Remittance Markets in Africa

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Outline

• Remittances and development
  o Size; channels for out-of-Africa & intra-regional remittances; uses of remittances for consumption/ investment by African households

• Remittance markets in Africa
  o Survey of RSPs in 8 African countries & 2 destination countries
  o Range of issues covered in surveys - e.g. business environment, barriers to entry and exit, obstacles to doing business, partnerships, financial services offered to remittance senders/receivers, technology & innovations (mobile money), identification requirements, AML/CFT regulations

• Policy conclusions
Remittance flows to Sub-Saharan Africa are large, and resilient.
Remittances from outside Africa are larger than within-Africa and internal remittances

**Avg. remittances received (US$)**

- **Burkina Faso**
- **Ghana**
- **Uganda**
- **Nigeria**
- **Kenya**
- **Senegal**

**Source:** Africa migration project household surveys 2009-10; GLSS 2005-06
Remittances from outside Africa dominated by a few international money transfer companies

Remittances sent from outside Africa

Source: Africa migration project household surveys 2009-10; GLSS 2005-06
Intra-African remittances mostly through informal channels (Kenya & Nigeria exceptions)

Remittances sent from other African countries

Source: Africa migration project household surveys 2009-10; GLSS 2005-06
Significant share of remittances spent on human capital and physical capital investments varies by level of development

percent of remittances from outside Africa

Kenya  Nigeria  Uganda  Burkina Faso  Senegal

30  37  43  47  67
51  35  33  26  14
19  27  24  27  19

* Uganda excludes unspecified use of remittances (2/5th of total remittances)

Source: Africa migration project household surveys; GLSS 2005-06
Remittances associated with higher education, access to banking, and use of ICT

Average number of African household members with tertiary education

<table>
<thead>
<tr>
<th>Country</th>
<th>Ghana</th>
<th>Senegal</th>
<th>Burkina Faso</th>
<th>Kenya</th>
<th>Uganda</th>
<th>Nigeria</th>
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Percent of African households with access to computer and internet

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Average number of African household members with bank account

Source: Africa migration project household surveys; GLSS 2005-06
Findings from surveys of remittance-service providers (RSPs)

1. 8 SSA countries
   – Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, Uganda

2. 2 migrant-destination countries
   – France, UK

3. Sample covers RSPs – banks, MTOs, post offices, microfinance institutions, SACCOs, informal providers (bus, transport companies)
Surveys teams

- Burkina Faso - Yiriyibin Bambio
- Cape Verde - Georgiana Pop
- Ethiopia - Alemayehu Geda & Jacqueline Irving
- Ghana - Peter Quartey
- Kenya - Rose Ngugi
- Nigeria - Chukwuma Agu
- Senegal - Fatou Cisse
- Uganda - Rose Ngugi and Edward Sennoga
- France - Frederic Ponsot
- UK - Leon Isaacs/DMA
Distribution of sample of remittance service providers (RSPs) in 8 Sub-Saharan African countries

Sample of RSPs in SSA

- Private commercial bank: 31%
- Firm specialized in money transfers: 17%
- Exchange bureau: 14%
- Savings and loan institution: 9%
- Microfinance institution: 5%
- Courier, bus: 4%
- State-owned bank: 4%
- Telecom/mobile: 3%
- Credit union: 3%
- Retail chain, travel agency: 3%
- Other: 4%
- Post office: 3%
- Sample of RSPs in SSA

Source: RSP surveys in Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Uganda
Survey methodology for RSPs

- **Formal sector RSPs**
  - Post/fax/email (follow-up using partners and country office colleagues)
  - Semi-structured interviews (local consultants)
  - Workshops to bring together RSPs in selected target countries

- **Informal sector**
  - Semi-structured interviews
Implementation issues

- Identifying appropriate contacts within RSPs (ideally mid-level management)
- Response rates vary across providers types
  - Formal sector banks typically more forthcoming than MTOs, but may require permission/authorization of central bank to disclose volumes
  - Informal sector RSPs less willing to disclose
- Representativeness/national coverage
  - Bias towards urban areas esp. large cities, where RSPs concentrated, limited coverage in rural areas; informal RSPs only to extent feasible
Selected findings

- Most RSPs (in particular banks and post offices) in SSA operate in partnership with MTOs and banks

- These partnerships are often “exclusive” in nature

- RSPs get a variety of benefits from partnerships
  - Commission on remittance payments
  - Access to foreign exchange
  - Access to payments systems
  - Access to distribution networks
Banks and MTOs are the most common type of partners for remittance services.

Source: RSP surveys in Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Uganda
Most remittance service providers (RSPs) in SSA have “exclusive” partnerships.

Remittance service providers (RSPs) in SSA benefit financially from partnerships

Benefits of partnership

- Commission on remittances
- Access to foreign exchange
- Access to payments infrastructure
- Access to distribution network
- Share of profits
- Others

Source: RSP surveys in Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Uganda
Business environment for RSPs in Africa

• Barriers to operating a remittance business
  – AML-CFT
  – licensing
  – minimum capital requirement
  – exchange controls
  – access to clearing and settlement systems

• Competition from informal remittance service providers perceived as an obstacle to doing business
Competition from informal providers perceived as an obstacle by nearly half of RSPs

Competition from informal remittance providers in 8 SSA countries

- **Major obstacle**: 29%
- **Severe obstacle**: 9%
- **No obstacle**: 24%
- **Minor obstacle**: 18%
- **Moderate obstacle**: 20%

Source: RSP surveys in Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Uganda
ID documents required for receiving remittances could be onerous.

ID documents for receiving remittances for non-registered customers in 8 SSA countries

- National passport
- National identification card
- Driver’s license
- Verification of employment
- Letter from village headman or local authority
- Proof of residence (utility bill etc.)

Few RSPs provide other financial services to remittance receivers.

Source: Percent of all RSPs surveyed in Burkina Faso, Cape Verde, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Uganda.
Cost of sending remittances to Africa highest among developing regions

Average cost of sending $200 to developing regions

- SSA: $23.1
- MENA: $17.9
- EAP*: $17.0
- ECA: $15.1
- LAC: $14.5
- South Asia: $13.1

Post offices and mobile phone companies can play a major role in expanding access to the poorest, but need to avoid exclusive partnerships (both in source and destination countries).

*EAP excludes Pacific Islands

Source: World Bank Remittances Prices Worldwide database (January 2011)
Transfer costs usually even higher for intra-African remittance corridors where allowed

Average cost of sending $200 within Africa (excl. FX commissions)

Percent of $200 sent

- Burkina Faso - Ghana: 16%
- Nigeria - Ghana: 13%
- Nigeria - Benin: 11%
- Burkina Faso - Côte d'Ivoire: 9%
- Senegal - Mali: 9%
- Uganda - Kenya: 9%
- Kenya - Tanzania: 8%
- Kenya - Uganda: 8%
- Uganda - Rwanda: 7%
- Uganda - Tanzania: 6%

Source: Surveys of remittance service providers (2008-09)
Central banks: High cost and limited financial access inhibiting use of formal channels

- High cost
- No bank branch near beneficiary
- Sender's/recipient's lack of access to bank accounts
- Mistrust/lack of information on electronic transfers
- Sender's/recipient's lack of valid ID
- Mistrust of formal financial institutions
- Exchange controls

Source: World Bank Global survey of central banks
Mobile money being is being used for progressively smaller transactions.

**Average transaction size through M-Pesa**

- **Kenyan Shillings**
  - Average transaction size, US $ (right scale)
- **Average transaction size, Kenyan Shillings**

*Source: Pulver, Jack and Suri (2009)*
Selected findings - African remittance markets

- Remittance markets in Africa characterized by lack of competition with high degree of informality for intra-African remittances
  - High cost related to exclusive partnerships
  - Exchange controls

- Mobile money transfer (MMT) technologies transforming remittances and broader financial services, but mainly for domestic transfers because of AML-CFT concerns in cross-border remittances

- Foreign exchange regulations and capital controls in remittance-source countries (e.g. South Africa) inhibit outward remittances and raise costs
Selected Findings - Markets in remittance-source countries

• Remittance markets efficient in general, but for African remittances, costs are high and significant barriers remain

• Most transfers to Africa are cash-based; account-to-account or cash-to-account transfers limited

• AML requirements after 9/11 post an obstacle for small MTOs to access banking and settlement systems in the U.S

• Mainstream banks in France are starting to target African migrants for remittances and other financial services (e.g. burial insurance, transnational mortgages), but limited role in remittances

• Exclusivity agreements still persist in migrant-destinations (WU with La Poste)
Facilitating remittances

- Cost of remittances should be reduced especially in South-South corridors
- Exclusive partnerships are being eliminated in some African countries, but de facto arrangements continue in practice
- Mobile phone remittances show promise for expanding remittances and financial access in Africa
- Post offices, credit unions and others can play a significant role, but need to avoid exclusivity agreements
- Designing appropriate regulations for telecom companies that provide financial services a priority