domestic migrant workers have the following characteristics: 96.9% of them are black; 63.7% are male; and 84.4% are originally from a non-urban area (cited in Truen et al, 2005, p. 14).
- Over two-thirds of the population in Angola live in poverty, while almost one out of three Angolans is extremely poor (Human Development Indicators 2006). The flight of people from rural areas during the war years has turned bigger towns into a refuge for the poor. (Ammassari, 2005, p. 27). The large proportion of unskilled domestic migrants meant that these people turned to the informal sector for employment.
- Internal or domestic migrants in Malawi have been described as behaving like typical “target workers,” earning cash incomes in towns and investing/sending money to the rural areas. Studies show that almost every rural household in Malawi depends on family members working in towns for its farm inputs (Black et al, 2006, p.123).

2.1.4. Remittances

The means of sending remittances for both cross-border and domestic migrants include banks or other formal financial intermediaries, post offices, money transfer operators (e.g. Western Union and Moneygram), or by carrying cash by hand (personally or through an agent such as a friend, a relative or a taxi driver). As in the case of migration, it is difficult to estimate the true size of the flows of remittances, given that most transfers tend to be made through informal channels.¹³

Tables 2.4 and 2.5 below provide information on remittance inflows and outflows of the different countries, respectively. As has been noted, the data report only officially recorded remittances. The true size of remittances, including unrecorded flows through both formal and informal channels, is believed to be much larger. The available data suggests that remittances tend to represent a small proportion of the countries' GDP: in 2006, Mozambique is the only country in the set where the proportion of remittance inflows exceeded 1% of the country's GDP.¹⁴

Table 2.4. Remittance patterns: inflows (in millions US\$)

	Income Group	LDCs	2003	2004	2005	2006	2007	Remittances as a share of GDP, 2006 (%)
Angola	LMC	LDC	---	---	---	---	---	---
Malawi	LIC	LDC	1	1	1	1	1	0.0%
Mozambique	LIC	LDC	70	58	57	80	80	1.2%
Namibia	LMC		12	15	18	17	17	0.3%
South Africa	UMC		435	523	658	734	834	0.3%
Zambia	LIC	LDC	36	48	53	58	59	0.5%

Source: World Bank Remittances Data.

Note: The data presented in this table reports officially recorded remittances only. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger.

The expectation, however, is that migration flows will continue, if not intensify. For example, since the end of the civil war in Mozambique, economic migration to South Africa has intensified and now Mozambique is the single largest supplier of labour for the mining sector in South Africa. In one study, informal remittances were estimated at US\$ 32 million (Black et al, 2006). Over and above this, there are remittances transmitted through various other channels (within the informal sector) as well as

¹³ Capturing the true size of remittances is further complicated by the fact that in some studies remittances are also understood to cover the remittance of goods (i.e. non-cash), and/or purchasing goods or services for the benefit of the households in the countries of origin. For example, while the study of Pendleton et al (2006) confirms that the vast majority of migrants in South Africa (85%) send some form of remittances back home, it also highlighted that the proportion of migrant-sending households receiving remittances in the form of goods varied from 17% in the case of Swaziland to as much as 65% in Mozambique. The authors of the study underscore that while some studies focus primarily on cash transactions, it is likewise important to "take into account broader concepts like 'value-packages', where remittances are viewed as transfers of both money and goods." (Pendleton et al, 2006, p.21).

¹⁴ The available data on remittances (World Bank) show that the shares of remittance inflows to GDP in 2006 were as high as 3.5% in South Asia, 1.5% in East Asia and the Pacific, 1.9% in Latin America and the Caribbean, and 1.6% in Sub-Saharan Africa. Key migrant-sending countries registered inflows equivalent to 2.9% (Mexico) to as much as 13% (Philippines) of the countries' GDP.

remittances of goods, which suggest that migration is a major contributor to Mozambican livelihoods and the country's foreign exchange earnings.

Table 2.5. Remittance patterns: outflows (in millions US\$)

	Income Group	LDCs	2003	2004	2005	2006	2007	Remittances as a share of GDP, 2006 (%)
Angola	LMC	LDC	230	296	215	413	413	0.9%
Malawi	LIC	LDC	1	1	1	1	1	0.0%
Mozambique	LIC	LDC	29	20	21	26	26	0.4%
Namibia	LMC		15	18	19	20	20	0.3%
South Africa	UMC		706	937	1,055	1,068	1,186	0.4%
Zambia	LIC	LDC	71	76	94	115	124	1.1%

Source: World Bank Remittances Data.

Note: The data presented in this table reports officially recorded remittances only. The true size of remittances, including unrecorded flows through formal and informal channels, is believed to be larger.

Freund and Spatafora (2005), in their study of the transaction costs and determinants of remittances, note that it will be important to know the true size of remittance flows, especially if policy is being designed to encourage remittances or stimulate investment in this area. Inaccurate information about the size of migration and remittance flows may lead to inappropriate initiatives. Moreover, from an efficiency standpoint, a large share of informal remittances in an economy may suggest the need to stimulate greater competition among formal financial service providers such as banks and money transfer operators. Also, there may be positive externalities from using financial institutions such as banks to transfer money, including increased access to credit and the use of financial institutions for savings – especially among those who are currently unbanked.

Regularizing the remittances of undocumented migrants in Southern Africa is likely to be a very controversial issue from a political perspective. As there is no way for an undocumented migrant to earn money legally in South Africa, for example, all remittances by such migrants are by definition the result of illegal employment. Regulatory changes may need to be implemented to regularize or incorporate into a legal business model the remittances of undocumented migrants.¹⁵

Apart from the issues surrounding the informal nature of migration in the region, it is also important to consider the relatively high cost of sending remittances in the formal financial sector, which also influences the preference for informal channels as a means of sending remittances across borders. Table 2.6 below reproduces results from the study of Pendleton et al (2006) in South Africa, showing the most popular ways of sending remittances. This includes bringing the money themselves (47%), sending money via a friend/co-worker (26%), or via the post office (7%). Other important ways of transferring money are through TEBA and bank accounts (6% via banks in the home country and less than 1% via banks in South Africa).

¹⁵ Successful initiatives of this sort have been launched, for example, for Mexican immigrants in the USA.

Table 2.6. Method of transfer used in South Africa (based on a study by Pendleton et al, 2006)

		Botswana		Lesotho		Mozambique		Swaziland		Zimbabwe		Total	
		N	%	N	%	N	%	N	%	N	%	N	%
Method of transfer used	Via the Post Office	64	7.4%	76	5.1%	10	0.8%	129	10.3%	134	14.5%	413	7.1%
	Wife's TEBA account	43	5.0%	27	1.8%	22	1.7%	76	6.1%	14	1.5%	182	3.1%
	Bring personally	402	46.6%	801	54.1%	558	43.1%	641	51.5%	320	34.6%	2722	46.8%
	Via a friend - co-worker	184	21.3%	494	33.4%	466	35.9%	276	22.1%	102	11.0%	1522	26.2%
	Via bank in home country	65	7.5%	27	1.9%	7	0.5%	41	3.3%	217	23.5%	357	6.1%
	Via TEBA own	92	10.7%	10	0.7%	55	4.2%	29	2.3%	6	0.6%	192	3.3%
	Bank in South	0	0.0%	14	0.9%	3	0.2%	16	1.3%	12	1.3%	45	0.8%
	Via taxis	0	0.0%	3	0.2%	49	3.8%	11	0.9%	26	2.8%	89	1.5%
	Bus	1	0.1%	0	0.0%	56	4.3%	4	0.3%	1	0.1%	62	1.1%
	Other method	11	1.3%	28	1.9%	71	5.5%	24	1.9%	91	9.8%	225	3.9%
Don't know	1	0.1%	0	0.0%	0	0.0%	0	0.0%	2	0.3%	3	0.1%	
Total		863	100.0%	1,480	100.0%	1,297	100.0%	1,247	100.0%	925	100.0%	5,812	100.0%
Problems with transferring money	Yes	46	5.6%	70	4.7%	165	12.9%	97	7.8%	303	33.0%	681	11.9%
	No	776	94.4%	1,410	95.3%	1,111	87.1%	1,150	92.2%	616	67.0%	5063	88.1%
Total		822	100%	1480	100%	1276	100.0%	1247	100.0%	919	100.0%	5744	100%
Problems experienced	Costly charges	3	8.3%	8	11.4%	14	9.0%	10	10.4%	134	44.2%	169	25.6%
	Slow	3	8.3%	20	28.6%	19	12.3%	28	29.2%	56	18.5%	126	19.1%
	Unreliable	5	13.9%	9	12.9%	66	42.6%	39	40.6%	45	14.9%	164	24.8%
	Lack of banking	1	2.8%	2	2.9%	1	0.6%	0	0.0%	11	3.6%	15	2.3%
	Irregular	0	0.0%	5	7.1%	27	17.4%	3	3.1%	10	3.3%	45	6.8%
	Never arrives, gets stolen	24	66.7%	26	37.1%	7	4.5%	14	14.6%	39	12.9%	110	16.7%
	Other problem	0	0.0%	0	0.0%	19	12.3%	2	2.1%	7	2.3%	28	4.2%
	Don't know	0	0.0%	0	0.0%	2	1.3%	0	0.0%	1	0.3%	3	0.5%
Total		36	100.0%	70	100.0%	155	100.0%	96	100.0%	303	100.0%	660	100.0%

Source: Based on a study by FinMark by Pendleton et al, 2006, see p. 26.

Another study (FinMark Trust 2005, cited in Truen et al, 2006), shows a higher share among the respondents who said that they also used banks as a means for executing transfers. Nevertheless, a significant proportion of those who made cross-border payments still cited the use of informal channels (i.e. through friends/relatives/taxi drivers).¹⁶ The main reasons provided for the choice of the informal method included:

- Ease: methods with less paperwork were preferred;
- Familiarity: the method is also used by family or recommended by friends;
- Cost: the participants' perception about cost is critical;
- Speed: especially when the remittance is intended to meet an emergency;
- Risk tolerance: for theft or other losses;
- Access: how easy it is for the recipient to reach the point of delivery.

¹⁶ The differences in the results between these two studies cited (showing results for South Africa) may be explained in terms of the possible differences between the sampling method and timing used in each of the surveys conducted.

Table 2.7. Method of transfer used in South Africa (based on the results of a study by FinMark Trust, 2005)

Method used	Total		According to socioeconomic status		According to residence status	
	Number of respondents	% of respondents	White Collar	Blue Collar	Domestic	Cross-Border
Total number of respondents	48	-	25	23	16	32
Friends/relatives/taxi drivers	24	50%	12	12	5	19
Post Office	17	35%	9	8	4	13
Western Union	2	4%	2	-	-	2
Bank transfers	26	54%	18	8	14	12
ATM/debit card	4	8%	1	3	-	4
Cheque	1	2%	1	-	-	1
Internet	3	6%	-	1	2	1
Mobile phone	1	2%	-	1	-	1

Source: Based on a study by FinMark Trust 2005, cited in Truen et al, 2005.

Fees in informal networks tend to be lower than in banks or money transfer operators, although not necessarily lower than postal orders. However, post offices in the region can be slower and less reliable than other transfer modalities. In some countries, there may be regulatory restrictions impeding the entry of financial institutions (that may have relatively more extensive geographical reach and proximity to low-income populations) into the remittance market.

Table 2.8. Cost of sending a remittance in South Africa (based on the results of a study by FinMark Trust, 2005)

	Price for a R300 transfer
Domestic transfers	
Taxi driver	R 15.00
Friends/relatives	R 15.00
Post Office - money order	R 36.10
Post Office - postal order	R 24.50
Bank deposits	R 8.28
Inter-account payments	R 8.22
International transfers	
Taxi driver	R 30.00
Friends/relatives	R 30.00
Post Office - money order	R 30.50
Post Office - telegraphic money order	R 51.75
Inter-account payments	R 167.13

Source: Based on a study by FinMark Trust 2005, cited in Truen et al, 2005.

The data provided in Table 2.8 above demonstrates that while the cost of sending international remittances is comparable between postal money orders and informal mechanisms, the cost of inter-account transfers is almost six times that of informal mechanisms, with fees/charges on inter-account payments representing more than 50% of the amount sent on average as a remittance (i.e. an average of R 300 per month).¹⁷

2.2. Trade patterns in Southern Africa: implications for cross-border payments

In this section, we look at trade patterns between the countries of study, particularly informal cross border trade. We define informal cross border trade as economic activities which are unregulated and yet are considered legal economic activities - such as the selling of crafts across national borders (Chen, 2005).¹⁸

Informal traders are often portrayed as “smugglers”. This perception is based on the fact that most informal trade is undocumented, unregistered, and thus unaccounted for in the countries’ national accounts. In Southern Africa, as in many other parts of the world, the level of trade between countries is understated in official statistics because informal cross border trade – which is acknowledged as being extensive in the region – is not captured in countries’ trade statistics. Nevertheless, in many cases, duties and taxes are charged to small informal traders who operate across borders. Studies estimate that informal trade within SADC contributes an average of over US\$17.6 billion per year (Musonda, 2004). The typical payments system (supporting these exchanges) has been characterized by unrecorded cash-to-cash transactions.

A study conducted by the Southern African Research and Documentation Centre (SARDC) in 2008 noted that informal cross border trade is by no means a new phenomenon in the SADC region. The countries in the region have strong historical and cultural relations that influence the level of trade activity especially between bordering countries. For example, informal cross border trade in Zimbabwe dates back to pre-colonial times, where people carried out barter trade without the need for formal registration. In modern times, however, there has been a significant emergence of tariff and non-tariff barriers. This has partly disrupted informal economic activity. For many years, traders from Mozambique and other locations in Southern Africa have regularly crossed into South Africa, usually on visitor visas that do not permit trading (Peberdy, 1998). Angolans also cross into Namibia for various reasons, including trade (Nangulah and Nickanor, 2005).

Individuals cross borders to sell small amounts of goods – for example, as informal street traders. While such individuals are not strictly classified as migrants, some studies describe these informal traders as “amongst the most enterprising and energetic of contemporary migrants” (Crush et al, 2005, p. 15). Despite many obstacles, trading remains an important way of generating income among people in many countries of the region, especially for those in the low-income segment who are also often among the unemployed. For example, it has been noted that cross-border trading is the primary income generating form of migration for Zambia’s poor.

Despite the importance of informal cross border trade – especially with respect to livelihood and income generation among the poor in the region – policies tend to favour formal (and often larger) trade activities. Efforts have been made in some countries to address some of the key challenges being faced by informal traders. For example, Zimbabwe signed a memorandum of understanding (MOU)

¹⁷ In the same study, 23.2% of the migrants remitted amounts ranging from R1,500 and below, while 22.6% sent R1,501-5,000 (Truen et al, 2005, see p.21). The average annual remittance was estimated at R3,574.70.

¹⁸ This definition, therefore, does not include informal cross border trade of illegal economic activities - such as the sale of stolen goods and illegal drugs.

with the government of Malawi to facilitate informal trade, specifically the facilitation and enhancement of trade and investments between small and medium entrepreneurs, and building the capacity of small and medium enterprises through skills development initiatives. Negotiations are currently underway for the signing of similar MOUs with other neighbouring countries such as Zambia, South Africa and Namibia.

Informal sector cross-border trade is important to the transfer of goods and commodities between countries. It also plays a significant role in regional food security, and in the development of small and medium enterprises. The United Nations World Food Programme (UN-WFP) notes that significant reductions in the overall volume of informal trade may exacerbate the food security situation in some countries – which is already very uncertain and unstable in a number of countries, such as Malawi.¹⁹

The study conducted by SARDC in 2008 describes informal cross border traders as including:

- Traders or merchants who under-declare their imported goods/wares;
- Traders or merchants who do not declare anything at all (smugglers);
- Traders or merchants who do not declare through clearing agents;
- Traders or merchants who sell directly to the final consumer; and
- Agents of established wholesalers and retailers.

The study looked at traders at different borders. For example, traders from Zimbabwe who buy goods from South Africa may use buses, own transportation or may have delivery agents known as *malayitshas* or “runners”. These agents carry the goods from places such as Johannesburg, clear them at Beitbridge and deliver to destinations in Bulawayo and Harare. Their pickup trucks are observed to be often dangerously overloaded. *Malayitshas* are known for undervaluing declarations to evade customs duties.

Traders who do not declare their goods at all were observed to be the most prevalent at border posts. These traders bring their merchandise from either Mbeya or Kyela in Tanzania or Karonga and Lilongwe in Malawi, on minibuses or hauling trucks. They usually disembark before they reach the border points. They then hire *cargo boys* (on bicycles) who then carry the goods via alternative paths to avoid customs.

Interestingly, the same study noted that informal traders crossing the borders tend to be mostly female (70%). Thus, informal cross-border trade is said to be closely linked to the feminization of migration described earlier. This is not surprising, considering that informal cross border trade is considered a source of income and employment, especially by those in the low-income segments of the population, including women. Women who are unable to find employment seek other opportunities for generating income such as by engaging in informal trade activities. The study estimates that the monthly value of goods traded (per trader) in the region averaged US\$2,506.

As with migration, the problem is that it is difficult to make an estimate of the true size of informal trading activity and the volume of informal trade-related payment transactions between the countries. One might expect that – as in the case of labour migration – income, proximity and networks will likely be the factors influencing the magnitude and direction of informal trading across the borders.

¹⁹ The UN-WFP publishes reports on informal cross border food trade for several countries monitored under the Southern Africa Informal Cross Border Food Trade Monitoring System.

3. The Financial and Telecommunications Landscape

Parallel to the discussion in the previous chapter, this section describes the supply landscape – specifically, the financial and telecommunications sectors in the countries of study. Issues specific to the development of each of these sectors (on a region-wide or country level) as they relate to the provision of mobile banking services in these countries are discussed herein.

3.1. The financial sector

The development of a sound financial sector and efficient payment systems are essential for increasing cross-border flows. This includes, among other things, developing the commercial banking sector and other financial institutions, strengthening the domestic payments system, developing foreign trade financing instruments and establishing correspondent banking relationships between countries in the region.

Most of the countries in this study have either fully or substantially implemented financial sector reform programmes. In the last decade, countries' financial markets have expanded, with a noted increase in the number of commercial banks operating in countries like Zambia, and measures have also been taken to reduce government ownership or privatize state-owned banks such as in Malawi. However, despite these recent developments in several areas, the degree of competition in financial markets in a number of countries still remains limited to a few operators, and there is only a thin supply of financial instruments.

In general, the financial sectors (especially in most of what may be considered migrant-sending countries) are characterized by: weak competitive environment (especially in the remittance market); lack of access to technology-supporting payments and settlement system; and burdensome regulatory and compliance requirements (for banks).

3.1.1. A brief on the financial sector in Angola

Angola is a country that is still recovering from a long period of conflict that ended in 2002. Such experiences of conflict tend to leave a legacy characterized by weak governance of institutions, depressed incomes, degraded infrastructure and public service systems, high inflation and high level of economic uncertainty, critical problems associated with physical security and property rights, high levels of unemployment, and shortage of human and institutional capacity. Despite these obstacles, by 2007 Angola succeeded in achieving rapid growth driven by an oil boom, combined with an aggressive program of reconstruction. The political situation has stabilized and security conditions in the country have been showing signs of improvement.

In the financial sector, Angola has moved beyond its initial post-conflict state. It is now confronting the complexities of establishing a sound and efficient financial system to support broad-based growth and rapid job creation for its population. However, this is expected to take time primarily because it requires the development of skills in the financial system, a supportive legal and judicial system, and improvements in the country's business climate. In its Doing Business Assessment for 2008, the World Bank ranks Angola as having one of the least supportive environments in the world for private investment. Bank loans and deposits have grown very rapidly over the past two years in Angola; however, credit to the private sector still amounted to just 7.2% of GDP in mid-2007, and total deposits amounted to only 15.7% of GDP. Significantly, a great majority of the country's population remain outside the reach of formal financial system: estimates show that banks were reaching only 6% of the entire population.

3.1.2. A brief on the financial sector in Malawi

The financial system in Malawi is small, underdeveloped and dominated by a few financial institutions that offer a limited range of services (BIS, 2005). The problems and limitations in the modernization of the payments system in Malawi is driven in part by the:

- Lack of commitment of individual banks, given high cost implications;
- Low level of computerization in the banking sector;
- Legal and technological shortfalls; and
- Differences in corporate strategies among banks.

As in the case of other low-income countries, financial services tend to be concentrated in urban areas of the country and do not reach a significant proportion of the country's population. Although there have been efforts directed at developing the microfinance sector in the country, the sector is still dominated by a few major players.

Important financial service providers in the country include, on the public sector side, three parastatals:

- The Malawi Savings Bank (MSB), successor to the failed Postal Savings Bank and wholly owned by the government, is considered the only "rural bank" that is actively targeting micro-clients (for savings). However, it is in precarious financial condition.
- The Malawi Rural Finance Company (MRFC), which is also wholly owned by the government and successor to the failed Smallholder Agriculture Credit Association (SACA), supplies more than 50% of micro-credit in Malawi and is highly dependent on subsidies.
- Other parastatal entities include those involved in subsidized, or directed micro-lending, such as the Small Enterprise Development Organization of Malawi (SEDOM) and the Development of Malawian Enterprise Trust (DEMAT). Of the two only DEMAT has an active microcredit program and the running costs of both organizations are subsidized by the government.

Apart from private commercial banks, supervision of microfinance is limited and informal, although this is expected to change once the new Microfinance Bill is passed and enacted. There are also financial cooperatives operating in the country, although they are limited in their capacity to expand and grow into significant providers of financial services in the country. The cooperative law in Malawi does not adequately distinguish between credit unions and other associative structures nor does it address the unique needs of federated apex structures. There are a number of private sector Microfinance Companies, such as PRIDE Malawi and FINCA. Both these structures have the potential to provide financial services on a relatively wider scale. However, neither of them is legally able to intermediate savings.

Overall, there is low market penetration of financial services in Malawi, particularly when it comes to savings mobilization. Moreover, there are only very limited financial products available. It is therefore not surprising to see client dropout rates in excess of 50%, which indicate that financial service needs are not being adequately met by the existing financial service providers.

3.1.3. A brief on the financial sector in Mozambique

The financial system in Mozambique is dominated by the commercial banking sector. Structural reforms that have been recently initiated in the financial sector have improved the health of the sector, with increasing signs of the ability of institutions to meet liabilities and a decline in bad debts. These developments are expected to help improve banks' ability to lend and should in time translate into

better access to credit and lower lending rates. The imposition of a 50% provisioning requirement on foreign currency loans to non-exporters in early 2006 has resulted in a falling level of dollarization in the market.

The Central Bank indicates an increase in the total assets of the banking system of almost 20% in 2005 and a reduction in average interest rate spreads from 13.8% to 10.8% in the same year. The ratio of credit to GDP was around 18% in 2005. Despite these developments, however, the sector remains very concentrated in terms of having just a few institutions that mainly operate in Maputo. The Bank of Mozambique has registered a total of nine commercial banks, three micro-credit banks and three cooperatives under its supervision.

Access to finance is considered as a key bottleneck for the development of many small and medium enterprises (SMEs) and the local economy. Financial service providers are constrained to expand their reach and provide services due to high transaction costs related to the transportation, security and communications infrastructure in the country. There are also limitations in terms of the pool of human resources needed in the financial sector.

The microfinance sector in Mozambique has grown over the past years, although it also remains severely concentrated. Out of about 32 institutions operating in the sector as of 2005, there are only four main players (i.e. significant providers of services): this includes three commercial banks and one cooperative (Novobanco, Socremo, Tchuma, Banco Oportunidade). NovoBanco, SOCREMO and Tchuma controlled more than two-thirds (68%) of the active portfolio in 2005. NovoBanco controls one third of the total active portfolio. The microfinance sector still continues to be largely an urban phenomenon. In the rural areas, community based groups (similar to ROSCAs or village-based savings and loans associations) tend to be the dominant fixture. The recent launch of the Rural Finance Support Programme is directing considerable resources to promote greater coverage of the rural-based financial associations (*caixas comunitárias*) and improving rural finance methodologies.

3.1.4. A brief on the financial sector in South Africa

South Africa has the deepest and most sophisticated banking sector in Africa. The financial services sector is backed by a sound regulatory and legal framework, and there are domestic and foreign institutions providing a full range of services - commercial, retail and merchant banking, mortgage lending, insurance and investment.

South Africa's banking sector compares favourably with those of industrialised countries. Foreign banks are well represented and electronic banking facilities are extensive, with a nationwide network of automatic teller machines (ATMs) and internet banking facilities available.²⁰

South Africa is also the centre of innovation in Africa: the field of remote access banking and origination of bank accounts by agents operating on behalf of banks is a well established practice in South Africa (a very large number of Mzansi accounts have been opened in this way). There are many financial services that can be operated remotely by the customer and not merely initiated in that way (OPM, 2008), including:

- two cellphone banking operations aimed specifically at providing remotely accessible domestic money transmission (Wizzit and MTN MobileMoney);

²⁰ This description, taken from www.southafrica.info, while predictably glowing, is nonetheless accurate.

- Nedbank's correspondent banking model based on an alliance arrangement with the Pick & Pay supermarket chain;
- Capitec's GlobalOne traditional bank account that offers card-based payments and cash-out via supermarkets;
- ABSA's AllPay unit that has a contract from government to pay out social security benefits and pensions in Gauteng and parts of Eastern Cape (South Africa) via a card-based product;
- Teba Bank's remote access sub-accounts and its new Acard product;
- a number of initiatives that allow clients to use remote methods to pay insurance premiums (by Alliance, Discovery Life, Hollard Insurance and others).

3.1.5. A brief on the financial sector in Zambia

As in most countries in the region, the financial sector in Zambia is dominated by the commercial banks.²¹ They have around a million users but almost certainly fewer clients, which is about as many as the rest of the formal sector put together – including savings banks, building societies, social microfinance institutions and commercial microlenders. The assets of the commercial banks, at ZMK 8 trillion, are almost ten times as great as the rest of the sector put together.

Through a steady and consistent reform programme, Zambia has achieved macro-economic stability, and there is general consensus that the regulation of the financial sector is reasonably designed to favour access to financial services. In particular, Zambia is fortunate to have a single financial services law that gives a coherent overall regulatory framework for all different types of supplier of banking or similar services. The only area of the law that might possibly be said to hold up access is the limit it puts on the involvement in financial services of non-financial corporations. Zambia already has a Real Time Gross Settlement (RTGS) system that is evolving in line with the financial sector, while approval to operate a credit bureau has already been launched.

Nevertheless, Zambia has very low bank penetration, with less than 15% of the population having bank accounts, according to the 2005 FinScope™ Survey. Other formal and informal financial services do push out the landscape of access, but their impact on access is very limited. The net result of this is that two thirds of the adult population of Zambia are completely unserved by the financial sector, a much higher proportion than in any other country in the region covered by FinScope™. Financial exclusion is particularly severe in the rural areas.

Mobile phone banking has not yet been launched in Zambia, though a number of initiatives are under development. An interesting pilot scheme has been undertaken by Mobile Transactions Zambia Limited involving an SMS service through which cotton companies can buy cotton from farmers using mobile phones even when the farmer does not have a bank account – the programme is in the process of being fully implemented (McGrath, 2008).

3.2. The telecommunications sector

The countries in Southern Africa are all at different levels of information and communications technology (ICT) development as is shown in Table 3.1 below. The selected indicators show comparatively more developed ICT sectors among the higher income countries like South Africa and Namibia. In Zambia, Angola and Malawi, the telecommunications sector is still characterized by the monopoly of state-owned operators or service providers.

²¹ The description of the financial sector in Zambia is drawn from OPM/PMTC (2008).

Table 3.1. ICT development in Southern Africa

	Year	Zambia	Year	Malawi	Year	Mozam- bique	Year	Angola	Year	Namibia	Year	South Africa
Structure of the telecommunications sector												
Separate telecommunication regulator	2006	Yes	2006	Yes	2006	Yes	2006	Yes	2006	Yes	2006	Yes
Status of main fixed-line telephone operator		Public		Mixed		Mixed		Public		Public		Mixed
Sector performance (selected indicators)												
Fixed line and mobile phone subscribers (per 100 people)	2007	23.00	2007	9.00	2006	11.00	2006	14.00	2007	45.00	2007	99.00
Households with television (%)	2002	26.00	2004	5.30	2004	8.60	2005	9.00	2004	41.00	2005	59.00
Internet users (per 100 people)	2007	4.00	2007	1.00	2007	1.00	2007	1.00	2007	5.00	2007	8.00
Mobile phone subscribers (per 100 people)	2007	22.00	2007	8.00	2007	15.00	2007	19.00	2007	39.00	2007	89.00
Population covered by mobile telephony (%)		65.00		70.00		95.00		---		88.00		96.00
Price basket for mobile telephone service	2006	14.20	2006	10.20	2006	10.00	2006	12.20	2006	14.20	2006	13.80
Telecommunications revenue (as % of GDP)	2006	2.50	2006	3.30	2006	1.50	2006	2.00	2006	4.80	2006	6.40
E-government readiness index (0-1, 1=most ready)	2006	0.23	2006	0.29	2006	0.26	2006	0.33	2006	0.34	2006	0.51

Source: World Bank ICT data.

Another important indicator of the state of ICT development is the score and global ranking on the Networked Readiness Index. This is an indicator used globally to measure the propensity for countries to exploit the opportunities offered by information and communications technology.²² The performance of the countries in our study in terms of this index is provided in Table 3.2 below.

Table 3.2. Networked Readiness Index in Southern Africa

Country	SADC Rank	Global rank	Global Score
South Africa	1	47	4.00
Namibia	4	85	3.28
Malawi	7	111	2.79
Zambia	8	112	2.75
Mozambique	9	115	2.64
Angola	12	120	2.42

Source: The Networked Readiness Index 2006–2007 rankings, see www.weforum.org/pdf/git/rankings2007.pdf, cited in: Mouton, et al (2008).

Only a few countries in the region already have extensive telecommunications backbones in place that employ a combination of microwave radio relays and fibre-optic cables with other countries in

²² This is an indicator applied to a total of 122 countries.

advanced stages of deploying their backbones. Some countries have already achieved significant fibre deployments in the backbone network (such as Namibia and South Africa). In general, however, the total international bandwidth available to these countries in the region is extremely poor when compared, for example, to Europe, Asia or North America. Some of the countries that have high-speed inter-connected telecommunications infrastructure have already expressed plans to develop a fully-fledged regional telecommunications network (by improving cross-border connections).

There are country-specific issues that are important to consider when discussing cross-border connectivity:

- Angola's telecommunications network was severely damaged during the country's civil war. Several initiatives to develop a national fibre backbone are currently underway. However, there is no real competition in the telecommunications sector, which can help push for the development of advanced services.
- Malawi has one of the poorest connectivity infrastructures in the region. Malawi Telecom, the state-owned telecommunications company, has plans to build a national fibre backbone and is looking at installing a cross border fibre-optic link with Mozambique and a microwave link connecting Lilongwe with Zambia. These connections are expected to be in place relatively soon.
- The state owned and monopoly Telecomunicações de Moçambique (TDM) has been rapidly rolling out a national fibre backbone. Work on the backbone reportedly started in 2002 and was expected to be completely in 2008. Mozambique is expected to have a fully deployed and extensive national backbone in time to connect to any of the proposed submarine cables for the east Africa coast.
- Namibia has one of the most advanced telecommunications backbones in Africa with an extensive fibre-optic network developed by the state-owned Telekom Namibia, reaching out across the entire country. Namibia connects to South Africa via a fibre link. Namibia is the only member of the SAT3 consortium without its own landing point, instead relying on transit through South Africa. Namibia is reported to be in advanced talks with Botswana and Angola, to facilitate Namibia's and Botswana's connection to SAT3 via Angola.
- South Africa has the best and most extensive infrastructure in the region. The partly state-owned Telkom South Africa is a dominant player; recently, a second national operator called Neotel was licensed. For international connectivity, South Africa relies on the SAT3/SAFE cables and now has links with Botswana, Lesotho, Namibia, Mozambique and Swaziland.
- Zambia's state-owned telecommunications company, Zambia Telecommunications Company Ltd (ZAMTEL), is reported to be in the advanced stages of installing a fibre-optic backbone around the country. Zambia, being a landlocked country, relies on satellite for most of its international traffic. It has links to Botswana over SDH digital radio and an analogue PDH link to Tanzania. Zambia could easily link up to Namibia through a short fibre interlink since there is fibre up to the common border on both sides (Telecom Namibia and ZESCO).

The problem faced by the region in terms of ICT development relates to several factors. For example, some of the countries in the region are landlocked (Zambia and Malawi) without the possibility of direct connection to submarine fibre. Such countries will have to rely on expensive satellite links for their international traffic and may be unable to afford or access high bandwidth links. Moreover, there are few countries with an extensive and high-speed backbone and access network to reach out to many users, which creates an artificially "low" demand for bandwidth. And even where an extensive broadband-capable backbone and access network exist, such as in South Africa and Namibia, the prices of high-speed connectivity are still very high, way beyond the affordability of a greater proportion of the population. This factor, in turn, also contributes to an artificially low demand for international bandwidth. Thus, most telecommunications providers in the region aim for low-volume-high margin rather than high-volume-low margins in the provision of their services.

4. Summary of Country Diagnostics

As explained in the Introduction, the findings and recommendations in this report are founded on the detailed Country Diagnostics in Annex A. In this chapter, we provide three summaries of the findings of the Country Diagnostics for ease of reference. The first, at Table 4.1, is a visual Summary View of the regulatory landscape; the second, at Table 4.2, is a synoptic table summarizing the approach of each country to the various dimensions of domestic and cross-border branchless banking; and the third, at Table 4.3 is a summary of the m-banking position in

Inevitably, a lot of information and nuances are lost in such a summary, so the summary view should be read in connection with the full synoptic table below at Table 4.2, and indeed with the full Country Diagnostics in Annex A.

Table 4.1. Synoptic Table Summary View

Key

	Permissive
	In between, or in transition
	Restrictive
	Unclear

	Angola	Malawi	Mozam- bique	South Africa	Zambia
Domestic Branchless Banking Regulatory Framework					
Nonbank-based branchless banking model permissible?					
Outsourcing to retail agents permissible?					
Regulator/ Policymaker Perspectives on outsourcing					
Electronic money services					
Effect of AML/CFT ²³					
Regulatory Framework for Cross-Border Transactions					
Who can offer them?					
Transaction limits ²⁴					
Identification requirements					

²³ Information on the effects of AML/CFT for Angola is incomplete

²⁴ Transaction limits in South Africa are restrictive for PostBank, but not very restrictive for banks.

Table 4.2. Synoptic table

	Angola	Malawi	Mozambique	South Africa	Zambia
Domestic Branchless Banking Regulatory Framework					
Nonbank-based branchless banking model permissible?	Might be permissible in principle, but prohibited in practice	Definitions unclear, key laws (e.g. Payments System Law) still pending. Appears not to be permissible	Yes. Nonbank e-money institutions permitted by law, though no regulations yet in place	No. While nonbanks often take lead role in branchless banking initiatives, only banks may issue e-money, so joint venture required.	Yes
Outsourcing to retail agents permissible?	Law limits deposit-taking ²⁵ to banks, but does not directly address whether banks may outsource deposit-taking function. In practice, prohibited.	Laws unclear and outdated; in practice, some outsourcing is permitted. Draft Banking Act and Microfinance Act (pending Parliament approval) would allow outsourcing.	Yes. “Deposit brokers” permitted to collect deposits on behalf of deposit-taking institutions.	Yes – very liberal	While law does not explicitly permit or prohibit outsourcing, a wide variety of services may be outsourced in practice.
Regulator/ Policymaker Perspectives on outsourcing	Law is interpreted as prohibiting outsourcing for deposits, but some other services are outsourced	Reserve Bank and other policymakers are willing to consider outsourcing a variety of services. Reserve Bank would like to put a legal framework in place.	E-money issuance and use of retail agents expressly permitted.	A wide range of services can already be outsourced	Central Bank supportive in theory, inclined to allow development subject to specific authorization on case-by-case basis.
Electronic money services	Only banks may issue e-money, and banks may not outsource e-money issuance to retail agents. Currently considering	Outdated legal framework does not officially recognize electronic transactions; in practice, some bank-	Bank and non-bank e-money services permitted by law, but no regulations yet in place. Ministry of Finance	Yes, but only by or through banks	Yes, by both banks and non-banks

²⁵ The term “deposit taking” is used in this synoptic table and in Annexes A and B to mean the “cash in” function of financial transactions – following the use of the term to “take deposits” in the CGAP Branchless Banking Diagnostic Tool which provides the framework for the study. It is not meant to imply that agents taking in cash in this way are deposit-taking institutions in the formal sense.

	Angola	Malawi	Mozambique	South Africa	Zambia
	designing a scheme to enable inter-operability b/w banks.	based e-money services are being introduced.	beginning process of developing regulations.		
Effect of AML/CFT	No comprehensive legal framework, but official ID required, which may restrict access. No known exemptions or relaxations of requirements for low-value accounts.	Strict identification and verification requirements, if applied as written, would exclude many. In practice, Reserve Bank takes flexible approach to minimize exclusion. New, more permissive regulations are being drafted.	Identification requirements quite flexible (e.g. permits the use of a wide range of documents to identify clients and verify identity), and not a major barrier to branchless banking.	Exemption 17 greatly eases the identification requirements for low-value accounts for South African citizens and residents.	Identity must be established through production of official identity card, but such cards are nearly ubiquitous. There is considerable flexibility in verification of name and address requirements
Regulatory Framework for Cross-Border Transactions					
Who can offer them?	Has to go through a bank or exchange house. MTC services available, but only through a bank or exchange house.	Restricted to banks and the post office apart from very small gifts	Only banks and the post office – MTC services available only through a bank	Previously restricted to banks and post office, but now being extended to bureaux de change. MTCs allowed to operate only through banks or bureaux de change	Banks and registered “payment system businesses” – which may include MTCs, mobile operators, and other providers – allowed to offer cross-border services
Transaction limits	Exchange control operates. All transactions require approval. Outward remittances restricted.	Strict limits	No limits, but approval required over \$5K	Postbank transfers limited to approx. \$200 per month. Outward transfers at banks subject to \$50,000 annual limit. All FX transactions must be recorded, which has cost implications.	Very liberal up to \$5,000, above which transfers only through banks.
Identification requirements	ID document required. Currently excludes many people. Proof of legal	As for domestic (see AML/CFT above). Proof of legal residence	Significant flexibility. Proof of legal residence not required.	Exemption 17 does not apply to cross-border transactions, so	Significant flexibility. Proof of legal residence not required.

Mobile Banking in Southern Africa: Consolidated Draft Report

	Angola	Malawi	Mozambique	South Africa	Zambia
	residence not explicitly required.	not currently required, but may change upon enactment of regulations.		requirements are restrictive. Proof of legal residence required for bank transfers (except Postbank).	

Table 4.3. Current m-banking provision

(See next page for notes on countries not covered in the table, where m-banking services are not yet available)

	Mobile Banking Service Providers		
	MTN (South Africa)	Wizzit (South Africa)	Celpay (Zambia)
Legal or regulatory compliance	<ul style="list-style-type: none"> • Bank 	<ul style="list-style-type: none"> • Bank 	<ul style="list-style-type: none"> • Bank
Dominant party in the value chain	<ul style="list-style-type: none"> • Mobile operator and bank 	<ul style="list-style-type: none"> • Bank 	<ul style="list-style-type: none"> • Third party ^(a)
Services offered	<ul style="list-style-type: none"> • Cash deposit — withdrawal • Purchase of goods at selected retailers 	<ul style="list-style-type: none"> • Money transfer 	<ul style="list-style-type: none"> • Cash deposit and withdrawal • Airtime purchases • Purchase of goods at selected retailers
Domestic money transfer	<ul style="list-style-type: none"> • Yes — to other MTN Banking customers. 	<ul style="list-style-type: none"> • Yes — to any mobile users; by phone, cash-out at Wizzit agents 	<ul style="list-style-type: none"> • Yes ^(b)
International money transfer	<ul style="list-style-type: none"> • NO 	<ul style="list-style-type: none"> • NO 	<ul style="list-style-type: none"> • NO
Access points	<ul style="list-style-type: none"> • Bank branches • Selected retailers 	<ul style="list-style-type: none"> • Bank branches (ABSA Bank and post offices) and ATMs • Agents • Vodacom outlets 	<ul style="list-style-type: none"> • Bank branches • Over 100 POS devices accepting payments from mobile phones
Use of agents / non-bank provision of services	<ul style="list-style-type: none"> • Neither WIZZIT nor MTN Banking uses retail agents (with the exception of post offices) to handle cash on its behalf. 		<ul style="list-style-type: none"> • At a start-up phase, but appears to be working with agents.
KYC practices	<ul style="list-style-type: none"> • Institutions must obtain and verify a customer’s full name, date of birth, and identity number, using an official identity document for verification (covering basic transaction). 		<ul style="list-style-type: none"> • Celpay carries out standard KYC procedures - as they currently only do business-to-business transactions, this is fairly easy: the clients or distributors are known, with known addresses. (It is easy to identify them and take pictures of them.)

Sources: OPM-IRIS country diagnostics in Annex A; Zibi and Sythoff (2009); CGAP (2006); and Hougaard et al. (2008):

Notes:

(a) Third-party models are defined as those driven by a non-bank, non-MNO party, such as a platform provider or a money transfer company.

(b) Celpay's initial focus in Zambia was on retail payments, given the desire to expand its retail footprint into other services. Because of limited initial retail uptake, it decided, however, to focus on business-to-business (B2B) transactions. Celpay offers corporations which have a distribution network, such as Coca-Cola or Zain, the ability to collect payments without cash. It does this through a multi-bank, multi-network, multi-channel platform where dealers pay the company via a mobile phone instruction. The Celpay account is then linked to the corporation's account and serves as a payment confirmation tool. Each party has an underlying bank account which is not an individual account opened and monitored by the bank, but a "virtual" Celpay account.

Notes on focus countries not represented in the table above:

In Angola: EMIS is responsible for retail electronic payment services. Therefore, EMIS would have to design and implement any interoperable mobile phone-based payment scheme. EMIS has indicated that it is in the process of examining the feasibility of such a scheme, which it hopes to implement by 2010. In relation to this, it is important to note that as banks in Angola are permitted to offer rechargeable prepaid cards to non-clients, it appears that they would be able to offer similar e-money service via the mobile phone.

In Malawi: It is not yet clear whether only licensed financial institutions can run branchless banking schemes and the relevant pieces of legislation (e.g. the Payment Systems Bill) has not yet been enacted. Thus, the possibility of mobile network operators becoming licensed to operate payments services also remains theoretical at the moment. While the Government remains committed to extending access to financial services and allowing the use of innovative techniques, electronic banking services, even those provided by banks, are still a relative novelty in Malawi. The RBM has some doubts as to whether a nonbank-based model similar to Kenya's M-Pesa service could be introduced in Malawi in the immediate future. In the short term, a bank-based branchless banking model would be more likely to be approved.

In Mozambique: Provision of branchless financial services by a non-bank is permitted in Mozambique. Specifically, 'electronic money institutions' are now permitted (by law): being classified as credit institutions, they are even permitted to mobilize deposits and other reimbursable funds from the public. It is not yet clear, however, how such institutions will be regulated in practice. Recent amendments to the law are opening up what used to be a very restricted scope for outsourcing deposit-taking services and appear to allow, for example, the use of retail agents to accept deposits on behalf of a bank or other deposit-taking institution. At the moment though, only banks and the Post Office may send and receive funds internationally. As in Angola, money transfer operators such as Western Union and MoneyGram are only provided as a service of a bank; standalone agencies are not permitted.

5. Summary of Recommendations

5.1. Introduction

As demonstrated in the Country Diagnostics in Annex A, and in the summaries in the previous chapter, the five countries covered in this study (a) have very different regulatory regimes in relation to the potential for m-banking in general and for cross-border m-banking in particular and (b) are at very different stages in the development of their m-banking facilities.

A number of policy recommendations are made for each country in the course of the Country Diagnostics, and these are developed in the draft workshop presentation at Annex D (in a separate document). The draft presentation has been prepared for use at a proposed Policy Discussion Workshop that will bring together a select group of policy champions from each of the focus countries to discuss appropriate incentives that encourage innovative bank and non-bank led domestic and international m-banking solutions.

The strands of these recommendations are drawn together and briefly summarized in the next section, and in section 5.3 we describe the elements that we recommend for a proposed follow up action plan, as a basis for discussion at the Workshop.

5.2. Summary of Key Recommendations

5.2.1. Recommendations for regulators/policy makers

- Continue to improve regulatory framework for domestic branchless banking and low-value cross-border transfers in Mozambique, South Africa and Zambia:
 - **Mozambique:** Develop branchless banking regulations; expand permitted points of service for low-value cross-border transfers
 - **South Africa:** Consider allowing nonbank-based branchless banking model; expand permitted points of service for low-value cross-border transfers; expand scope of Exemption 17 to cover intra-SADC transfers and foreign nationals; eliminate requirement to prove legal residence
 - **Zambia:** Develop clear branchless banking guidelines for banks and nonbanks
- Permit in parallel, as in other pioneer countries (Philippines, Kenya) the development of pilots for domestic (when not existing) and cross-border transactions in order to:
 - Initiate the innovation and identify its potential positive impacts; and
 - Identify and address the concrete issues posed by regulation
- As a first step, create regulatory space for domestic branchless banking and low-value cross-border transfers in Angola and Malawi:
 - **Angola:** Permit use of retail agents for cash-in/cash-out on a pilot basis; develop risk-based CDD approach with greater flexibility for low-value accounts/transactions; expand permitted points of service and reduce exchange control approval/reporting requirements for low-value cross-border transfers
 - **Malawi:** Enact pending legislation and develop directives to provide legal clarity re: outsourcing, branchless banking, and electronic transactions; enact risk-based AML/CFT regulations; increase transaction limits for stand-alone money transfer operators, and reduce exchange control approval/reporting requirements for low-value cross-border transfers
- In the same way, permit pilots for domestic (as a first stage) transactions

5.2.2. Recommendations regarding pilots

- Considering the relatively favorable environment, it seems possible to start pilots with 3 objectives:
 - Validate the feasibility (technical, business models and processes, etc.)
 - Validate the potential positive impact (adoption, usage, etc.)
 - Enable stakeholders to gain experience and allow regulatory framework to evolve in tandem with market
- Different models can be envisaged
 - Service provider model with tentatively:
 - Interbank Services Company (EMIS) in **Angola** and the 2 mobile operators
 - **Malawi** Switch Center (MALSWITCH) and the 2 mobile operators
 - **Mozambique** – possibly with Vodacom / mCel?
 - Celpay in **Zambia** with more important focus on poor population (through MFIs)
 - Banking-led approach with tentatively:
 - Standard Bank (MTN partner in SA) with a representative bureau in **Angola**, present in Malawi (60% stake in **Malawi's** Commercial Bank), market leader in the **Mozambique, and present with** Stanbic Bank in **Zambia**.
 - First National Bank (launched Mobile banking in SA), also present in Botswana, Namibia, Swaziland, **Mozambique, Zambia** and opportunities assessed in **Angola**
- The two models have
 - positive aspects:
 - make the service available for all mobile clients,
 - the service is developed by security-focused stakeholders who can inspire confidence
 - negative aspects:
 - promotion of the services could be less extensive than with a strong, motivated mobile operator
- Potentially, some operator-led model can be promoted (for example in Mozambique)

5.3. Elements of the proposed follow up action plan

The purpose of the current section is to spell out a proposed follow up action plan in relation to:

5.3.1 Support for branchless banking initiatives targeting the unbanked

5.3.2 Providing opportunities for stakeholders in target countries to learn from branchless banking pioneers worldwide

5.3.3 Creating opportunities for extensive stakeholder collaboration and

5.3.4 A possible pilot project for cross-border transfers

5.3.1. Support for branchless banking initiatives targeting the unbanked

Use of branchless banking (BB) delivery mechanisms to expand access to financial services is in its infancy in most countries around the world. Even in the countries in which branchless banking has achieved a measure of success, only a small minority of BB clients meet all three of the following

criteria: (i) they fall below the country's poverty line; (ii) they didn't previously hold a bank account; AND (iii) they are using the accounts for financial services other than airtime top-up, payments, and transfers.²⁶ Thus, the goal of using BB as a *transformational*²⁷ delivery mechanism for a full array of financial services has not yet been realized.

The situation in the countries studied is no different. Even with WIZZIT in South Africa, where mobile phone-enabled financial services have been available for over four years, most customers use mobile phones solely for purchase of airtime or for balance inquiries.²⁸ In the other target countries, BB services are at an even earlier stage of development, and most services are not yet targeting poor, unbanked clients.

Many banks, mobile network operators, and other financial service providers in the target countries recognize the potential for using BB delivery mechanisms to target the poor and unbanked populations in their respective countries. However, there is still a strongly held view among many providers and operators that this market tends to be high-risk, particularly in the early stages of BB development.²⁹ As has been observed in other countries going through the stages of BB development, providers and operators in the region tend to focus first on establishing a profitable "additive BB" business models before moving on to penetrate less familiar markets (such as the poor and the unbanked populations).³⁰

Although regulators in the sample countries are gradually becoming more optimistic about the potential of branchless banking to improve access to finance, some doubts and uncertainties still persist. That would explain why, despite the existence of a relatively favorable formal regulatory framework for the provision of BB services in general, the implementation of reforms is not happening as fast as some groups would wish. In other words, although financial regulators support BB, in some cases they are not yet actively encouraging it, which in may sometimes have the effect of delaying and inhibiting innovations, particularly for cross-border transactions.

One option would be to wait until the providers in question have developed a profitable *additive* BB business model and then hope that the providers will experiment with the unbanked market. Another

²⁶ See http://www.cgap.org/gm/document-1.9.2640/FocusNote_46.pdf, p4.

²⁷ By "*transformational*," we refer to the use of BB to provide a full range of banking services to customers who could not otherwise be reached profitably. This is contrasted with "*additive*" BB, where the service is provided as an additional service to current customers. See http://www.dfid.gov.uk/pubs/files/m-banking_focusnote.pdf, p2-3, and http://www.finmark.org.za/documents/R_branchlessbanking.pdf, Chapter 2.

²⁸ See <http://www.cgap.org/gm/document-1.9.2953/mobilephonebanking.pdf>, Table 1.

²⁹ It is important to note, for example, that the experience so far with the launch of new products tailored to meet the needs of low-income, unbanked populations – such as the Mzansi account in South Africa – confirms the huge demand for entry-level formal financial products among the low-income market. However, in the case of the Mzansi account, the experience so far suggests a growing proportion of its users who belong to those 'currently banked' (and not those who are 'unbanked'), when comparing the profile of users between the launch year (2004) and the end of 2008. A recent study also points out that while a total of 6 million new accounts have been opened – of which two-thirds cover those who have never had a bank account before – 42% of the accounts opened have actually become inactive and were eventually closed, indicating that the product does not seem to meet entirely the needs and wants of the target market. In the same study, it was shown that while expectations of the participating banks on the take-up of the new product have been exceeded, the revenue generated per Mzansi account and account balances were substantially lower than the banks' other equivalent accounts. Interestingly, the banks reported that they lost money on each account (even considering only direct costs). See Bankable Frontiers Associates (2009).

³⁰ CGAP refers to this as the "double gamble" of developing a new business model in a new market segment. See http://www.cgap.org/gm/document-1.9.2640/FocusNote_46.pdf, p4.

option would be to provide matching grants or other assistance to financial service providers who would like to offer services to the unbanked but are reluctant to fully assume the risk and/or pay for upfront costs that range from financial education to installation of infrastructure to development of a rural retail agent network. During the field work for this study, several providers asked whether the World Bank would be interested in providing support for such initiatives targeted at the unbanked, much as CGAP is already doing.³¹ By providing technical assistance and sharing start-up costs, the World Bank could help to jumpstart pro-poor BB initiatives in the target countries. The World Bank could either do this directly or coordinate with other donors that are interested in supporting pro-poor branchless banking initiatives (such as CGAP, DFID, and Gates).³²

The demonstrative effect of pilot BB initiatives will be important not only for providers of services but also for financial regulators and policy-makers. In this sense it is important to highlight that while *additive* BB activities may require only technical solutions or minor adjustments in regulation, *transformational* BB services require a deeper political commitment – as changes are deeper and more complex, they demand a higher level of coordination amid different regulatory domains.

5.3.2. Providing opportunities for stakeholders in target countries to learn from branchless banking pioneers worldwide.

While branchless banking is still a relatively new phenomenon, certain countries have developed proportionate regulatory frameworks that provide space for innovation while minimizing key risks. In the Philippines, for example, the Central Bank has worked with mobile network operators to permit the nonbank-based model to take off. Similarly, Brazil has nearly a decade of experience with the bank-based model.

Both regulators and financial service providers from the target countries could benefit from gaining an in-depth understanding of how BB operates and how it is regulated in other countries. Study tours, regional conferences, and workshops are some of the ways that such information could be conveyed. The World Bank, in association with the Alliance for Financial Inclusion (AFI), could take a lead role in organizing and funding such activities.³³

5.3.3. Creating opportunities for extensive stakeholder collaboration

The aim is to create opportunities for collaboration both within and between target countries – in order to develop a shared vision for branchless banking and build technical expertise.

As branchless banking initiatives are at such an early stage in the target countries, formal mechanisms for multi-stakeholder collaboration are limited. The need for greater collaboration and coordination between stakeholders is strong: while there have been efforts by individual countries to more clearly state the position with regard to proposed BB schemes, the majority of decisions on whether to approve a proposed BB scheme tend to be made on an *ad hoc* basis, particularly in relation to cross-

³¹ See <http://technology.cgap.org/2007/04/10/technology-program-opens-second-call-for-applications/>.

³² It is notable that in the early stages of the development of M-Pesa in Kenya, support was provided by the multi-donor trust fund, Financial Sector Deepening Kenya.

³³ There is now a considerable body of written material by CGAP on the various models of branchless banking, including CGAP, 2008 a, b, and c, and the nine country diagnostics undertaken by CGAP using their Branchless Banking Diagnostic Tool (to be found at www.cgap.org/p/site/c/template.rc/1.11.1772/1.26.1473/). However, in our experience such studies are not really a substitute for face to face meetings with regulators. That is part of the logic behind the creation of Alliance for Financial Inclusion (AFI), a South-South forum funded by the Bill and Melinda Gates Foundation (www.afi-global.org), which is planning to support such study tours.

border transitions. There is rarely a clear, shared vision for branchless banking. Efforts also tend to be fragmented across countries.

Branchless banking advocates would do well to learn from the lessons of the microfinance industry. In countries such as Uganda and Tanzania, regulators and practitioners collaborated extensively on the development of a shared vision for microfinance activity.³⁴ By working closely within a small group, they were able to gain exposure to practices in other countries, develop relevant technical expertise, and create a team of knowledgeable advocates for good practice within the industry. This process also helped to ensure practitioner buy-in and to avoid the development of an inappropriate legal framework.

While there are differences in the respective priorities and motivations of microfinance and BB stakeholders, the fundamental principle still holds true: a collaborative, participatory process that involves key practitioners from the outset and enhances stakeholder knowledge of good practice is likely to lead to the best results.

Experience in Philippines and Pakistan shows the benefits of this approach. In the Philippines, collaboration between policy-makers and practitioners was essential to remove the country from the blacklist of the Financial Action Task Force (FATF), while arriving at regulatory accommodations that permitted the launch of both additive (Smart) and transformational BB systems (Globe).³⁵ In other words, this collaboration permitted the country to overcome some of the most important regulatory obstacles that may stop BB before it starts. In Pakistan both the industry and the key regulator, the State Bank of Pakistan, are working together toward the necessary regulatory accommodations to develop a bank-based BB model, in the context of the country's Financial Inclusion Programme.

In the field of mobile money transfers, regional initiatives are also emerging. For example, the multi-donor Africa Enterprise Challenge Fund is supporting the development of Monitise in East and Central Africa. Monitise East Africa will initially offer services in Uganda and then plans to expand into neighboring countries, including Burundi, Democratic Republic of Congo, Ethiopia, Kenya, Rwanda, Tanzania and Zambia.³⁶

Promoting the inclusion of policy-makers in these processes is critical, as changes in regulatory and legal framework of BB require extensive political support, especially in the case of transformational BB services. The creation of Sector Working Groups involving providers of services, financial authorities and policy-makers can be a way to track the progress of BB activities, facilitating the dissemination of information, best practices and lessons learned. It can also be the best way to promote the exchange of information at regional level.

The World Bank could play an important role in facilitating and supporting such efforts. In the case of Uganda, donors such as USAID and the World Bank played a critical role in the success of the collaborative approach to microfinance sector development. By providing training, capacity building, and other assistance, donors helped to create a cadre of expert stakeholders that would ultimately support the growth of the entire sector.³⁷ Likewise, the World Bank could support training and formal

³⁴ For a description of stakeholder collaboration in Uganda, see http://www.cgap.org/gm/document-1.9.2189/clear_uganda_report.pdf. For Tanzania, see http://microfinancegateway.com/files/29886_file_Tanzania_Essay_Ira.pdf.

³⁵ CGAP (2008). "Regulating Transformational Branchless Banking: mobile phone and other technologies to increase access to finance". CGAP, Focus Notes N° 43

³⁶ See <http://www.finextra.com/fullstory.asp?id=19652>

³⁷ See http://www.cgap.org/gm/document-1.9.2189/clear_uganda_report.pdf.

mechanisms for collaboration among branchless banking stakeholders, including regulators, banks, mobile network operators, payment service providers, MFIs, and other interested parties.

Another organization aiming to play a similar role is the Alliance for Financial Inclusion (AFI), a Southern-driven initiative funded by the Bill and Melinda Gates Foundation. AFI seeks to stimulate, support and facilitate South-South policy learning and exchange. Mobile banking is one of the six financial inclusion policy areas covered by AFI. In this sense, AFI aims to facilitate face-to-face and online interactions between policy makers and other stakeholders involved in BB. Its activities will also include regional working groups and peer reviews, South-South exchange events involving study tours, exchange visits and secondments, as well as on-the-job training and research grants.

Another important actor supporting experimentation in BB sector is GSMA, which recently launched the Mobile Money for the Unbanked program, also funded by the Bill and Melinda Gates Foundation.

5.3.4. Cross-border transfers: a possible pilot project

From a regional perspective, perhaps the most important issue is to address the issue of high cost for sending remittances from South Africa. During the field work, a SADC official suggested launching a pilot project specifically aimed at bringing the “taxi money”³⁸ into the formal financial sector. The goal would be to identify the **sources** of the high costs of cross-border remittances from South Africa. There are two main possibilities:

- Limited competition leads to pricing that is not based upon actual costs of providing the services in question; and/or
- Extensive regulation in relation to cross-border transactions leads to high compliance costs that raise the cost of doing business.

A pilot project could provide limited exceptions to the current regulatory framework in order to identify the main drivers of high costs. For example:

- To address the issue of **limited competition**, a nonbank could be permitted to offer low-value cross-border services. In keeping with the emphasis on the potential of branchless banking, such a product could be targeted at a mobile network operator, for example.
- To address the issue of **extensive regulation**, banks could identify the regulatory/reporting requirements that they believe are responsible for higher costs. Then, they could work with regulators and policymakers to develop alternatives that could lower costs without introducing undue risk.

For the purposes of an initial pilot project, one could start with a country that is an important recipient of low-value remittances from South Africa. With respect to the countries that we are studying, Mozambique and Malawi would be the logical choices. Mozambique, in particular, has extremely high volumes of low-value remittances from South Africa.

Mozambique may be a good choice for several reasons. The World Bank is sponsoring the development of electronic banking regulations and training for Central Bank staff in Mozambique. In addition, a major mobile network operator (MNO) in Mozambique is very interested in offering both a

³⁸ This refers to funds that are transferred across border via taxi drivers and other informal mechanisms. Genesis Analytics estimates that most small-value remittances from South Africa travel via taxis, friends and family, and other such informal mechanisms. See http://www.microfinancegateway.org/files/34557_file_1.pdf. The SADC official was Dave Mitchell, the SADC Payment System Project Leader

domestic and cross-border electronic wallet. The model still has to be introduced and proven domestically, but the MNO indicated that they would be very interested in exploring the South African market once their domestic product is established.

To address the issue of extensive regulation, and for the purpose of this pilot project, engaging with policy-makers is essential as immigration has become a very sensitive issue in South Africa in the recent years. In this way, an initiative aiming to reduce the cost of sending remittances could be seen as an attempt to promote immigration

References

- Amin, M. and Mattoo, A., (2007). Migration from Zambia: ensuring temporariness through cooperation. World Bank Policy Research Working Paper 4145
- Ammassari, S. (2005). Migration and Development: new strategies outlooks and practical ways forward. The case of Angola and Zambia. International Organization for Migration.
- Bankable Frontiers Associates (2009). The Mzansi Bank Account Initiative in South Africa: Final Report. A report commissioned by FinMark Trust
- Black, R., Crush, J., and Peberdy, S. (2006) Migration and Development in Africa: an overview. Southern Africa Migration Project, Series 1.
- CGAP (2006). Use of Agents in Branchless Banking for the Poor: Rewards, Risks and Regulation. CGAP Focus Note 38.
- CGAP (2008a). Regulating Transformational Branchless Banking: Mobile Phones and Other Technologies to Increase Access to Finance. CGAP Focus Note 43.
- CGAP (2008b), The early experience with Branchless Banking, CGAP Focus Note No. 46
- CGAP (2008c). Banking on mobiles: why, how and for whom? CGAP Focus Note No 48
- Chen, M. (2005), Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment, Research Paper No.10, World Institute for Development Economic Research (April).
- Crush, J., Grant, M., and Frayne, B. (2007). Linking migration, HIV/AIDS and urban food security in Southern and Eastern Africa. Southern Africa Migration Project, Series 3.
- Crush, J. and Frayne, B. (2007). The migration and development nexus in Southern Africa. Development Southern Africa, Vol. 24, N° 1.
- Crush, J., Peberby, S., and Williams, V. (2006). International migration and good governance in the Southern African Region. Southern Africa Migration Project.
- Crush, J. and Williams, V. (2005). Migration in Southern Africa. Global Commission on International Migration.
- De Vletter, F. (2006). Migration and development in Mozambique: poverty, inequality and survival. Southern Africa Migration Project
- Finscope 2003 Brochure for Botswana, Namibia, Lesotho and South Africa.
- Fraine, B. and Pendleton, W. (2002). Namibia, migration trends and attitudes. Southern Africa Migration Project
- Freund, C., and Spatafora, N. (2005). Remittances: transaction costs, determinants, and informal flows.. World Bank Policy Research Working Paper 3704.
- Gupta, S., Pattillo, C., and Wagh, S. (2007). Impact of remittances on poverty and financial development in Sub-Saharan Africa, IMF Working Paper.

- Hougaard, Christine with inputs from Hennie Bester and Doubell Chamberlain (2008): The landscape of remittances in Zambia. Prepared for FinMark Trust Zambia by the Centre for Financial Regulation and Inclusion (Cenfri)International Telecommunication Union (2007). Annual Report 2007
- Jack, William. and Tavneet Suri. (2009). The performance and impact of M-Pesa: Preliminary evidence from a household survey, PowerPoint for FSD Kenya, 2009
- Labour Force Survey (2002). South Africa.
- Lucas, R. (2005). Migration and Economic Development in Africa: A Review of the Evidence. Paper prepared for the African Economic Research Consortium Biannual Research Workshop, Nairobi, May 28–June 2.
- Mouton, J. and team (January 2008). Sarua Study on Science & Technology in SADC Countries: A Status Review of ICT in the SADC Region.
- McGrath, Brad (2008). Mobile Transactions Zambia Limited, presentation to FinMark Trust Branchless Banking Forum, Lusaka, Zambia, 26 August 2009
- Musonda, M. (2004). “Overview of Informal Trade in the SADC Region-Where are we now?” Regional Workshop for SADC Informal traders 11-12 February. Harare, 2004.
- Nangulah, S. and Nickanor, N. (2005). Northern gateway: cross-border migration between Namibia and Angola. Southern Africa Migration Project, Migration Policy Papers 38
- OPM (2008): Oxford Policy Management. “Testing Remote Access Models In Southern African Countries,” FinMark Trust, Johannesburg
- OPM/PMTZ (2007/8): Oxford Policy Management and PMTZ Zambia. “Supply-Side Study of the Inclusiveness of Zambia’s Financial System,” FinMark Trust, Johannesburg, December 2007, and Update, August 2008
- Pailles, M. (2008). Optimising regional integration in Southern Africa: assessing informal cross-border trade in SADC. Southern African Research and Documentation Centre (SARDC) for the SADC Poverty and Development Consultative Conference
- Peberdy, S. (1998).Trading Places: Cross-Border Traders and the South African Informal Sector. Migration Policy Series 6, Southern African Migration Project, Queens University, Kingston, Ontario.
- Pendleton, W., Crush, J., Campbell, T., Hamilton, S., Tevera, D., and Vletter, F. (2006). Migration, remittances and development in Southern Africa, Southern Africa Migration Project.
- Ratha, D. and William, S. (2007). South-South Migration and Remittances. World Bank Working Paper No. 102.
- Sander, C., and Sam Munzele Maimbo. (2003). Migrant labour remittances in Africa: reducing obstacles to development contributions. Africa Region Working Paper Series N° 64.
- Shaw, W. (2007). Migration in Africa: a review of the economic literature on international migration in 10 Countries. Development Prospects Group, Washington D.C.

- Truen, S., Ketley, R., Bester, H., and Davis, B. (2005). Supporting remittances in Southern Africa. Estimating market potential and assessing regulatory obstacles, Finmark Trust and CGAP.
- UNDESA (2002). International migration report. Department of Economic and Social Affairs, Population Division, UN.
- UNDP (2007). Human Development Report 2007
- Vletter, F. (2006). Migration and development in Mozambique: poverty, inequality and survival. Southern Africa Migration Project, Immigration Policy Series N° 43.
- Waller, L. (2006). Irregular migration to South Africa during the first ten years of democracy. Southern Africa Migration Project.
- Waller, L. (2006). Migration of skills in South Africa. Southern Africa Migration Project, Migration Policy Brief, N° 20.
- World Bank 2006, Global Economic Prospects 2006: Economic Implications of Remittances and Migration. Washington, D.C. (lead authors Dilip Ratha and William Shaw)
- Zibi, Guy and Jan ten Sythoff, (2009): Mobile Financial Services in Africa: The Business Case for Operators and Banks, Research Report by Pyramid Research, January 2009

Annex A Country Diagnostics

In this Annex we set out the detailed country diagnostics that underlie this report, and that are summarized in the Synoptic table in Chapter 4 of the main report.

The questionnaire for the country diagnostic studies was based on a modified form of the CGAP/DFID Branchless Banking Diagnostic Template:³⁹ the issues that were addressed on that basis are described in Annex B.

The diagnostic for each country as set out in this report follows a similar pattern. After a brief summary, the diagnostic covers, as appropriate:

1. Domestic Branchless Banking Regulatory Framework

- Permissibility of a Nonbank-Based Branchless Banking Model
- Permissibility of Outsourcing the Provision of Financial Services to Retail Agents
- Current Law
- Central Bank (and Other Policymakers') Perspectives
- Provision of Electronic Money Services by Banks
- Effect of AML/CFT Requirements on Access to Finance

2. Regulatory Framework for Cross-Border Transactions

- Types of Institutions that may offer Cross-Border Services
- Transaction Limits and Other Exchange Control Requirements
- Identification Requirements

The country diagnostics cover:

- A.1 Angola
- A.2 Malawi
- A.3 Mozambique
- A.4 South Africa and
- A.5 Zambia.

³⁹ See www.cgap.org/p/site/c/template.rc/1.11.1772/1.26.1473/

A.1. Angola Country Diagnostic

A.1.1. Summary

Although the Angolan law is relatively liberal in terms of non-bank provision of payment services, in practice the provision of such services is currently restricted to banks. The law does not appear to bar the use of agents for the provision of financial services, but again this is not permitted in practice. Current policies appear to be aimed mostly at the *formalization* and *consolidation* of financial service provision within the banking sector. Certain non-deposit services, however, can be and are accessed outside bank premises through ATMs and POS terminals, and banks are also experimenting with mini-branches in retail stores.

Since they are permitted to offer rechargeable prepaid cards to non-clients, it would appear that banks would be able to offer similar e-money services via the mobile phone. To be interoperable between banks will require the Interbank Services Company (EMIS) to design and implement such a scheme, which they are currently considering.

Angola does not yet have a comprehensive legal framework addressing money laundering and/or the financing of terrorism. So to ensure that payments for exports – diamonds in particular – are channeled through banks, foreign exchange operations are limited to specifically authorized financial institutions. Many citizens do not currently have the National Identity Card required to access banking services, but the Government is making a major effort to disseminate them.⁴⁰

It is banks that dominate cross-border services: Western Union and MoneyGram do not exist as independent entities; they are merely marketed as a service provided by a bank or exchange house (though we believe that the latter are largely inactive in cross-border services).

Angola is one of only 19 IMF member countries that still maintain exchange controls on current account transactions, even on low-value transactions. Identification requirements for cross-border transactions are the same as for domestic transactions. Proof of legal residence is not required, so non-residents may use a foreign passport to prove identity and conduct transactions.

A.1.2. Domestic Branchless Banking Regulatory Framework

A.1.2.1 Permissibility of a Nonbank-Based Branchless Banking Model

The Angola Payment Systems Law (“Payment Systems Law”) establishes the legal framework for payment services in Angola. The law anticipates that payment system stakeholders may include banks, credit unions, “payment service providers,” and “operators of payment subsystems,” among others.⁴¹ A Notice issued by the National Bank of Angola (BoA) states that in addition to banks and credit unions, payment services may also be provided by nonbank financial institutions, the Post Office, and authorized nonfinancial legal entities.⁴²

While participation in the payment system therefore appears on the surface to be quite open, it is more limited in practice. In response to the low levels of usage of formal financial institutions – some

⁴⁰ We were unable to meet the relevant department of the National Bank of Angola to confirm our impression that there are no exemptions or relaxations of the identification requirements for low-value accounts or transactions.

⁴¹ See Payment Systems Law, Art. 5 (http://www.bna.ao/download/inc_downloading.asp?iFile=361).

⁴² See Aviso No. 01/2002 de 01 de Novembro, Art. 6 (<http://www.bna.ao/artigo.aspx?c=207&a=640>).

estimates place the percentage of the population with a bank account at less than 10% – and concerns about money laundering (see below), the government is making a concerted effort to “bank” the unbanked population. As a result, many financial services are available only through banks. Currently, only banks are permitted to participate in the retail payments system or issue electronic money (e-money).⁴³ Therefore, under the current legal framework, a nonbank-based branchless banking scheme along the lines of M-Pesa or GCash would be prohibited in Angola.⁴⁴

A.1.2.2 Permissibility of Outsourcing the Provision of Financial Services to Retail Agents

Current Law

The *Financial Institutions Law* (“*FIs Law*”) defines “banks” as institutions whose primary activity is (i) the acceptance of deposits or other reimbursable funds from the public; (ii) to be used on their own behalf; (iii) in order to grant credit.⁴⁵ The *FIs Law* emphasizes the “Principle of Exclusivity”: **only banks** may accept deposits or other reimbursable funds from the public to be used on their own behalf.

At first glance, the *FIs Law* would appear to prohibit outsourcing the collection of deposits to retail agents. However, the language of the law is less rigid than it might initially seem. While the law is clear that only banks may accept deposits to be used *on their own behalf*, it is silent as to whether a bank could instruct an agent to accept deposits *on behalf of the bank*. Some other countries that also limit deposit-taking to banks⁴⁶ allow banks to outsource the *collection of deposits* on the banks’ behalf; Brazil is one such example.⁴⁷ In addition, the *FIs Law* even has provisions that clearly establish a bank’s responsibility for the actions of its agents,⁴⁸ which implies that certain activities may be outsourced to agents.

Therefore, the language of the *FIs Law* does not necessarily create an absolute barrier to the outsourcing of deposit-taking activities. Whether such outsourcing is permitted would depend upon: (i) whether any other regulation expressly permits or prohibits banks from outsourcing the collection of deposits; or (ii) in the absence of such regulation, whether the BoA is willing to approve such outsourcing.⁴⁹

⁴³ As noted earlier, the Post Office is also permitted to provide money transfers and other payment-related services. However, these services are still under development.

⁴⁴ We were unable to definitely determine whether the prohibition on a nonbank-based branchless banking scheme stems from a law, policy, Central Bank notice, or other regulatory proclamation. As noted below, the National Bank of Angola (BNA) acknowledged our requests for a meeting but did not grant one. We hope that BNA representatives will be able to attend the upcoming regional conference and clarify this issue.

⁴⁵ See *Financial Institutions Law*, Art. 2.11.

⁴⁶ For simplicity, we use “banks” here to refer to any fully prudentially-regulated deposit-taking institution. It should also be noted that the term “deposit taking” is used in this Annexe and in Annex B to mean the “cash in” function of financial transactions – following the use of the term to “take deposits” in the CGAP Branchless Banking Diagnostic Tool which provides the framework for the study. It is not meant to imply that agents taking in cash in this way are deposit-taking institutions in the formal sense.

⁴⁷ See, e.g., CGAP, “Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation,” p10 (http://www.cgap.org/gm/document-1.9.2585/FocusNote_38.pdf).

⁴⁸ See *Financial Institutions Law*, Art. 124.

⁴⁹ We are currently investigating whether see whether any specific regulations (Notices/Avisos, Instructions/Instrutivos, or Directives/Directivas) pertaining to outsourcing exist.

The *FIs Law* does not address the outsourcing of other (non-deposit-related) financial services, such as bill payments and money transfers. As noted earlier, only banks may issue e-money or participate in the retail payments system. However, while such restrictions would prevent a nonbank-based model from being launched, they would not prevent a bank from creating its own bank-based scheme that would allow customers to conduct other financial transactions outside of a bank branch. In the absence of any regulation or BoA statement to the contrary, banks could offer e-money services that use mobile phones (similar to bank-based services offered by WIZZIT and MTN Banking in South Africa) or POS devices (such as prepaid cards that can be used for purchases, bill payments, and/or money transfers).

Central Bank and Other Policymakers' Perspectives

While the *FIs Law* does not necessarily prohibit the outsourcing of deposit-taking to retail agents, in practice it is interpreted as if it did. Given that many other financial services may only be provided by banks – including issuance of e-money, participation in the retail payments system, and facilitation of cross-border payments (see below) – it is perhaps not surprising that Angolan banks would not be permitted to outsource a core banking function such as deposit-taking. Current policies appear to be aimed mostly at the *formalization* and *consolidation* of financial service provision within the banking sector.

That said, certain financial services *other* than deposit-taking are already conducted outside of bank premises. Using *Multicaixa*, an interoperable ATM and POS network that is operated by the Interbank Services Company (EMIS),⁵⁰ bank clients can access a variety of domestic financial services at ATMs and POS devices, including withdrawals, debit card purchases, cash-back (currently only at select POS devices), bill payments (currently available at ATMs and expected to be made available at POS devices in 2009), domestic inter-bank transfers (ATMs only), telephone airtime top-up, and balance inquiries. Therefore, while outsourcing the deposit-taking function remains off-limits (at least for now), the BoA is allowing banks to outsource the provision of certain other banking services – including cash-back, where a retail agent handles the customer's cash.

In addition, some banks are trying to expand their network of deposit-taking service points by creating mini-branches. These mini-branches, which may be housed in retail stores such as supermarkets,⁵¹ offer services such as deposit-taking and payments. However, they must be staffed by bank employees. Therefore, while the upfront and ongoing costs would be lower for a mini-branch than for a full branch, it is likely still more expensive to operate a mini-branch than to allow retail agents to offer these services directly.⁵²

A.1.2.3 Provision of Electronic Money Services by Banks

As institutions that are permitted to issue e-money, banks are also allowed to offer e-money services to non-clients. For example, Banco Sol has launched the “Kumbu” card, a rechargeable, VISA-branded prepaid card that can be used for payments, cash-back, and other transactions without

⁵⁰ EMIS (Empresa Interbancaria de Serviços) is a corporation that is responsible for the facilitation of retail electronic payment services among commercial banks in Angola. It is owned by participating Angolan commercial banks (15 as of October 2008) and the BoA.

⁵¹ One example is the state-owned Savings and Credit Bank (BPC), which is in the process of setting up mini-branches in NossoSuper supermarkets throughout the country.

⁵² Experience from other countries suggests that both the setup costs and per-transaction costs are significantly lower for agent-assisted financial services than for branch-based services. See CGAP, “The Early Experience with Branchless Banking”, p2. CGAP Focus Note No. 46 (http://www.cgap.org/gm/document-1.9.2640/FocusNote_46.pdf).

requiring a bank account.⁵³ However, this card must be purchased and recharged at a bank branch; the card may not be topped up at a retail agent. This limits outreach to places where a bank branch infrastructure is already in place.

Since they are permitted to offer rechargeable prepaid cards to non-clients, it would appear that banks would be able to offer similar e-money services via the mobile phone. If so, this would have the potential to expand access further by allowing clients to perform certain transactions anywhere with a mobile phone signal. However, as noted earlier, EMIS is responsible for retail electronic payment services. Therefore, EMIS would have to design and implement any interoperable⁵⁴ mobile phone-based payment scheme. EMIS has indicated that it is in the process of examining the feasibility of such a scheme, which it hopes to implement by 2010.

A.1.2.4 *Effect of AML/CFT Requirements on Access to Finance*

Current CDD/KYC Requirements for Opening Accounts, Conducting Transactions, Etc

For several years, the government and the BoA have been working on drafting AML/CFT laws/regulations.⁵⁵ However, Angola does not yet have a comprehensive legal framework addressing money laundering and/or the financing of terrorism.⁵⁶ Early efforts to limit money laundering have focused on ensuring that payments for exports – diamonds in particular – are channeled through banks.⁵⁷ Accordingly, foreign exchange operations are limited to specifically authorized financial institutions⁵⁸ (as described below).

To access banking services, one of the following documents is required: National Identity Card (*Bilhete de Identidade* or BI); driver's license; or foreign passport. A BI is mandatory, but a large percentage of the population – estimates vary, but likely more than half – still lacks one. The government has embarked upon a large-scale effort to provide a BI to every citizen by 2015,⁵⁹ sending mobile vans to remote areas and reducing the turnaround time from several months to approximately one week.

To the authors' knowledge, there are no exemptions or relaxations of the identification requirements for low-value accounts or transactions. Repeated requests to meet with the relevant officials in the Banking Supervision department of the BoA were acknowledged, but a meeting was not granted.

⁵³ See <http://www.bancosol.ao/Canais/Arquivo.asp?articleid=618&lang=1>.

⁵⁴ Some banks are beginning to offer mobile phone-based services to their customers, but they are intrabank services only.

⁵⁵ See World Bank & IMF, "Anti-Money Laundering & Combating the Financing of Terrorism: Regional Videoconference—Central and West Africa Region," p20 (2003) (http://www1.worldbank.org/finance/html/amlcft/docs/aml_franco afr_eng.pdf).

⁵⁶ See <http://www.anti-moneylaundering.org/africa/Angola.aspx>.

⁵⁷ See World Bank & IMF, "Anti-Money Laundering & Combating the Financing of Terrorism: Regional Videoconference—Central and West Africa Region," p21 (2003) (http://www1.worldbank.org/finance/html/amlcft/docs/aml_franco afr_eng.pdf).

⁵⁸ See Foreign Exchange Law No. 5/97, Arts. 7 & 10.

⁵⁹ See http://www.unisys.com/about_unisys/news_a_events/09028905.htm.

A.1.3. Regulatory Framework for Cross-Border Transactions

A.1.3.1 *Types of Institutions that may offer Cross-Border Services*

Banks dominate the provision of cross-border services in Angola. Exchange houses (“casas de cambio”) are also permitted to send or receive funds, provided that they have a relationship with a money transfer company (such as Western Union or MoneyGram) or a bank.⁶⁰ Many banks have established relationships with Western Union or MoneyGram to facilitate cross-border transfers, but all such transactions must go through a branch. Western Union and MoneyGram do not exist as independent entities; they are merely marketed as a service provided by a bank. While these services could be offered by a small branch, the transactions themselves would have to be conducted by bank employees, not by retail agents (as discussed above).

A.1.3.2 *Transaction Limits and Other Exchange Control Requirements*

Angola is one of only 19 IMF member countries that still maintain exchange controls on current account transactions.⁶¹ Even low-value transactions require prior approval. Payments for the maintenance of relatives living abroad are limited to USD 2,000 per person per month, and the relatives must be direct descendants who are financially dependent or incapable of working.⁶²

In addition, Western Union places its own limits on cross-border transactions.⁶³ While exchange control regulations limit individuals to an annual aggregate of USD 60,000 in outbound transfers, Western Union only allows up to USD 15,000 per person per year.⁶⁴

A.1.3.3 *Identification Requirements*

Identification requirements for cross-border transactions are the same as for domestic transactions. Proof of legal residence is not required, so non-residents may use a foreign passport to prove identity and conduct transactions.

⁶⁰ The source of this information is The Payment System Department of BoA. We need, however, understand better the extent to which “casas de cambio” are actively involved in the provision of cross-border services. Our impression is that they’re largely (possibly completely) inactive, but we need to find more evidence to establish whether or not this is the case.

⁶¹ As of end of 2006. See Jefferis, Keith, “The Rationalization of Foreign Exchange Controls in Angola” (2007).

⁶² IMF, “Annual Report on Exchange Arrangements and Exchange Restrictions, 2005,” p44 (preview available on Google Books at http://books.google.com/books?id=katPqRnl0iQC&pg=PA152&lpg=PA152&dq=Annual+Report+on+Exchange+Arrangements+and+Exchange+Restrictions,+2006&source=web&ots=U8Dz5lixR4&sig=a7I5e7nx2BJurjsW9cvtHR3al-8&hl=en&sa=X&oi=book_result&resnum=8&ct=result#PPA44,M1).

⁶³ We need to check whether MoneyGram also has company-imposed limits.

⁶⁴ E.g., <http://www.payment-solutions.com/agentdetails.asp?ID=286786>.

A.2. Malawi Country Diagnostic

A.2.1. Summary

Because the issue has not yet had to be addressed by the Reserve Bank of Malawi (RBM), it is not yet clear whether only licensed financial institutions can run branchless banking schemes such as electronic wallets. The Payment Systems Bill (drafted in 2002) has not yet been enacted, so the possibility of mobile network operators becoming licensed to operate payments services also remains only theoretical. The Government is nevertheless committed to extending access to financial services, and is therefore open to permitting innovative techniques. Electronic banking services, however, even those provided by banks, are still a relative novelty in Malawi.

The current legal framework is not clear as to whether use of agents to conduct financial transactions outside of bank and financial institution (FI) branches is permitted, though draft microfinance legislation contains draft provisions for the outsourcing of certain banking functions to agents. The continued absence of a Payments System Law means that there is no modern enabling legal framework for payments systems, which are still regulated under an Act of 1967.

While recognizing the inadequacy of the current legal framework, the RBM is very interested in electronic banking and mobile banking, encouraging it to the extent that they can under existing laws and regulations. In addition, a Financial Services Bill that would be applicable to all financial institutions has been drafted. In its current form, this Bill would explicitly permit the RBM to issue directives governing outsourcing by financial institutions.

The AML/CFT Act prescribes KYC and CDD rules that include the need for some information and documentation that might be difficult for migrants and other poor clients to provide. The Act would, however, appear to permit (regulated and supervised) agents to perform some of the KYC functions, rather than requiring that full verification of identity be conducted at a branch.

In consultation with the RBM and financial institutions, Malawi's Financial Intelligence Unit (FIU) is currently drafting AML/CFT regulations under the AML/CFT Act. These regulations would take a flexible approach to the subject, including a risk-based approach to Customer Due Diligence.

Foreign exchange policies are restrictive in Malawi, and virtually all outward cross-border transfers (apart from small "gifts") must be conducted through an "authorized dealer bank." There are strict limits on the purchase and remittance of foreign exchange. In general, identification and verification requirements for cross-border transactions are the same as for domestic transactions, but it is unclear to what extent some of the AML/CFT provisions would be applied in practice under the draft regulations. It is also unclear whether any relaxation or exemption of the verification requirement for low-value transactions would apply to cross-border transactions as well.

A.2.2. Domestic Branchless Banking Regulatory Framework

A.2.2.1 *Permissibility of a Nonbank-Based Branchless Banking Model*

"*Banking business*" – defined to include: (i) the acceptance of deposits or other funds from the public or other banks; and (ii) the use of such funds for lending or investment – is limited to banks and other licensed financial institutions (including pension funds, insurance companies, investment funds, and investment companies).⁶⁵ It is unclear whether branchless banking schemes such as electronic wallets

⁶⁵ See *Banking Act*, Section 2(1) (defining "banking business" and "financial institutions") and 3(1) (limiting banking business to banks and financial institutions)

... footnote continues on next page

would fall under the definition of “*banking business*,” as this issue has not yet been addressed by the Reserve Bank of Malawi (RBM).⁶⁶ If they did, that would preclude a mobile network operator (MNO) from providing e-wallet services unless it was licensed as a financial institution.

On the other hand, the Draft Payment Systems Bill – if enacted – would appear to create space for some form of the nonbank-based branchless banking model. The Bill would authorize the RBM to allow nonbanks to participate in a payment or settlement system,⁶⁷ and RBM staff suggested that an MNO might be able to receive a license as a “*Payment Systems Operator*.” However, the question of which services could be offered under such a model remains unanswered.⁶⁸ Perhaps more importantly, the Payment Systems Bill was drafted in 2002, yet it still has not been enacted. Therefore, the Payment Systems Operator designation may remain purely theoretical for the foreseeable future.

Despite the lack of a clear, enabling framework for nonbank-based electronic financial services, government interest in banking the unbanked population is high. As a result, financial regulators and policymakers are generally open to innovative methods to expand access to formal financial services. Experience in other countries suggests that governments looking to promote innovation in their financial sectors have managed to create the necessary regulatory space to do so (in some cases simply by allowing regulators to adjust regulations – or, in many cases, simply to interpret the law and regulation – in a manner that allows for the innovations). The experience so far shows that regulators often tend to have a deliberately reactive stance, giving providers a certain advantage in terms of the time to evolve or develop.

The experience is somewhat mixed: in some countries this ‘legal uncertainty’ carried considerable risks, such as has been demonstrated in M-Pesa’s experience – where it was constantly under attack for its regulatory status.⁶⁹ CGAP’s policy and technology team notes that even without explicit prohibitions to a branchless banking proposition in a given country, and even if providers do not act

... footnote continued from previous page.

(http://www.rbm.mw/general_info/docs/BANKING%20ACT.pdf).

⁶⁶ In countries where such products have been permitted, the Central Bank has concluded that the activity did not constitute “banking business.” In the Philippines, for example, Globe Telecom’s e-wallet was treated as a remittance service rather than as a deposit account. See CGAP, “Use of Agents in Branchless Banking for the Poor: Rewards, Risks, and Regulation,” p12 (http://collab2.cgap.org/gm/document-1.9.2585/FocusNote_38.pdf).

⁶⁷ See Draft Payment Systems Bill, Chapter III, Part I, Clause 10 (draft as of March 2009).

⁶⁸ The RBM has indicated that it prefers to retain the flexibility to determine the specific payment services that may be offered by nonbanks at some future date or dates, rather than listing such services in the Payment Systems Law and having to amend the Law if changes are required. [Jerry added]

⁶⁹ While the Government of Kenya was keenly aware that the legal and regulatory framework (covering banking, payment systems, and telecommunications), following the launch of M-PESA in 2007, did not offer an optimal situation for the development and use of branchless banking models, the various government stakeholders met to discuss the legal and policy implications of the M-PESA model. Initial discussions even made the need for coordination among policymakers and regulators stronger, in order to ensure that (i) the regulatory environment is open and clear to foster innovation and growth and (ii) regulators are able to engage in adequate oversight to ensure the safe and healthy development of branchless banking. (See: CGAP: Notes on Regulation of Branchless Banking in Kenya, November 2007.) The government has since embarked on developing a Comprehensive Financial Sector Reform and Development Strategy – where improving access to finance will be one of the strategy’s three main pillars; while the other two are safety and efficiency. Meanwhile, because of concern by the banks and others about the safety of M-Pesa, the Minister of Finance ordered an emergency audit of M-Pesa in December 2008, which gave M-Pesa a clean bill of health (Statement by Joseph Kinyua, Permanent Secretary to the Treasury, 24 January 2009)

irresponsibly, the regulator may tend to have a somewhat conservative interpretation or view of branchless banking, and simply resist a branchless banking proposition for lack of understanding of the risks, limited supervisory capacity, etc. In such cases, the absence of an enabling framework may cause delays and inhibit innovations in the financial system.

There are, however, positive experiences as well. In Mexico, banks have been delivering services through agents years before agency regulations were issued. In this case, the regulations were introduced as a means to improve the rules of the game, and not to stop providers or inhibit innovations. The Philippines is also another famous example of a flexible regulatory approach that enabled the development of branchless banking. In this case, the GCash scheme did not fall neatly into a preexisting category for products or institutions. In response, the Bangko Sentral ng Pilipinas (Philippine Central Bank) worked closely with G-Xchange to come to an agreement on a proportionate regulatory framework for GCash that included transaction/balance limits, AML/CFT compliance requirements, and characterization of GCash agents as “remittance agents.”⁷⁰

On the other hand, even bank-based electronic banking services are a relative novelty in Malawi. Most of the country lacks access to ATMs and POS devices, and debit cards are only beginning to be introduced. While interested in the concept, the RBM questions whether a nonbank-based model similar to Kenya’s M-Pesa service could be introduced in Malawi in the immediate future. In the short term, a bank-based branchless banking model would be more likely to be approved.

A.2.2.2 *Permissibility of Outsourcing the Provision of Financial Services to Retail Agents*

Current Law

The current legal framework is not clear on whether use of agents to conduct financial transactions outside of bank and financial institution (FI) branches is permitted. The outsourcing of banking functions to non-bank agents is not explicitly addressed in the *Banking Act, 1989* or any related regulations. The *Banking Act* requires banks and FIs to obtain written approval from the RBM prior to engaging in a number of activities, including the “*opening and closing of branches and static or mobile agencies,*” but the use of agents does not appear to be contemplated.⁷¹ The Act also provides that the RBM may issue directives related to “*sound operating practices of banks and . . . financial institutions,*”⁷² but no directives related to the outsourcing of banking functions exist. Section 44 prohibits anyone other than a bank or licensed FI from advertising “*that he performs financial services*” that are normally offered by banks or FIs, but this does not address the possibility of having a non-bank perform financial services *on behalf of* a bank or licensed FI.

⁷⁰ The financial authorities in the Philippines limited the risk of GCash by requiring, among other things, daily and monthly transaction caps. Additionally, GCash submits monthly reports of its activities to the Central Bank. This approach is critical as it allows space to calibrate better the level and type of regulation to the scale of the provider’s services, leaving room to make adjustments as the market develops. Additionally, the approach adopted by the authorities allows space for innovation. In this sense, it is important to remember that this arrangement was made possible at the same time that the authorities managed to remove the country from the blacklist of the Financial Action Task Force (FATC). This case shows that in order to foster rather than to inhibit the development of BB activities, policy-makers and regulators need to use proportionality as a guiding principle, such as by allowing scope for different means of compliance so that markets participants are not unduly restricted from launching new financial products and services. Another important lesson that can be learnt from this case is that is crucial to have access to reliable data about the features and scales of new BB models. Developing mechanisms for sharing information is an important element of the engagement process amid policy-makers, regulators and providers of BB services.

⁷¹ See *Banking Act*, Section 25 (http://www.rbm.mw/general_info/docs/BANKING%20ACT.pdf).

⁷² See *Banking Act*, Section 26 (http://www.rbm.mw/general_info/docs/BANKING%20ACT.pdf).

The absence of an enabling legal framework for financial services is particularly evident with respect to payment systems law. The Bills of Exchange Act, which defines permissible instruments for effecting payments in Malawi, was enacted in 1967. Under this Act, only cash and checks are accepted as legal means of payment.⁷³ A draft Payment Systems Bill that would modernize the legal framework for payments was drafted in 2002, but it still has not been enacted.

The *Draft Microfinance Act* specifically provides for the possibility of outsourcing certain banking functions to agents. In addition, the Act excludes from the definition of “*deposit*” both (i) the acceptance of funds by an agent on behalf of a bank/FI; and (ii) the acceptance of funds for the purposes of transfers and remittances (potentially including e-money wallets). However, this Act has not yet been enacted, and a Directive on Branchless Banking has not yet been drafted.

Central Bank’s Perspective

While recognizing the inadequacy of the current legal framework, the RBM is very interested in electronic banking. Recently, the RBM has approved the rollout of certain electronic banking services, including a VISA debit card by National Bank and the “Makwacha” debit card by First Merchant Bank. The Makwacha card, in particular, targets unbanked rural Malawians; it allows customers who live far from a bank branch to open an account with no minimum balance and access their account through POS devices in rural trading stores.⁷⁴ The RBM has also approved “mobile banks” offered by Opportunity International Bank of Malawi (OIBM), and NBS Bank. These “banks on wheels” travel to rural areas where bank branches do not exist.⁷⁵

In addition, the RBM has been the driving force behind the Malawi Switch Center (Malswitch). Malswitch was established by the RBM in 1999 with the goal of developing an efficient electronic payment infrastructure in Malawi.⁷⁶ Now incorporated as a government-owned trust, Malswitch provides participating financial institutions with an interoperable payment service using a chip-based smart card that can be used at any Malswitch-enabled ATM or POS device. Since the card has biometric identification technology and offline capability built in, it can be used by illiterate clients in remote areas without reliable telecommunications service. Several smaller banks have embraced Malswitch, but the larger private-sector banks have not, electing instead to develop their own electronic payment solutions.

An amended version of the *Banking Act* has been drafted. Once the amended act has been enacted, banks would be required to seek RBM approval for new products that they would like to introduce. In addition, a *Financial Services Bill* has been drafted that would apply to all financial institutions. This Bill would explicitly authorize the RBM to issue directives governing outsourcing by financial institutions.⁷⁷ The RBM has indicated that it does not have a specific list of services that could be outsourced; rather, the RBM would be open to proposals from the banking sector. Upon receiving a proposal for outsourcing of financial service provision, the RBM would ensure that the scheme was properly designed, that key risks were adequately addressed, and that the RBM had the necessary capacity and technology to effectively supervise the proposed innovation.

⁷³ See, e.g., http://www.ecommerce-journal.com/news/a_bill_that_gathers_dust_at_parliament_in_malawi.

⁷⁴ See <http://www.fmbmalawi.com/makwacha.html>.

⁷⁵ See <http://www.bis.org/review/r080423e.pdf> (OIBM) and <http://www.gmfus.org/doc/AfricaMSMEFinanceProgrambyDBalkeJBiziwickandTWyer.ppt> (NBS Bank).

⁷⁶ See <http://www.malswitch.com/about.php>.

⁷⁷ See Financial Services Bill, Section 34(2)(j) (draft as of March 2008).

The RBM has also emphasized the need to develop guidelines for electronic and Internet banking. A taskforce has been established to address this issue.

A.2.2.3 Effect of AML/CFT Requirements on Access to Finance:

Current CDD/KYC Requirements for Opening Accounts, Conducting Transactions, Etc.

The *Money Laundering, Proceeds of Serious Crime and Terrorist Financing Act, 2006* (“AML/CFT Act”) requires “financial institutions” – defined broadly to include money transmission services and other semi-formal and informal financial service providers⁷⁸ – to collect detailed customer information when conducting electronic fund transfers, opening accounts, or conducting one-off transactions.⁷⁹ The financial institution must *identify* and *verify* each customer. For the purposes of *identification*, customers must provide “an official or other identifying document,” and each customer’s identity must be *verified* using “reliable and independent source documents, data or information or other evidence”⁸⁰

If the provisions governing identification and verification were narrowly construed, some of this information might be difficult for migrants and other poor clients to provide, such as production of an official identity document and proof of address.⁸¹ Financial institutions are also expected to “take reasonable measures to establish the source of wealth and source of property” of the client.⁸² Such requirements, if applied strictly to low-value accounts and transactions, could limit access to finance due to lack of documentation and because the cost of due diligence could make the provision of small-value remittances and transfers cost-prohibitive.

On the positive side, the Act would appear to permit agents to perform some of the Know Your Customer (KYC) functions, rather than requiring that full verification of identity be conducted at a branch. However, it would appear that such agents would have to be regulated and supervised in some fashion.⁸³

Central Bank’s Perspective on AML/CFT

In consultation with the RBM and financial institutions, Malawi’s Financial Intelligence Unit (FIU) is in the process of drafting AML/CFT regulations. The most recent draft would provide some flexibility with respect to the identification of customers by explicitly authorizing the current practice of accepting a letter from the customer’s District Commissioner in lieu of a national identity card, passport, or driver’s license.⁸⁴

The requirement to verify a client’s identity has not been commonly carried out or enforced in Malawi in the past. The *Draft AML/CFT Regulations* would require financial institutions to verify each customer’s information by contacting the District Commissioner, following up with the customer’s employer, and conducting other due diligence.⁸⁵ However, the draft regulations also recognize that

⁷⁸ See AML/CFT Act, Section 2.

⁷⁹ See AML/CFT Act, Section 24(1).

⁸⁰ See AML/CFT Act, Section 24(1).

⁸¹ See AML/CFT Act, Section 24(2)(b).

⁸² See AML/CFT Act., Section 24(2)(b).

⁸³ See AML/CFT Act, Section 24(6).

⁸⁴ See Draft AML/CFT Regulations, Section 4(1)(b).

⁸⁵ See Draft AML/CFT Regulations, Section 10(1).

there may be cases in which such verification is “*not practical.*” In such cases, financial institutions could verify identity using other methods “*if it is believed to be reasonably necessary.*”⁸⁶

Under the *Draft AML/CFT Act*, financial institutions will be required to verify all identifying documents even in the absence of any suspicion by the financial institution. In practice, the RBM recognizes that banks do not usually verify identity documents unless there is a reason to be suspicious. The RBM will therefore require greater compliance among financial institutions based on the *AML/CFT Act* and will not allow banks to accept identity documents and other approved forms of identification at face value.

The *Draft AML/CFT Regulations* would establish a risk-based approach to Customer Due Diligence (CDD). Under such an approach, financial institutions would adjust the level of CDD conducted, depending upon the money laundering risk posed by each particular client.⁸⁷ Low-value transactions or low-value accounts with balance and/or transaction limits could be subject to lighter CDD requirements. The RBM is also in the process of developing a threshold below which financial institutions could conduct one-off transactions without verifying the client’s identity (unless they have reason to be suspicious).⁸⁸

While establishing a risk-based CDD approach would facilitate access to finance for the poor, the Draft Regulations do warn financial institutions to “*pay special attention to . . . [n]ew or developing technologies that might favor anonymity, and take measures to prevent their use in money laundering schemes.*”⁸⁹ While specific requirements are not enumerated, it seems likely that the RBM would hold institutions that offer branchless banking-enabled financial services to a higher standard with respect to risk mitigation.

Finally, the *AML/CFT Act* and the *Draft AML/CFT Regulations* appear to authorize a financial institution to outsource account opening and CDD responsibilities to agents.⁹⁰ Conversations with RBM officials confirmed this interpretation of the draft regulations. However, the RBM emphasized that financial institutions would remain ultimately responsible for ensuring that such outsourcing was being conducted professionally.

A.2.3. Regulatory Framework for Cross-Border Transactions

A.2.3.1 Types of Institutions that may offer Cross-Border Services

Foreign exchange policies are restrictive. Virtually all outward cross-border transfers must be conducted through an “*authorized dealer bank.*”⁹¹ The lone exceptions are the post office and a *de minimus* exemption for “*gifts*” that do not exceed USD 100.⁹² Such gifts may be sent from an outlet of a money transmission operator (such as Western Union) that is not connected with a bank (operating either within a foreign exchange bureau or on a standalone basis).

⁸⁶ See Draft AML/CFT Regulations, Section 10(2).

⁸⁷ See Draft AML/CFT Regulations, Section 18(2, 3).

⁸⁸ See Draft AML/CFT Regulations, Section 17(2).

⁸⁹ See Draft AML/CFT Regulations, Section 22(1)(d).

⁹⁰ See *AML/CFT Act*, Section 24(6); Draft AML/CFT Regulations, Section 29(3)(d).

⁹¹ See Exchange Control (Forex and Bureaux and Foreign Exchange Fixing Sessions) Regulations, 1994 (<http://www.rbm.mw/data/xctrl/index.asp?content=xcr>).

⁹² We need to establish exactly what financial services are provided by the post office, and between which countries.

One reason given by the RBM for not permitting agents to conduct cross-border transfers on behalf of banks relates to documentation and financial literacy requirements. All cross-border transfers exceeding the USD 100 threshold for gifts require documentation to prove that the sender is using the funds for an approved purpose (such as maintenance of a dependent relative, educational expenses, or medical costs). The RBM felt that the average retailer would lack the capacity and the equipment needed to comply with the documentation requirements for such transactions. As a result, this could (in the RBM's view) affect the reliability of information submitted for the purpose of calculating current account surplus/deficit, which could affect Malawi's Balance of Payments.

A.2.3.2 *Transaction Limits and Other Exchange Control Requirements*

There are strict limits on the purchase and remittance of foreign exchange. Outward remittances to relatives, which are classified as "maintenance," require proof of the relationship and are limited to USD 1,000 per month. Foreign exchange purchased and remitted for other purposes (such as medical or educational allowances) is also subject to limits and requires documentation to support the claimed use of the funds.⁹³ Purchase of foreign exchange to pay for imported merchandise is not subject to limits, but the customer must provide evidence such as invoices and a bill of entry from the Department of Customs.⁹⁴

A.2.3.3 *Identification Requirements*

In general, identification and verification requirements for cross-border transactions are the same as for domestic transactions (see discussion above). For foreign nationals who are not Malawi residents, a passport may be presented in lieu of the domestic identification documents.⁹⁵ Under the draft AML/CFT regulations, financial institutions would be expected to verify a foreign national's identification by contacting the foreign national's embassy or consulate.⁹⁶ However, given the *de facto* policy of not requiring verification of most identity documents, it is unclear whether this provision would be enforced in practice.

It is also unclear whether any relaxation or exemption of the verification requirement for low-value transactions would apply to cross-border transactions as well. While the draft regulations in their current form would not appear to distinguish between domestic and cross-border transactions,⁹⁷ the RBM perceives a heightened potential for money laundering through cross-border transfers. In a country that continues to experience chronic foreign exchange shortages there are those who are concerned that loosening requirements could increase the dangers of capital flight.⁹⁸

⁹³ See Guidelines for Licensing and Operating Foreign Exchange Bureaux issued under the Exchange Control (Forex Bureaux and Foreign Exchange Fixing Sessions) Regulations, 1994.

⁹⁴ See Guidelines for Licensing and Operating Foreign Exchange Bureaux issued under the Exchange Control (Forex Bureaux and Foreign Exchange Fixing Sessions) Regulations, 1994.

⁹⁵ See AML/CFT Act, Section 24(2)(b); Draft AML/CFT Regulations, Section 5(1).

⁹⁶ See Draft AML/CFT Regulations, Section 11(1).

⁹⁷ See Draft AML/CFT Regulations, Section 17(2).

⁹⁸ See, e.g., <http://www.nyasatimes.com/national/2234.html>.

A.3. Mozambique Country Diagnostic

A.3.1. Summary

Provision of branchless financial services by a non-bank is permitted in Mozambique. Specifically, electronic money institutions are now permitted: being classified as credit institutions, they are even permitted to mobilize deposits and other reimbursable funds from the public. It is not yet clear, however, how such institutions will be regulated in practice.

Recent amendments to the law are opening up the previously very restricted scope for outsourcing deposit-taking services and appear to allow, for example, the use of retail agents to accept deposits on behalf of a bank or other deposit-taking institution. Under the Microfinance Regulations, registered deposit brokers are permitted to collect deposits on behalf of institutions that are licensed to accept deposits. No bank has yet, however, tried to establish such a relationship.

The 2002 Money Laundering Law requires financial entities, for transactions above a certain limit, to check the identity and address of a client. A Decree of 2006 makes this provision less restrictive by widening the range of documents and other sources that can be used for customer identification. Identification requirements do not therefore appear to be a major barrier to branchless banking in Mozambique, nor indeed for cross-border transactions.

Only banks and the Post Office may send and receive funds internationally. As in Angola, money transfer operators such as Western Union and MoneyGram are only provided as a service of a bank; standalone agencies are not permitted. Official approval is not required for transfers under \$5,000 (though clients must state the reason for sending the funds); there are no limitations on the receipt of funds.

A.3.2. Domestic Branchless Banking Regulatory Framework

A.3.2.1 *Permissibility of a Nonbank-Based Branchless Banking Model*

Provision of branchless financial services by a non-bank is permitted in Mozambique. Amendments to *Law No. 15/99 Regulating the Establishment and Activities of Credit Institutions and Financial Companies* (“*FIs Law*”) created a new type of provider called “electronic money institutions” (“e-money institutions”). Such institutions are defined as:

“credit institutions whose primary activity consists of issuing means of payment in the form of electronic money, in terms of the applicable law. “Electronic money” is understood to represent monetary value represented by a claim on the issuer that: I. is stored on an electronic medium; [and] II. is accepted as a means of payment by parties other than the issuer.”⁹⁹

Since e-money institutions are classified as “credit institutions,”¹⁰⁰ they are permitted to mobilize deposits and other reimbursable funds from the public. Such funds may be used for the e-money institution’s own purposes.¹⁰¹

⁹⁹ See Law No. 9/2004, Art. 2.1(i)

(http://www.bancomoc.mz/documents/DOI/Lei_09_2004_ALTERA_LICS.pdf). Note that this is an unofficial translation of the Portuguese text.

¹⁰⁰ See Law No. 9/2004, Art. 3(g)

(http://www.bancomoc.mz/documents/DOI/Lei_09_2004_ALTERA_LICS.pdf).

It is not yet clear how the decision to define e-money institutions as credit institutions will affect development of the nonbank-based branchless banking model. On the one hand, by creating a new type of institution, Mozambique has sent a clear message to the market that it welcomes new entrants in the electronic payments arena. On the other hand, it is unclear how e-money institutions will be regulated. If the Bank of Mozambique (BoM) were to subject e-money institutions to the same level of prudential regulation as banks, this would have the same effect as limiting e-money services to banks only.

While it can be presumed that the BoM does not intend to regulate e-money institutions as if they were banks,¹⁰² regulations governing e-money institutions have not yet been drafted. According to the BoM, this is because there are no operators as of yet. Thus, key risk management issues – such as e-wallet balance limits and transaction caps; reconciliation of virtual accounts and pooled accounts; and consumer protection safeguards – would have to be worked out on a case-by-case basis between the BoM and any entity wishing to become licensed as an e-money institution.

Although there were still no licensed e-money institutions at the time of this writing, this is likely to change in the near future. At least one of the major mobile network operators is seriously pursuing an e-money institution license. In response, the Ministry of Finance has issued a Request for Expressions of Interest for the provision of technical assistance in developing a regulatory framework for electronic banking.¹⁰³

A.3.2.2 Permissibility of Outsourcing the Provision of Financial Services to Retail Agents

Current Law

As originally drafted, the *FIs Law* did not appear to be particularly open to the idea of outsourcing the provision of financial services to retail agents. Under the original version of the *FIs Law*, “credit institutions” (banks, credit cooperatives, and other approved institutions) were permitted to accept deposits and other reimbursable funds from the public.¹⁰⁴ The Law’s Principle of Exclusivity emphasized that such services were restricted to credit institutions only.¹⁰⁵

However, recent amendments have opened up space for outsourcing deposit-taking services. First, the government passed *Law No. 9/2004*, which amended numerous provisions of the *FIs Law*. *Law No. 9/2004* amended the Principle of Exclusivity to state that only credit institutions could accept deposits and other reimbursable funds from the public *for their own use*.¹⁰⁶ This modification to the Principle of Exclusivity allowed for the possibility that an entity other than a credit institution *could* accept deposits if the deposits were not for its own use – which is exactly what a retail agent does when accepting deposits on behalf of a bank or other deposit-taking institution.

... footnote continued from previous page.

¹⁰¹ See Law No. 9/2004, Art. 7.1 (http://www.bancomoc.mz/documents/DOI/Lei_09_2004_ALTERA_LICS.pdf).

¹⁰² If the BoM wished to regulate e-money institutions identically to banks, then there would be no need to amend the *FIs Law* to create e-money institutions in the first place. The original *FIs Law* already permitted banks to facilitate electronic payment services. See *FIs Law*, Art. 4.1 (http://www.bancomoc.mz/documents/GAJ/Lei_nr_15_99_01_de_Novembro.pdf).

¹⁰³ See generally <http://www.devex.com/projects/financial-sector-technical-assistance-project-in-mozambique-7>.

¹⁰⁴ See *FIs Law*, Arts. 3-4 (http://www.bancomoc.mz/documents/GAJ/Lei_nr_15_99_01_de_Novembro.pdf).

¹⁰⁵ See *FIs Law*, Art. 7.1.

¹⁰⁶ See *Law No. 9/2004*, Art. 7.1 (http://www.bancomoc.mz/documents/DOI/Lei_09_2004_ALTERA_LICS.pdf).

Later that year, the government provided explicit authorization to outsource deposit collection to retail agents by enacting the *Microfinance Regulations (Decree No. 57/2004)*. These Regulations created four categories of microfinance operators. Category D was “*deposit brokers*,” which were defined as “*entities registered in the terms of these Regulations to carry on the business of intermediaries in obtaining deposits.*”¹⁰⁷ Deposit brokers are permitted to collect deposits on behalf of institutions that are licensed to accept deposits, so long as they first register with the Bank of Mozambique (BoM). The BoM will only approve a registration request upon evidence of an agreement between the deposit broker and a prudentially regulated, deposit-taking credit institution.¹⁰⁸

Interestingly, Mozambique has a history of using retail agents to collect deposits on behalf of banks. Such relationships between banks and retailers were common, but 17 years of civil war severed these links. In the four years since the enactment of the Microfinance Regulations, however, no bank has tried to establish such a relationship. BoM staff attributes this to a combination of larger banks’ limited interest in the rural market and smaller banks’ insufficient awareness of the possibility of using such a delivery mechanism.

A.3.2.3 *Effect of AML/CFT Requirements on Access to Finance:*

Current CDD/KYC Requirements for Opening Accounts, Conducting Transactions, Etc.

For deposits and occasional transactions that equal or exceed 441 minimum wages (which we believe to be equivalent to about US\$1,150), *Law 7/2002 (“Money Laundering Law”)* requires that financial entities *identify* clients through production of a valid identity document that includes proof of identity and a photograph.¹⁰⁹ The financial entity must *verify* the client’s address as well.¹¹⁰

The requirements of the *Money Laundering Law* were clarified through the enactment of the *Money Laundering Regulations*.¹¹¹ For the purposes of *client identification*, an acceptable identity document must: (i) be issued by the competent entity; (ii) be unexpired; and (iii) include a photograph.¹¹² For the purposes of *address verification*, the client may submit an identity card (or the receipt for the application for an identity card, if supplemented by other evidence), passport, temporary residency

¹⁰⁷ See Decree 57/2004 approving the Microfinance Regulations, Arts. 1.4(h), 2(d), 6 (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2057-04_Micro-Finance%20Regulations.pdf).

¹⁰⁸ See Decree 57/2004 approving the Microfinance Regulations, Art. 59. (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2057-04_Micro-Finance%20Regulations.pdf).

¹⁰⁹ See Law 7/2002 of 5 February – Law on Money Laundering, Art. 10.1 (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Law%207-2002_Money%20Laundering.pdf).

¹¹⁰ See Law 7/2002 of 5 February – Law on Money Laundering, Art. 10.7 (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Law%207-2002_Money%20Laundering.pdf).

¹¹¹ Decree 37/2004 of 8 September – Money Laundering Regulations (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2037-04_Money%20laundering%20law%20regulations.pdf).

¹¹² See Decree 37/2004 of 8 September – Money Laundering Regulations, Art. 8.1 (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2037-04_Money%20laundering%20law%20regulations.pdf).

permit, or a certificate issued by the client's local administrative authority.¹¹³ Identity cards, passports, and temporary residency permits satisfy both the identification requirement and the verification requirement.¹¹⁴

In response to concerns that the money laundering requirements might restrict access to finance for those lacking certain forms of official identification, the government enacted *Decree No. 1/2006*.¹¹⁵ This Decree significantly increases the range of documents approved for the purposes of customer identification. The Decree amends the *Money Laundering Regulations* to permit financial entities to accept documents such as driver's licenses, military ID cards, election registration cards, refugee ID cards, and social security ID cards.¹¹⁶ In addition, it permits financial entities to use alternative methods to identify their clients, including personal knowledge and testimonials.¹¹⁷ The BoM requires all BoM-regulated financial institutions to develop internal regulations that clarify which documents and alternative methods it will accept to identify clients for the purposes of compliance with money laundering requirements.¹¹⁸

Through the amendments listed above, Mozambique has provided financial institutions with: (i) significant flexibility when conducting due diligence on customers; and (ii) reduced CDD requirements for low-value transactions. Therefore, identification requirements do not appear to be a major barrier to branchless banking in Mozambique.

A.3.3. Regulatory Framework for Cross-Border Transactions

A.3.3.1 *Types of Institutions that may offer Cross-Border Services*

Only banks and the Post Office may send and receive funds internationally. As in Angola, money transfer operators such as Western Union and MoneyGram are only provided as a service of a bank; standalone agencies are not permitted. The Post Office offers international transfer services to/from post offices in South Africa and a few other countries. However, the system is still manual; paper forms and receipts must be transferred between the two countries in order to effect a transaction.¹¹⁹

¹¹³ See Decree 37/2004 of 8 September – Money Laundering Regulations, Art. 8.2-8.3 (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2037-04_Money%20lauding%20law%20regulations.pdf).

¹¹⁴ See Decree 37/2004 of 8 September – Money Laundering Regulations, Art. 8.2 (English translation) (http://www.salconsult.com/PDF/Legislacao/Leis/EN/Banking%20Law/Decree%2037-04_Money%20lauding%20law%20regulations.pdf).

¹¹⁵ We have not been able to obtain a copy of this decree, so are relying here on references in other documents.

¹¹⁶ See Capito, B., "Evaluation of Anti-Money Laundering Mechanisms in Mozambique, 2004 to 2006" p133 *in Confronting the Proceeds of Crime in Southern Africa* (Chap. 6) (http://www.iss.co.za/dynamic/administration/file_manager/file_links/M132CHAP6.PDF?link_id=28&slink_id=4471&link_type=12&slink_type=23&tmpl_id=3).

¹¹⁷ See Notice No. 3/GBM/2007, Preamble (http://www.bancomoc.mz/documents/GAJ/AVISO_03_2007.doc).

¹¹⁸ See Notice No. 3/GBM/2007, Art. 2 (http://www.bancomoc.mz/documents/GAJ/AVISO_03_2007.doc).

¹¹⁹ This section is based on conversation with the Banking Supervision Department of BoM. We were unable to identify any provision in the Foreign Exchange Law & Regulations that addressed the sending and receiving of funds for the purpose of remittances and low-value transactions – only foreign exchange operations in general, for travel overseas, and for large transfers (FDI, imports, etc.).

In addition, the BoM clarified that retail agents would not be permitted to process cross-border transactions on behalf of banks. The BoM views cross-border transfers as higher-risk than domestic transactions, so even low-value cross-border transactions would need to go through a bank branch.

A.3.3.2 *Transaction Limits and Other Exchange Control Requirements*

Banks may send up to USD 5,000 per transaction without seeking official approval. However, clients must state the reason for sending these funds. Fund transfers that exceed USD 5,000 require prior approval. No limitations are placed on receipt of funds.

A.3.3.3 *Identification Requirements*

Identification requirements are the same for cross-border transactions as for domestic transactions. Therefore, clients can benefit from the significant flexibility created under the amendments to the *Money Laundering Regulations* (see above).

A.4. South Africa Country Diagnostic

A.4.1. Summary

Only banks are permitted to issue e-money in South Africa, but the use of agents to provide financial services is permitted for a wide variety of financial services.

In September 2008, the previous tight restriction of foreign exchange business to banks and Postbank was widened to allow bureaux de change to apply for the status that would permit them to conduct foreign exchange transactions. While South African banks have significant freedom to outsource *domestic* transfers and other domestic financial services, *cross-border* transfers currently may not be outsourced to retail agents. Western Union can only operate in branches, and only as a service of a bank or bureau de change, not as a stand-alone entity.

There are signs of a willingness to further liberalize exchange control requirements, but it is unclear whether this will lead to a significant reduction in the very high cost of remittances from South Africa. The high charges are thought to be at least partly attributable to lack of effective competitive pressure. There are also reporting requirements that appear to raise the cost of remitting funds abroad – particularly for small-value remittances.¹²⁰

The limits on Postbank-enabled transfers from South Africa are much tighter than those for bank and bureau de change-enabled transfers, though there are no limits on inbound transfers. Of the countries covered in this study, Malawi, Mozambique and Zambia accept either money orders or postal orders from South Africa; Angola does not.

Foreign nationals who are legally residing in South Africa are generally treated like residents for the purposes of exchange control requirements, but documentation requirements make it impossible for “undocumented” immigrants to use formal remittance mechanisms. Some people are suggesting a “don’t ask, don’t tell” policy with respect to legal status, along the lines of the approach adopted by the USA for Mexican workers.

AML/CFT regulations also let down identification requirements that many low-income South Africans and non-resident foreign nationals are unable to satisfy. A limited exemption has been introduced for low-value accounts, but this does not apply to cross-border transactions, from which many low-income clients therefore remain excluded. In addition, the exemption applies only to South African citizens and residents, so it excludes non-resident foreign nationals (even those who are in South Africa legally) as well as undocumented migrants.

Given the political climate and the possibility that Postbank will be forced to verify legal residence once it begins to be supervised by the South African Reserve Bank, undocumented migrants’ access to formal financial services is likely to become more restricted, not less, in the near future.

A.4.2. Domestic Branchless Banking Regulatory Framework

The main reason for including South Africa in the study is its role as the major receiver of migrant workers, and therefore its role at the sending end of the remittance corridor. We have therefore focused this country diagnostic on cross-border transactions (section 5.2), only summarizing the domestic framework here.

¹²⁰ The high costs of remittances seems to be driven by both the regulatory burden and the lack of competition. This point is addressed more fully in the Recommendations for a Follow-up Action Plan in chapter 5 of the main report.

A.4.2.1 Permissibility of a Nonbank-Based Branchless Banking Model

Only banks are permitted to issue e-money.¹²¹ As a result, mobile network operators and independent providers interested in providing access to payment services have had to establish joint ventures with licensed banks in order to provide access to financial services through the use of agents and mobile phones. Two well-known examples include WIZZIT, a joint venture between an independent provider and the South African Bank of Athens; and MTN Banking, a joint venture between mobile network operator MTN and Standard Bank.

A.4.2.2 Permissibility of Outsourcing the Provision of Financial Services to Retail Agents

The use of agents to provide financial services is permitted in South Africa. The South African Reserve Bank (SARB) permits banks to outsource the provision of a wide variety of financial services, provided that the banks ensure that outsourced services (i) meet the bank's standards; and (ii) are conducted in accordance with the bank's internal policies and the outsourcing agreement.¹²² In addition, the Banks Act specifically permits banks to authorize other parties to accept deposits or make payments on their behalf.¹²³

A.4.3. Regulatory Framework for Cross-Border Transactions

A.4.3.1 Types of Institutions that may offer Cross-Border Services

Traditionally, only "authorized dealers" in foreign exchange and the post office (Postbank)¹²⁴ have been permitted to effect international transfers. Since only licensed banks are allowed to register as authorized dealers,¹²⁵ this has limited competition within the remittance market. In September 2008, this requirement was loosened to permit "authorized dealers with limited authority" (ADLAs) to effect international transfers as well. Since both banks and bureaux de change may apply for ADLA status,¹²⁶ this change could increase competition in the market for cross-border transfers.

While South African banks have significant freedom to outsource *domestic* transfers and other domestic financial services, *cross-border* transfers currently may not be outsourced to retail agents. Concerns over issues such as money laundering and proper reporting of foreign transactions have led the Exchange Control department to consolidate cross-border transactions in branches. In addition, a breach of Exchange Control regulations by the local Western Union agent led to a seven-year banishment from the country that ended only in late 2008.¹²⁷ While Western Union has returned, it may only operate in branches, and only as a service of a bank or bureau de change, not as a stand-alone entity.

¹²¹ See Position Paper NPS 01/2006, Section 3.3.1.4.

¹²² Banks Act Circular 14/2004.

¹²³ *Banks Act*, Section 1 (definition of "agency").

¹²⁴ See *Postal Services Act, 1998*, Art. 47 (http://www.acts.co.za/post_serv/index.htm).

¹²⁵ See CGAP, "Notes on Regulation of Branchless Banking in South Africa," Section 5.5 (Feb. 2008).

¹²⁶ Of the 8 authorized dealers in foreign exchange with limited authority listed on the South African Reserve Bank's website, 7 are bureaux de change and 1 is a bank. See <http://www.reservebank.co.za/internet/publication.nsf/WCEV/F6698D55841D101742256B4A0047939F/?opendocument>.

¹²⁷ See <http://www.businessday.co.za/articles/topstories.aspx?ID=BD4A834096>.

That said, Exchange Control requirements have been liberalized incrementally since 1994, moving toward a system of notification rather than approval. Discussions with policymakers indicated that they would consider permitting banks to outsource cross-border transfers to retail agents, provided that the necessary safeguards were put in place and the relevant transaction data were captured.

However, it is unclear whether permitting banks to outsource cross-border remittances to retail agents would lead to a significant reduction in the cost of remittances from South Africa.¹²⁸ First, banks claim that compliance with exchange control reporting requirements and AML/CFT identification/record-keeping requirements is costly; Banks and related associations mentioned issues such as the need to: (i) obtain and verify a street address; (ii) collect information and keep records for even small-value single transactions; and (iii) report on transactions *ex ante*, rather than *ex post* (the latter being acceptable for debit or credit transactions).¹²⁹ Outsourcing this responsibility to agents may reduce but will not eliminate these compliance costs.

Second, it is not at all clear that charges for cross-border transfers are based upon the actual costs of providing these services. A recently-concluded inquiry into bank charges conducted by South Africa's Competition Commission concluded that there was "*no relationship*" between the prices charged by banks for conducting transactions and the costs that the banks incurred in providing such services.¹³⁰ This led the Commission to conclude that "[b]anks do not consider per transaction costs at all in the setting of transaction fees", which "*suggests that they are sheltered from effective competitive pressure.*"¹³¹

World Bank remittance data tend to corroborate this conclusion. While the average cost of remitting R1,500 (approximately USD 150) through a bank to another SADC country ranged from 12% to 24% of the value of the funds remitted (depending upon the country), both First National Bank and Postbank offered this service in several countries for as little as 6%.¹³² While banks could argue that Postbank bears a lighter regulatory burden, the same is not true for First National Bank. If high costs are due primarily to lack of competition, then efforts to reduce the regulatory compliance burden on banks are unlikely to generate significant cost savings for customers.

A.4.3.2 Transaction Limits and Other Exchange Control Requirements

Postbank-enabled transfers from South Africa to countries outside of the Rand Common Monetary Area are limited to R2,000 (approximately USD 200) per person per month, up to a maximum of R24,000 (approximately USD 2,400) per year. Inbound transfers to South Africa from these countries are not subject to any limits. Of the countries covered in this study, Malawi, Mozambique and Zambia accept either money orders or postal orders from South Africa (as does Namibia); Angola does not.

For bank- and bureau de change-enabled transfers, legal residents may transfer up to R500,000 (approximately USD 50,000) per year without requiring a tax clearance certificate, provided that the

¹²⁸ The cost of remitting funds from South Africa to other countries in the SADC region is among the highest of any remittance hub worldwide. See <http://remittanceprices.worldbank.org/countrycorridors/>.

¹²⁹ Interviews with Banking Association and Payments Association

¹³⁰ See Competition Commission, "Banking Enquiry Report to the Competition Commissioner", p118 (<http://www.compcom.co.za/banking/Non%20confidential%20report/3%20-%20Costing%20and%20Pricing.pdf>).

¹³¹ See Competition Commission, "Banking Enquiry Report to the Competition Commissioner", p118 (<http://www.compcom.co.za/banking/Non%20confidential%20report/3%20-%20Costing%20and%20Pricing.pdf>).

¹³² See <http://remittanceprices.worldbank.org/RemittanceCosts/?from=172>.

funds are used for gifts, charitable donations, maintenance of a nuclear family relative, and/or travel.¹³³

In addition, all transactions – regardless of size – must be categorized according to the Cross Border Foreign Exchange Transaction Reporting System¹³⁴ and electronically reported to the South African Reserve Bank’s Exchange Control Department. These requirements would appear to raise the cost of remitting funds abroad – particularly for small-value remittances – which might make formal remittance mechanisms less attractive for low-value transfers.

A.4.3.3 Identification Requirements

Exchange Control Requirements

Foreign nationals who are legally residing in South Africa are generally treated like residents for the purposes of exchange control requirements.¹³⁵ However, foreign nationals are required to provide the authorized dealer with a valid permit from the Department of Home Affairs that condones their temporary residence in South Africa.¹³⁶ This makes it impossible for “undocumented” immigrants to use formal remittance mechanisms.

Some have questioned this approach, noting that for exchange control purposes, identity could be adequately verified solely through the presentation of a foreign passport. At least one author has proposed not requiring banks to enforce immigration laws and instituting a “don’t ask, don’t tell” policy with respect to legal status.¹³⁷ Such an approach has been followed in the United States, where financial institutions may accept a Mexican “Matricula Consular” identity document, a foreign passport, or another foreign identification without requiring proof of legal residence.¹³⁸

While not without controversy,¹³⁹ the American approach has allowed the vast majority of US-Mexico remittances to go through formal channels.¹⁴⁰ In contrast, it is estimated that fewer than half of cross-border remittances within the Southern African Development Community (SADC) go through formal

¹³³ See Exchange Control Manual, Section F.2.2.2 ([http://www.reservebank.co.za/internet/Publication.nsf/LADV/D70021D8DEA92BF04225751C003046AE/\\$File/H.pdf](http://www.reservebank.co.za/internet/Publication.nsf/LADV/D70021D8DEA92BF04225751C003046AE/$File/H.pdf)) and Section F.5 ([http://www.reservebank.co.za/internet/Publication.nsf/LADV/DC2F1ADB95FE21164225745700338935/\\$File/L.pdf](http://www.reservebank.co.za/internet/Publication.nsf/LADV/DC2F1ADB95FE21164225745700338935/$File/L.pdf)).

¹³⁴ See Exchange Control Manual, Section F.2 ([http://www.reservebank.co.za/internet/Publication.nsf/LADV/A81CA6A1D323978C4225751C00303E66/\\$File/G.pdf](http://www.reservebank.co.za/internet/Publication.nsf/LADV/A81CA6A1D323978C4225751C00303E66/$File/G.pdf)).

¹³⁵ See Exchange Control Manual, Section F.3.2.1 ([http://www.reservebank.co.za/internet/Publication.nsf/LADV/F2AD7DCD59B55FD1422573FC0053FCD0/\\$File/J.pdf](http://www.reservebank.co.za/internet/Publication.nsf/LADV/F2AD7DCD59B55FD1422573FC0053FCD0/$File/J.pdf)).

¹³⁶ See Exchange Control Manual, Section F.3.2.2 ([http://www.reservebank.co.za/internet/Publication.nsf/LADV/F2AD7DCD59B55FD1422573FC0053FCD0/\\$File/J.pdf](http://www.reservebank.co.za/internet/Publication.nsf/LADV/F2AD7DCD59B55FD1422573FC0053FCD0/$File/J.pdf)).

¹³⁷ E.g., Genesis Analytics, “Supporting Remittances in Southern Africa,” p94.

¹³⁸ See Federal Deposit Insurance Corporation, “Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market.”

¹³⁹ See, e.g., <http://www.bankofamericaboycott.com/>.

¹⁴⁰ While exact figures are, of course, impossible to produce, the World Bank says that unreported remittances to Mexico through informal mechanisms are now “a small proportion of the total.” Hernández-Coss, “Lessons from the US-Mexico Remittances Corridor on Shifting from Informal to Formal Transfer Systems,” Footnote 8.

delivery channels. Furthermore, most remittances going through formal delivery channels flow through the Postbank rather than through commercial banks.¹⁴¹ This may be due in part to the fact that the post office does not require proof of legal residence; it is, therefore, the only formal financial service provider that is available to undocumented migrants. However, this avenue for undocumented migrants to access remittance services may also close in the near future.¹⁴²

AML/CFT Requirements

The Financial Intelligence Centre Act (FICA) and accompanying Regulations¹⁴³ establish identification requirements for financial transactions, including requirements to present an identity document – an official identity document or other acceptable document with photograph for residents, or a passport for non-resident foreign nationals – and a South African income tax registration number (if applicable). Both residents and non-resident foreign nationals must also provide their full name, date of birth, and residential address.¹⁴⁴

Many low-income South Africans and non-resident foreign nationals lack an official identity card or the ability to provide formal proof of address.¹⁴⁵ In order to ensure that low-income South Africans would not be excluded from the formal financial sector due to FICA requirements, a limited exemption for low-value accounts was passed (“*Exemption 17*”). *Exemption 17* allows banks (including the postal bank) and money remitters to open accounts or conduct transactions without obtaining or verifying the client’s income tax registration number or residential address.¹⁴⁶ Furthermore, providers do not need to keep detailed records of identity documents for such transactions.¹⁴⁷ To minimize the risks associated with allowing low-documentation accounts and transactions, maximum transaction and balance limits were put into place: (i) transactions are limited to R5,000 per day and R25,000 per month (approximately USD 500 and USD 2,500, respectively); (ii) the account balance may not exceed R25,000 (approximately USD 2,500) at any time; and (iii) a client may not hold more than one such account with a single institution.¹⁴⁸

In its current iteration, however, *Exemption 17* is of little value to low-income clients looking to transfer funds across borders. First, *Exemption 17* is inapplicable for cross-border transfers from South Africa to Angola, Malawi, Mozambique, and Zambia; it is intended to be used for domestic transactions only.¹⁴⁹ In addition, *Exemption 17* only applies to South African citizens and residents.¹⁵⁰ Therefore, banks and money remitters are expressly prohibited from using the Exemption with non-

¹⁴¹ Genesis Analytics, “Supporting Remittances in Southern Africa,” pxi.

¹⁴² The National Treasury would like to see Postbank regulated and supervised as a second-tier bank (“dedicated bank”) once the Banking Act is amended to create such an institution. Currently, the Postbank operates under the Postal Services Act with limited oversight from the South African Reserve Bank.

¹⁴³ See <http://www.acts.co.za/fica/index.htm>.

¹⁴⁴ See *FICA Regulations*, Arts. 3-6 (<http://www.acts.co.za/fica/index.htm>).

¹⁴⁵ See CGAP, “Notes on Regulation of Branchless Banking in South Africa,” Section 5.3 (Feb. 2008).

¹⁴⁶ See *Exemption 17*, Art. 17(2)(a).

¹⁴⁷ See *Exemption 17*, Art. 17(2)(b).

¹⁴⁸ See *Exemption 17*, Art. 17(3-4).

¹⁴⁹ See *Exemption 17*, Art. 17(3)(b). In general, cross-border transfers anywhere may not avail of *Exemption 17*. There are a few limited exceptions related to POS payments and cash withdrawals within the Rand Common Monetary Area. However, none of these exceptions is relevant to transfers between South Africa and the other countries in this study.

¹⁵⁰ See *Exemption 17*, Art. 17(2)(b).

resident foreign nationals (even those who are in South Africa legally) and undocumented migrants, who might benefit greatly from reduced customer due diligence (CDD) requirements.

Both of these legal barriers will make it extremely difficult to apply *Exemption 17* to low-value, cross-border transfers. That said, there is greater openness to (i) the possibility of extending *Exemption 17* to cross-border transactions conducted by citizens, residents, and documented non-resident foreign nationals than there is to (ii) allowing undocumented migrants to avail of the Exemption.

With regard to the former, policymakers do feel that subjecting transactions to reduced due diligence is inherently riskier for cross-border transfers than for domestic transfers (due to money laundering risk). The Financial Intelligence Unit (FIU) emphasized that all transactions must be properly identified; there is not a policy of “inclusion at all costs.” However, some policymakers would consider allowing non-resident, documented foreign nationals to avail of *Exemption 17* for domestic transactions and accounts. Furthermore, they would consider the possibility of applying *Exemption 17* to CDD requirements for low-value cross-border transactions (possibly with limits lower than the ones for domestic transactions).

With regard to the latter, policymakers are familiar with the US policy of not confirming that a client is legally in the country when providing access to financial services. Some policymakers privately agree with such a policy, which would also conform to South Africa’s long-term goal of fostering regional integration within SADC.¹⁵¹ However, in the near term, political considerations and a recent wave of anti-immigrant violence would make it very difficult to effect such a change in policy.¹⁵² Given the political climate and the possibility that Postbank will be forced to verify legal residence once it begins to be supervised by the SARB (see above), undocumented migrants’ access to formal financial services is likely to become more restricted, not less, in the near future.

¹⁵¹ See The SADC Framework for Integration, Section 1.2 (<http://www.sadc.int/index/browse/page/107>).

¹⁵² Dozens of immigrants were killed and tens of thousands driven from their homes in May 2008. See, e.g., <http://www.iht.com/articles/2008/05/23/africa/23saf.php>.

A.5. Zambia Country Diagnostic

A.5.1. Summary

The legality or otherwise of using agents to deliver financial services on behalf of banks and other licensed financial institutions is not addressed in the relevant Zambian law. The Bank of Zambia recognizes the need to address this issue and clarify the law in order to allow the extension of branchless banking in the country. BoZ have emphasized that they are open to the use of retail agents to provide a wide variety of financial services, though they would not intend to embrace a totally *laissez-faire* approach.

Payments system legislation permits the creation of non-bank payment system providers, and the Central Bank has indicated that they are open to permitting nonbank money transfer operators to offer a low-value electronic wallet (e-wallet) service, with suitable safeguards in place. Payment system businesses are also permitted to offer cross-border payment services to customers, subject to BoZ approval.

While the AML/CFT requirement to produce an official identity document and proof of address could be difficult for some poor Zambians to meet, some flexibility is allowed with respect to the verification of name and address once an identity document has been provided, while virtually all adults are said to have a National Registration Card. Remote electronic account opening is also permitted, provided that the customer's identity documents are properly verified. In line with its risk-based approach to regulation and supervision of financial services, the BoZ is open to relaxing certain AML/CFT-related requirements for low-value transactions.

A number of non-bank institutions offer domestic and/or cross-border payment services in Zambia, including Western Union, MoneyGram, Mobile Transactions Zambia Limited (MTZL), Celpay, and Cash4Africa.

Foreign exchange controls in Zambia were largely eliminated in 1994. External payments that exceed USD 5,000 must be made through commercial banks.

Detailed CDD/KYC requirements for payment system businesses are yet to be developed; the BoZ is working on amending the current AML directives to cover these institutions as well as banks. In practice, some payment system businesses do not appear to be very concerned about identifying senders, at least for transactions that do not exceed USD 1,000, but BoZ feels that such low-value transactions present little money laundering risk

A.5.2. Domestic Branchless Banking Regulatory Framework

A.5.2.1 *Permissibility of a Nonbank-Based Branchless Banking Model*

The *National Payment System Act, 2007* (“*NPS Act*”) allows for the creation of (non-bank) “payment system businesses,” which are defined to include entities engaged in “providing money transfer or transmission services”¹⁵³ The *NPS Act* does not specifically define what services may be offered when “providing money transfer or transmission services.” However, other countries have permitted nonbank money transfer operators to offer a low-value electronic wallet (e-wallet) service.¹⁵⁴

¹⁵³ National Payment Systems Act, 2007, Section 2(1).

¹⁵⁴ For example, the Philippines regulates participants in the GCash e-wallet scheme as “remittance agents.” In addition to sending funds, GCash users can maintain small balances on their e-wallets. For more information, ... *footnote continues on next page*

The BoZ has indicated its openness to similar innovations in Zambia, provided that the proposed scheme addresses all major risks (particularly with respect to reconciliation and settlement of accounts) and adequately protects consumers. BoZ has decided to allow space of innovations to be introduced, at least on a pilot basis, which they will closely observe, rather than to introduce a specific regulatory framework in advance of the innovations, which might distort the direction of innovation. For example, a payment system business has already received provisional approval to offer unbanked customers a mobile phone-based transactional account without a bank account. This is Mobile Transactions Zambia Limited (MTZL), which is jointly owned by Dunavant Cotton Company and CAD International Limited. The joint venture gained BoZ approval to run a pilot project to enable cotton companies to make payment to supplier farmers who do not have a bank account. The system is now being rolled out on the basis of the pilot, targeted at companies making payments to the unbanked who currently receive cash. The payees do not need a cellphone, SIM card or bank account, and the system is suited for high volume, low value business.¹⁵⁵

A.5.2.2 Permissibility of Outsourcing the Provision of Financial Services to Retail Agents

Current Law

The *Banking and Financial Services Act* (“*Banking Act*”) does not directly address the permissibility of using agents to deliver financial services on behalf of banks and other licensed financial institutions (FIs) (which include deposit-taking MFIs, leasing companies, and other providers). Section 17 prohibits entities that are not banks or licensed FIs from conducting “banking business” or “financial service business,”¹⁵⁶ but this does not clarify whether such an entity could perform financial transactions *on behalf of* a bank or licensed FI.

Central Bank’s Perspective

The Bank of Zambia (“BoZ” or “Central Bank”) recognizes the potential for transformational branchless banking (BB) to help expand access to finance in Zambia. Access to finance is a government policy priority, as noted in the most recent Financial Sector Development Plan (FSDP).¹⁵⁷ As in the case of the non-bank branchless model covered in section A.5.2.1 above BoZ realizes that to achieve the country’s desired goals with respect to access to finance, they will need to permit retail agents to conduct some financial transactions.

However, the BoZ acknowledged that Zambia’s regulatory framework is “not . . . very advanced” in this area. As noted earlier, the *Banking and Financial Services Act* (“*Banking Act*”) and its associated

... footnote continued from previous page.

see <http://www.g-cash.com.ph/subsectionpagearticle.aspx?secid=25&ssid=43&id=86> and <http://www.g-cash.com.ph/subsectionpagearticle.aspx?secid=25&ssid=41&id=75>.

¹⁵⁵ An example given by MTZL is “a company paying a farmer in Katete. System will debit the company account and credit the farmer. If farmer has a phone he will receive an SMS informing him payment has been made. Farmer takes NRC and Payment Slip to registered agent. Agent will log onto account via mobile and input details of both. On validation agent will pass phone to farmer to type in **** pin. On physical and virtual verification the electronic funds will be transferred from the farmer acc to the agent with agent commission, agent will pay cash to farmer.” From McGrath (2008). See also www.mtzi.net/info.

¹⁵⁶ *Banking Act*, Section 17

(<http://www.boz.zm/Instruments/Zambia%20Banking%20and%20Financial%20Services%20Act.pdf>).

¹⁵⁷ See, e.g., Ministry of Finance and National Planning, “Financial Sector Development Plan: 2004-2009 – Executive Summary,” Section 1.1, para. 2 (“One of the widely recognized principal obstacles to economic growth has been the state of the financial sector, which . . . is characterized by low financial intermediation (with little access to financial services for the rural population and the low-to-middle income earners”) . . .). (2004) (<http://www.boz.zm/FSDP/ExecutiveSummary.pdf>).

regulations and circulars do not explicitly address the questions of (i) whether banks and other financial institutions may outsource the provision of financial services to retail agents; and (ii) if so, which types of services may be outsourced.

Nevertheless, the BoZ emphasized that they are open to the use of retail agents to provide a wide variety of financial services. While a financial license is required to offer financial services *directly*, the BoZ would consider allowing a retail agent to provide services *on behalf of a licensed provider*, provided that the scheme was preapproved by the BoZ prior to implementation. The BoZ describes its approach as a *risk-based, model-specific* approach that considers the *type* and *value* of the service offered and looks closely at the *specific details* as to how the scheme would operate in practice and how the relevant risks would be managed.

While open to considering potential BB initiatives, the BoZ also emphasized that such initiatives would need to meet prior BoZ approval, and that such approval would not amount to a “rubber stamp.” The BoZ intends to closely scrutinize proposed BB arrangements, and they would not embrace a more *laissez-faire* approach, such as the approach taken until very recently in Kenya.¹⁵⁸

While the BoZ declined to speculate as to the exact financial services that could be provided by agents, early evidence suggests that many services could be outsourced. Agents are already being used to open bank accounts¹⁵⁹ and disburse salaries and other payments,¹⁶⁰ and the concept of using agents to accept deposits and process withdrawals from bank accounts has been accepted by the BoZ and is in the process of being rolled out.¹⁶¹

A.5.2.3 Effect of AML/CFT Requirements on Access to Finance:

Current CDD/KYC Requirements for Opening Accounts, Conducting Transactions, Etc.

The *Prohibition and Prevention of Money Laundering Act, 2001* (“*AML Act*”) requires the BoZ to issue Directives governing money laundering for all entities under its supervision.¹⁶² Pursuant to this Act, the BoZ issued the *Bank of Zambia Anti-Money Laundering Directives, 2004* (“*AML Directives*”), which require banks and licensed FIs to identify customers when opening accounts or conducting transactions.¹⁶³ These identification requirements include the production of an official identity document (National Registration Card, passport, or driver’s license) and the verification of the customer’s name and address.¹⁶⁴

While the requirement to produce an official identity document and proof of address could be difficult for some poor Zambians to meet, the *Directives* do provide flexibility with respect to the verification of name and address once an identity document has been provided – in addition to the typical

¹⁵⁸ The M-PESA e-money transfer service in Kenya has operated with little oversight from the Central Bank of Kenya, and M-PESA’s contractual agreements with their customers disclaim liability for the actions of retail agents offering services on their behalf. The BoZ indicated that it would not be comfortable with such an approach.

¹⁵⁹ Barclays has opened “*sales centers*” in rural areas where agents facilitate the opening of bank accounts. [Conversation with Banking Supervision].

¹⁶⁰ See MTZL PPT presentations; conversation with Brad Magrath, MTZL.

¹⁶¹ See Celpay PPT presentation; conversation with Miyanda Mulombo, Celpay; MTZL PPT presentations; conversation with Brad Magrath, MTZL.

¹⁶² See AML Act, Sections 2(1) (definitions of “*regulated institution*” and “*Supervisory Authority*”) and 12(4).

¹⁶³ See AML Directives, Sections 6-7.

¹⁶⁴ *Id.*

production of a utility bill, other means such as obtaining a reference from the customer's employer, another bank customer, or a "customary authority" (such as a village chief) are acceptable.¹⁶⁵ Transaction records and copies of identification records must be kept for at least 10 years.¹⁶⁶

The *Directives* also permit banks and FIs to establish procedures for remote electronic account opening, provided that the customer's identity documents are properly verified.¹⁶⁷ This could facilitate account opening by agents, at least in theory, which could eliminate the time and cost of traveling to the nearest branch.

Central Bank's Perspective

Identification. The BoZ is convinced that the requirement to produce an official identity document is not a barrier to access to finance in Zambia. It describes Zambia's National Registration System as "very well-established," stating that virtually all adults (16 years or older) have a National Registration Card.

Proof of Address. The BoZ recognizes that proof and verification of address is more challenging. In some high-density areas, for example, housing numbers are not well-established and utility bills may be hard to come by. While insisting that there must always be some proof of address, the BoZ feels that the *AML Directives* provide sufficient alternative means of proving address to ensure that low-income Zambians will not be prevented from using formal financial services.

Remote and Agent-Assisted Account Opening. While Section 6(4) of the *Directives* would appear to permit account opening without any face-to-face meeting between the customer and the financial service provider (provided that the customer's identification documents were properly verified), the BoZ clarified that to open an account, some sort of face-to-face meeting would still be necessary. However, the BoZ emphasized that an agent could perform such necessary KYC verification on behalf of a licensed financial institution – in fact, at least one bank is already using agents to facilitate account opening in rural areas. In addition, the BoZ noted that it would reconsider this issue if it felt that the requirement for a face-to-face meeting was hindering access to formal financial services.

Exemptions/Relaxations for Low-Value Accounts/Transactions. In line with its risk-based approach to regulation and supervision of financial services, the BoZ is open to relaxing certain AML/CFT-related requirements for low-value transactions. The BoZ would consider more flexibility on issues such as identification and remote account opening if it felt that this were necessary to achieve the policy objective of expanding access to formal financial services. At present, however, no specific requirements have been identified as creating a barrier to access that needs to be addressed.

A.5.3. Regulatory Framework for Cross-Border Transactions

A.5.3.1 Types of Institutions that may offer Cross-Border Services

As in the other four countries studied, banks are permitted to offer cross-border payment services. In addition, as discussed above, the *NPS Act* allows for the creation of "payment system businesses." Subject to BoZ approval, payment system businesses are permitted to offer cross-border payment services to customers. Since these providers need not be banks or other financial institutions licensed under the *Banking Act*, the *NPS Act* helps to create legal space for the development of a competitive market for cross-border money transfer services in Zambia.

¹⁶⁵ See *AML Directives*, Section 7.B.

¹⁶⁶ See *AML Directives*, Section 10; and *AML Act*, Section 13(1)(a).

¹⁶⁷ See *AML Directives*, Section 6(4).

A number of non-bank institutions offer domestic and/or cross-border payment services in Zambia, including Western Union, MoneyGram, Mobile Transactions Zambia Limited (MTZL), mentioned above, Celpay, and Cash4Africa.¹⁶⁸ Cross-border services by nonbanks outside of MoneyGram and Western Union are still limited, but this does not appear to be due to any significant regulatory impediments (at least under Zambian law). Rather, a number of providers indicated that while they were interested in offering cross-border services in the future, they were focused on establishing a profitable domestic business first before taking on the challenges inherent in working internationally.

A.5.3.2 *Transaction Limits and Other Exchange Control Requirements*

Foreign exchange controls in Zambia were largely eliminated in 1994.¹⁶⁹ External payments that exceed USD 5,000 must be made through commercial banks.¹⁷⁰ For transactions conducted outside of a bank branch (*i.e.* at a payment system business or an agent offering such services), a walk-in customer may send up to USD 1,000 (per person, per transaction, per day) without a bank account, or up to USD 5,000 (per person, per transaction, per day) if the funds come directly from a bank account.¹⁷¹

Some payment system businesses have put in place additional limits. For example, Western Union limits customers to a maximum of USD 5,000 *received* and USD 1,000 *sent* per person, per transaction, per day.¹⁷²

A.5.3.3 *Identification Requirements*

As entities subject to BoZ regulation and supervision,¹⁷³ payment system businesses are required to comply with the *AML Act*. However, since the NPS Act was enacted only in 2007, the BoZ has yet to issue money laundering Directives for payment system businesses. As “regulated institutions,” payment system businesses are still subject to requirements of the *AML Act*, including the requirement to keep transaction and customer identification records for 10 years.¹⁷⁴ However, detailed CDD/KYC requirements for payment system businesses have not been developed; the BoZ is working on amending the current *AML Directives* to cover these institutions as well.

In practice, some payment system businesses do not appear to be very concerned about identifying senders, at least for transactions that do not exceed USD 1,000. The BoZ is also less concerned about these services, since it feels that such low-value transactions present little money laundering risk.

¹⁶⁸ For a complete list of designated payment system businesses and their partners, go to <http://www.boz.zm/> and click on “Designated Payment Systems” under the “Payment Systems” category in the left frame.

¹⁶⁹ See Circular 3/94, “Foreign Exchange Control Liberalisation.”

¹⁷⁰ See Circular 8/01, “New Measures on Foreign Exchange Transactions”

¹⁷¹ This information was provided by BoZ: we have not yet found the legal document where these limits are explicitly prescribed.

¹⁷² *E.g.*, <http://www.payment-solutions.com/agentdetails.asp?ID=570976>.

¹⁷³ NPS Act, Section 11

¹⁷⁴ AML Act, Section 13(1)(a).

Annex B Regulatory Issues Addressed in the Country Diagnostics

In this Annex we set out the key regulatory issues that are addressed in the country diagnostics, as proposed in the Inception Report. They are based on the CGAP/DFID Branchless Banking Diagnostic Template;¹⁷⁵

1. **Permissible models for mobile payments and issuance of electronic money** – Depending upon the country, these may include the “bank-based” model (where customers have a direct contractual relationship with a prudentially-regulated financial institution) and the “non-bank-based” model (where customers open virtual “electronic money” accounts that are stored on the server of a mobile phone operator or other non-bank).
2. **Rules on the use of agents for deposit-taking (i.e. taking in cash) / remittances and client identification**¹⁷⁶ – CGAP has emphasized that branchless banking will not achieve its transformational potential unless banks and non-banks are permitted to use retail agents equipped with information and communication technologies (ICT) to take small deposits, process remittances, and perform client identification.
3. **Effects of money laundering and terrorist financing rules on access to m-payment services by low-income clients** – Customer verification and identification requirements that are intended to prevent money laundering and terrorist financing may impede access by poor customers who lack official identification documents or a verifiable address.
4. **Payment system regulation** – Cost-effective access to the payment system by a wide variety of providers is a key factor enabling the rapid take-off of branchless banking. To facilitate this, regulators need to address the risks created by m-payment activity through proportionate regulation that distinguishes between m-payments and traditional banking business.¹⁷⁷
5. **Competition regulation** – Policymakers and regulators should encourage interoperability, and they should ensure the feasibility of achieving interoperability at low cost in the future. At the same time, they should take care to provide adequate space and incentives for pilot efforts by early innovators.¹⁷⁸
6. **Consumer protection regulation** – Certain consumer protection requirements – such as a prohibition on servicing of deposits outside of bank branches – may affect the regulatory feasibility of a branchless banking initiative. At the same time, other requirements may need to be implemented to ensure that clients are protected, such as (i) holding the principal (bank or non-bank) directly responsible to the client for the actions of a retail agent that is performing services

¹⁷⁵ Following the principles laid down in the CGAP diagnostic template and in CGAP’s Focus Note 43 of January 2008, “Regulating Transformational Branchless Banking: Mobile Phones and Other Technology to Increase Access to Finance,” which in turn builds upon David Porteous’ 2006 report for DFID, “The Enabling Environment for Mobile Banking”.

¹⁷⁶ The term “deposit taking” is used in this Annex and in Annex A to mean the “cash in” function of financial transactions – following the use of the term to “take deposits” in the CGAP Branchless Banking Diagnostic Tool which provides the framework for the study. It is not meant to imply that agents taking in cash in this way are deposit-taking institutions in the formal sense.

¹⁷⁷ As discussed particularly in George Houpis and James Bell, “Competition Issues in the Development of M-Transactions,” in “The Transformational Potential of M-Transactions,” Vodafone/Nokia/Siemens *Policy Papers*, No. 6, July 2007.

¹⁷⁸ *Ibid.*

on the principal's behalf; (ii) ensuring that the client knows that services are provided on behalf of principal; (iii) providing mechanisms for redressing client grievances; (iv) ensuring privacy of client data; and (v) properly disclosing to the client the true cost of services provided.

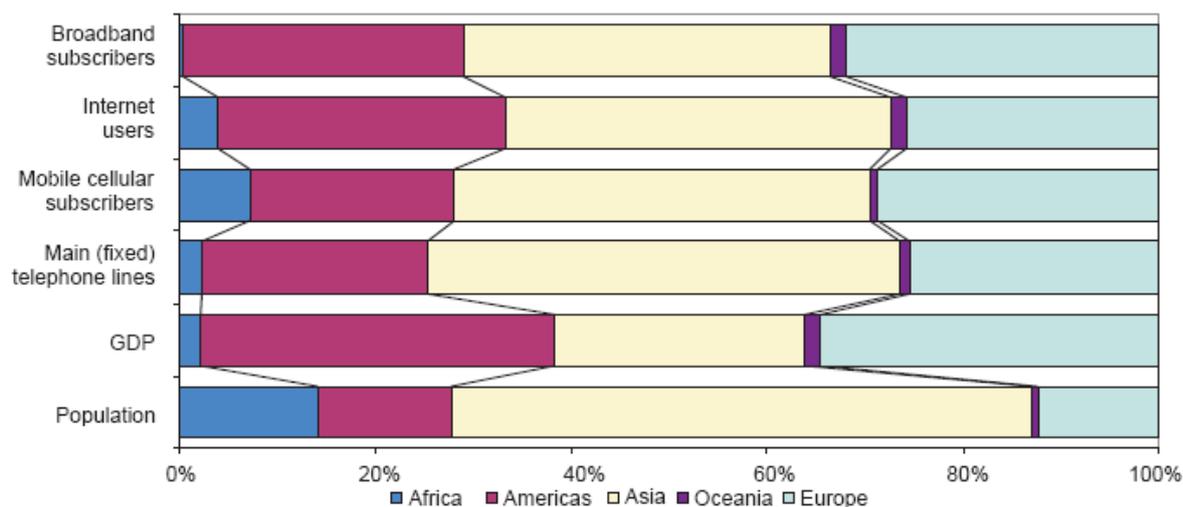
Other important regulatory issues to explore may include:

7. **Foreign exchange controls** – Rules on which providers may engage in foreign exchange transactions and what requirements must be met for small-value transactions (identification, record-keeping, etc.) may affect the success of small-value branchless banking.
8. **E-commerce and e-security** – Strong laws and regulations must be combined with effective enforcement to ensure that clients and customers will be comfortable engaging in electronic financial transactions.
9. **Regulation of telecommunication companies (mobile network operators)** – Key issues include restrictions on value-added services, joint ventures, or peer-to-peer prepaid airtime transfers; and overlaps in regulatory jurisdictions (between telecom and financial services regulators).
10. **Taxation** – Taxation of financial transactions and mobile phone transactions needs to be reviewed. In addition, any differences between the tax rates for the same financial transaction when performed by a mobile network operator rather than a bank needs to be noted.
11. **Policymakers' and regulators' attitudes and policies with respect to financial access** – Understanding key stakeholders' perspectives is critical to gauging the political will and likely support for efforts to create an enabling environment for transformational branchless banking.

Annex C Selected International Comparisons

In this Annex we have set out some international comparisons relating to branchless banking that throw light upon the diagnostics and analysis in this report – these examples and others are drawn upon as required in the course of the report.

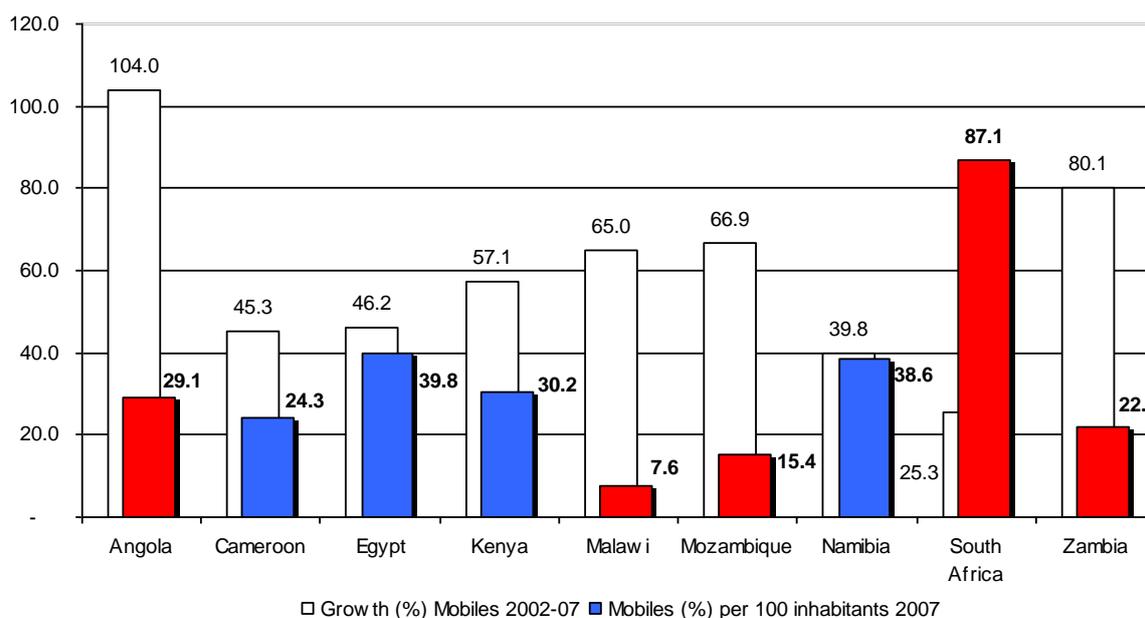
Figure C.1 Regional Overview of Main World Telecommunications and ICT Indicators, 2006



Source: ITU World Telecommunication/ICT Indicators (WTI) Database

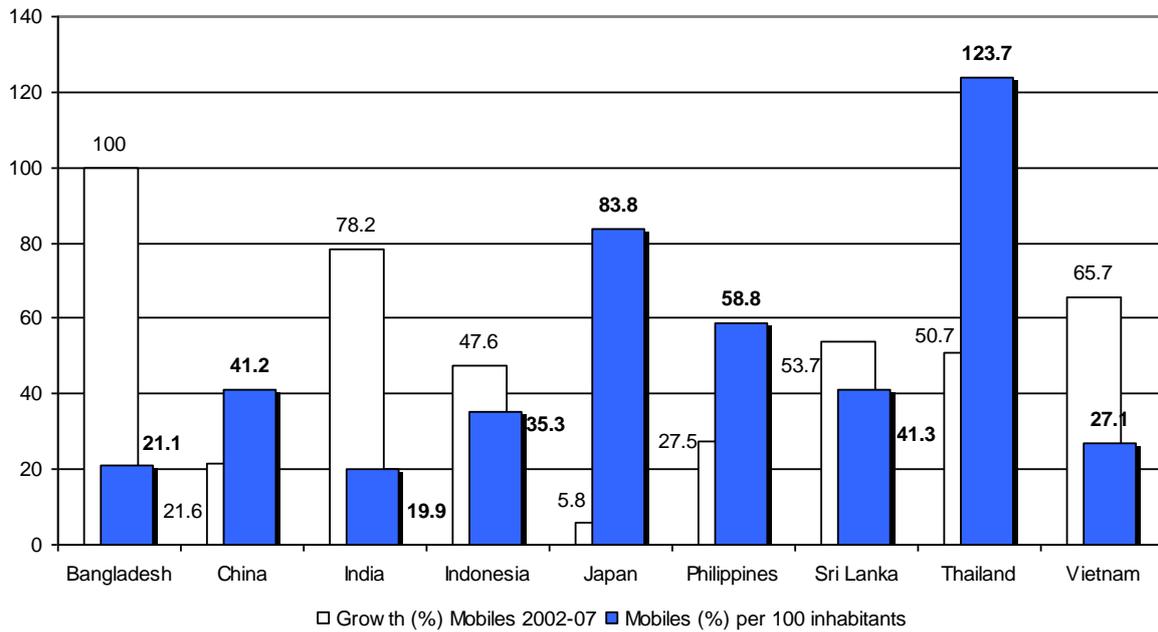
Figure C.2 Mobile Penetration in Selected African Countries

(Focus countries of this report in red. The data for figures C.2 to C.4 are included in Table C.1 below)



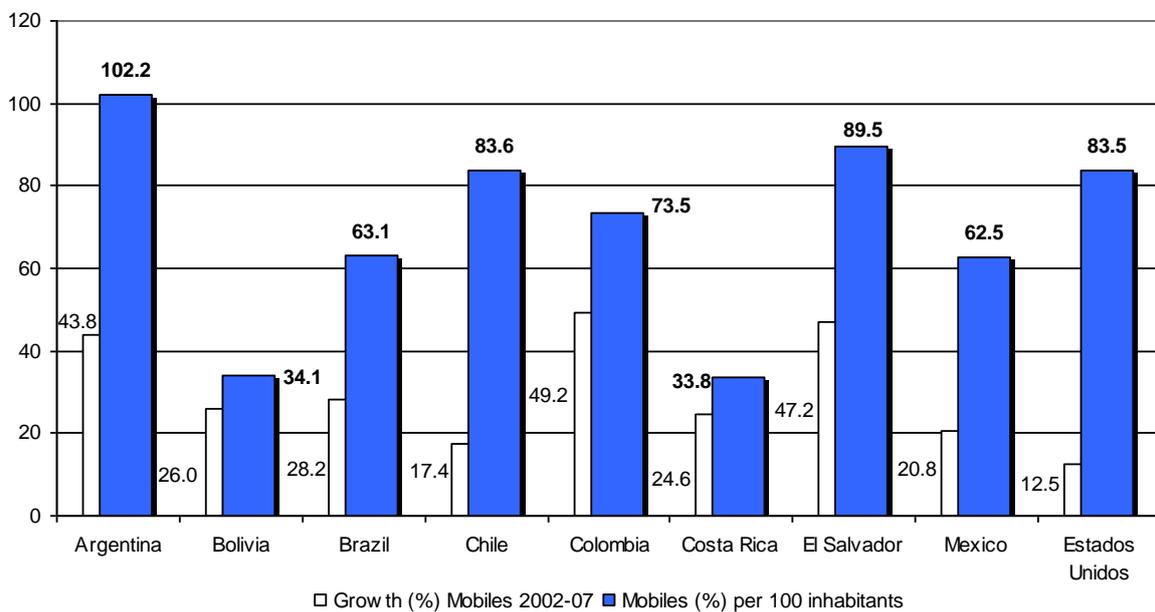
Source: International Telecommunication Union Annual Report 2007

Figure C.3 Mobile Penetration in Selected Asian Countries



Source: International Telecommunication Union Annual Report 2007

Figure C.4 Mobile Penetration in Selected American Countries



Source: International Telecommunication Union Annual Report 2007

Table C.1 Country Comparisons

Country	Growth Mobiles 2002-07 (%)	Mobiles per 100 inhabitants	GDP per Capita (2005)	Population living under \$1 a day (%) 1990-2005	Population living under \$2 a day (%) 1990- 2005	Urban population 2005 (%)	Internet users per 100 inhabitants	Inequality, ratio of richest 10% to poorest 10%
Africa								
Angola	104.0	29.1	2,335	-	-	53.3	1.1	-
Cameroon	45.3	24.3	2,299	17.1	50.6	54.6	1.5	15.7
Egypt	46.2	39.8	4,337	3.1	43.9	42.8	6.8	8
Kenya	57.1	30.2	1,240	22.8	58.3	20.7	3.2	13.6
Malawi	65.0	7.6	667	20.8	62.9	17.2	0.4	10.9
Mozambique	66.9	15.4	1,242	36.2	74.1	34.5	0.7	18.8
Namibia	39.8	38.6	7,586	34.9	55.8	35.1	3.7	128.8
South Africa	25.3	87.1	11,110	10.7	34.1	59.3	10.9	33.1
Zambia	80.1	22.1	1,023	63.8	87.2	35.0	2.0	32.3
Asia								
Bangladesh	100.0	21.1	2,053	41.3	84.0	25.1	0.3	7.5
China	21.6	41.2	6,757	9.9	34.9	40.4	8.5	21.6
India	78.2	19.9	3,452	34.3	80.4	28.7	5.5	8.6
Indonesia	47.6	35.3	3,843	7.5	52.4	48.1	7.3	7.8
Japan	5.8	83.8	31,267	-	-	65.8	66.8	4.5
Philippines	27.5	58.8	5,137	14.8	43.0	62.7	5.4	15.5
Sri Lanka	53.7	41.3	4,595	5.6	41.6	15.1	1.4	11.1
Thailand	50.7	123.7	8,677	< 2	25.2	32.3	11.0	12.6
Vietnam	65.7	27.1	3,071	-	-	26.4	12.9	6.9
America								

Mobile Banking in Southern Africa

Country	Growth Mobiles 2002-07 (%)	Mobiles per 100 inhabitants	GDP per Capita (2005)	Population living under \$1 a day (%) 1990-2005	Population living under \$2 a day (%) 1990- 2005	Urban population 2005 (%)	Internet users per 100 inhabitants	Inequality, ratio of richest 10% to poorest 10%
Argentina	43.8	102.2	14,280	6.6	17.4	90.1	17.7	40.9
Bolivia	26	34.1	2,819	23.2	42.2	64.2	5.2	168.1
Brazil	28.2	63.08	8,402	7.5	21.2	84.2	19.5	51.3
Chile	17.4	83.6	12,027	< 2	5.6	87.6	17.2	33.0
Colombia	49.2	73.54	7,304	7	17.8	72.7	10.4	63.8
Costa Rica	24.6	33.76	10,180	3.3	9.8	61.7	25.4	37.8
El Salvador	47.2	89.5	5,255	19	40.6	59.8	9.3	57.5
Mexico	20.8	62.48	10,751	3	11.6	76.0	18.1	24.6
United States	12.5	83.51	41,890	-	-	80.8	63.0	15.9

Source: Human Development Report 2008, UNDP. International Telecommunication Union Annual Report 2007

Table C.2 Smart Money, GCash, M-Pesa and WIZZIT

	Smart Money Philippines	GCash Philippines	M-Pesa Kenya	WIZZIT South Africa
Technology Platform	STK using SMS bearer	Native SMS	STK using SMS bearer	USSD
When started?	December 2003	November 2004	April 2007	November 2005
Who offers the service?	Smart Communications as Smart Money	GXchange	Safaricom	WIZZIT
Which mobile networks my be used by users?	Smart only	Globe or Touch Mobile only	Safaricom only	Any

Mobile Banking in Southern Africa: Consolidated Draft Report

	Smart Money Philippines	GCash Philippines	M-Pesa Kenya	WIZZIT South Africa
What kind of accounts are offered	Prepaid accounts	Prepaid accounts	Prepaid accounts	Individual exemption 17 accounts
Who are the issuers?	Banco de Oro	GCash	Held by the M-PESA	Held by a division of the African Bank of Athens (SABA)
What kind of license does the issuer have?	Full banking licence	Licensed as remitting agent.	Unlicensed.	Full banking licence.
When and how do customers register for the service?	User completes form at Smart Wireless Centre and shows valid ID.	From mobile by sending SMS with keyword REG, followed by some personal data	At M-PESA agent, providing name and ID.	Performed by roving WIZZIT kids; users provide personal data and ID number
Account opening requirements and fees	Free for mobile banking; no minimum deposit	Free; no minimum deposit.	Free; no minimum deposit.	ZAR 40 for a starter pack. No minimum deposit.
Is a card associated with the account?	Optional Maestro-branded debit card.	No.	No.	Mandatory Maestro-branded debit card.
Can a user have multiple accounts?	Yes	Not on the same phone number.	Not on the same phone number.	No.
Are there limits on size, number or frequency of transactions?	100k per month.	Minimum PHP 100 per transaction; maximum PHP 10k per transaction. 40k per day, 100k per month.	Maximum KES 35k.	Yes; for Exemption 17 accounts, maximum balance ZAR 25k, maximum transaction ZAR 5k.
Can the user transact from another person SIM/phone?	No, but user can transact using the associated MasterCard	No	No	No, but user can transact using the associated Maestro card
Who monitors and reports on suspicious transactions?	Smart, in delegation from the issuing bank	GXI	Safaricom	WIZZIT although SABA has responsibility to Central Bank

	Smart Money Philippines	GCash Philippines	M-Pesa Kenya	WIZZIT South Africa
Can money be sent to nonusers?	No	No	Yes, recipient can cash out at retail outlet showing code received.	Yes.
Can users receive money from nonusers?	Yes	No	No	Yes
Can user top up from other accounts it holds at other banks?	Yes, from customer accounts at 15 mobile banking partner banks.	Yes, from selected banks only.	No	Yes, from any bank via electronic funds transfer.
In merchant transactions for cash or purchase of goods, what device does the merchant use?	POS devices or mobile phone.	Mobile phone	Mobile phone.	POS device.
In merchant transactions for cash or purchase of goods, who acquires the merchant?	MasterCard for card-based POS.	GXI	Nobody.	MasterCard
Who initiates phone-based cash deposits transactions and how?	User fill in deposit slip, goes to cashier, shows valid ID; merchant sends SMS request.	User fill in deposit slip, goes to cashier, shows valid ID; merchant sends standard P2P payment request by SMS.	Similar to basic P2P transaction; no paper receipt is given.	Not applicable.
Who initiates cash withdrawal transactions and how?	User fill in deposit slip, goes to cashier and shows valid ID.	User fill in deposit slip, goes to cashier, shows valid ID; user sends standard P2P payment request by SMS.	User gives mobile number to agent and shows ID; then selects “withdraw cash” from STK menu; enters agent number, cash value and PIN	Not applicable.
Other services: account management.	Free access to the current credit balance.	PHP for the cost of the SMS to make the request.	KES 1.	ZAR 1 for account balance via mobile; ZAR 5 via ATM

	Smart Money Philippines	GCash Philippines	M-Pesa Kenya	WIZZIT South Africa
Other services: buy airtime.	Minimum top up of PHP 30	Free.	Free.	Free.
Other services: bill payment	Yes	Yes	Not applicable	Yes
Other services: direct deposit of salaries	Yes (similar to Smart Padala model)	Only for rural banks employees.	Not applicable	Yes
Other services: international remittances	Yes, in conjunction with 47 overseas remittance partners.	Yes, partnering with United Coconut Planters Bank	Not applicable	No

Source: CGAP Focus Note No 48, Banking on mobiles: why, how and for whom?

Note: During the peer review of this paper, a question was raised as to whether BB is a key way to make microfinance more efficient. In our view, the answer is at least partly dependent on the nature of the microfinance provider. Most MFI-led BB initiatives have been small pilots or have had limited success. Even when MFIs have strong local knowledge, product development acumen and the ability to manage small loans, most lack the specialized technical skills to implement the BB models or tap into existing ones. For example, CGAP research in the Philippines shows that the vast majority of the approximately 750 rural banks in the country will need an IT overhaul to participate. In Kenya, research carried out by M-Pesa showed that group loan borrowers made fewer on-time repayments when they used BB systems. In fact, customers no longer attended group meetings, which are a key element to maintain group pressure.

The fact that few MFIs to get involved in BB services may be linked to studies showing that less than 10 percent of all BB customers are poor and new to banking. This is mainly because BB is still at an early stage of development – the combined effect of providers seeking to reduce risk by focusing on known markets and poorer people not usually being early adopters of technology.

Developing partnership between MFIs and banks seems to be a way to overcome these problems. For example, SKS Microfinance in India has developed a mobile banking offering in partnership with Andhra Bank, in which customers use designated SKS banking agents to deposit money into Andhra Bank accounts and use a mobile phone to repay SKS microloans. Networking is also proven to be a way to overcome the technology barriers for MFIs – the Network of Rural MFIs in Ecuador is contracting a technology provider to build and maintain core banking systems and BB channels for the group, as a way to minimize upfront costs and the expertise needed inside each member of the organization.

Annex D Draft Workshop Presentation

This is set out in a separate document