

Digital Remittances in Southern and Eastern Africa: From Transactions to Transformation

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POLICY PAPER

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1. Introduction

Remittances represent a significant financial inflow to Southern and Eastern African sub-regions, playing a crucial role in the livelihoods of many families and communities, contributing to development and economic stability. In recent years, digital remittances have gained significant traction due to the proliferation of mobile networks, the emergence of fintech startups, and government initiatives promoting digital payments. As a result, the volume of remittances to Southern and Eastern Africa has been growing steadily over the past decade.

The advent of digital technology has revolutionized various sectors globally, and the remittance industry is no exception. It has facilitated easier and more cost-effective transfer methods. Mobile money services, in particular, have seen a surge in usage as a major remittance channel, facilitating financial inclusion and promoting the development of an entire related ecosystem. Despite the growth, the sub-regions continue to face several challenges that hinder the potential benefits of digital remittances.

In alignment with the theme of the Inter-Departmental Task Force on African Affairs (IDTFAA) in 2024, which focuses on digital transformation and building upon the ongoing African Union efforts as contained in its Digital Transformation Strategy (2020-2030) and the second Ten-Year Implementation Plan, this paper delves into the transformative potential of digital remittances in Southern and Eastern Africa. It explores how digital remittances, beyond being mere transactional tools, can catalyze socio-economic development and financial inclusion.

The paper starts with a situational analysis, providing an overview of the current state of remittances in Southern and Eastern Africa. It then identifies and discusses the obstacles hindering the development of digital remittances, including transfer costs, regulatory challenges, cybersecurity issues, financial literacy, social resistance, and preference for cash transactions. Subsequently, the paper shifts focus to the opportunities that digital remittances present, such as increased access to banking through mobile platforms, empowerment of microfinance initiatives, and potential for insurance and investment. It also identifies key enablers that can facilitate the growth of digital remittances, including digital public infrastructure, innovative financial services, and active diaspora engagement. The paper concludes by proposing recommendations for the way forward, aiming to harness the transformative potential of digital remittances in Southern and Eastern Africa.

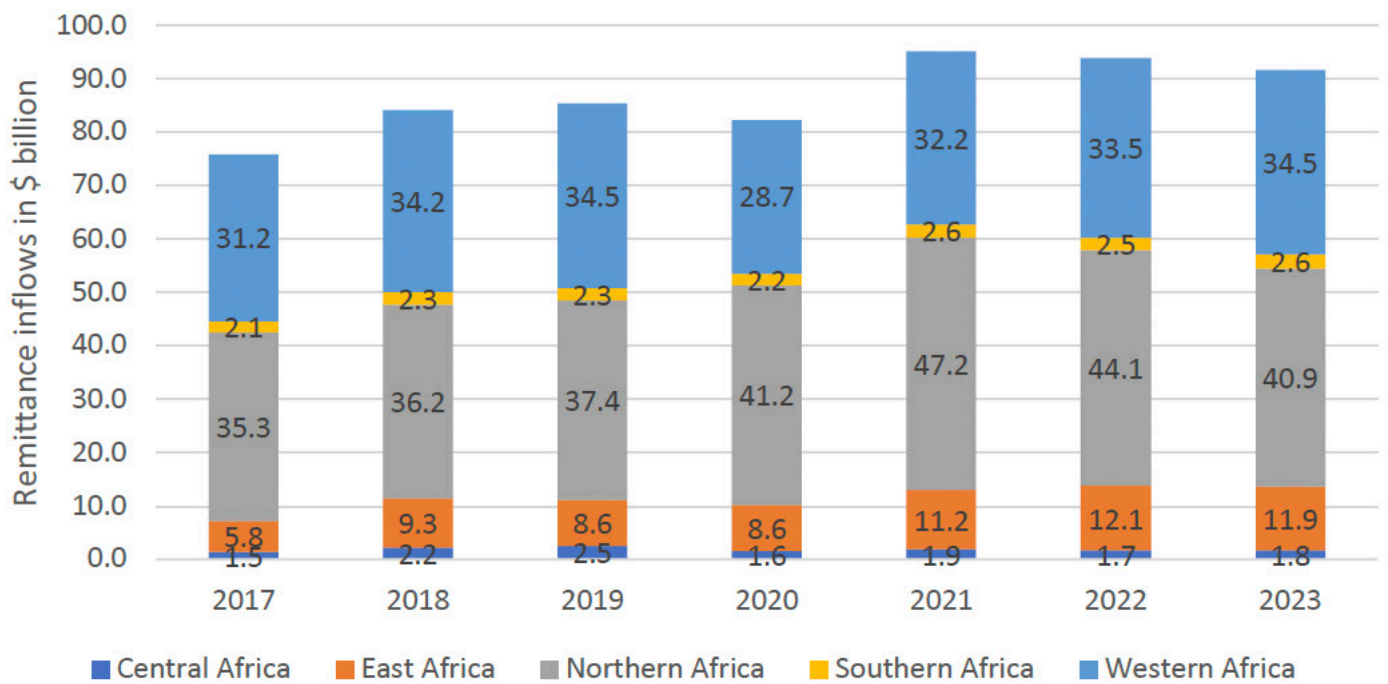
2. Situational Analysis

According to the World Bank [1], Africa received in 2023 almost \$100 billion in remittances. The lion's share of remittances sent by African migrants and diaspora was claimed by North and East African countries. East Africa received around \$12 billion in remittances representing around 6 per cent of the sub-region GDP. In contrast, Southern Africa received only \$2.6 billion, accounting for around 3 per cent of its sub-regional GDP.[2] (Figure 1) Kenya, in particular, was the primary recipient of remittance inflows, receiving \$4 billion. This represented a substantial 28 per cent of the total flows of \$14.4 billion to the two sub-regions, followed by Somalia (12 per cent) and Sudan (10 per cent).[3] (Figure 2)

In the Southern and Eastern African sub-regions, remittances play a most pivotal role in the economies of four countries. Lesotho's economy, for instance, is significantly bolstered by remittances, which constituted 21.5 per cent of its GDP in 2023. Similarly, the Comoros are heavily dependent on remittances, amounting to 20.6 per cent of the GDP. South Sudan and Somalia, too, benefit from remittances, which comprise 18.2 per cent and over 15 per cent of their respective GDP.[4] (Figure 3)

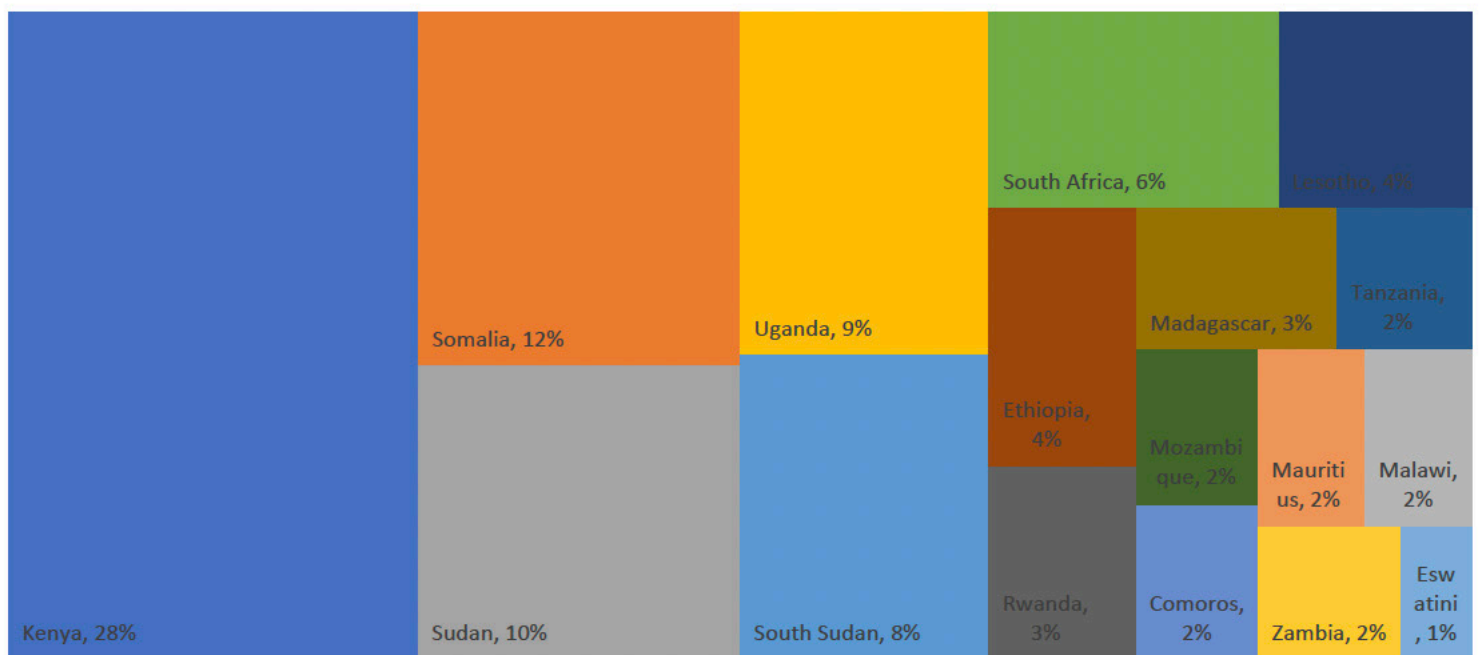
This underlines the essential financial support these countries receive from their diaspora. The strategic importance of these funds is multifaceted as they support consumption and investment and act as a buffer against economic shocks. However, for the rest of the countries in these two sub-regions, remittances constitute a relatively marginal financial resource in GDP terms, even while these remittances may play a key role in the flow of critical resources. This highlights the varied impact of remittances across different regions and economies.

Figure 1: Remittances to Southern and Eastern Africa has been growing steadily over the past decade



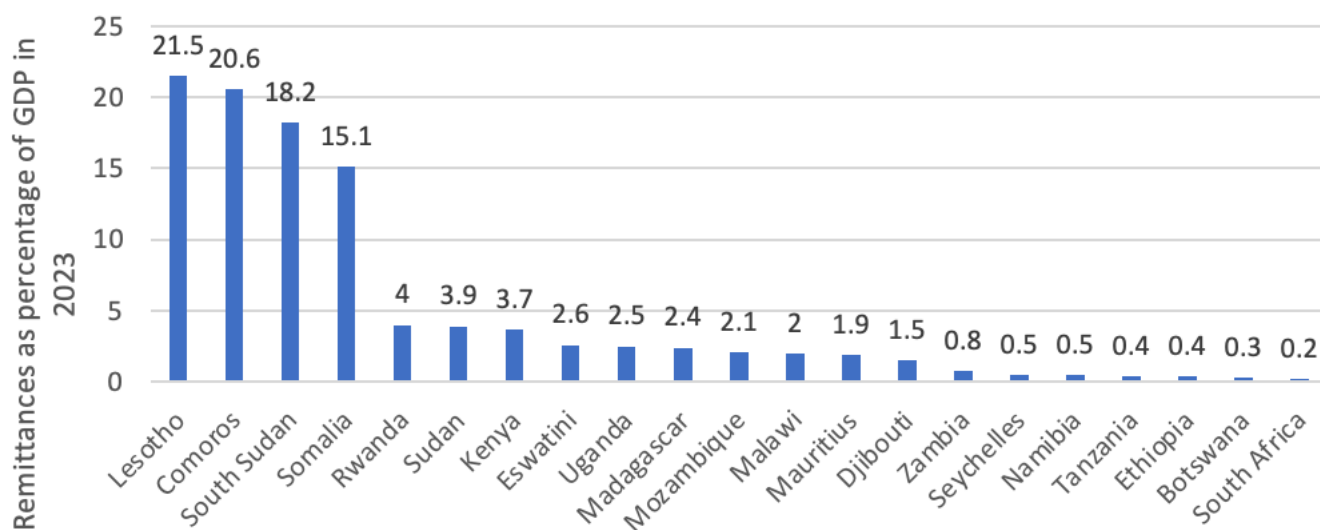
Source: World Bank, KNOMAD

Figure 2: Kenya received the highest share of Remittance inflows to the two sub-regions in 2023



Source: World Bank, KNOMAD

Figure 3: Few countries are relying on remittances in Southern and Eastern Africa.



Source: World Bank, KNOMAD

3. Obstacles to the development of Digital Remittances

The development of the remittance landscape in Southern and Eastern Africa is a complex interplay of socio-economic factors, social norms, and technological advancements. However, as we transition into the digital age, the adoption of digital remittances presents a new set of challenges. This section delves into these obstacles, exploring the economic, socio-cultural, and technological barriers that hinder the growth and development of digital financial services in these sub-regions. From high transfer costs and regulatory challenges to cybersecurity concerns and social resistance, the journey toward digital remittances is fraught with hurdles. Yet, understanding these challenges is the first step towards overcoming them and unlocking the potential of digital remittances in Southern and

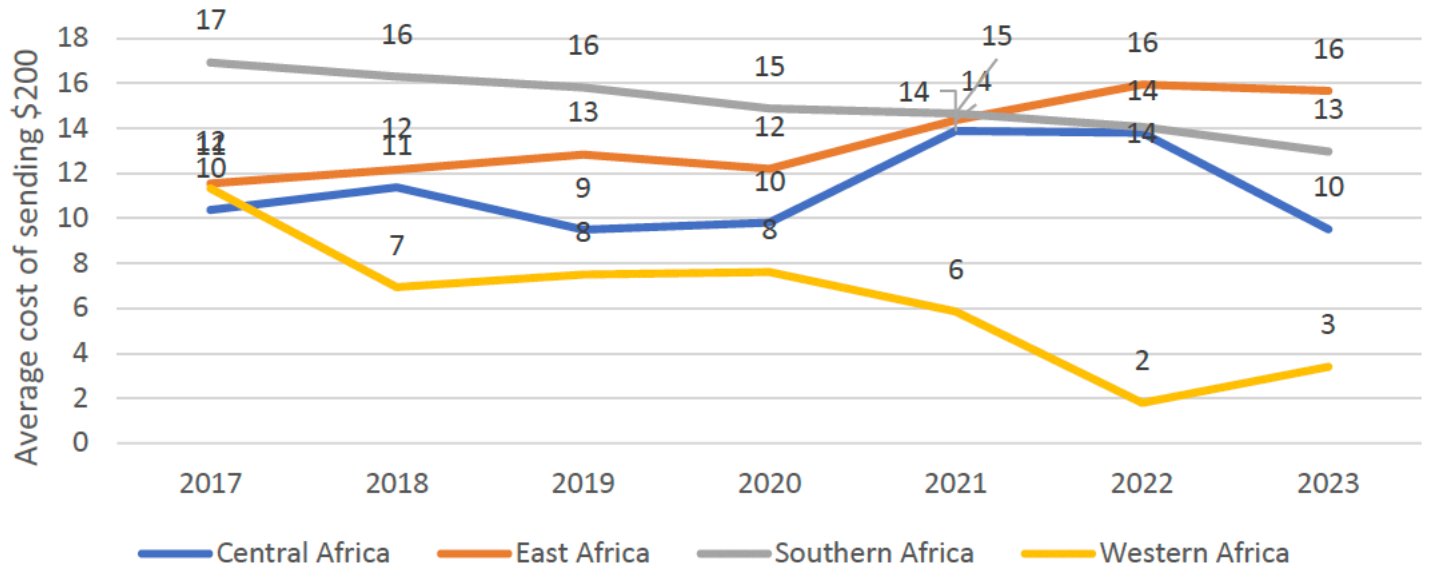
3.1. Transfer Costs and Regulatory Challenges

Remittances in Southern and Eastern Africa face significant obstacles, with one of the most prominent being the high costs associated with transfers to these subregions. Sending remittance to Southern and Eastern African subregions is the most expensive in Africa, averaging 16 per cent and 13 per cent, respectively [5] (Figure 4) These costs are much higher than the African average of around 9 per cent.[6] This is due to various factors. Low competition among service providers in specific corridors and underdeveloped financial infrastructure in some recipient countries keep prices high. Hence, there is a need to remove all exclusivity arrangements in the money transfer industry and the development of payment system infrastructure.

5 World Bank, Remittance prices worldwide.

6 Ibid.

Figure 4: The cost of remitting to Eastern and Southern Africa sub-regions is the highest in Africa.



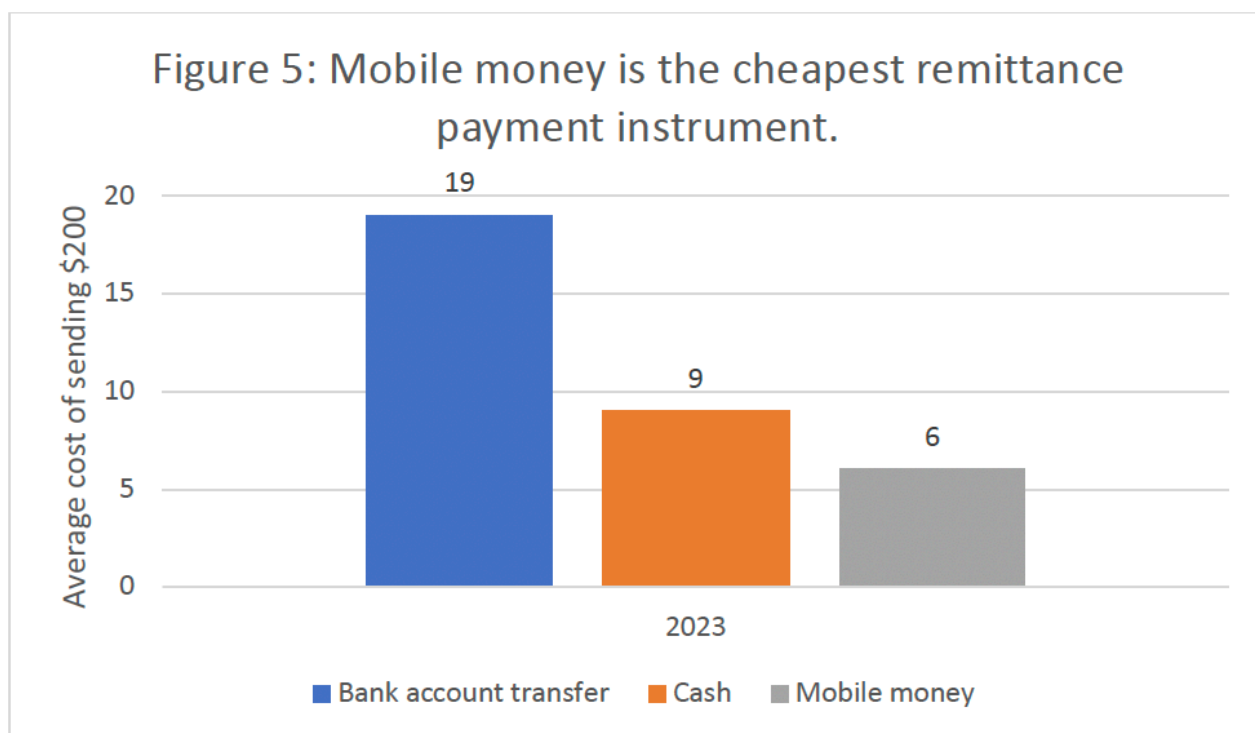
Source: World Bank, Remittance prices worldwide

Exchange rate instability in recipient countries also keeps transfer costs elevated. The complex regulatory environment poses additional hurdles for remittance service providers, impacting their operational efficiency and their ability to expand services. Compliance with multiple regulations across different jurisdictions can be cumbersome and costly, leading to increased user fees and limiting the competitiveness of remittance platforms.

The cost of remittances is a crucial factor for many African migrants to send money to family and friends in Southern and Eastern Africa. Mobile money, with an average cost of 6 per cent, offers a more affordable option than traditional methods. Cash transactions, typically at 9 per cent, and bank transfers, the most expensive instrument at around 19 per cent, represent a significant financial burden on the sender. [7] (Figure 5) The lower cost of mobile money can be attributed to its digital nature, which eliminates many of the overhead expenses and fees associated with

This cost efficiency not only benefits the sender but also ensures that a larger portion of the funds reaches the recipient, which can have a substantial impact on the livelihood of the receiver. Moreover, the convenience and speed of mobile transactions make it an increasingly popular choice, particularly in regions where access to banking services is limited.

The current average cost for mobile money is a significant improvement over traditional methods, yet there is still a considerable gap to meet the SDG target 10.c of reducing the transaction costs of migrant remittances to less than 3 per cent. Lowering these costs would further amplify the positive impact on recipients' lives, allowing them to invest more in their health, education, and local businesses. It would also foster greater financial inclusion by encouraging more individuals to utilize formal remittance services rather than informal channels, which can be insecure and unreliable.



Source: World Bank, Remittance prices worldwide

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3.2. Cybersecurity and Trust Issues

Cybersecurity threats such as hacking, phishing, and malware attacks pose severe risks to the integrity and confidentiality of financial transactions. Many remittance service providers lack robust security measures, making them vulnerable to cyber-attacks that can result in the loss of sensitive data and financial assets. Furthermore, the rapid pace of technological advancement often outstrips existing regulatory frameworks, leaving exploitable gaps for cybercriminals.

Trust issues compound the challenges faced by digital remittances in Africa. Many users are wary of adopting digital platforms due to concerns about the reliability and transparency of these services. Incidents of fraud and mismanagement by some service providers have eroded confidence, making it difficult to

Building trust requires not only the implementation of robust cybersecurity measures but also concerted efforts to educate and engage users, ensuring they feel confident and secure in using digital remittance services. Without these measures and comprehensive regulatory frameworks that ensure data privacy and security, users may be hesitant to adopt digital remittance services, further impeding their growth and usage.

Efforts to improve cybersecurity across the continent and adoption of harmonized approaches are reflected in the Malabo Convention on Cyber Security and Personal Data Protection which came into force in 2022 .[8] To further facilitate domestication by countries, the Economic Commission for Africa has drafted a model cybersecurity law for consideration by African countries.[9]

3.3. Financial Literacy and Access

The continent's economic landscape is evolving rapidly, with digital financial services playing an increasingly crucial role in fostering financial inclusion. However, several barriers impede the widespread adoption and effective use of these services. One major obstacle is the lack of financial literacy among remittance recipients. Many individuals, especially the elderly, lack the necessary knowledge and skills to use digital financial services effectively. This generational digital literacy gap underscores the urgent need for comprehensive financial education initiatives. By improving financial literacy, users can be empowered to navigate digital platforms confidently, enhancing adoption rates and the overall impact of digital remittances on financial inclusion. Moreover, access to digital payment solutions is not uniformly available across Africa. Rural and underserved areas often face infrastructural challenges that limit their participation in the digital economy.

While digital payment solutions present a promising avenue for enhancing financial inclusion and the development of digital remittances in Africa, addressing the challenges of financial literacy and access remains paramount.

3.4. Social Resistance and Preference for Cash Transactions

The social resistance to digital remittances in Africa, particularly the preference for cash transactions, is rooted in various socio-economic factors. In many African societies, cash is not merely a medium of exchange but also a symbol of trust and social cohesion. Transactions are often conducted face-to-face, reinforcing community bonds and providing a sense of security that digital platforms are perceived to lack. This preference for cash is further entrenched by the informal economy's prominence, where cash transactions are more practical and accessible than digital alternatives.

Overcoming this social barrier requires targeted efforts to demonstrate the benefits and convenience of digital remittance solutions and address concerns related to trust, security, and usability. Promoting digital remittances must be sensitive to the cultural nuances, offering solutions that are not only technologically sound but also culturally resonant. This involves designing user-friendly digital platforms that emulate the trustworthiness of cash transactions while providing additional benefits such as lower costs and higher transaction speeds.

Moreover, the success of digital remittances hinges on building robust ecosystems that support these services. This includes improving the telecommunications infrastructure to ensure reliable internet access, which is a prerequisite for digital transactions. Financial literacy programs are also crucial, as they can equip individuals with the knowledge to navigate digital financial services confidently.

Community stakeholders, including local leaders and organizations, can be crucial in the transition by endorsing digital remittances and educating their communities about the advantages they offer. By involving these stakeholders, the transition to digital remittances can be seen as a community-driven initiative rather than an external imposition.

Ultimately, the shift to digital remittances in Africa will require the respect of social preferences while demonstrating the tangible benefits of digital financial inclusion.

4. Digital remittances: Opportunities

The development of digital remittances in the Eastern and Southern African sub-regions presents a plethora of opportunities. Financial inclusion can be significantly improved through digital remittances, enabling individuals in remote areas to participate in the formal economy. Digital remittances also have the potential to Empower Microfinance Initiatives by providing a reliable and efficient platform for small-scale financial transactions. Furthermore, digital remittances can facilitate access to Insurance and Investment services, allowing individuals to safeguard their assets and invest in income-generating activities. These opportunities, if harnessed effectively, could transform the financial landscape in these sub-regions.

4.1. Financial inclusion: the role of mobile banking

Digital remittances are bridging the gap for the unbanked population by providing access to formal financial services, thereby empowering them economically. This access to formal financial services is not just convenient—it's transformative.

The percentage of adults with an account at a financial institution has increased substantially, from 29 per cent in 2011 to 59 per cent in 2021¹⁰ This growth signifies a significant leap in financial inclusion.

With a thoughtful and inclusive approach, digital remittances have the potential to enhance economic empowerment and provide a foundation for broader financial inclusion across the continent. The journey towards this goal is undoubtedly challenging, but with each step forward, the promise of a more connected and financially empowered Africa becomes increasingly attainable.

In addition, the proportion of adults receiving digital payments in the two sub-regions has grown from an average of 25 per cent in 2011 to 38 per cent in 2021.¹¹ Furthermore, the percentage of adults receiving remittances into an account has seen a considerable rise from 38 per cent in 2014 to 66 per cent in 2021. (Figure 6). These statistics highlight the growing accessibility and reliance on digital financial services in these subregions.

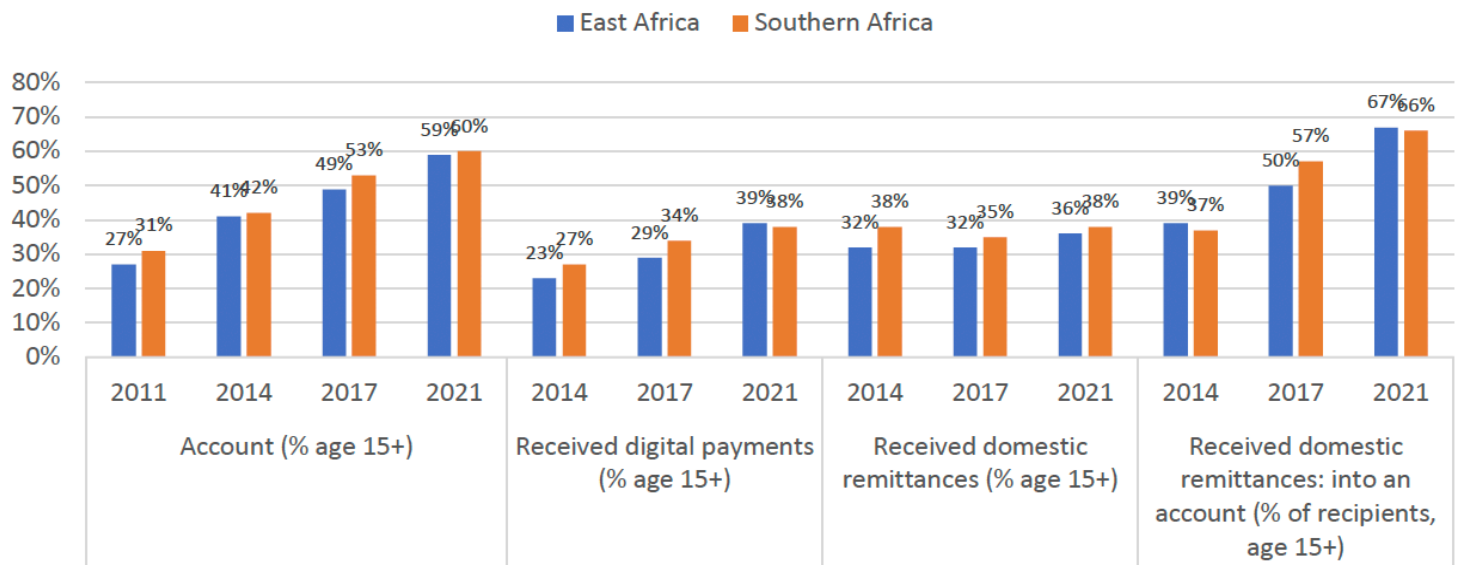
Particularly, mobile money accounts contribute to financial inclusion in Africa. The rise in account ownership in the two sub-regions has enabled more people to access financial services, including remittances (Figure 7). This trend further emphasizes the transformative impact of digital remittances on financial inclusion in Africa.

10 World Bank Global Findex.

11 Ibid.

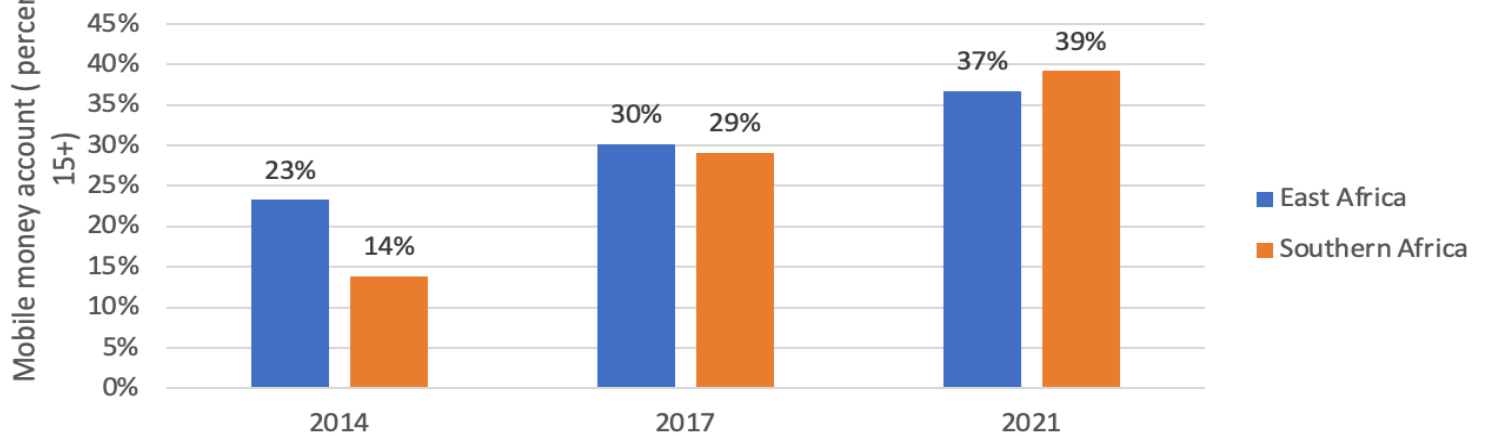
12 Ibid

Figure 6: Trends in digital financial inclusion in Eastern and Southern Africa



Source: World Bank Global Findex

Figure 7: The continuous increase in Mobile money account holders is driving financial inclusion



Source: World Bank Global Findex

The success of mobile money services like M-Pesa in Kenya has demonstrated the power of digital financial solutions in driving financial inclusion. Through partnerships with banks and mobile network operators, M-Pesa has evolved from a remittance platform to a comprehensive financial ecosystem. Users can access savings accounts, credit facilities, insurance, and even investment opportunities, all from their mobile phones. (Box.1)

When people receive remittances through digital instruments, they are more likely to engage in digital transactions and start establishing a track record of financial behavior. This can be crucial for accessing loans, insurance, and other financial products that require a reliable credit profile. As more people join the formal financial system through digital channels, it strengthens the overall financial infrastructure and expands opportunities.

One key benefit of digitalizing remittances is that it helps individuals build a financial identity. This can be further reinforced through governments efforts to use digital identify frameworks.

Box.1: M-PESA

M-PESA's journey from a remittance service to a full-fledged financial platform is a testament to the transformative power of mobile technology in emerging markets. Launched by Safaricom, it revolutionized the concept of mobile money by allowing users to send and receive funds using their mobile phones. This innovation was particularly impactful in Kenya, where access to traditional banking services was limited. The platform's user-friendly interface and the ubiquity of mobile phones made it an instant hit, rapidly gaining a vast user base.

As M-PESA's popularity soared, its services expanded beyond remittances to include a variety of financial transactions. Users could now pay bills, purchase airtime, and conduct business transactions, all from their mobile devices. This expansion was not just a convenience but a necessity for many who had previously been excluded from the formal financial system.

The platform's growth also spurred economic development as small businesses and entrepreneurs leveraged M-PESA's services to increase their reach and efficiency. The ability to transact securely and quickly boosted the local economy and increased financial security for individuals and businesses alike.

M-PESA's success story spread beyond Kenya, with adaptations of the platform being implemented in several other countries. This not only showcased the scalability of such a model but also its relevance across different economic landscapes.

Today, M-PESA is more than just a mobile money service; it's a comprehensive financial ecosystem that has significantly reduced the financial exclusion gap. With over 50 million active users, it continues to innovate, recently integrating with global payment systems to further enhance its services.

M-PESA's evolution is a clear indicator of the potential for mobile technology to create inclusive financial solutions that can have a profound impact on millions of lives. It stands as a shining example of how a simple idea, tailored to meet the specific needs of a community, can grow into a global phenomenon that fundamentally changes the way people interact with money.

4.2. Empowering Microfinance Initiatives

Digital remittances act as a catalyst for microfinance initiatives and small-scale lending, especially in rural and underserved areas. These funds often reach individuals and communities who are excluded from traditional banking services.

Digital remittances are revolutionizing the landscape of microfinance in Africa, offering unprecedented opportunities for economic empowerment and financial inclusion. The digitization of remittance flows allows for quicker, cheaper, and more secure transactions, directly benefiting microfinance initiatives that provide financial services to the unbanked or underbanked populations. These transactions are often received in mobile wallet accounts, which are smaller and more frequent compared to those received in bank accounts. In 2022, 35 per cent of the transactions received via wallets were below \$50, suggesting that digital remittances are aligning well with the needs of microfinance beneficiaries. Moreover, the frequency of these transactions ensures a steady flow of funds, which can be pivotal for microfinance institutions (MFIs) in managing liquidity and offering continuous lending services.

Microfinance institutions and community-based organizations play a crucial role in channelling remittance funds towards productive uses, ensuring that they contribute to sustainable development. What's impressive is the multiplier effect of these investments facilitated by microfinance initiatives. As local businesses access credit and grow, they create employment opportunities and stimulate economic activity within the community. This fosters a sense of entrepreneurship and self-reliance.

Furthermore, digital remittances facilitate the collection of data, which is essential for MFIs to assess clients' creditworthiness. This approach can lead to more tailored financial products, enhancing the sustainability and reach of microfinance services. Digital channels, including digital remittances, have significantly aided microfinance providers in collecting data, which plays a crucial role in determining risk profiles for financially excluded and new customers. [14]

The increasing integration of digital remittances into the financial ecosystem provides a robust platform for microfinance initiatives to thrive. However, the expansion of digital remittances in microfinance also requires overcoming regulatory, distribution, and payment infrastructure barriers.

4.3. Insurance and Investment

Digital remittances facilitate day-to-day transactions and open doors to long-term financial planning. Recipients can allocate a portion of their remittance income towards savings, insurance premiums, or investments, including real estate. This diversification of financial options enhances their resilience against economic shocks and helps build wealth over time.

Moreover, digital platforms make insurance products tailored for low-income individuals, such as micro-insurance plans, more accessible. These schemes provide coverage for health emergencies, crop failures, or natural disasters, mitigating the financial impact of unforeseen events. By encouraging prudent financial management and risk mitigation, digital remittances contribute to broader financial security for individuals and families.

Creating insurance products for remittances involves collaborating with various stakeholders and adhering to the regulations of numerous authorities. Ensuring these products are broadly accessible is essential for providing people and their families with the means to utilize their remittance income to achieve sustained financial security and prosperity.

Many African mobile operators started offering a plethora of opportunities through innovative remittance insurance products. For instance, Airtel Africa has expanded its operations with WorldRemit, a global digital money transfer service, to offer instant money transfers across Africa.[15]

This partnership allows customers globally to send money directly to Airtel Money wallets, thereby increasing financial inclusion. This partnership facilitated the launch by the operator of insurance products accessible through mobile wallets.(Table1)

Furthermore, Airtel Africa and Mastercard launched in 2023 a new cross-border remittance service, enabling Airtel subscribers across 14 African countries to send and receive money quickly and securely[16]. These initiatives, among many others, enhance the accessibility of financial services to underserved populations and ultimately contribute to economic growth in Africa.

Rwanda's approach to financial inclusion showcases the importance of collaboration between government, regulators, financial institutions, and fintech companies. By investing in infrastructure and promoting digital literacy, Rwanda has significantly increased the percentage of adults with access to formal financial services from 33 per cent in 2011 to more than 50 per cent in 2011 [17]. Initiatives like Umurenge SACCOs (Savings and Credit Cooperatives) have leveraged digital tools to expand financial services to rural areas, empowering communities economically. The Umurenge significantly increased access to financial services, which in turn fosters a culture of savings, credit management, and investment crucial for economic growth.[18](Box.2)

15 <https://airtel.africa/assets/pdf/Airtel-Africa-WorldRemit-partnership-press-release.pdf>
16 <https://airtel.africa/assets/pdf/Airtel-Africa-WorldRemit-partnership-press-release.pdf>

17 World Bank Global Findex.

18 Alliance for Financial Inclusion. 2014.

Table 1: Insurance products launched by Airtel in 2023

Country	Product Name	Coverage
Uganda	Hospital Sente	Hospital cash insurance with funeral benefits
Zambia	Umoyo Funeral Cover	Funeral insurance
Malawi	Limodzi Insurance	Personal accident and hospital reimbursement
Kenya	Bima Cover	Hospital cash, funeral, and personal accident
Uganda	Ddwaliro Care	In-patient health with funeral coverage
Tanzania	Afya Poa and Afya Supa	Hospital cash and inpatient cover

Source: GSMA. (2024)

Box.2: Remittances and Umurenge SACCOs

The transformative impact of remittances on Rwanda’s rural financial landscape, particularly through Umurenge SACCOs, is a testament to the power of community-focused financial initiatives. The Umurenge SACCOs attracted over 1.6 million customers and have become a cornerstone in the country’s financial inclusion strategy, bridging the gap between the formal banking sector and the underserved rural communities. By channeling remittances into these cooperatives, there has been a notable increase in the availability of microloans, which are crucial for small-scale farmers and entrepreneurs who require capital to invest in their ventures. This influx of funds has also led to the diversification of financial services beyond traditional savings and loans, introducing insurance products, pension schemes, and even investment opportunities tailored to the unique needs of rural dwellers.

The ripple effect of such financial empowerment is multifaceted. It has stimulated the agricultural sector, the backbone of Rwanda’s economy, by providing the means for modernization and increased production. The enhanced financial activity has also fostered the growth of rural enterprises, created jobs and promoted self-sufficiency. Education and health services in these areas have also seen improvements, with more families being able to afford school fees and healthcare costs thanks to better financial management and planning facilitated by SACCOs.

The role of remittances in expanding financial services to Rwanda’s rural areas through Umurenge SACCOs cannot be overstated. It has catalyzed a financial revolution that has touched every aspect of rural life, from agriculture to education, and set a precedent for other nations to follow.

The ongoing success of this initiative will likely inspire further innovations in the realm of financial services and has encouraged the replication of this model in other countries seeking to improve rural financial inclusion. The model’s adaptability and scalability make it an attractive option for countries with similar socio-economic structures. As a result, remittances are not only fuelling economic growth in individual households but are also contributing to the global effort to alleviate poverty and promote sustainable development.

5. Digital remittances: Enablers

To fully realize the potential of digital remittances, the key enablers for building a robust digital remittance ecosystem must be acted upon. These include, inter alia, the development of digital public infrastructure, promoting innovative financial services, and strengthening Diaspora engagement.

5.1. Digital Public Infrastructure

The expansion of mobile networks and internet access has facilitated the adoption of digital transactions including remittances. This was made possible by the development of Digital Public Infrastructure (DPI), which is the backbone of modern digital economies. It provides a framework for essential services spanning the public and private sectors. However, the African continent needs to reinforce capacity in developing its DPI. To maximise effectiveness, attention needs to be given also to the interoperability of DPI frameworks within countries, sub-regions and at continental level.

The GovStack initiative^[19] aims to facilitate efforts of governments to develop open source approaches to develop DPI in a development centred fashion. The African Digital Public Infrastructure Stack (A-DPI-Stack), is an initiative being championed by UN agencies in the context of the United Nations Inter-Departmental Task Force on African Affairs. An Africa specific approach to DPI can strengthen the capacity of countries and also improve interoperability. By providing a cohesive set of prerequisites for digital public goods, the A-DPI-Stack ^[20] ensures that governments have a clear reference architecture to build upon. This included the creation of a digital space and the construction of a human-centric technology framework that aligns with the Sustainable Development Goals and Africa's Agenda 2063. The A-DPI-Stack embodies a transformative step towards reducing implementation costs, which is often a prohibitive factor for many African countries.

Moreover, its emphasis on shared knowledge and technologies fosters a collaborative environment where lessons are exchanged, thereby flattening the learning curve for all.

In practical terms, the deployment of the A-DPI-Stack translates into tangible benefits for African citizens. It necessitates the expansion of broadband access, which is a cornerstone for any digital service. Selecting which digital public services to prioritize is another critical step, as it ensures that the digital transformation aligns with the specific needs and goals of each country. Furthermore, strengthening the digital innovation ecosystem is paramount. This involves nurturing local talent and innovation and creating an environment where digital entrepreneurship can thrive. Together, these elements form a robust digital public infrastructure that not only serves the current generation but also lays a solid foundation for future advancements.

By fostering interoperable, open, and inclusive systems, A-DPI could facilitate the generation, storage, and verification of digital IDs, which are crucial for establishing trust in the digital realm. The integration of digital payment systems ensures secure and swift money transfers, enhancing the accessibility and real-time availability of funds. This is particularly beneficial for the digitalization of remittances. According to Jemiluyi & Jeke (2024), there is a positive relationship between digital technology and remittance inflows in sub-Saharan Africa. This highlights the critical need for developing DPI as an enabler for attracting higher remittance inflows and exploiting their developmental potential. Moreover, A-DPI has the potential to play a pivotal role in financial inclusion by supporting the digital transformation of financial services and bridging data gaps. The modular and cross-sectoral nature of DPIs, geared towards public policy goals, allows for the streamlining of Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) compliance while also promoting the uptake of accounts via digital ID infrastructures.

This is a significant challenge that continues to hinder remittances in Africa. The interlinking of payment systems within DPs not only improves efficiency but also poses operational risks that must be managed carefully to ensure the secure and equitable growth of digital financial services.

According to the Digital Remittances Readiness Index developed by IFAD[21], most countries in Eastern and Southern Africa sub-regions are well placed to benefit from the development of digital remittances. (Table 2) Particularly, Kenya, Mauritius, South Africa, Uganda, Zimbabwe, and Namibia are in the top 10 ranking of the index, highlighting their readiness to further develop their DPs and benefit from a deeper digital remittances market.

Table 2: Digital Remittances Readiness Index

Rank	Country	Average of Score	Rank	Country	Average of Score
1	Ghana	84	18	Togo	45
2	Kenya	83	19	Benin	44
3	Gabon	77	20	Somalia	41
4	Mauritius	75	21	Malawi	40
5	South Africa	70	22	Burkina Faso	39
6	Uganda	66	23	Guinea	38
7	Senegal	59	24	Nigeria	36
7	Zimbabwe	59	25	Congo, Dem. Rep.	35
8	Algeria	57	25	Ethiopia	35
9	Morocco	55	25	Sierra Leone	35
10	Namibia	54	26	Gambia, The	34
12	Cameroon	52	27	Mauritania	33
12	Tunisia	52	28	Chad	31
12	Zambia	52	29	Madagascar	30
13	Botswana	51	30	Burundi	28
14	Tanzania	50	30	Central African Republic	28
15	Rwanda	49	30	South Sudan	28
16	Lesotho	48	31	Liberia	27
16	Libya	48	32	Niger	26
17	Congo, Rep.	46	33	Angola	18
17	Mozambique	46	34	Sudan	14
18	Mali	45			

Source: Remitscope Africa available at <https://remitscope.org/africa/>

5.2. Innovative Financial Services

The promotion of innovative financial services in Africa is a critical enabler for the development of digital remittances, which are essential for economic growth and financial inclusion. Fintech, startups and mobile money services have revolutionized the way remittances are sent and received. The digitalization of remittances through innovative financial services has proven to be a powerful tool as it allows for the seamless flow of capital, which is vital for small businesses and entrepreneurs.

The African fintech industry is experiencing a significant surge, with the number of tech startups tripling to around 5,200 companies between 2020 and 2021, nearly half of which are fintech.[22] McKinsey analysis suggests that African fintech has made substantial inroads into the market, with estimated revenues of \$4 billion to \$6 billion in 2020 and penetration levels of 3 to 5 per cent, excluding South Africa. [23] These figures are competitive with global market leaders. The industry's success is driven by several factors, including increased smartphone ownership, lower internet costs, expanded network coverage, and a young, rapidly urbanizing population.

Despite global economic challenges, the sector's momentum is expected to continue, with the potential for significant growth and value creation ahead. Furthermore, the impact of innovative financial services in Africa extends beyond remittances to broader economic implications. By facilitating digital transactions, fintech companies are helping to formalize economies, thereby increasing transparency and reducing the risks associated with cash-based systems.

The adoption of mobile money services has also led to an increase in savings and investment among users, contributing to the overall economic stability and resilience of African countries. Promoting such services is, therefore, not just about remittances; it is about laying the foundation for a robust, inclusive, and sustainable financial ecosystem that can adapt to the evolving needs of the population. As Africa continues to embrace digital transformation, the role of innovative financial services in shaping its future cannot be overstated.

5.3. Diaspora Engagement

The African Diaspora plays a pivotal role in the adoption and promotion of digital remittance services. By leveraging their extensive networks, diaspora members can facilitate cross-border transactions, ensuring that remittances are more accessible, cost-effective, and secure.

African governments could benefit from successful projects such as the Pakistan Remittances Initiative[24], launched in 2009. This initiative took a coherent approach to facilitating safer, cheaper, and more efficient remittance flows through formal channels and creating investment opportunities for the Diaspora. By encouraging banks to establish more than 600 bilateral agreements with overseas financial institutions and introducing innovative remittance products such as non-resident Pakistani (NRP) accounts and digital remittances, total inflows increased from \$8.7 billion in 2009 to \$29.8 billion in 2022.[25] Additionally, two other initiatives—the Foreign Exchange Remittance Card (FERC) and the Roshan Digital Account (RDA)—have focused on digitalizing remittances.

21 The Digital Remittances Readiness Index, developed by IFAD in its MobileRemit Africa report, is based on the following composite indicators: Financial inclusion - per cent of adults with an account – FINDEX – 30 per cent, Making or receiving digital payments - per cent adults making or receiving digital payment in last 12 months – FINDEX – 30 per cent, Mobile money providers (MMOs) paying-out remittances - whether MMOs are paying-out remittances (Y/N) – 18 per cent, and Mobile money interoperability – whether there is MM account-to-account interoperability between MMPs and banks.

The RDA, launched in 2020, aims to provide fully digital banking services to the Pakistani diaspora, including payments, remittances, and investments.

These efforts have led to reduced remittance costs, improved transaction speed, and increased formal remittances to Pakistan.

Similarly, the diaspora's engagement is crucial in advocating for the adoption of digitalization at the receiver level, particularly among families in Africa who benefit from these funds. This not only supports immediate financial needs but also

This, in turn, can lead to increased adoption of digital financial services, creating a ripple effect that enhances the overall economic landscape. The diaspora's influence extends beyond financial transactions, as they often initiate and support development projects that address various socio-economic challenges within their home countries.

6. The Path Forward: Recommendations

Remittances have the potential to drive economic transformation and financial inclusion in Southern and Eastern Africa. By leveraging technological advancements and innovation, African countries can harness the power of digital remittances to unlock new opportunities for growth and prosperity. Embracing a digitally empowered remittance ecosystem holds the promise of realizing lasting benefits for individuals, communities, and economies across the sub-regions.

To fulfill the potential of the digitalization of remittances, the following policy recommendations are proposed:

Collaborative Efforts:

- A harmonized policy framework to advocate for robust Public-Private Partnerships (PPPs), where governments, financial institutions, and technology firms collaborate to surmount regulatory barriers, drive innovation, and broaden the reach of digital remittance services. Such partnerships are instrumental in crafting policies that are both progressive and pragmatic, ensuring that the benefits of digital remittances are accessible to all.

- Regional Cooperation is vital because it fosters a spirit of unity and shared purpose. Countries within the sub-regions can work towards harmonizing policies, which will, in turn, enable smoother remittance flows across borders. This cooperation can take the form of shared regulatory frameworks, joint initiatives, and synchronized technological standards, all aimed at creating a more integrated and efficient remittance ecosystem. The A-DPI could be an instrumental tool to achieve such objectives.

Consumer Protection:

- Trust and security are crucial to promoting the digitalization of remittances, necessitating robust legal frameworks that address fraud prevention, efficient dispute resolution and user privacy. Comprehensive consumer protection laws tailored to the nuances of digital remittances and enforcement of data protection regulations will serve as the bedrock of this framework. Countries should further pursue domestication of the Malabo Convention. Similarly, it is imperative that users have access to clear, unambiguous information regarding fee structures, exchange rates, and the intricacies of transaction processes. This clarity will empower users to foster an environment of trust and informed decision-making and ultimately attract more transactions through formal channels.

22 Dedalus Global & Ibx Frontier. 2022.

23 Ibid.

24 IFAD .2024.

25 World Bank, Knomad.

Sustainable Business Models

•To promote sustainable business models for digital remittances in Southern and Eastern Africa, affordability, innovation, and financial inclusion must be prioritized. Policies that encourage competitive pricing and foster market competition can help lower transaction costs, which are a significant barrier to entry for many users. Lower costs not only attract more users but also drive widespread adoption, creating a more inclusive financial ecosystem.

•Supporting Innovative business models that cater to a diverse range of user needs can stimulate the development of tailored services. By encouraging partnerships with fintech startups and integrating new technologies like blockchain and AI, operational efficiency and security can be significantly enhanced, leading to more robust and user-friendly services.

•Financial inclusion must be a key objective, focusing on ensuring that digital remittance services are accessible to underserved populations. Therefore, policies that support sustainable models that enable even low-income individuals to access these services must be promoted. This could involve incentivizing service providers to reach remote areas, simplifying user interfaces for greater ease of use, and implementing educational programs to increase financial literacy.

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The United Nations Office of the Special Adviser on Africa (OSAA) is an entity of the UN Secretariat established to enhance international support for Africa's development and security, assist the Secretary-General in coordinating the UN's support to Africa, facilitate inter-governmental deliberations on Africa at the global level and establish a monitoring mechanism for commitments on Africa's development.

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