Remittances are an extremely important source of foreign exchange for Ethiopia. Although World Bank data based on the International Monetary Fund’s (IMF) Balance of Payments statistics provide a figure of $387 million for remittance inflows in 2010 (World Bank 2011), the figure for officially recorded remittance inflows reported by the National Bank of Ethiopia is more than $600 million (NBE 2010). The actual volume of remittances in Ethiopia, including flows through formal and informal channels, could be in the range of $1 billion to $2 billion annually. This chapter draws on a 2008–09 survey of remittance service providers (RSPs) in Ethiopia and on the Ethiopia-specific findings of a global survey of central banks conducted in mid-2008 to provide a picture of the remittance industry in Ethiopia and discuss, among other issues, competition, the regulatory environment, new technologies, and access to remittances and other financial services.

The volume of remittances that flow into a country depends on several factors, including the following:

- Size of emigrant population (World Bank 2011)
- Facilities for transferring funds (Ratha 2003; Puri and Ritzema 2004)
• Level of economic activity in the migrant-recipient countries
• Rate of inflation in the recipient country (El-Sakka and McNabb 1999).

The views on the role of domestic inflation have been mixed. El-Sakka and McNabb (1999) hold that inflation has a positive relationship to the size of remittance inflow because migrants increase the amount they send in response to inflation in the home country to maintain the consumption of families back home. Elbadawi and Rocha (1992), however, argue that a high inflation rate is a sign of economic instability and, thus, may discourage remittances. In Ethiopia, the former argument seems applicable to remittances destined for consumption, while the latter view may relate to the investment-related flows.

Recent Migration Trends

The revolution and unrest that characterized Ethiopia’s political climate in the 1970s caused large numbers of Ethiopians to migrate overseas. Most of the people in this first wave of migration to the West came from Ethiopia’s urban elite—primarily young and well-educated Ethiopians who, for political reasons, sought refuge in Western countries. In the decades that followed, however, migration gradually became an aspiration of most of Ethiopia’s urban people, mainly for economic reasons. Since the mid-1980s, even rural peasants have been migrating in large numbers to the Gulf Cooperation Council and other Middle Eastern countries in search of jobs and better pay. More than 1 million Ethiopians are believed to reside abroad (Aredo 2005) out of a population of 83 million (World Bank 2011).

The country’s internal and international migration is based largely on individuals’ or families’ responses to adverse local socioeconomic, physical, and political environment conditions. In this context, the character, direction, and volume of migration within and from Ethiopia in the past three decades have been shaped by political instability, decline or stagnation in the agricultural sector, and government resettlement programs of the 1980s (Gebre 2001; Ezra 2001; Mberu 2006).

Remittance Sources and Trends

Despite its large migrant population, Ethiopia has not fully tapped its potential, some authors note. Nega and others (2004), cited in Aredo
Ethiopia (2005), indicate that the remittance flow to Ethiopia is only one-sixth of its potential, covering just 8 percent of the nation’s budget deficit. These authors indicate that if the potential level of remittances were to materialize, it would exceed the level of official development assistance, which reached $3.3 billion in 2008 (World Bank 2011).

The remittance inflow data for Ethiopia vary by source. The World Bank (2011) reported remittance inflows totaling 1.3 percent of gross domestic product (GDP) in 2009. According to the Bank’s latest data, remittance flows grew steadily from $27 million in 1995 to $53 million in 2000 and more than tripled in the subsequent years to reach $387 million by 2010. However, data from the National Bank of Ethiopia (NBE) suggest that the figure could be substantially higher. The NBE reported that net transfers from private individuals reached $661 million in the 2009-10 fiscal year (NBE 2010). Informal remittance flows to Ethiopia also appear to be significant. The NBE Quarterly Bulletin reports that of the above individual transfers, $428 million was “underground private transfers” (NBE 2010). If Ethiopian migrants send an estimated $100 to $200 monthly to their relatives back home, applying this amount to the estimated 1 million Ethiopian migrants results in an annual total estimate in the range of $1.2 billion to $2.4 billion in remittance transfers.

The NBE has not yet compiled disaggregated data for cross-border remittance flows to Ethiopia by source country (Irving, Mohapatra, and Ratha 2010). According to recent World Bank data, the largest destinations for Ethiopian migrants among high-income countries in 2010 were the United States, Israel, Saudi Arabia, Canada, and Germany (World Bank 2011). In 2008, based on available information on migration trends, the major source countries for migrant remittances to Ethiopia were the United States and Gulf Cooperation Council countries (notably, the United Arab Emirates, Bahrain, Saudi Arabia, and Kuwait).

As figure 4.1 shows, recorded remittance flows to Ethiopia appeared to have declined by 22 percent in 2009 as a result of the global financial crisis, partially reversing the dramatic growth in the previous decade. According to some Ethiopian commercial banks participating in this study, the volume of migrant remittance inflow transactions they were handling (as of March 2009) had declined since the September 2008 onset of the more severe phase of the global financial crisis because of layoffs in migrant-employing sectors. However, other banks reported increases in transactions because increasing numbers of Ethiopians in the
diaspora were opting to invest in the Ethiopian real estate market, primarily in Addis Ababa and large cities in Ethiopia.

**Characteristics of the Remittance Industry**

The Ethiopian remittance services sector is characterized by the presence of both state-owned and private sector banks as well as several money transfer operators (MTOs) and a significant informal sector. However, compared with African countries such as Ghana or Kenya, the number of formal RSPs is extremely limited in Ethiopia, partly because of low levels of overall financial development, as box 4.1 describes.

**The Formal RSP Sector**

Banks and MTOs facilitate the bulk of formal remittance inflows to Ethiopia. A mid-2008 survey of central banks indicated that six MTOs, eight private commercial banks, one state-owned commercial bank, and one state-owned savings bank provided these services in Ethiopia (Irving, Mohapatra, and Ratha 2010). However, the actual number of RSPs could be to be higher because of underreporting of remittance service providers in the survey and entry of new providers since the survey was conducted. Three MTOs—Western Union, MoneyGram, and Dahabshiil—are considered the predominant players in the country’s RSP market. In

**Figure 4.1 Remittance Flows to Ethiopia, 1990–2009**

*US$, millions*

Source: Ratha, Mohapatra, and Silwal 2010.

a. Estimated.
Ethiopia, MTOs are legally required to handle foreign exchange transactions through commercial banks, which are required to pay out cash to the recipients in local currency.3

State-owned banks tend to have more extensive branch networks outside of the capital city, Addis Ababa, than do private commercial banks. According to the Ethiopian central bank, the National Bank of Ethiopia, as of the mid-2008 RSP survey, the eight private commercial banks providing remittance delivery services had a combined total of 298 bank

Box 4.1
The Ethiopian Financial Sector

The Ethiopian financial sector is one of the least developed in Sub-Saharan Africa. On a financial liberalization index—which measures banking security and independence from government control on a scale of 10 to 100 (100 being the most liberal)—Ethiopia scores only 20 (Kiyota, Peitsch, and Stern 2007). The sector is characterized by a shallow financial market, a closed nature, and strong government control. The financial infrastructure in rural areas is poor. This low level of financial development also manifests in a relatively low domestic savings rate.

The government implemented several financial reform measures since the 1990s (Alemayehu 2008):

• Liberalizing the private bank and insurance sectors
• Liberalizing the foreign exchange market
• Strengthening domestic competitive capacity before full liberalization
• Strengthening NBE’s regulatory and supervisory capacities
• Giving the banks autonomy
• Opening the interbank money market.

The reforms have led to a decline in the dominance of state-owned banks and a rise in the private banks’ market share. In 1998, the three state-owned banks (the Commercial Bank of Ethiopia, the Development Bank of Ethiopia, and the Construction and Business Bank) accounted for 94 percent of the assets of Ethiopian banks. By 2006, however, this figure had fallen to 70 percent. Meanwhile, the share of assets held by private banks increased from 6.4 percent in 1998 to 30 percent in 2006. Over the same period, the total assets of the banking sector have doubled (Kiyota, Peitsch, and Stern 2007).

Source: Alemayehu 2008 and authors’ elaborations.
branches in the country, fewer than half of which were outside of Addis Ababa. However, the two state-owned banks that provide remittance services had a combined total of 232 branches, nearly three-quarters of which were outside of Addis Ababa (Irving, Mohapatra, and Ratha 2010).

Based on a separate survey of RSPs for this study, the five private commercial banks that participated in the survey had an average of 41 branches, as table 4.1 shows, and 38 percent of those branches were in rural areas. The one participating state-owned commercial bank had 205 branches, with just under 80 percent of these branches in rural areas. By contrast, the three MTO participants indicated that they had no branches in rural areas. Annex 4.1 lists the RSP firms that responded to the survey.

**The Informal Remittance Sector**

The Ethiopian remittance services industry also has a significant informal sector. According to input provided by some RSPs in Ethiopia for this study, a larger percentage of migrants have used formal channels in recent years, particularly through MTOs. A large amount of remittances, however, is still sent through informal channels, mainly because of lower up-front costs and, to some extent, lack of awareness of the formal money transfer options.4

Important players in the service sector with the infrastructure to provide remittance services—such as postal service providers, telecommunications service providers, credit unions, and microfinance institutions—still have only a limited presence and role in cross-border remittances.

<table>
<thead>
<tr>
<th>RSP type</th>
<th>Number of firms in country</th>
<th>Number of firms interviewed</th>
<th>Average number of branches among interviewed firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTOs(^a)</td>
<td>6</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Private commercial banks</td>
<td>8</td>
<td>5</td>
<td>41</td>
</tr>
<tr>
<td>State-owned commercial bank</td>
<td>1</td>
<td>1</td>
<td>205</td>
</tr>
<tr>
<td>State-owned savings and loan institution</td>
<td>1</td>
<td>1</td>
<td>31</td>
</tr>
</tbody>
</table>

*Source:* RSP survey in Ethiopia and authors’ calculations.

\(^a\)One MTO, name hidden to protect privacy, despite having no rural branches, has established a presence in 70 branches of Ethiopia’s national postal service, which does provide strong rural coverage.
Partnerships and Agreements between Banks and MTOs

All the surveyed RSPs indicated that they have at least one partnership agreement with other RSPs to provide cross-border remittance transfer services. Partnerships between banks and MTOs are currently by far the most common type of partnership in the Ethiopian RSP market. All six commercial banks participating in the survey indicated that they have partnerships with MTOs in providing remittance services to recipients in Ethiopia. Similarly, all three MTO participants indicated that they partner with banks. One innovative MTO has various types of partnership agreements to provide its remittance and remittance-linked services, as described in box 4.2.

In the past few years, NBE has been encouraging banks to form partnerships with microfinance institutions to reach the unbanked, particularly in rural areas. Three of the firms participating in the RSP survey (one MTO, the state-owned commercial bank, and one private commercial bank) indicated that they have recently begun or were planning to form partnerships with microfinance institutions or the national post office. One MTO reported that it has kiosks in some 70 branches of Ethiopia’s postal service, with a focus on rural areas. Two microfinance institutions in Ethiopia—the Dedebit Credit and Savings Institution (DECSI) and the Amhara Credit and Savings Institution (ACSI)—are already providing domestic remittance transfer services and are seeking a license from NBE to transfer cross-border remittances.5

Prohibition of Exclusive Partnerships

Exclusivity contracts are not legally permissible in Ethiopia under regulations implemented by NBE in August 2006.6 Since the abolition of exclusivity contracts, banks and other RSPs have clearly begun taking advantage of the more competitive operating environment for the provision of remittance services. Virtually all the banks participating in the RSP survey indicated that they have recently negotiated, or are in the process of negotiating, new partnership agreements with MTOs, particularly with some of the smaller MTOs in the market. Among the RSP survey participants for this study, only one MTO indicated that it continued to operate in partnership with a bank.

How RSPs Benefit from Partnerships

Nearly all (9 out of 10) of the surveyed RSPs in Ethiopia cited commissions on remittance receipts as a benefit of their partnerships with other
RSPs. All six commercial banks and the savings and loan indicated that partnership agreements with other RSPs give them access to foreign exchange and commission-earning opportunities on remittance receipts. There is a shortage of foreign currency in Ethiopia, and the banks can use the foreign exchange from migrant remittance inflows to provide trade financing for other bank clients.

A common arrangement seems to be for each MTO partner of a particular bank to have kiosks or some other form of physical presence on the premises of bank branches, with the bank receiving a share of the commission for providing this service. Two of the five private commercial banks surveyed also cited access to distribution networks as a benefit of their partnerships with other RSPs. According to one of these banks, by working in partnership with the national postal service and savings cooperatives, the bank gains access to a distribution network that serves people in less populated areas; in exchange, these partners gain access to the bank’s technology. Another bank indicated that money transfers can be transacted more quickly and at a lower cost when working with MTOs as partners.

**Remittance Products and Services**

As table 4.2 shows, 70 percent of the RSPs surveyed offer electronic cash transfers. All three participating MTOs and four of five private commercial banks have established partnerships with other RSPs for the purpose of providing remittance services. These partnerships allow the banks to access foreign exchange and earn commissions on remittance transactions. The shortage of foreign currency in Ethiopia means that banks can use remittance inflows to provide trade financing for other bank clients.

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Table 4.2 Remittance Instruments in Ethiopia, by RSP Type

<table>
<thead>
<tr>
<th>RSP type</th>
<th>Firms interviewed</th>
<th>Electronic cash transfers</th>
<th>Bank drafts</th>
<th>Acct.-to-acct. transfers</th>
<th>Checks</th>
<th>Money orders</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTOs</td>
<td>3</td>
<td>3</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private commercial banks</td>
<td>5</td>
<td>4</td>
<td>3</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>State-owned commercial bank</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>State-owned savings and loan institution</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>7</strong></td>
<td><strong>5</strong></td>
<td><strong>6</strong></td>
<td><strong>3</strong></td>
<td><strong>2</strong></td>
<td><strong>7</strong></td>
</tr>
</tbody>
</table>

*Source:* RSP survey findings and authors’ calculations.

banks offered such transfers for remittance transactions. Among the different types of RSPs in Ethiopia, private commercial banks apparently offer the widest choice of instruments for remittance transfer, including electronic cash transfers, bank drafts, account-to-account transfers, checks, and money orders.

Account-to-account transfer ranks as the second most commonly available remittance-transfer instrument among RSPs in Ethiopia, offered by five of the commercial banks and one MTO. One of the MTOs, name hidden to protect privacy, offers a relatively wider range of instruments for transferring money from the United States to Ethiopia: by Visa or MasterCard, Internet checks, or on a cash-to-cash or cash-to-account basis.

Card-based payment systems in Ethiopia have been growing fast in recent years. Two commercial banks in the country (including the state-owned Commercial Bank of Ethiopia) have introduced wider use of debit or ATM cards. Commercial banks in Ethiopia also cited plans to use new technologies for remittance transfers, including mobile-phone transfers and remittance-linked financial products such as prepaid cards. However, significant challenges to these plans include a lack of adequate financial and telecommunications infrastructure for the new technologies.

Cross-border transfers on a cash-to-cash basis can be nearly instantaneous if sent electronically from overseas to a recipient in Addis Ababa. Using the RSPs’ most popular transfer services, remittances can be sent
from abroad to urban destinations in Ethiopia in less than one day, according to 5 of the 10 RSP survey respondents (2 of which are MTOs). If remittances are transmitted by electronic or Internet check to a bank account, a recipient typically has access to the funds within two to four business days after the online transaction is completed.

By contrast, none of the surveyed RSPs indicated that they could deliver remittances sent from abroad to rural destinations in Ethiopia in less than one day—although four RSPs indicated that next-day delivery was possible to recipients in rural areas. Further delays in rural deliveries may occur because people often schedule a trip to the remittance-disbursing branch or agent to coincide with other business (for example, waiting until market day). Of the 10 RSP study participants, 2 (both of which are banks) indicated that they had no branches or other physical presence in remote rural areas.

**Access to Other Financial Services**

The financial services most commonly offered by the surveyed RSPs to remittance recipients are savings deposits and other savings products—cited by five of the 10 firms, of which three were commercial banks. Access to credit for starting or developing a business was cited by 2 firms (a savings and loan institution and state-owned commercial bank), each of which reported offering loans to both small and large businesses that are geared specifically to remittance recipients. Mortgage loans are offered recipients by a savings and loan institution and an MTO, Birritu Express, which provides mortgage loans to Ethiopian migrants in the United States for themselves or family members, as noted in box 4.2. A state-owned bank handles a government-guaranteed corporate bond (issued by the Ethiopian Electric Power Corp.) that targets the Ethiopian diaspora.

Aside from these instances, Ethiopia’s banks and other RSPs have not yet made much progress in using remittance transfers as an entry point for formal financial products. According to the RSPs responding to the survey, remittances not used for consumption are often invested in tangible assets, such as real estate, instead of in savings deposits and other financial instruments that generate low or even negative returns in real terms. Thus, most banks and other financial-service providers do not appear to be actively marketing savings instruments and investment vehicles to Ethiopian migrants or their families.

Nevertheless, commercial banks do offer a few different types of accounts geared to the Ethiopian diaspora. Private individuals and companies in the Ethiopian diaspora can typically hold foreign currency in
these Ethiopian accounts as U.S. dollars, U.K. pounds sterling, or euros. One impediment to holding more money in local savings accounts is the $50,000 limit imposed on savings held locally in an interest-bearing foreign currency account by Ethiopians in the diaspora, combined with the low interest payable on these accounts, according to some banks responding to the survey.

Nonrepatriable, local-currency-denominated savings accounts that the holder can use for local payment purposes are also available to Ethiopians in the diaspora. This latter type of account pays a significantly higher rate of interest than the minimum savings deposit rate set by NBE, but funds held in this account cannot be transferred abroad and cannot be converted into foreign currency. At least one commercial bank has begun offering a zero-balance account—a new savings product that sets no minimum balance and was launched to encourage unbanked people who come into the bank for remittances to open an account to hold some portion of their remittances. Those eligible for this and other savings accounts at Ethiopian banks include nonresident Ethiopians and nonresident foreign nationals of Ethiopian origin living abroad more than one year; companies owned by such individuals are also eligible.

Although they have not yet begun using new technologies in earnest, banks and other RSPs are considering how they may adopt new technologies in the future to develop remittance-linked financial products such as prepaid debit cards or microfinance loans.

**Resolution of Customer Grievances**

Most of the remittance service providers in Ethiopia encounter frequent consumer grievances concerning failure of delivery. The responses from the RSPs emphasize the need for a dedicated system to handle such complaints. The RSPs seem to lack the personnel to handle customer grievances, a lack that may reflect the relatively low level of competition in the sector.

The frequency of such failures varies markedly among the operators. Fifty percent of the firms indicated that consumer grievances occur once a week, and 10 percent noted that they occur once every two to three months. Another 10 percent said they receive an average of one grievance per day.

Once grievances are received, the operators also vary widely in the speed with which they address the problems: 20 percent of the firms resolve them within a day, 40 percent within a week, and 10 percent take up to a month.
The Regulatory and Business Environment

The process of obtaining a license from NBE to provide remittance transfer services can be time consuming and lengthy. As of March 2009, it was not unusual for the entire procedure to run up to two years for an MTO, according to interviews with RSPs. Four of seven RSPs (two MTOs and two commercial banks) that provided input about perceived barriers to starting a remittance transfer business in Ethiopia cited the licensing requirements as a main barrier.

Access to financial infrastructure was also cited by four of seven remittance service providers (two MTOs and two commercial banks) as a main barrier to starting a remittance transfer business in Ethiopia. The inability of RSPs in Ethiopia to undertake remittance outflow transactions because of foreign exchange regulations and difficulty obtaining access to capital or financing were each cited by one MTO as a main barrier to starting a remittance transfer business in Ethiopia.

The lack of a modern national payment system and, in particular, the lack of a real-time gross settlement (RTGS) system currently pose a major challenge to RSPs in Ethiopia because it means that there is no effective common clearing and settlement system linking all the banks. In the first quarter of 2009, it could take up to five days to clear a domestic remittance transfer from one bank to another within Ethiopia. Lack of a telecommunications infrastructure in rural areas also makes it difficult for RSPs to offer remittance transfer services in these areas. Because there is no broadband telecommunications system in rural areas and some MTOs require broadband for their “fast money” transfer services, sending money from Addis Ababa to rural areas could take as long as two to three days.

A relatively larger number of firms (8 of 10) participating in the survey cited barriers to providing remittance transfer services, once a business has been launched. The top-cited barrier (mentioned by three RSPs) was lack of access to clearing and settlement systems, cited by two commercial banks and one MTO. A second-ranking (and closely related) barrier, cited by two firms, was the inadequate information and communications technology infrastructure, particularly in rural areas. Capital requirements and anti-money-laundering (AML) requirements were also cited by two RSPs each. Although only one RSP (a commercial bank) cited competition posed by informal providers when queried about barriers to doing business generally, when the participating RSPs were asked specifically and directly about obstacles posed by informal providers, 7 of 10 indicated that it was a major or severe obstacle.
Exchange Controls and AML/CFT Requirements

The U.S. dollar is the most common currency of denomination for cross-border remittances transferred to Ethiopia. However, remittances must always be paid out in local currency when received as cash in Ethiopia, although they can be held locally in foreign currency accounts subject to limitations on maximum- or minimum-balance amounts.

Because of foreign exchange shortages, commercial banks and other RSPs in Ethiopia typically do not handle cross-border migrant remittance outflow transactions. Sending foreign exchange abroad requires documentation of purpose, and migrant remittance outflow transactions are not generally a permissible purpose for obtaining foreign exchange. One MTO’s partnership with ICICI Bank in India has enabled it to develop an innovative way for Ethiopian residents to send tuition money to family member recipients who are residing as students in India to finance the costs associated with their studies (described in box 4.2).

Exchange controls were not specifically cited as one of the top barriers to providing remittance transfer services by the RSPs surveyed for the study, with the exception of one MTO. One of the commercial banks and the savings and loan institution consider exchange controls to be a moderate to fairly major barrier, however. To some extent, exchange control regulations governing foreign currency held locally are perceived as a barrier to the provision of remittance-linked financial services in Ethiopia, according to some of the banks, which have cited as too low the $50,000 limit on what any one account holder can hold in a foreign currency account.

AML and combating the financing of terrorism (CFT) requirements, conversely are considered top barriers to doing business in the remittance transfer industry by two of the RSPs participating in the study and were cited as moderate barriers by another three RSPs (two private commercial banks and an MTO).

Remittance Industry Competition in Ethiopia

As discussed earlier, since 2006, MTOs have been forbidden to impose exclusivity contracts when partnering with banks in providing remittance services in Ethiopia, and banks have taken advantage of this regulatory change to forge multiple partnerships with MTOs. Along with the entry of new market entrants in recent years, this has helped to foster improved competitiveness in Ethiopia’s remittances transfer industry.

Competition from informal providers remains a major challenge to many RSPs in the formal sector because informal RSPs typically can offer transfer services at lower cost and foreign exchange commissions at a
better (black market) rate. Sixty percent of the survey participants cited competition from informal providers as a major obstacle, and another 10 percent consider it a severe obstacle. Two of the 10 RSPs consider it no obstacle at all, however. Although NBE launched an effort to close many informal kiosks that were operating illegally in 2008, many of these informal providers reportedly have since reopened elsewhere.

**Remittance Costs**

In past years, banks and other RSPs in Ethiopia that provide remittance services have eliminated the service fees previously charged to remittance recipients. The fees and other costs for these transactions are now imposed on the transaction senders only.

Fees payable by the sender opting for formal channels tend to be highest for fast-money (electronic) cash transfer via MTOs. As of October 2009, MTO transfer fees payable by senders in the United States ranged from $7 to $10 for transfer of $200 by the three niche MTOs participating in this study (each of which had a physical presence in at least one U.S. city as well). The MTOs impose various fee structures on senders of remittances from overseas to recipients in Ethiopia. For example, one of the MTOs participating in this study charges a flat fee that decreases in proportion to the amount sent, once a certain threshold was exceeded, and others charge a fee in direct proportion to the amount sent.

For domestic transfers, fees charged by the banks to senders for domestic transfer of $200 varied from the Ethiopian birr equivalent of $0.18 to $1.82, according to the participating commercial banks. These fees are considerably lower than those of MTOs for domestic transfers, although in the latter case (as with cross-border transfers), the sender is charged a premium for quicker transmission.

Ethiopia’s central bank operates a webpage that publicly posts information about MTOs that have partnerships with banks in Ethiopia and the associated fees for remittance transfers by MTOs. It obliges RSPs to reveal the following:

- Terms and tariffs applicable to a remittance service, including their correspondent bank, agent fees, and other services they provide
- The estimated time it will take to get the money to the receiver (RSPs are required to transmit remittances to their customers within 24 hours)
- The exchange rate that the RSPs use to convert the foreign currency to domestic currency and vice versa.
Customer Identification Requirements

Driver’s licenses and national passports are the most commonly accepted forms of identification from remittance recipients, accepted by all nine participating RSPs providing this information. Eight of the RSPs accept national identification (ID) cards as well. Less commonly accepted forms of ID are verification of employment or a letter from a local or village authority. A few of the commercial banks and one MTO also accept ID cards issued by local or regional authorities, although one of these banks stated that the only acceptable ID for foreign nationals residing in Ethiopia is a national passport. A wider range of ID forms are apparently accepted by the state-owned commercial bank, savings and loan institution, and MTOs.10

Private commercial banks had the most limited range of acceptable ID requirements among the participating RSPs, which could impede the ability of the poorest recipients, particularly those dwelling in rural areas, to collect remittances from them. All participating RSPs providing input on this issue accept a national ID card, however.

Among most of the RSPs, there was no difference in ID requirements for account holders or registered customers versus customers without accounts or nonregistered customers, with one exception: the participating savings and loan institution accepts a savings passbook from account holders as a valid ID.

Conclusions and Policy Implications

The importance of the remittance industry for Ethiopia is worth emphasizing because it contributes at least as much (or more) foreign exchange as the Ethiopian export sector. Despite an increase in the amount of remittance inflows transferred through formal channels in the past decade, the current low level of financial intermediation and the lack of a modern national payments system currently pose major challenges to RSPs. The top-cited barrier to operating a remittance transfer business—among both bank and nonbank RSPs—was lack of access to clearing and settlement systems. There may be beneficial lessons for Ethiopia in initiatives to modernize its payment and settlements system infrastructure (such as introducing an RTGS system), as other developing countries have done in the past few years.

The development of new technologies and products for the delivery of cross-border remittance inflows, such as mobile money transfers and
card-based technologies, could further reduce the cost of remittance transfers and further boost competitiveness among RSPs in Ethiopia’s remittances services market. The development of prepaid and debit cards and other remittance-linked financial products could eventually also expand access to financial services by unbanked remittance recipients in rural areas. However, the telecommunications infrastructure remains underdeveloped in Ethiopia, and this is a sector that will require further modernization and development.

New types of partnership agreements are emerging in Ethiopia’s RSPs market. These include partnerships involving microfinance institutions (MFIs) and the national post office to better serve the unbanked, particularly in rural areas of the country. Ethiopia’s postal service has begun linking with some MTOs to provide money transfer services. Granting certain nonbank RSPs such as MFIs and national post offices access to national clearing and settlement systems could more effectively expand rural access, increase competition, and reduce transmission costs (Ratha and Riedberg 2005). Expediting the process for obtaining a license to operate a money transfer business in Ethiopia, by facilitating entry, also could help boost competitiveness of the formal sector for remittance transfers. The cost of remittance transfers tends to decline, and the quality of available services to rise, as the number of market competitors increases (Orozco 2002; Ratha and Riedberg 2005).

Making information on remittance transfer fees publicly available to both potential senders and receivers enhances market transparency among the market’s RSPs and can further increase the remittance inflows sent through formal channels. The public posting and frequent updating of information on remittance transfer fees on the NBE website—and providing this information in the destination countries, such as through Ethiopian embassies and migrant associations—would further enhance market transparency.

Ethiopia’s banks and other RSPs have not yet made much concrete progress in using remittance transfers as an entry point for formal financial products, partly because of the relatively underdeveloped state of Ethiopia’s financial system. The share of remittances not used for consumption is often invested in tangible assets, such as real estate, which has been offering higher returns than savings deposits and other financial instruments.

Striking the right balance in administering AML/CFT requirements will also be important to ensuring that the RSP industry’s formal sector will continue to grow and benefit from the dynamism and new technologies that can accompany the entry of new market participants. Half of the
respondents to the RSP survey consider AML/CFT requirements to be moderate to major barriers to doing business in the remittance transfer industry in Ethiopia. It will be important, therefore, to ensure that overly onerous AML/CFT requirements do not make it difficult for legitimately registered and operating RSPs to do business—an unintended consequence that could drive more remittances into informal channels if the competitiveness of the formal sector is negatively affected.
Annex 4.1 Banks and MTOs Interviewed for the Study of the Ethiopian Remittance Services Industry

Table 4.A1 Ethiopian RSPs Interviewed

<table>
<thead>
<tr>
<th>RSP name</th>
<th>RSP type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Bank of Ethiopia</td>
<td>State-owned bank</td>
</tr>
<tr>
<td>Construction and Business Bank</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>Bank of Abyssinia S.C.</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>United Bank</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>Wegagen Bank S.C.</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>Dashen Bank S.C.</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>NIB International Bank S.C.</td>
<td>Private commercial bank</td>
</tr>
<tr>
<td>Dahabshiil</td>
<td>Money transfer operator</td>
</tr>
<tr>
<td>Amal Express Money Transfer</td>
<td>Money transfer operator</td>
</tr>
<tr>
<td>Birritu Express</td>
<td>Money transfer operator</td>
</tr>
</tbody>
</table>

Notes

1. The National Bank of Ethiopia provided this information in response to a mid-2008 survey of central banks conducted by the World Bank (Irving, Mohapatra, and Ratha 2010).

2. These data are sourced from the National Bank of Ethiopia’s responses to a survey of central banks conducted in 2008 by the World Bank’s Migration & Remittances team (Irving, Mohapatra, and Ratha 2010).

3. Money can be held locally in foreign currency accounts, however, up to a maximum amount of $50,000.

4. The National Bank of Ethiopia reportedly closed down several informal providers in 2008, but other informal providers seem to be active now.

5. DECSI website, www.decsi.com.et; ACSI website, http://www.acsi.org.et/. One of the commercial banks participating in the study indicated that it has begun working with microfinance institutions in extending microloans, but it does not link (at least not yet) this part of its product and service line with its remittance transfer services.


7. Some local commercial banks already offer telebanking services, which give Ethiopians living abroad who maintain an account with the bank a personal identification number (PIN), which they can use to contact the bank by telephone and pay money directly to people in Ethiopia.
8. Birritu Express currently charges senders in the United States a fee of $7 for electronic transfer of amounts up to $300 to a recipient in Ethiopia—an amount that increases to $8 for transfer of $301–$500 and $13 for amounts of $501–$800. Dahabshiil charges 5 percent on transaction amounts up to $1,000 from the United States (or $10 for sending $200).

9. See http://www.nbe.gov.et. However, the information in the central bank’s website appears to be out of date.

10. The state-owned commercial bank accepts a Kebele ID card, pension card, student ID, and signature verification as acceptable forms of ID for receiving remittances.

References


