

# Remittance and FDI Inflows: How Do Fintechs Strategize Them for Financial Inclusion in Africa?



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# Introduction

The recent decade witnessed a substantial increase in remittance and FDI inflows to African countries. The increasing importance of remittances and FDI have raised interest in studying their development impact on cross-border payments and financial inclusion. Remittances and FDI are likely to improve formal financial access and inclusiveness when unbanked recipient households deposit their money in the financial sector and benefit from the multitudes of financial services offered by formal institutions. Moreover, the presence of Fintech and other startups business are contributing significant in providing account to account services and investing in startup respectfully in Africa. At the high level, remittance and FDI tend to complement formal access and usage channels, thus enhancing financial inclusion.



Digitalization of remittances can further enhance their contribution to financial inclusion. According to the BIS Committee on Payment and Market Infrastructures (BIS CPMI) and the WB (2016), digitalization of remittances, that is sending remittances between transaction accounts, is an opportunity to increase access to and usage of these accounts more generally, thereby contributing to financial inclusion. This can also help improve opportunities for Anti-Money Laundering (AML)/Combating the Financing of

Terrorism (CFT) risk mitigation. Remittances are usually the first financial service used by migrants and their families, thus providing a point of contact with the financial sector that can be leveraged to increase access to other financial services.

In terms of FDI, Africa received the least value of FDI inflows of \$47 billion in 2019, and \$40 billion in 2020. This accounts for a 14.89% decrease in foreign investment in Africa. However personal remittances to Africa keep elevating despite high cost of sending into the region. Our analysis found that African countries received higher remittance than FDI as a percentage to GDP. We found that 24 countries had received higher remittances than FDI as a percent of GDP. The number of countries which had received more FDI than remittances were 12. Moreover, 13 countries had unstable FDI or remittances flows.

# Payment Aspects of Financial Inclusion

Remittance flows to least developed countries (LCD) have been greater than FDI since 2019 (World Bank, 2022). Greater access to and usage of transaction accounts among remittance senders and recipients could also play a role in increasing the volumes of money efficiently transferred across borders. High levels of fintech and MTOs are leading to the use of more accounts-to-account transaction and financial inclusion through remittance and FDI.

Figure 1a: Remittance role in financial inclusion

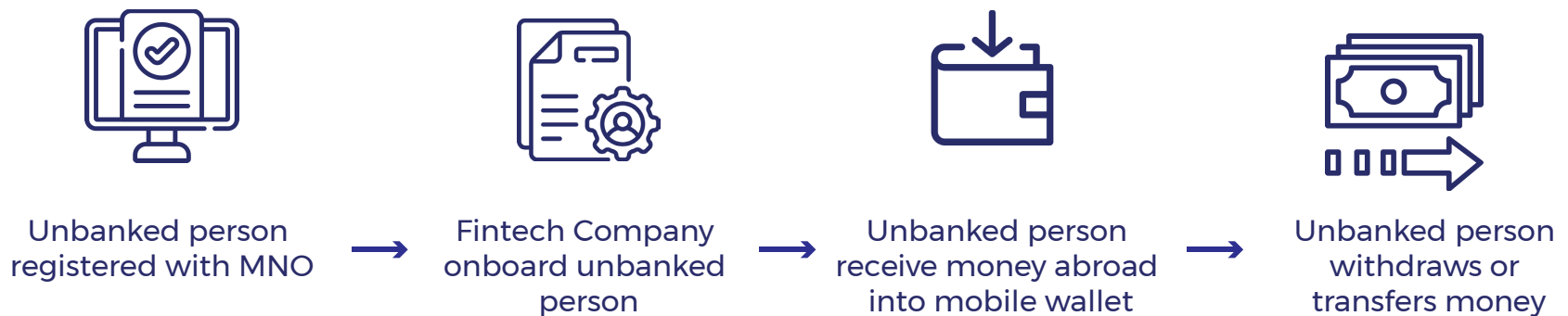


Figure 1b: FDI role in financial inclusion

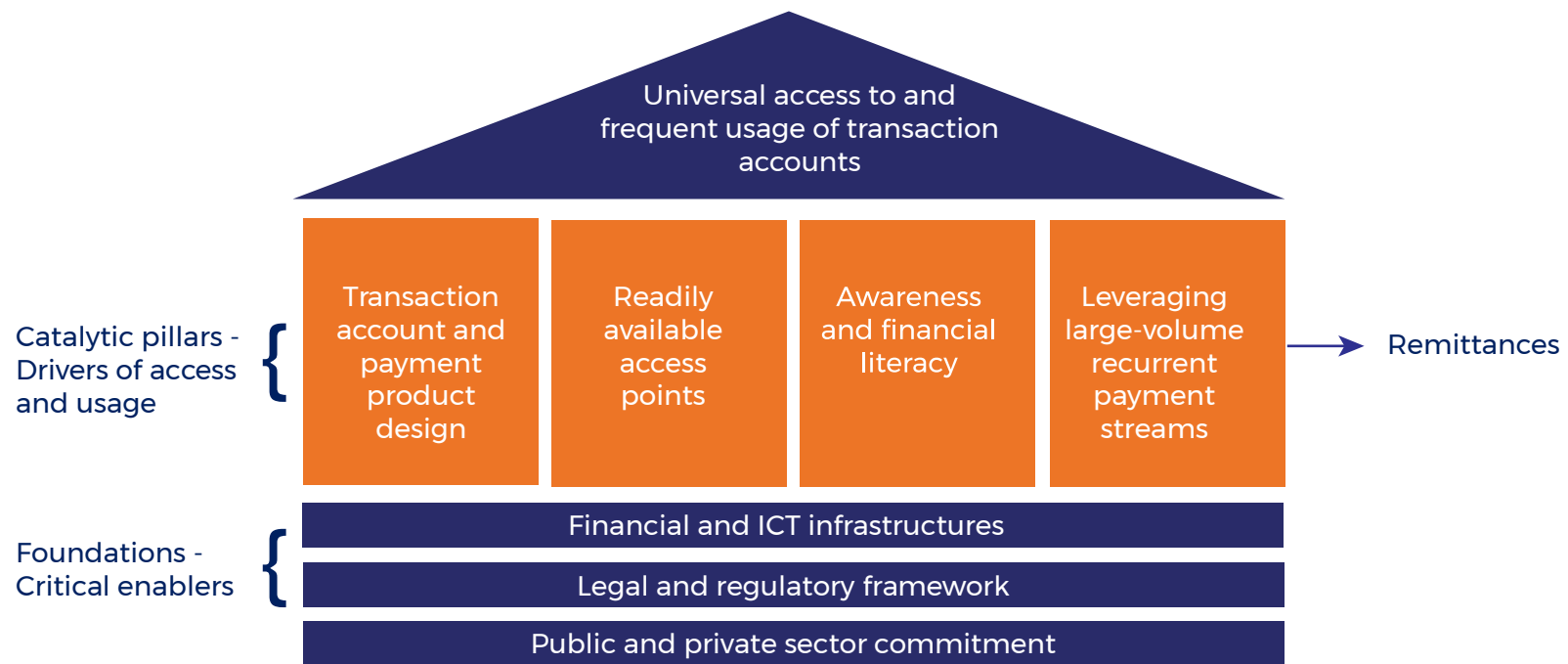


Source: Agpaytech

# Payment Aspects of Financial Inclusion

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Figure 2: Payment aspects of financial inclusion



Source: BIS CPMI and WB (2016)

# Comparing Remittance and FDI Inflow to Africa

## Have received more Remittance than FDI

- Somalia
- Uganda
- Zimbabwe
- Burkina Faso
- Cape Verde
- Cote D'Ivoire
- Ghana
- Lesotho
- Angola
- Cameroon
- Algeria
- Egypt
- Morocco
- Tunisia
- Burundi
- Comoros
- Guinea-Bissau
- Liberia
- Mali
- Nigeria
- Senegal
- Togo
- Kenya

## Have received more FDI than Remittance

- Mauritania
- Djibouti
- Ethiopia
- Gabon
- Sudan
- Tanzania
- Zambia
- Gabon
- Gambia
- Guinea
- Sao Tome and Principe
- Botswana
- South Africa
- Mozambique

## No official data

- Eritrea
- Madagascar
- Libya
- The Central African Republic
- Chad
- Equatorial Guinea
- Congo

## Inconsistency FDI and Remittance Flow

- Niger
- Namibia
- Benin
- Malawi
- Mauritius
- Rwanda
- Sierra Leone
- Democratic Republic, Congo

Source: Agpaytech [Data from World Development Indicator, 2016-2020]

# FDI and Remittances Inflow to Africa

Figure 3a: FDI inflow to Africa by regions (2015-2020)

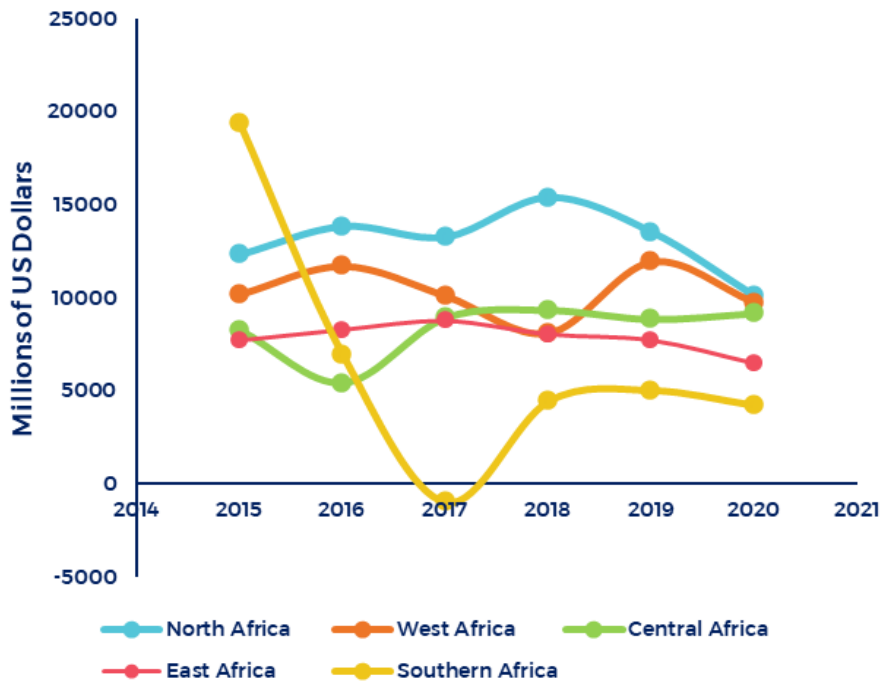
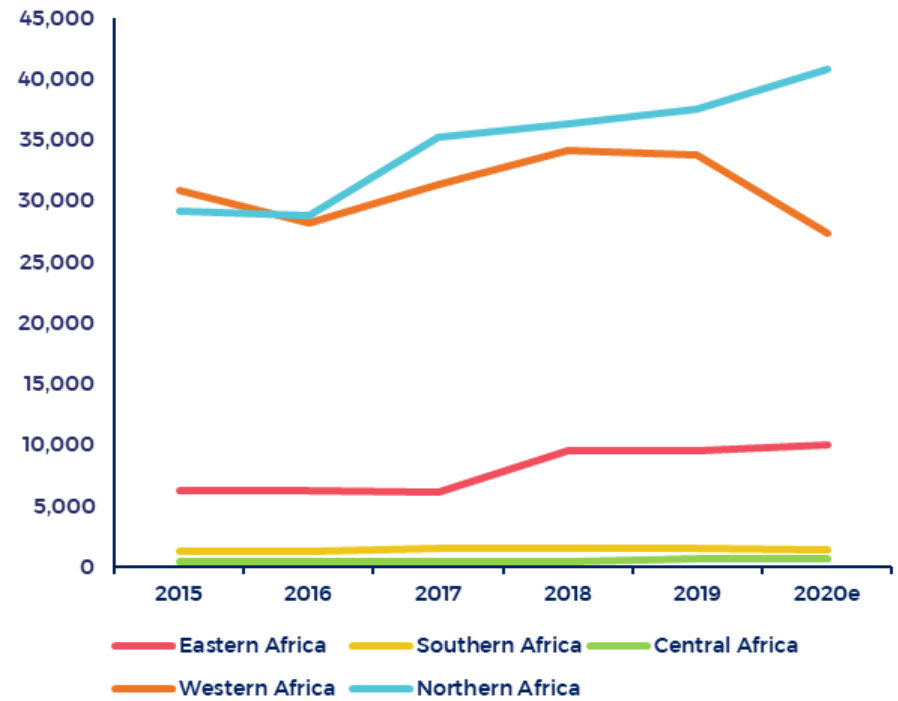


Figure 3b: Remittance inflows to Africa by regions (2016-2020)



Source: Agpaytech [Retrieved data from, World Investment Report, 2021 & WDI, 2021]

# Top FDI Investors & Remittance Destinations

Figure 4a: FDI investor countries in Africa (2014-2018)

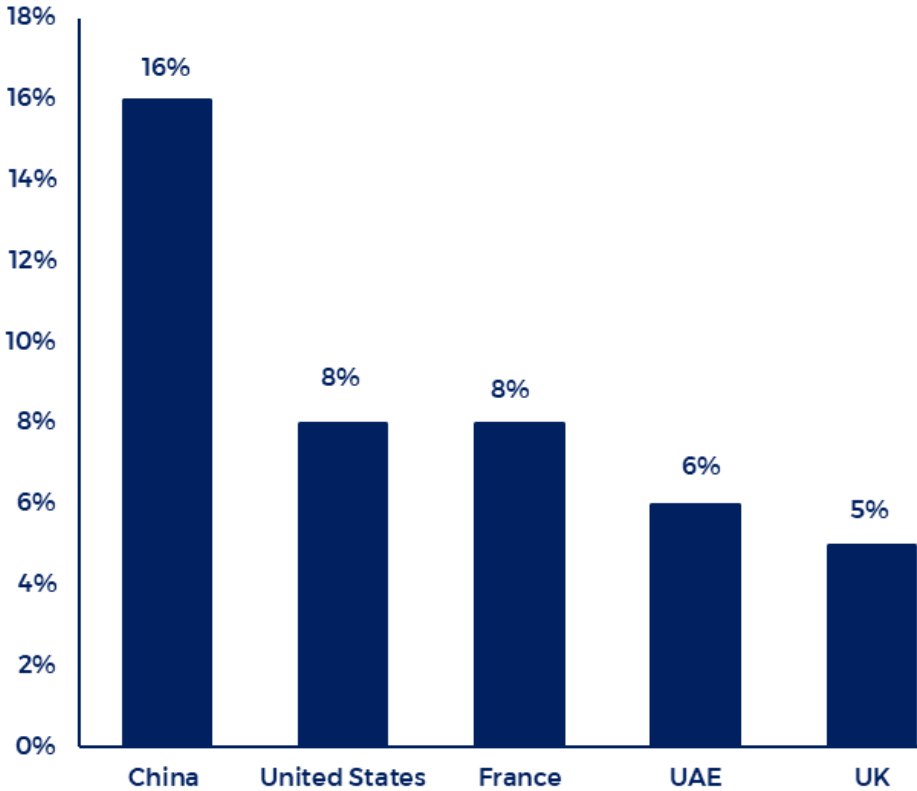
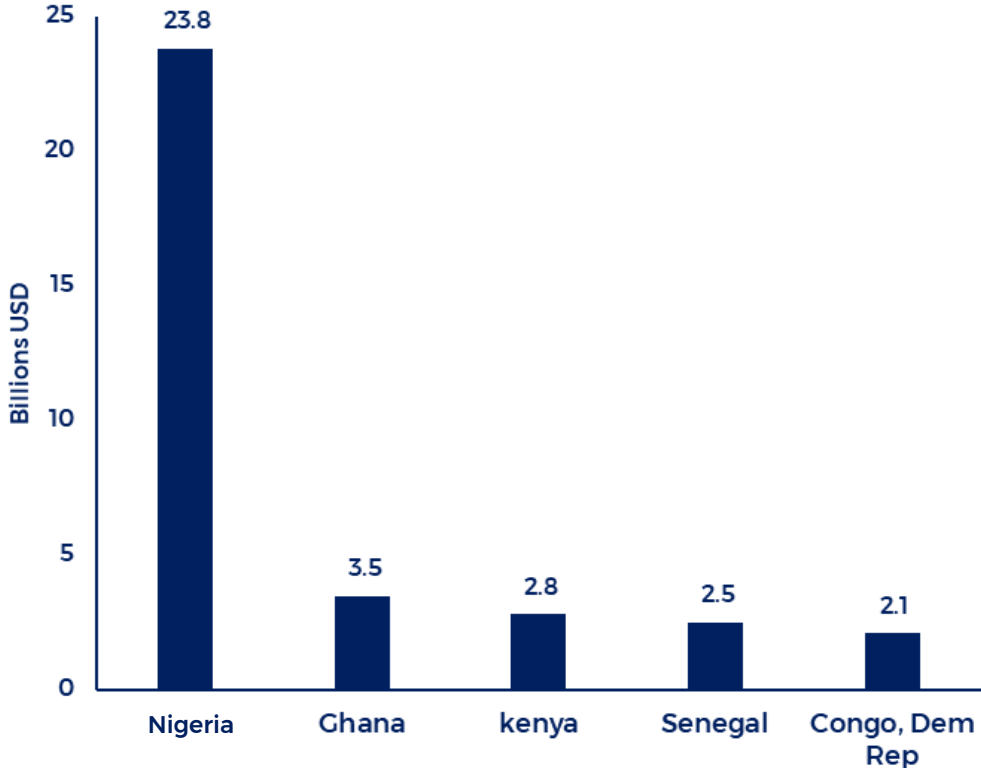


Figure 4b: Remittance destinations in 2019 by the amount



Source: Agpaytech [data retrieved from Statista]



# Possible Investment Sectors of FDI and Remittance

## Potential FDI investment sectors in Africa

### Energy

- Electricity
- Solar Energy
- Gas

### Human capital

- Education
- Health
- Water
- Sanitation

### ICT

- Telecom
- Digital Infrastructure
- Soft ICT Skills development

### Natural resource

- Agriculture
- Processing Industries
- Mining
- Oil Drilling

### Private sector

- Financial Services
- Business Services
- Partnerships

### Transport

- Railway Sector
- Road Construction
- Aviation Sector

### Construction

- Stadia
- Flagship Projects
- Housing
- Market

## Potential Remittance investment sectors in Africa

- Household consumption
- Property Acquisition (land, house, etc.)
- Savings
- Investment (Bonds, treasury bills, share)
- Startup capital
- Educational expenses
- Etc.

Source: Agpaytech

# Types of FDI and Remittance

Figure 5a: FDI

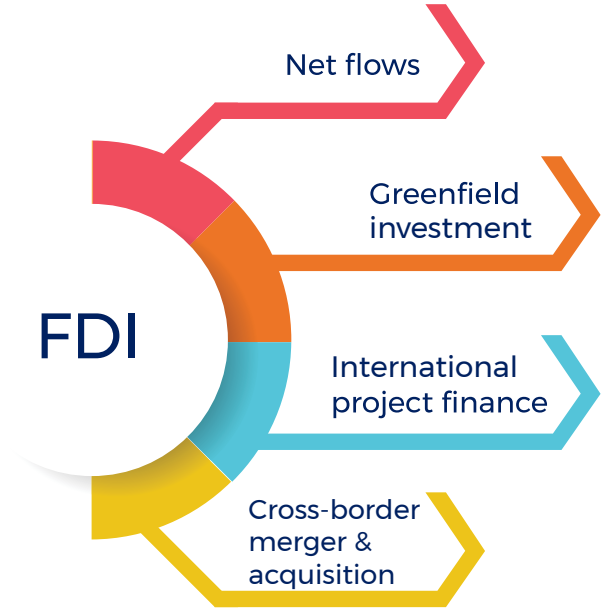
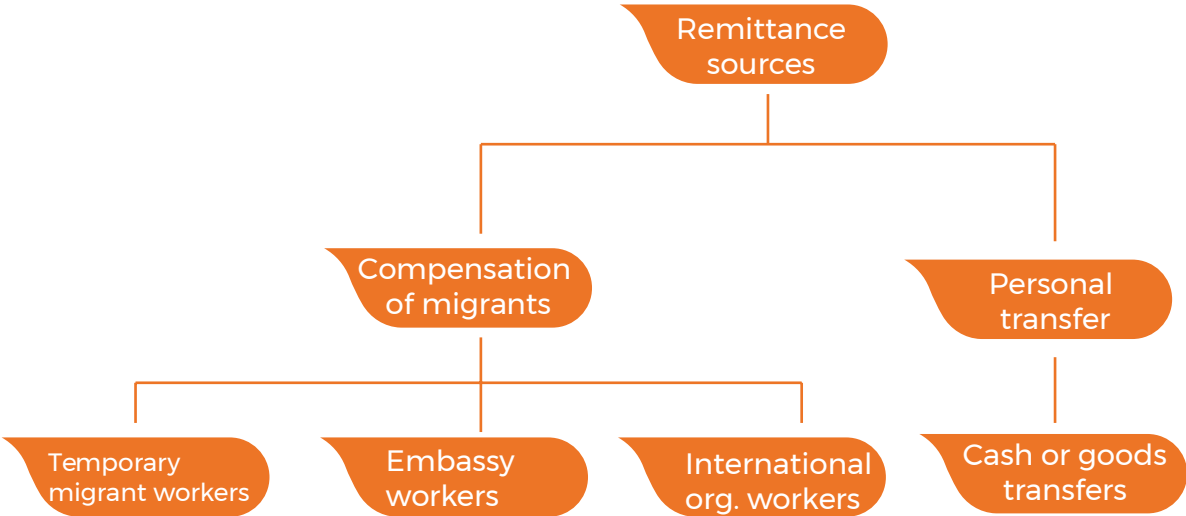


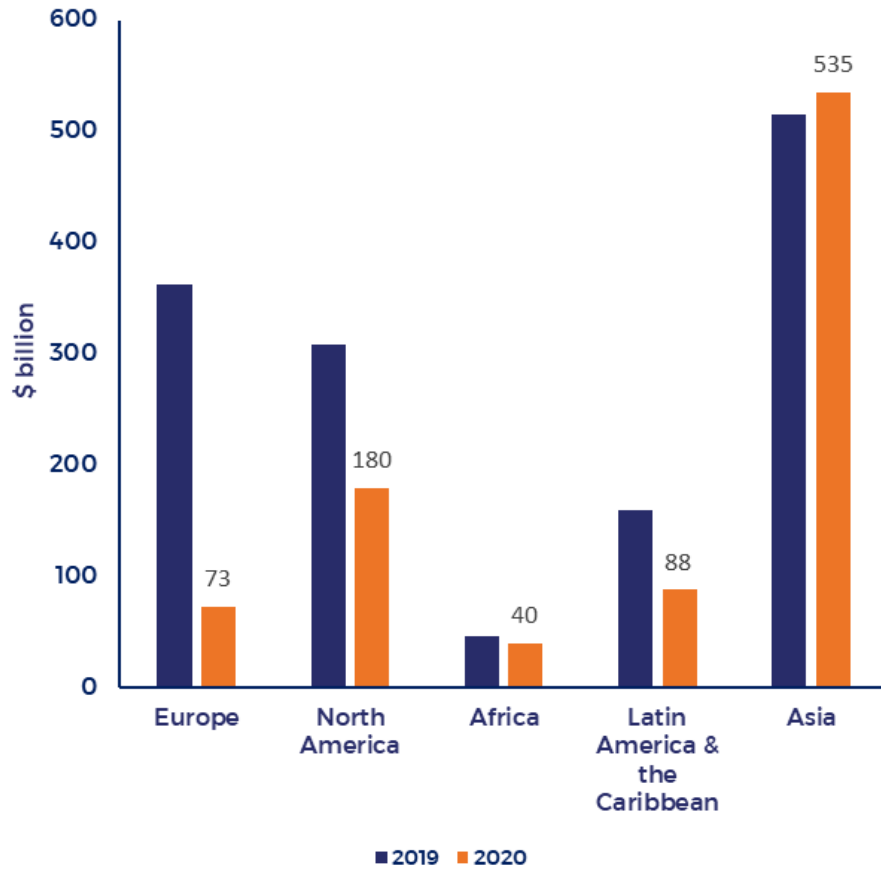
Figure 5b: Remittance



Source: Agpaytech

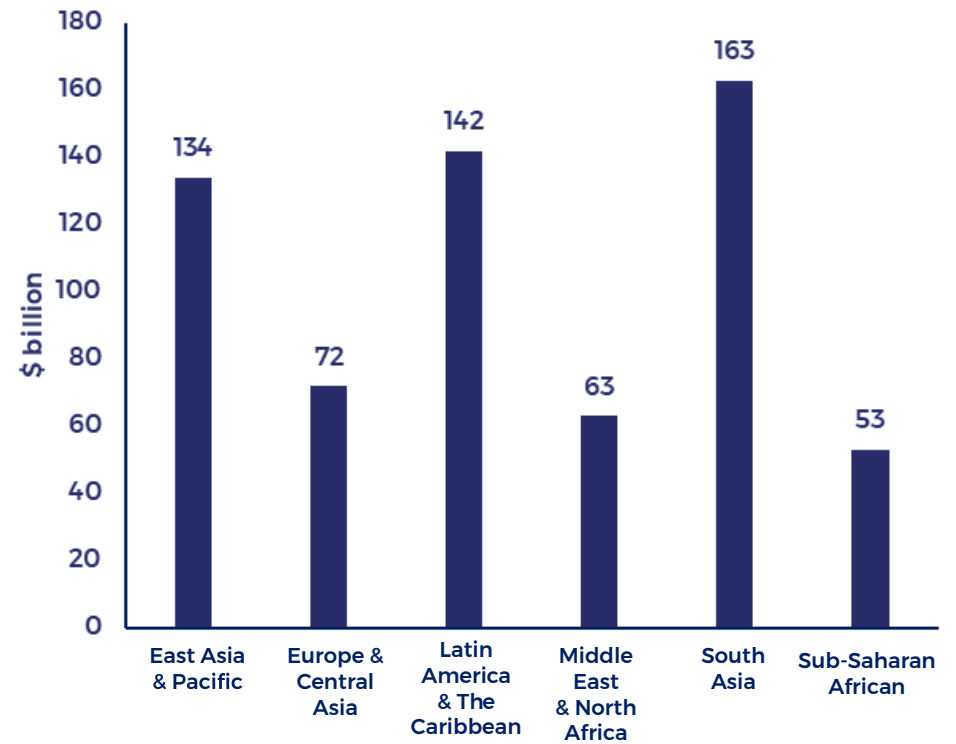
# Global FDI Flows and Remittance Cost

Figure 6a: Global FDI flows



Agpaytech [data retrieved from UNCTAD, 2021]

Figure 6b: Global Remittance Inflows



Source: Agpaytech [Data from Remittance Price World, 2022]

# Challenges of Remittance and FDI Inflow to Africa

## FDI challenges

- Political and macroeconomic instability
- Low growth
- Weak infrastructure
- Poor governance
- Weak regulatory environment
- Poor investment promotion strategies

## Remittance challenges

- Transparency and understanding
- Too many risk
- Weak infrastructure
- High service charges
- Weak regulatory system
- Low competitive market
- Inadequate record keeping

## Promoting FDI and Remittance: Opportunity for Fintechs

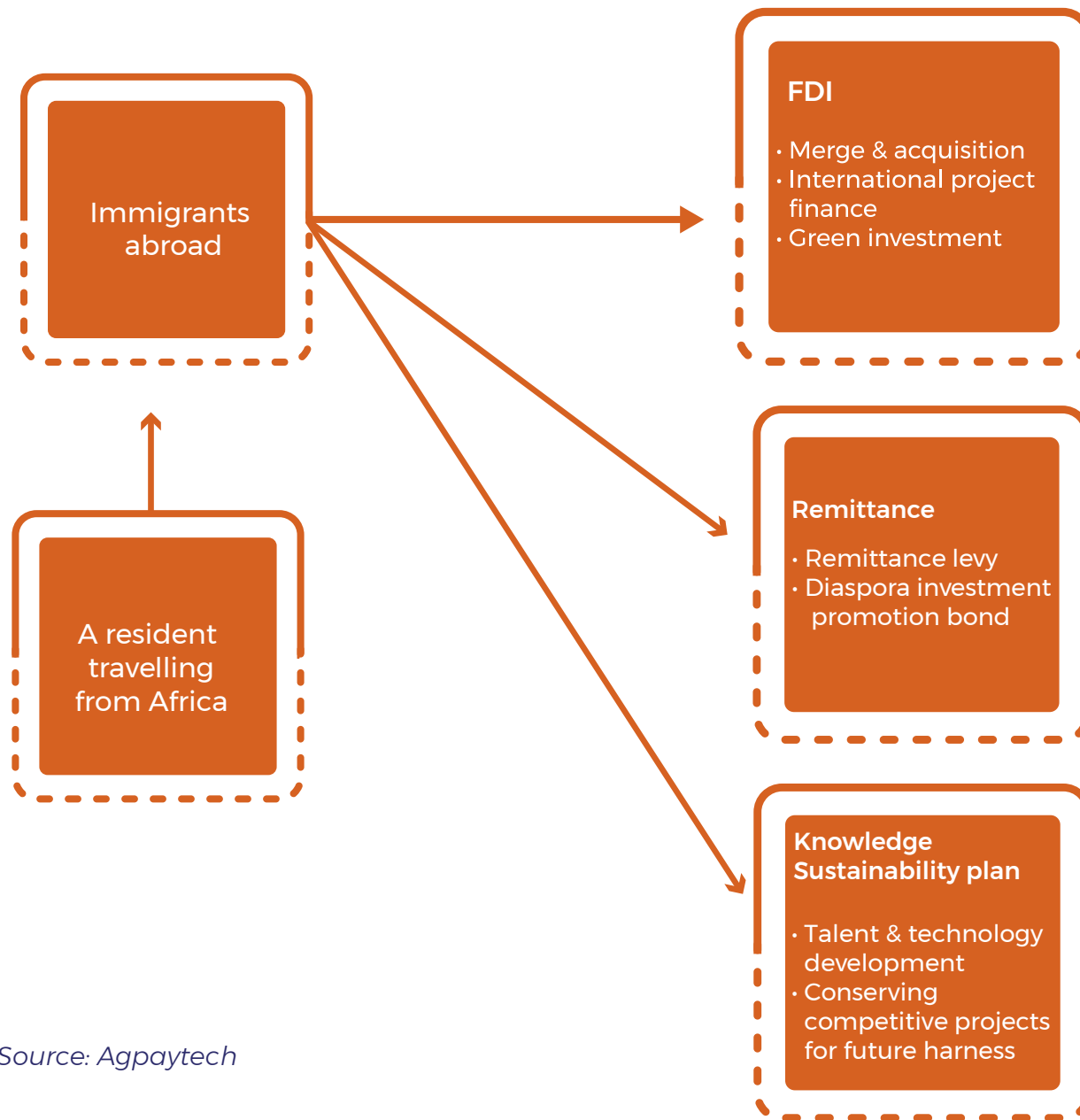
As digital payment continues to disrupt the traditional banking model, consumers taste for convenience, safety, cheap and mobile services increased. Besides, while smartphone usage accelerates in tune with broadband penetration levels in Africa, it's anticipated that the market will become increasingly formalised. With increased competition, prices are

expected to drop, and the formal sector will continue to grow. Fintechs therefore have opportunity to provide cheap remit and easy accessible money transfers worldwide with %1 to 3% charges against traditional charging over 5%.

In terms of FDI, we argue that the current wave of globalization sweeping through the world has intensified the competition for FDI among developing countries.

Consequently, rigorous efforts are needed at the national, regional, and international levels in order to attract significant investment flows to Africa and improve the prospects for sustained growth and development. Fintechs can help through strategic merge and partnership alliance with international organizations. These efforts will help increase inflows and reduce borrow habits of many African countries.

Figure 7: Strategizing remittance and FDI for financial inclusion



Source: Agpaytech

# About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns. Website: [www.agpaytech.co.uk](http://www.agpaytech.co.uk)

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