

The U.K. – Nigeria Remittance Corridor

*Challenges of Embracing
Formal Transfer Systems in a Dual Financial
Environment*

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ABBREVIATIONS

ADB	Asian Development Bank	IFEM/DAS	Inter-bank Foreign Exchange Market/ Dutch Auction System
ABCON	Association of Bureaux de Change Operators of Nigeria	IFT	Informal Funds Transfer
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism	IMF	International Monetary Fund
BDC	Bureau de Change	IMO	International Money Order
BRCA	Bilateral Remittances Corridor Analysis	INCSR	International Narcotics Control Strategy Report
£	British Pound	IOM	International Organization for Migration
BSD	Banking Supervision Department	KYC	Know Your Customer
BTA	Business Travel Allowance	ML	Money Laundering
CBN	Central Bank of Nigeria	MTO	Money Transfer Operators
CDD	Customer Due Diligence	₦	Nigerian Naira (NGN)
CFT	Combating the Financing of Terrorism	NCCT	Non-Cooperative Countries and Territories
CPSS	Committee on Payment and Settlement Systems	NCIS	National Criminal Intelligence Service
DFID	Department for International Development	NFIU	Nigeria Financial Intelligence Unit of the EFCC
ECOWAS	Economic Community of West African States	OECD	Organization for Economic Co-operation and Development
EFCC	Economic and Financial Crimes Commission	OFID	Other Financial Institutions Department of the CBN
FATF	Financial Action Task Force	ONS	Office of National Statistics
FDI	Foreign Direct Investment	OPEC	Organization of Petroleum Exporting Countries
FFT	Formal Funds Transfer	PEP	Politically Exposed Person
FSA	Financial Services Authority	PTA	Personal Travel Allowance
FX	Foreign Exchange	RCP	Remittance Country Partnership
		RSP	Remittance Service Provider
HMCE	Her Majesty's Customs and Excise	SEPA	Single European Payments Area
HMRC	Her Majesty's Revenue and Customs	SSA	Sub-Saharan Africa
IADB	Inter-American Development Bank	STR	Suspicious Transaction Report

EXECUTIVE SUMMARY

This report describes how United Kingdom residents of Nigerian origin transfer remittances home and how the funds are distributed to their beneficiaries in Nigeria.

The review presents the remittance industry conditions existing in the UK-Nigeria remittance corridor at the origination and distribution stages of the transactions, and the intermediaries who facilitate the transfers. The report makes conclusions and compares these main findings with lessons from other corridors. It also suggests policy actions to promote formal transfers and potentially increase the integrity and efficiency of the remittance market in the UK and Nigeria.

To facilitate remittance flows and realize the development and poverty reduction potential in recipient countries, the World Bank is studying remittance systems around the world through the Bilateral Remittances Corridor Analysis (BRCA) initiative. This report is the first BRCA that studies flows from Europe to Sub-Saharan Africa (SSA). The report will feed into a forthcoming remittance corridor comparison across Regions that will identify common characteristics and lessons on how to encourage formal remittance flows in both sending and receiving countries, and promote integrity and transparency.

The UK is among the top 10 remittance-originating countries worldwide. In 2004 the officially recorded flow from the UK to developing countries was US\$4.42 billion. An estimated 10 percent–15 percent of these flows went to Nigeria. Nigerians have been migrating to the UK for over 50 years and have an established a highly educated migrant community with professional jobs that sends money home frequently. Yet, no specialized remittance products for this corridor have evolved besides the generic favored cash-to-cash money transfer operators (MTO) transfers and the expensive and lengthy account-to-account bank transfers.

Nigeria is the largest recipient of remittances in SSA. The country receives nearly 65 percent of officially recorded remittance flows to the region and 2 percent of global flows. The Central Bank of Nigeria (CBN) began collecting data on remittances in 2002. It reported approximately US\$2.26 billion in remittances for 2004. As is the case for other countries in the Region, underreporting of remittance flows to Nigeria is common because of data collection deficiencies and the prevalence of informal transfer mechanisms. The latter account for 50 percent of total flows to the country.

The UK-Nigeria Remittance Corridor has an equal dominance of formal and informal remittance intermediaries. Although several formal financial institutions for transferring money exist in the UK, several people choose to send money informally. The most common method is to give a person traveling to Nigeria cash to deliver to beneficiaries. Sometimes, remittances are in kind, for example, sending clothes or cars, or purchasing a phone card and sending the PIN by e-mail. In Nigeria, with over 3000 commercial bank branches, a dual financial environment comprising formal and informal service providers competes for clients. This environment exists due to Nigerians' distrust of the formal institutions, poor transport and communications infrastructure outside urban

areas, and an inefficient payment system in which over 90 percent of transactions are in cash.

Senders who choose the formal system use MTOs most frequently. In the UK, a sender can walk into an MTO outlet and initiate a transaction. In Nigeria, only banks have the license to disburse remittances. Therefore, MTOs in the UK must have a Nigerian bank agent to complete their transactions. The beneficiary picks up the transfer from the bank in Nigeria in foreign currency or Naira by showing identification and presenting a unique transaction code. A beneficiary who chooses to take the money in foreign currency usually changes it at a Bureau de Change (BDC). Often, if the beneficiary is in a rural area, money sent formally may require an informal component when it reaches Nigeria. In this case, when the money gets to Nigeria, a designated person picks it up and carries it via public transportation to the beneficiary.

Bank account holders often can transfer money to Nigeria through correspondent banks and SWIFT. UK banks are cautious about conducting transfers to Nigeria because of reputation risks associated with Nigeria's financial sector and their conservative approach to account-holder relationships. Financial crimes such as advance-fee-fraud and corruption by politically exposed persons are prevalent in Nigeria. Equally damaging was Nigeria's presence on the Financial Action Task Force's (FATF) list of countries with regimes weak in combating money laundering and financing terrorism. The country's inclusion on the list caused other countries to scrutinize transactions with Nigerian banks and created a perception of distrust of Nigerian financial institutions. Against this background, UK banks have been reluctant to engage in this remittance market by developing specific remittance products for formal transfers to Nigeria. UK banks have done so in other corridors, such as India.

Several issues deter a strong shift to formal transfers in the UK-Nigeria corridor. Data are deficient in the UK and in Nigeria on the size of remittances, cost structure of transfers, and beneficiaries' use of funds. This data is essential to make policies to increase the development impact of the flows, increase transparency, and develop new products that increase Nigerians' access to financial services. The UK's minimal MTO registration requirements make banks uncomfortable in maintaining accounts for them. The legal and regulatory framework in Nigeria restricts competition and the development of remittance infrastructure that leverages new technologies. The new anti-money laundering and combating the financing of terrorism (AML/CFT) regime presents an opportunity to reduce these negative perceptions.

More collaboration between the UK and Nigeria is necessary to develop the remittance market, encourage the use of formal channels, and enhance the development potential. Among its benefits, the remittance country partnership (RCP) between UK and Nigeria aims to reduce the cost of remittance transfers. The Nigerian government is engaging its diaspora to help grow the economy.

This report recommends that each government (1) focus on improving data collection at its end of the corridor and (2) do more research to provide its

policymakers and its private sector with accurate information. A revision of the regulatory and legal framework for remittances in Nigeria is necessary to stimulate competition, reduce costs, and extend distribution points to rural areas. Revisions could include prohibiting exclusive contracts between banks and individual MTOs, licensing BDCs to conduct money transfers, building the capacity of the postal service to conduct remittance business, and engaging the telecommunications sector in the industry.

I. AT THE FIRST MILE

This section synthesizes research findings on the origination of the remittance transactions in the UK based on, interviews with authorities, remittance industry players, Nigerian senders, and relevant literature. It discusses remittance transfers and migration, the Nigerian community and their remitting patterns, the main characteristics of the remittance service providers, circumstances that influence senders' choices, the legal and regulatory framework affecting remittance transfers, in particular the integrity and transparency of the flows, and the UK government's initiatives on remittances¹.

Remittances and Migration in the UK

Africa, Eastern Europe and South Asia are major regional destinations for UK remittances². In Africa, the majority of remittances from the UK go to Nigeria, Ghana, South Africa, Kenya and Somalia. In 2004, the estimated remittance outflow from the U.K. to developing countries was £2.3 billion³ or about US\$ 4.42 billion⁴. This represents an increase of about 77 percent since 2001⁵.

The United Kingdom: A Multicultural Nation

The UK is home to about 4.8 million foreign-born people of all ages and about 3.6 million are of a working age 25 - 49⁶. To be British in the present day implies a person who might have their origins in Africa, the Caribbean, China, India, Greece, Turkey, the UK, or anywhere else in the spectrum of nations⁷. Although different groups have been migrating to the U.K. for centuries, several recent migrants within the last 40 years still maintain close economic and social ties with their communities at home. The largest proportion of the migrant population is born in other countries within the European Union⁸ (23%), followed by those from the Indian sub-continent (20%) and Africa (19%) with relatively few coming from the Middle East (3%), Eastern Europe (3%), Australasia

¹ This section presents estimates from the World Bank, the U.K. Remittance Working Group, DFID, the IMF and public and private sector officials and remittance senders interviewed in the UK.

² DFID

³ UK Remittance Market Report, 2005 by UK Remittances Working Group and DFID estimates based on experience with the RCP discussions with central banks, and development activities.

⁴ Bank of England USD/GBP exchange rate for 12/31/2004 of 1.91990

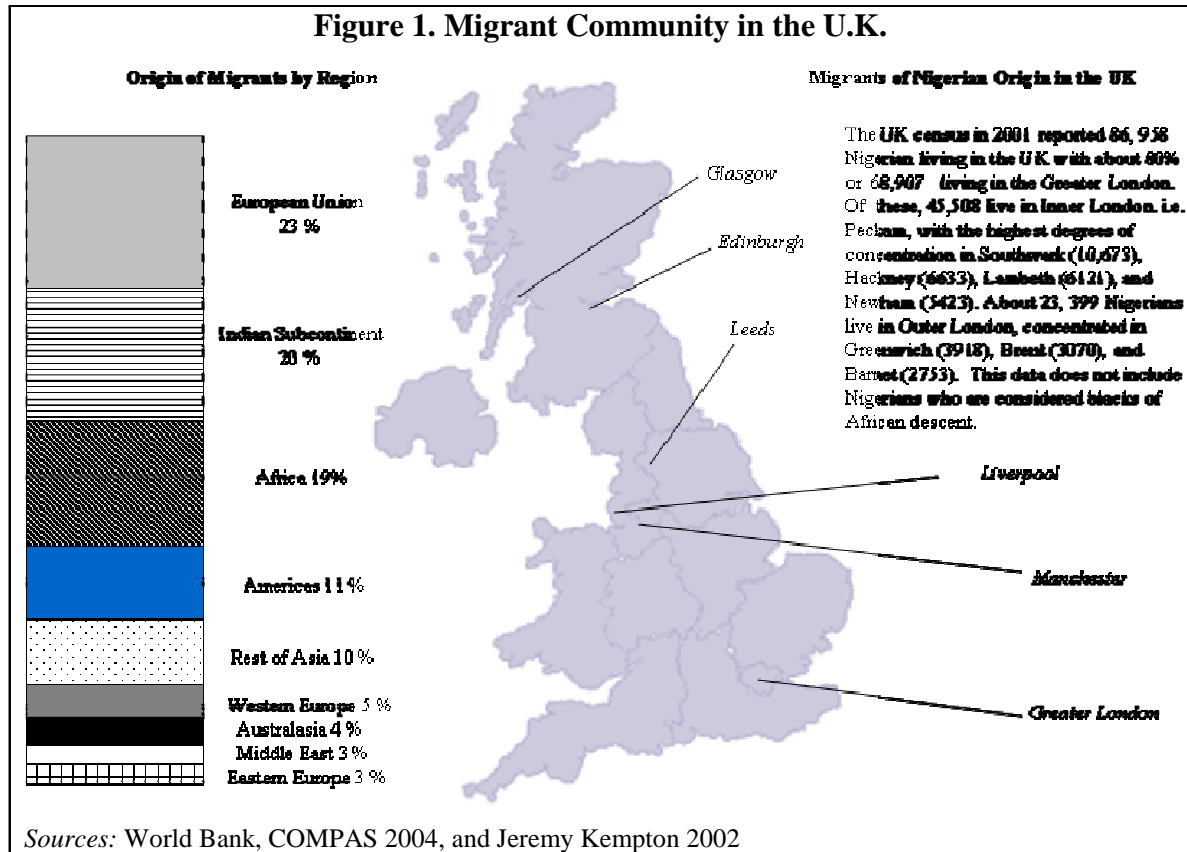
⁵ Global Development Finance 2003. According to World Bank estimates, in 2001, the U.K. ranked sixteenth out of the top 20 country sources of remittance payment worldwide with an estimated outflow of US \$ 1.3 billion

⁶ MIGRANTS IN THE UK: A descriptive analysis of their characteristics and labor market performance, based on the Labor Force Survey by Russel Haque, Department for Work & Pensions, December 2002. <http://www.dwp.gov.uk/publications/dwp/2003/migration-report/full-report.PDF>

⁷ Philips, Mike. BBC History. "Windrush – the Passengers." Accessed August 11 2005 at http://www.bbc.co.uk/history/society_culture/multicultural/windrush_01.shtml

⁸ The U.K. has been experiencing increasing migration from the new European Union, EU, countries. As of November 2004, almost 91,000 people from the eight states that joined the EU in May had registered to work in the UK, with Poland accounting for 48,500 of the applicants. The new states joining the EU are Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Estonia, Latvia, Lithuania, Cyprus and Malta. Management Issues News. www.managementissues.com/display_page.asp?section=research&id=1654 .

(4%) and others (1%)⁹. Half of those who are foreign-born are UK nationals, even though they were originally migrants.¹⁰ See Figure 1.



Nigerian Diaspora Community

There are about 90,000 Nigerians living in the UK who have established a significant migrant community, through several decades of migration, and send remittances home regularly¹¹. The majority of those recorded live in Greater London and of these, one half live in inner London¹². Research indicates that this figure may be higher and does not include the undocumented, and UK citizens of Nigerian descent. Nigerian remittance senders include those who are UK citizens, those who have a “right of abode” or permanent residence, those who are in the UK on a temporary status such as a student or work visa, those who have illegal status because their visas are expired and those who are undocumented. See Box 1.

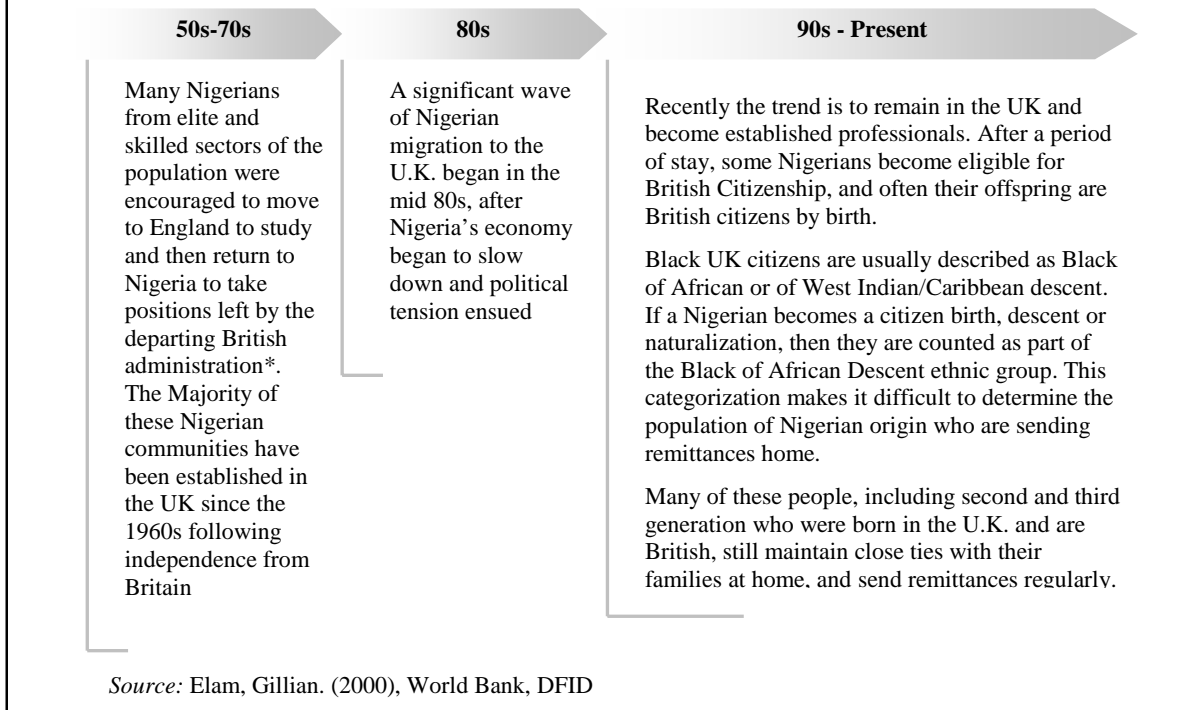
⁹ Jeremy Kempton, 2002. Migrants in the UK.

¹⁰ Jeremy Kempton, 2002. Migrants in the UK.

¹¹ COMPAS Report 2004: The contribution of UK-based Diasporas to development and poverty reduction. The exact figures from the UK census in 2001 is 86,958.

¹² Shah, Valsa. 2005.

Box 1. Nigerian Migration History



Ethnic, religious, and regional differences existing in the Nigerian community in the UK make this a very diverse group. Of the over 250¹³ distinct ethnic groups that make up Nigeria, two of the major ethnic groups, the Ibos from the Southeast and the Yoruba from the Southwest, constitute a significant number of the migrant population. Other ethnic communities include the Edo, and the Ogoni.

Remittance Patterns

The typical remitter is altruistic and sees remittances as a means of providing economic support to individual recipients at home. The migrants interviewed stressed the importance of being able to stay in touch with their families and improve the economic situation by sending remittances. The Nigerian culture in general requires the more fortunate family members to provide for the less fortunate, and that parents invest in their children, who will in turn take care of them in their old age. Since there are limited formal welfare systems in Nigeria, senders often feel obligated to provide for immediate family members, as well as extended family, friends and orphans.

It appears that the Nigerian migrants in the lower income brackets send money more frequently through migrants carrying cash and have more affiliations within

¹³The Economist Intelligence Unit, Country Profile Nigeria 2005.

the community¹⁴. The migrants involved in unskilled labor, often live with wealthier Nigerians, do not own houses and tend to send the bulk of their money home. Many in this group are women, who have left their families at home because of desperate economic reasons, and somehow have ended up in the UK and will send money home frequently at any cost.

Collective Remittances

In the UK, Hometown Associations (HTAs), Diaspora networks, and interest groups exist with the aim of influencing homeland politics, development of social projects in Africa and the professional development of the migrants in the U.K¹⁵. Nigerian HTAs have a strong presence in the UK as well as other Anglophone African countries, for example Ghana. These HTAs tend to be the most common means of sending collective remittances home to counterpart communities in Nigeria for development projects such as for scholarship funds and community projects. For instance, *Odoziobodo Club of Ogwashi-Ukwu*, based in London supports the development of *Ogwashiuku* town in Nigeria¹⁶.

Remittance Service Providers

In the UK, RSPs include banks, money transfer operators (MTOs), and informal providers. Formal money transfers occur through the MTOs' (cash-to-cash), the banks' bank-to-bank transfers (account-to-account), the postal service (cash-to-cash), the card value transfer, and informally mainly through people carrying cash.¹⁷ MTOs tend to offer lower rates than banks and target the regular and low value service customers while UK banks tend to market their remittance services to high value customers, who are account holders¹⁸.

MTOs have the largest market share for remittances originating through formal channels with Western Union as the biggest market player¹⁹. There are approximately 1,000 MTOs registered in the UK²⁰. The remittances sent via MTOs frequently arrive in less than 24 hours and some MTOs have the ability to transfer the remittances in as little as 15 minutes.

¹⁴ Based on World Bank interviews with the Nigerian Subcommittee on Migration and the Economic and Financial Crimes Commission – EFCC, Abuja, Nigeria, in March 2006. Subcommittee members met include representative from the Federal ministry of Labor and Productivity, Special Assistant to the president on Migration and Humanitarian Affairs, Special Assistant to the President (Human Trafficking and Child Labor), and the Director of Programs, Office of the Special Assistant to the President on (Migration and Humanitarian Affairs.)

¹⁵ COMPAS (Centre on Migration, Policy and Society). 2004:.

¹⁶ COMPAS (Centre on Migration, Policy and Society). 2004

¹⁷ When there is an emergency, formal channels such as MTOs and Banks are the preferred channels Christian burial rituals, as it is the case in other African countries,(i.e. South Africa), are often expensive and usually certain events that are communally organized require funding from Nigerians abroad. In Nigeria, it is common when a person dies the first question that asked is whether he or she has a child or relative abroad. This family member abroad is often required to send about US\$ 1,000 to US\$ 2,000 to help with funeral arrangements.

¹⁸ Sending Money Home 2005.

¹⁹ *Ibid.*

²⁰ According to the HMRC, the supervisory body for money services businesses in the UK.

U.K. Banks are cautious about participating in this corridor and developing remittance products for non-account holders. So far, none of them has developed any specific remittance products for Nigerian migrants who send money frequently, as is the case for other destinations, for example India. They offer generic products such as electronic payments via SWIFT, bank draft payments, and some offer an International Money Order (IMO) service in GB£ or US\$.

Circumstances that influence sender Choices

Convenience, favorable foreign exchange rates, residency status of the sender, use of formal financial services, and limited knowledge of available remittance options are the main circumstances affecting senders' choices. Senders consider MTOs and gradually Banks as the most reliable means of sending money home. Senders also perceive informal providers, such as migrants carrying cash, to offer security and ultimate sending and receiving convenience with no commission²¹.

Remittance channels that offer customers convenience receive more clientele. It is convenient to send cash through persons traveling home to Nigeria to deliver to family, friends and acquaintances. The sender enjoys a personal contact with the courier and does not need to go to a physical office of a bank or an MTO. The persons transporting cash do it as a favor, at no cost to the remitter. With a few exceptions, sending cash through this mechanism is reliable because both the senders and recipients know and trust the migrant carrying cash.

The residency status of the sender in the U.K. is a consideration when choosing a remittance channel. Undocumented residents may prefer to send money through the informal sector in order to have as little interaction as possible with formal institutions that require ID such as passports because they are afraid of disclosing their immigration status and possible deportation.

Main Findings in the First Mile

There is a need for new transfer mechanisms that target the demands of the Nigerian Diaspora

With over five decades of migration, there is an established and diverse Nigerian population in the UK of highly educated and professional people making them a potential consumer group for specialized remittance banking products. The characteristics of the Nigerian community would ideally correlate with a high preference for formal funds transfer systems, however this does not appear to be the case, as research indicates an equal prevalence of informal transfers. Nigerian migrants who do not have a legal immigration status and are have a lower level of education, than the vast majority, or who are not aware of the various remittance and banking products may have limited access to formal financial institutions.

²¹ Sending Money Home

An enabling regulatory environment for RSPs does not guarantee market participation in the remittance market

The legal and regulatory framework affecting remittance transactions in the UK does not inhibit market entry for new MTOs or limit the ability of Banks to develop new products. However, Nigeria's AML/CFT history creates higher scrutiny for transactions and deters banks' involvement in the remittance market. Therefore, fewer international banks are interested in developing specialized remittance products with Nigerian banks. It seems that the UK banks would like to see more stringent regulations for MTOs, a few of which they consider to be of high risk for ML and FT.

Development of remittance corridors towards higher formality requires governments' interventions through effective policies and bilateral initiatives.

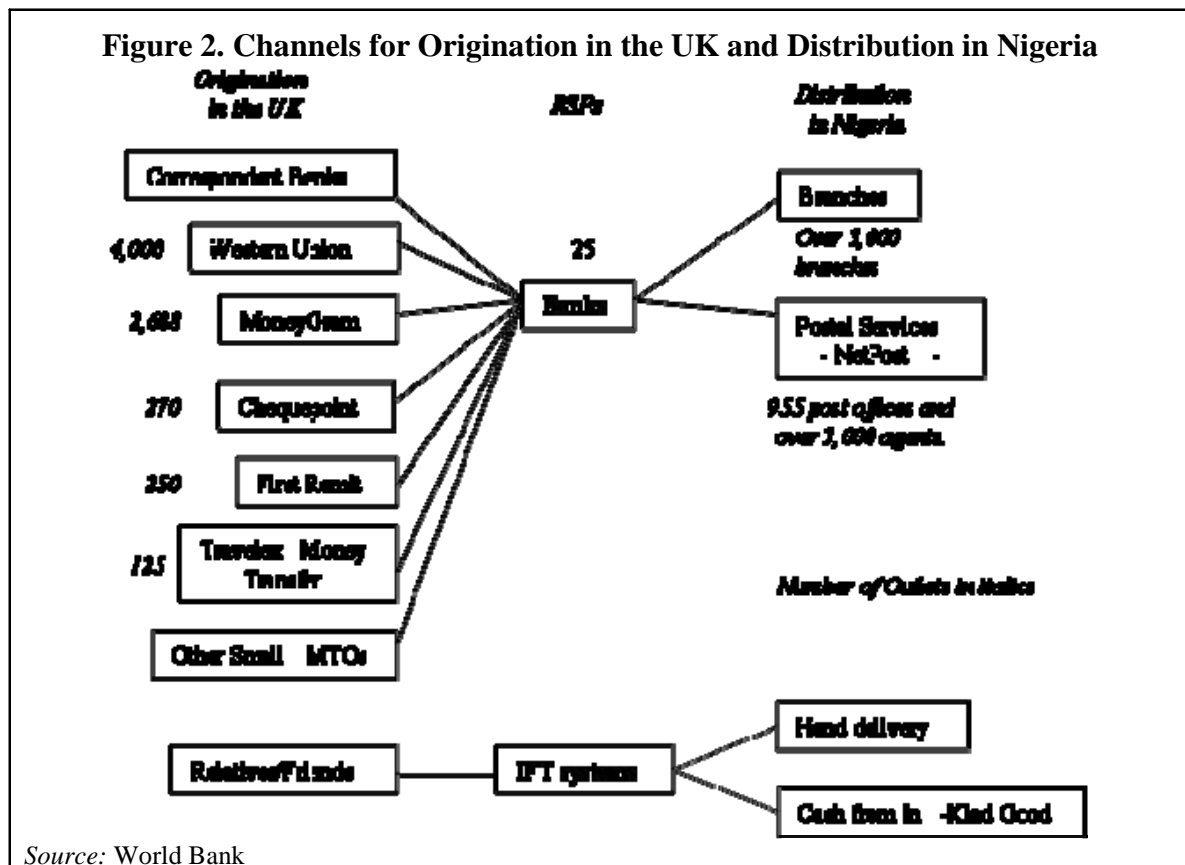
The UK government has taken positive steps to promote formal transfer mechanisms, reduce transaction costs and barriers to access for remittance senders. DFID is developing initiatives in partnership with the Nigerian government, to reduce the cost of remittances and enhance the impact of these flows in the lives of the recipients. The proposed remittance country partnership (RCP) between the U.K. and Nigeria could facilitate the introduction of more remittance products thereby increasing competition, improving transparency, influencing policy by addressing legal constraints to remittance flows between the UK and Nigeria, promoting the use of technology to develop innovative products, and building the capacity of the remittance receiving institutions in Nigeria. However, the success of these initiatives depends on the commitment of both governments to developing effective policies.

II. AT THE INTERMEDIARY STAGE

This section describes the current formal and informal payments infrastructure for remittances in the UK-Nigeria remittance corridor. It touches on key issues specific to this corridor such as the dominance of MTOs and banks with MTO arrangements, the cost structure of formal transfers, the presence of informal transfer intermediaries, and the potential for remittance products that leverage new technologies.

Remittance Transfers through Formal Intermediaries

MTOs and banks capture funds at the origination while banks with MTO partnerships dominate the distribution. Remitters prefer MTOs because of reliability, speed, accessibility, and a more flexible customer identification process²². MTO transfers take less than 24 hours, while corresponding bank transfers take between two and 10 days. Figure 2 describes the origination and distribution options available in the UK-Nigeria Corridor regardless of their settlement process.



²² As in most remittance transactions, when the remittance transaction is initiated the sender pays all fees charged by MTOs. In most instances, the applicable fees include transaction and exchange fees. The transaction fee charged to the customer is split with the bank agent in Nigeria and the potential exchange fee is where most of the profit is made by the MTOs.

Remittance Transfers through Informal Intermediaries

Informal intermediaries are prevalent in this corridor; the most common methods include people carrying cash, community or ethnic networks, trader networks, value transfers, and bus couriers. There is a tendency to use formal channels, such as Banks and MTOs, for emergencies.²³ IFTs that involve the physical transfer of cash on behalf of friends and relatives are usually free, serve a social function, and reliable.

Persons carrying cash

The most common method of transferring money is physical cash through friends and family or through persons known to friends and family. This method of sending money is usually free and depends on the trustworthiness, integrity, and reputation of the courier. This method is declining in some communities because of trust issues. Sometimes, senders express their gratitude through gifts like a shirt or a bottle of wine to the person carrying cash instead of paying a fee. The sender informs the recipient that money has been sent and provides the name and contact information of the traveler. The recipient contacts the traveler and collects the money.

Community networks

Some agents operating within communities bundle remittance payments together and send them to their corresponding agents in Nigeria who distribute them to the relevant beneficiaries. The precise nature of these networks has not been established; it is not known whether there is an arrangement whereby there is no physical movement of cash – and therefore includes an exchange facility, or whether the hard cash is physically taken back to Nigeria – like an informal courier service.

Trader networks

There is some degree of remittance inflows through trader networks – such as second hand car traders. Unlike Hundi or Hawala networks, this method does not appear to be “institutionalized”, and there is no data available to assess its significance or scale, the extent of their use, and if there are linkages to smuggling activity. Arguably, if there are significant inflows of cash through trader networks, or other informal money transfer networks this suggests that there must be corresponding outflows from Nigeria in order for these informal methods to function. Given that money outflows from Nigeria are legally restricted, this would strengthen the argument that businesses, investors, consumers and so forth would use informal methods to send out money.

Value Transfer

This is a system of settling accounts without the physical transfer of cash. This system is on the rise and involves a sender A in the UK, paying money to a contact in the UK, who informs a businessperson in Nigeria of the account credit, and the businessperson pays the beneficiary in Nigeria. The settlement of these accounts sometimes occurs through car dealers who import cars, sell them in Nigeria and repay the remittance to the businessperson at an agreed rate. This method proliferates mainly in the Italy - Nigeria remittance corridor where the presence of undocumented Nigerian immigrants is increasing rapidly.

²³ BRCA Team interviews with EFCC Nigeria, March 2006.

Bus courier

Local bus couriers play a role in the distribution of international funds. Research conducted, in Lagos, shows that this is a common method to transfer money if individuals cannot travel to and from the large cities to collect the money. The initial recipient of the international remittance can visit an interstate bus terminus in Lagos and pay a fee to send an envelope of money to a bus terminal in another state. The sender writes the name of the final recipient, and the required delivery information, on the envelope. In order to collect the money the recipient must visit the bus station and provide a means of identification.

Market opportunity for new technologies

There is a potential to increase distribution and reduce transfer costs in the corridor by developing telecommunications networks to connect more recipients to formal financial systems. In most remittance recipient countries, including Nigeria, a lack of good roads, unreliable energy sources and political issues have prevented the wiring necessary for services like electricity and telephone landlines; however new technologies are allowing many places to bypass their poor infrastructure and access modern conveniences²⁴.

Main Findings in the Intermediary

Informal and formal transfer mechanisms coexist mainly due to a dual financial environment.

The UK-Nigeria Remittance Corridor is a *dual financial environment*, with equal dominance of formal and informal service providers. Although formal remittance options and products exist through banks with wide networks and MTOs, as much money travels through informal channels as formal channels to Nigeria. Informal mechanisms are prevalent, mainly through travelers that carry cash on behalf of others to Nigeria and distribute it to the beneficiaries. Sometimes money transferred formally using an MTO or bank requires an informal component when it gets to Nigeria whereby the money first goes to someone in a big city who then hand carriers it using public transportation to the final recipient.

There are limited remittance products besides cash-to-cash transfers.

Banks in the UK do not seem to have an interest in developing new remittance products beyond their traditional account holder relationships. This could explain in part why migrants prefer informal transfer mechanisms. Exclusivity contracts, competition inhibited by distrust of Nigerian Banks by both senders and UK banks, the high costs of formal transfers in comparison to other corridors, lack of competition in the disbursement of remittances in Nigeria and payments system weaknesses in Nigeria contribute to the relative high cost of transfers in this corridor.

²⁴ Gwin, Peter. National Geographic Special Issue on Africa. 2005. "Making the Connection: The Jump from Wired to Wireless is Changing Africa". September. According to this article, 70 percent of Africa's phone subscribers are connected via cellular phones. Africans are turning to technology for more than just talk and many bank customers, for example in Nairobi, use cell phones to monitor their accounts via text messaging.

There is a strong potential for new technologies

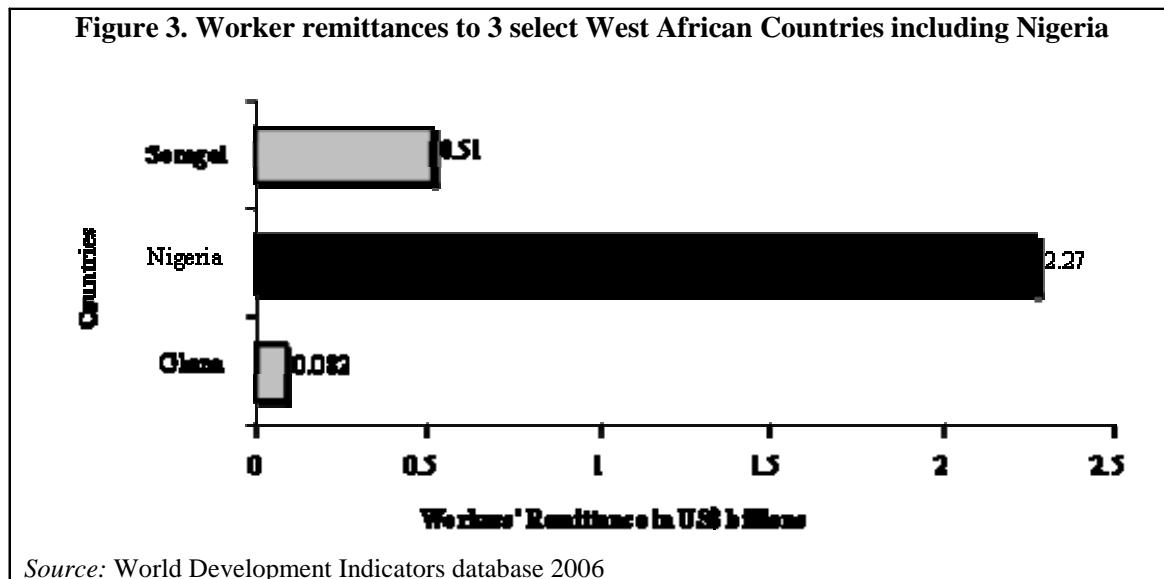
There is potential to develop new remittance products, in the Nigerian Market, linked to technology that could help overcome geographic barriers, connect more recipients to formal systems, and reduce costs. Products using new technologies could have cost-reducing potentials, if their design meets the needs of the senders and recipients in the corridor. There is a need for remittance product, targeted to Nigerian migrants, and linked to telecommunication devices such as mobile phones, that allow transmission of social information in addition to the service. In order to move to a situation in Nigeria, whereby mobile phone technology can be used to store and transfer value, regulatory infrastructure needs to be in place. The present regulatory environment creates additional costs for providers and subscribers, and impedes the development of the market.

III. AT THE LAST MILE

This section focuses on the issues affecting the distribution of remittances in Nigeria, based on interviews with authorities, remittance industry players, Nigerian remittance recipients, and relevant literature. It provides an overview of the significance of remittances for Nigeria, information on Nigerians living abroad and their beneficiaries, a description of the remittance market in Nigeria including informal operators, the regulatory framework affecting remittance transfers, and the Nigerian government initiatives affecting remittance flows.

Significance of Remittances for Nigeria

Nigeria is the largest recipient of remittances in Africa and the most populous country in the region²⁵. Estimates show that the country receives about 65 percent of total official remittance inflows within Sub-Saharan Africa (SSA) and 2 percent of formal global remittance flows²⁶. Although, an oil-producing country and a significant member of OPEC²⁷ the economic situation remains marked by high levels of poverty and disparity in income. As of 2001, about 70 percent of Nigerians were living below the international poverty line of US\$ 1 a day.²⁸ In the same year, Nigeria was ranked 18th among the top 25 remittance receiving countries in the world.



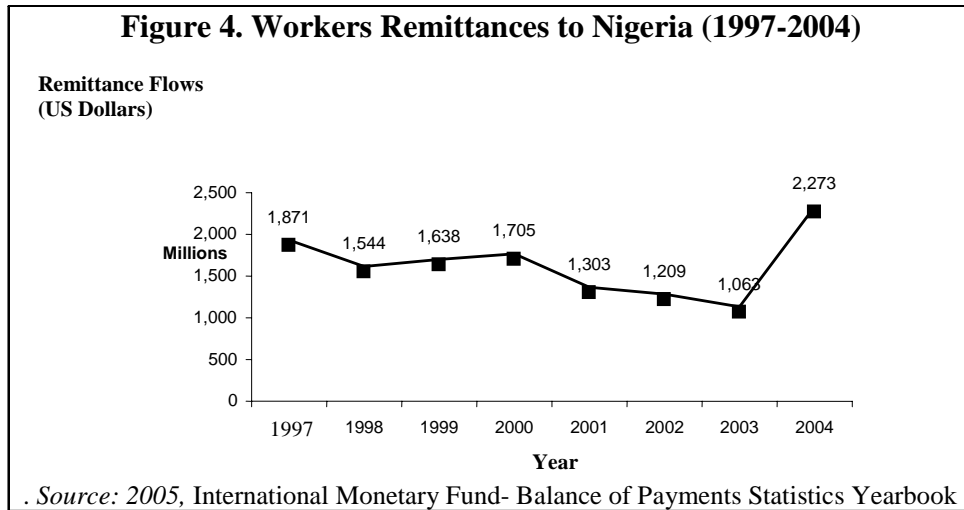
²⁵ Excludes North African countries namely Algeria, Djibouti, Egypt, Libya, Morocco, and Tunisia. Nigeria has over 130 million people.

²⁶ Orozco, Manuel. 2003. "Worker Remittances: An International Comparison". Project commissioned by the Multilateral Investment Fund of the Inter American Development Bank. February 28.

²⁷ OPEC – Organization of Petroleum Exporting Countries, an international organization made up of eleven oil-producing nations namely Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates (UAE), and Venezuela.

²⁸ UNDP2004. The dominance of the oil sector has led to a negative neglect of the agricultural sector in terms of policy resources resulting in declining productivity, growth and competitiveness and increased poverty. www.undp.org/ng/abnga1.htm.

In 2004, the Central Bank of Nigeria (CBN) reported about US \$2.26 billion in remittance inflows, which is equivalent to 3.15 percent of the GDP²⁹. Remittance flows have surpassed Overseas Development Aid (ODA) since 2002, when they accounted for about five times more its value of US\$ 271 million³⁰. Oil revenues continue to be the major source of financing to the economy accounting for US\$ 22 billion in 2003.³¹ In 2002, the CBN began collecting data from banks and MTO bank agents on remittances. The increased scrutiny and improved recording of remittances and the disbursement of remittances in foreign currency, thereby encouraging senders to use formal channels more, may explain the sharp increase of these flows observed in Figure 3.



Locations of Nigerians Abroad

Majority of the Nigerian migrants live in the US and a significant number live in the UK. These countries constitute the largest remittance sending countries to Nigeria with approximately 65 percent of total remittance flows³². Since Nigerians speak English, it is practical to migrate to English speaking countries like UK, US, and Canada. However, it is difficult to migrate to the UK or US if one is unskilled or not a student. New destination countries that are not English speaking are becoming attractive, such as, Italy, Netherlands, Germany, Spain, and Greece. Remittances from South Africa to Nigeria are increasing because of a growing Nigerian expatriate community and a shift of migration flows from Europe, as it becomes a more difficult destination given tougher border controls. One challenge of tracking Nigerians in *Diaspora* is that sometimes, they are

²⁹ World Bank Development Indicators database, 2004. GDP was US \$ 72,105,349,000. IMF Balance payments Statistics data shows that the total inflow to Nigeria in 2004 was US \$ 2.273 billion.

³⁰ Shah, Valsa. 2005. DFID UK-Nigeria Remittance Country Partnership Scoping Mission Report. London, U.K. April.

³¹ CBN Annual Report 2003, the industrial sector comprises crude petroleum, mining and quarrying, and manufacturing.

³²World Bank BRCA Team interviews with remittance recipients, MTOs, banks and authorities in Nigeria, May 2005.

afraid to identify themselves with foreign missions because they may have undocumented immigration status.

Most remittances to Nigeria originate in the US where an estimated 5 million Nigerians live³³. Transaction flows from the US tend to follow population patterns, therefore highest volumes of U.S. transactions to Nigeria likely come from the highest Nigerian populated states -- Texas, New York, New Jersey, Maryland, California, Georgia and Illinois³⁴. The US issues about 6,000 green cards to Nigerians each year, and each green card holder tends to migrate with about three dependants and the UK issues about 26,000 visas annually to Nigerians³⁵. About 50 percent of these Nigerians do not return to Nigeria³⁶. In the case of Nigerians in the UK, there are about 500,000 with dual citizenship³⁷.

Table 1. Breakdown of Home Remittances through MTOs by Country of Origin, 2002-2004

US\$ Millions						
Country	2002		2003		2004	
		%		%		%
USA	233	52.8%	331	54.1%	462	54.8%
UK	29	6.6%	45	7.4%	83	9.8%
Germany	17	3.9%	25	4.1%	32	3.8%
Canada	14	3.2%	18	2.9%	26	3.1%
Others	147	33.3%	192	31.4%	240	28.5%
Total	441	100.0%	612	100.0%	843	100.0%

Source: CBN Research and Statistics Department, 2006.

Remittance Beneficiaries

The main destination of remittances to Nigeria is Lagos, which receives about 60 percent of the flows, followed by Abuja, which receives 15 percent. However, they are not necessarily the final destination of the funds. It is common for beneficiaries from smaller towns to come to large cities to collect remittances because of the more favorable exchange rates³⁸.

Recipients of remittances in Nigeria are located predominantly in the southeast and southwest regions. It seems that there is a link between regions and ethnic groups with senders in sending countries. For example, the Ibo from the southeast and the Yoruba

³³ Interviews with major MTO bank agent in Nigeria, data based on market survey March 2006.

³⁴ Western Union.

³⁵ Interviews with major MTO bank agent in Nigeria, data based on market survey March 2006.

³⁶ World Bank interviews with major MTO bank agent in Nigeria, data based on market survey March 2006.

³⁷ They tend to remit about £5,000 two to three times a year

³⁸ BRCA Team Interview with Specifiq Resources Limited, Licensed BDC and CBN authorities. Abuja, May 2005

from the southwest constitute the ethnic groups that migrated heavily to the UK. Other significant destinations are Benin City, Ikeja, Enugu, Ibadan, Owerri, Warri, Port Harcourt, Kanu, Kaduna and Abuja.

For some senders, their initial remittances are loan repayments to beneficiaries. It is expensive for some people to migrate and often relatives put together a pool of money to fund their travel and initial living expenses. The migrant after settling in the new country repays the money to his relatives. The interviews with recipients revealed that for many Nigerians in the Diaspora, remittances are a means of paying back the family members who supported their travel abroad in cash and kind. After settling in the new country, some migrant workers become economically successful, and use remittances as a means to extend the success to their families at home. See Box 2.

Box 2. Common Uses of Remittances in Nigeria

Family up keeping and social security: Money is sent back to Nigeria to cover subsistence expenses such as food, clothing, and medicine. In addition, money is also sent to help elderly and disabled persons. There is no national welfare system so often senior citizens, disabled persons, and orphans have to depend on the generosity of relatives, communities or charities.

Financing Education: Research indicates that schools fees are closely associated with remittances. Many people interviewed, in both the UK and Nigeria, specified school fees for secondary school and university education as a major use of remittances.

Return on Family Investments: Many Nigerians living abroad are obligated to send remittances when they come of age and begin earning money. Research indicates that as many as 5 – 20 individuals or family members, and sometimes a community can pool their money together to sponsor a selected individual to travel abroad. The individual is selected based on academic or entrepreneurial ability. The people that provide the funding for the individual to travel view it as an investment and the remittances as a form of pay back or return on investment.

Special Occasions: Since some occasions require a large money outflow they are often associated with remittances. In particular, money is sent to Nigeria to pay for funerals, weddings and holidays (Christmas and Hajj). Funerals are very important and elaborate events to Nigerians and if a person, dies overseas it is often requested that he be buried in Nigeria, which increases the funeral costs.

Business Development and Sustainability: Remittances are also sent finance a new business venture, or sustain an existing business. Examples of small businesses financed with remittances include sole proprietorships such as MTN kiosks, which sell phone cards and in some instances, allow customers to purchase airtime and place a call in the kiosk. Other small businesses developed and sustained by remittances include farms, animal husbandry, fisheries, motorcycle transportation, trading in textiles and second hand clothing, and video stores for local films.

Source: World Bank BRCA Team Interviews in Abuja and Lagos, Nigeria, May 2005.

Key Findings in the Last Mile

The regulatory framework for the disbursement of remittances encourages formal transfers but hinders competition.

The legal and regulatory framework on the distribution of remittances has encouraged patronage of formal systems. The recent step to allow foreign currency remittance receipts and conversion at the BDCs has generally been believed to have eliminated an

important incentive to informal transfers however, competition and innovation in the provision of remittance services are unduly constrained by restricting distribution of formal remittances to banks with MTO agreements. Customer protection is available for individuals who send and receive money through formal institutions, and transparency is increasing because of new AML/CFT legislation.

Availability of formal financial institutions does not guarantee a shift to formal systems.

Nigeria has over 3,000 commercial bank branches with networks extending to all 36 states including the capital however, a dual financial environment, comprising formal and informal entities and institutions that compete for clients, persists. Many Nigerians do not use financial services because of widespread lack of confidence in the system by potential clients, weaknesses in the transport and communications infrastructure outside the urban centers, and an inefficient payments system. Confidence in banking services is low because of long procedures, complicated forms, and past negative experiences with banks. Nigerians in general prefer to carry cash even for business transactions and many feel that there is need for financial sector reform to create incentives, to encourage the average Nigerian to embrace formal institutions, such as faster service and diverse financial products.

Nigeria's past presence on the FATF NCCT list contributes to a negative perception, of Nigerian banks, by international financial institutions. This perception makes it difficult to develop new remittance products and services, in the UK, that could reduce the use of IFTs. In Nigeria, this affects the country's ability to form corresponding relationships, with some international bank, that would facilitate more remittance flows through banks.

Improving recording of remittances flows by adopting new definitions

There is need for additional data and analysis on the income level, and other attributes of remittance recipients and what impact remittances may be having on levels of living, consumption and investment. The role of the informal sector in remittance delivery and the use of remittance, receipts is another area that requires more study.

MAP OF FORMAL FLOWS IN THE U.K. - NIGERIA CORRIDOR AND CURRENT AND POTENTIAL NETWORKS FOR DISTRIBUTION IN NIGERIA.

In 2004, 10 percent of the official recorded flows to Nigeria through MTOs originated from the U.K. and more than half of the remittances originated in the U.S. The arrows on the map show the major remittance receiving cities in Nigeria namely Lagos, Abuja, Benin City, Onitsha, Owerri, Enugu, and Port Harcourt.

Remittance flows in this corridor follow migration routes, as one can see the major receiving cities are in the Southwest, Southeast, and South-South geopolitical zones of Nigeria, which happen to be the source of the Diaspora in the UK.

Banks are the only institutions authorized to pay remittances in Nigeria, however, the post office has an extensive network that is currently underutilized for distributing remittances. Flows to Abuja can be explained by the presence of Southwest, Southeast, and South-South indigenes that receive funds from relatives abroad.