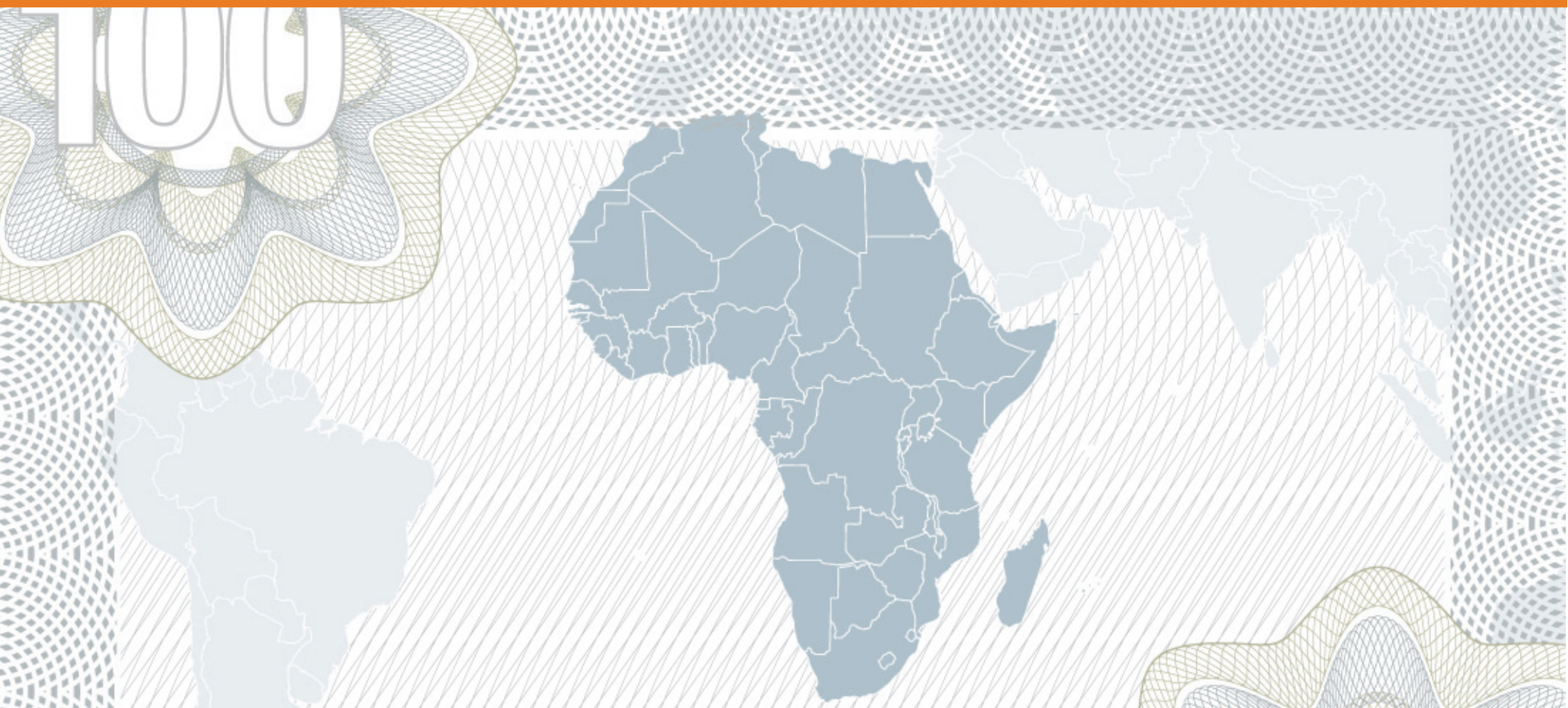




Enabling poor rural people
to overcome poverty

Sending Money Home to Africa

Remittance markets, enabling environment and prospects



Introduction

For centuries people have crossed borders seeking better opportunities for themselves and their families. Ever-improving transportation and communications technologies have accelerated this phenomenon, making it easier and less costly for people to migrate, communicate and send money home.

The African diaspora currently consists of more than 30 million individuals living outside their countries of origin. IFAD estimates that these migrants jointly contribute about US\$40 billion in remittances to their families and communities back home every year. Particularly in these times of financial turmoil, workers' remittances are being recognized for their contribution to the economic health of the region's nations, as well as for their vital importance to recipient families.

For the region as a whole, remittances far exceed official development assistance, and for many countries they exceed foreign direct investment as well.¹ With investment and aid flows heavily under pressure as a result of the financial crisis, remittances remain a resilient and vital lifeline for tens of millions of African families. Nevertheless, despite the significant direct impact of remittances on the lives of recipients, these flows are not yet reaching their full development potential.

This report outlines the main results of a study of regulatory issues and market competition in 50 African countries representing 90 per cent of remittance flows to the region. Additionally, the report highlights the results of a survey of people within the geographical reach of microfinance institutions (MFIs) that are members of the International Network of Alternative Financial Institutions (INAFI) in 19 countries.²

High cost of African remittances

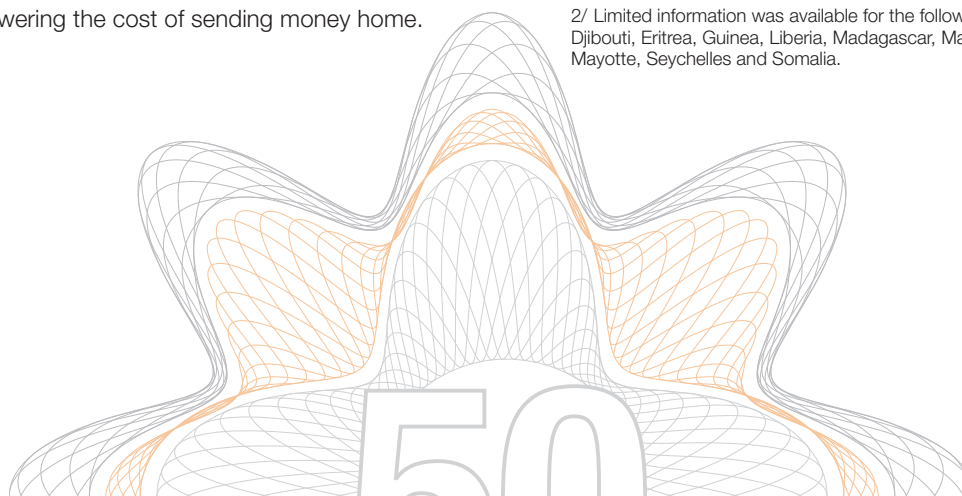
Over the past decade, the importance of remittance flows to developing countries has received widespread attention from the media, governments, development agencies and the private sector. This attention, and especially the quantification of remittance flows, has encouraged greater competition and the adoption of new technologies. Together these factors have contributed to sharply lowering the cost of sending money home.

The cost of sending money to Africa, however, remains relatively high and subject to wide variations. Transfer costs from the United States are generally among the lowest, followed by transfer costs from Europe. The cost of sending remittances within the continent is far higher, as illustrated graph on the opposite page. The graph shows that the cost of sending remittances from South Africa to other African countries is generally higher than sending money to Africa from abroad. These costs range from 12 to as high as 25 per cent of the amount sent.

Remittances are particularly relevant – and particularly expensive – to Africa's underserved rural areas, which receive an estimated 30-40 per cent of all flows. Often these remittances are picked up far from home, and families must add substantial travel costs and time to the already high transfer fees.

1/ According to the OECD, *Development aid at its highest level ever in 2008* (2009), official development assistance is estimated to have been US\$26 billion in 2008.

2/ Limited information was available for the following countries: Djibouti, Eritrea, Guinea, Liberia, Madagascar, Mauritania, Mauritius, Mayotte, Seychelles and Somalia.



Leveraging development impact: providing more options for African families

The majority of remittances to Africa are used to purchase daily necessities. Yet a significant amount is available for savings or investment (around US\$5-10 billion).³ This study reports that remittance recipients do save, but often do not use the formal channels. Bringing these funds into the formal financial system can increase their impact dramatically.

The rapid rise of MFIs is a powerful testimony to the ability of the underserved to mobilize their resources in a way that stimulates local development. When remittances are deposited at a financial institution, they can benefit both the individual and the community. With better financial education and a broader range of financial services to choose from, remittance recipients are empowered to make the financial choices that can advance them towards financial independence. The ability to expand these kinds of services, however, depends on institutions' capacity, their willingness to offer services to people with a low income, and on a regulatory framework that encourages them to do so.

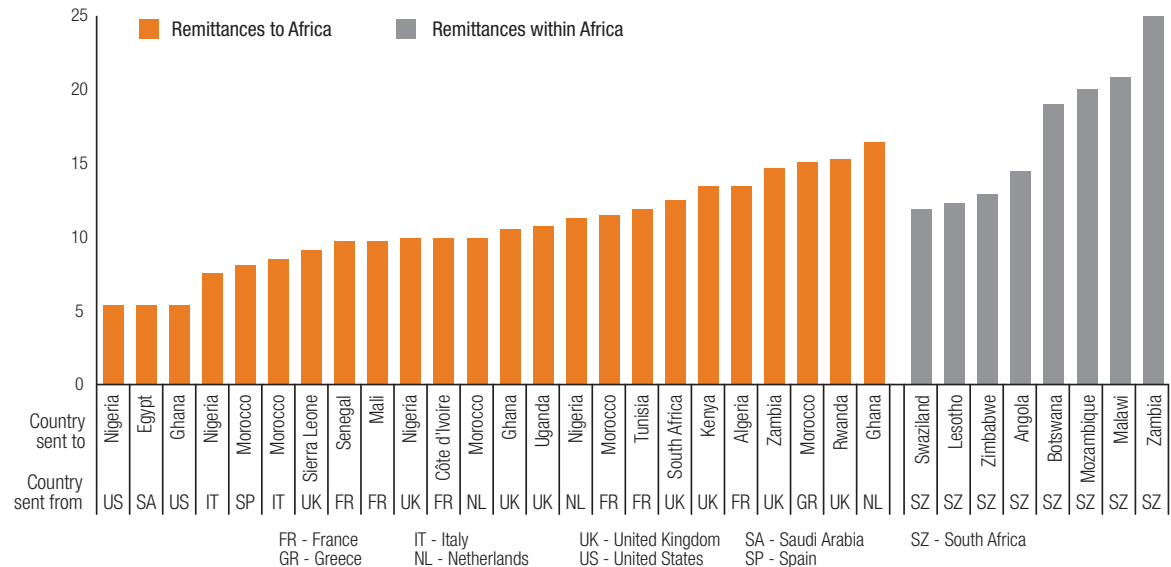
Where we are today: findings and implications

In general, less is known about remittances to Africa than any other developing region of the world. Specifically, the rules and regulations that govern the inflow of remittances, the competitive environment within countries (particularly in rural areas), and the role of non-bank financial institutions as both potential market players and conduits for financial access, have received insufficient attention.

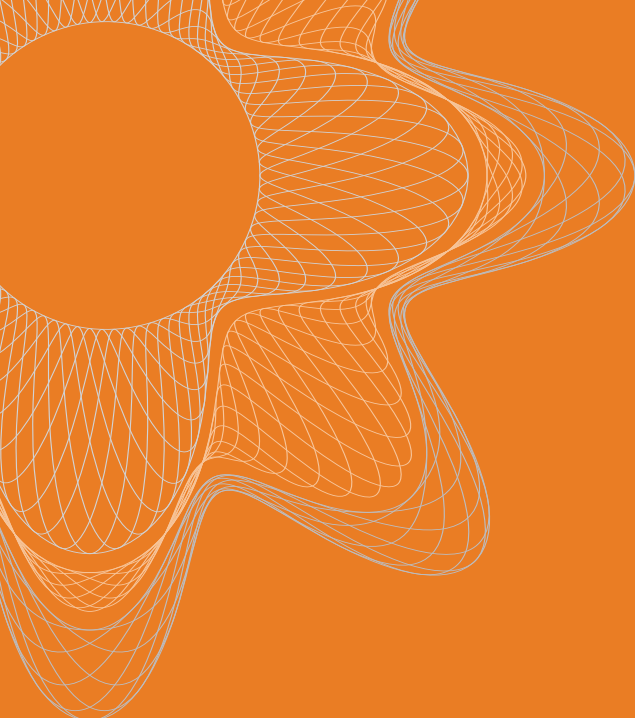
For this reason, the study was commissioned to cover three specific topics: market competition, regulatory environment and financial access. These topics directly impact the ability to reduce remittance costs to Africa and the potential of these transfers to spur development.

^{3/} Survey results show that at least 10-20 per cent of the US\$40 billion remittance flow to Africa is saved or invested.

The cost of sending remittances to, and within Africa



Source: World Bank



Acknowledgements

This report is based on the results of a study commissioned by IFAD and carried out by Manuel Orozco of the Inter-American Dialogue. Contributions in support of this study were made by members of the IFAD Financing Facility for Remittances, composed of the Consultative Group to Assist the Poor, the European Commission, the governments of Luxembourg and Spain, the Multilateral Investment Fund of the Inter-American Development Bank, and the United Nations Capital Development Fund.

The accuracy of the methodology and data used in this report is the sole responsibility of Manuel Orozco of the Inter-American Dialogue. Details can be viewed at www.ifad.org.

Concepts and definitions⁴

Agent: An entity that captures or disburses remittance transfers on behalf of a remittance service provider.

Banking institution: A financial institution holding a bank licence.

Microfinance institution (MFI): An organization that provides microfinance services mainly, but not exclusively, to poor people. In practice, the meaning of MFI is further defined by each country's legislation. Recommendations in the report referring to MFIs apply to formal and semi-formal MFIs. Formal providers include legal organizations offering a number of financial services. Semi-formal providers, such as financial NGOs, village savings banks, credit unions and cooperatives, are registered entities subject to general and commercial laws, but not usually under bank regulation and supervision.

Money transfer operator (MTO): A non-deposit-taking payment service provider, whose service involves payment-per-transfer (or possibly payment for a set or series of transfers) by the sender to the payment service provider (e.g. by cash or bank transfer), as opposed to a situation in which the payment service provider debits an account held by the sender with the payment service provider.

Non-bank financial institution: A financial institution that does not have a full banking licence and/or is not directly supervised by a banking regulatory agency.

Payout network: Institutions that receive and transfer foreign currency locally.

Payout point: A physical location where an inbound foreign currency transfer is received and remittance recipients collect their money. The location can be a bank branch, a post office or a retail store.

Remittance service provider (RSP): An entity, operating as a business, that provides a remittance service for a fee to end users, either directly or through agents. Generally, an RSP makes use of agents, such as stores or banks, to collect the money to be sent. On the receiving side, the money is picked up by the recipient at a payment location such as a bank, post office, MFI or other location.

Rural presence: Refers to the extent of geographical coverage of a paying institution in a rural area.

Sub-agent: An institution representing, and relying on the licence of an agent (the principal), which has a direct contract to represent a remittance service provider in transferring foreign currency payments.

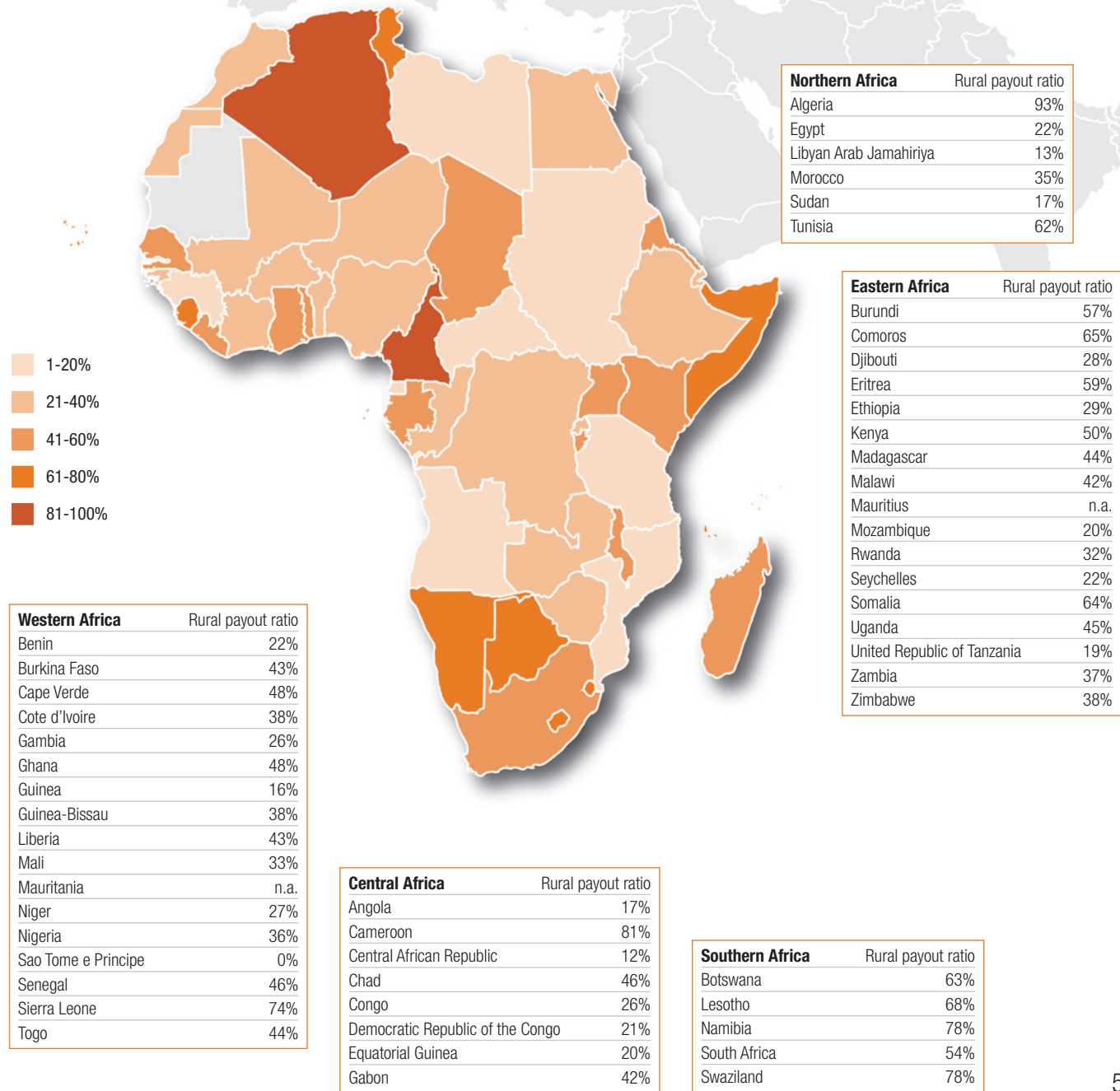
Urban: For this report, urban is defined as being located inside the city limits of the capital, or as a city with over 100,000 inhabitants.

4/ Based on the "General Principles for International Remittances Services" (www.bis.org/publ/cpss76.pdf), the Consultative Group to Assist the Poor (www.cgap.org/p/site/c/template.rc/1.26.1308/), and adapted by Manuel Orozco.

Concentration of remittance payout locations in rural areas

Major findings

- The African remittance market exhibits a low level of competition and has limited payout presence in rural areas.
- Two major money transfer companies control 65 per cent of all remittance payout locations.
- Effectively, 80 per cent of African countries restrict the type of institutions able to offer remittance services to banks.
- Exclusivity arrangements severely limit competition and create barriers to entry.
- More than 20 per cent of the people within the reach of MFIs receive remittances. Yet MFIs currently represent less than 3 per cent of remittance payers.
- Post offices could potentially play a significant role in expanding remittance services.



Africa's remittance market

The formal market for money transfers to Africa is relatively young and faces the challenges typical of emerging markets. These issues include uncertainty about the volume of remittances, limited competition, high transfer costs and a lack of technological innovation (with the notable exception of mobile banking in Kenya and South Africa).

A robustly competitive market is key to expanding financial access, because it drives market players to innovate and expand services to the underserved areas and groups. Competition drives technological innovation and reduces the cost of sending money home. As can be seen in the graph on page 3, these costs remain relatively high in Africa (especially within the continent) and are higher still in rural areas.

Most regulations in Africa permit only banks to pay remittances

Competitiveness is a function of regulatory environment, capacity and resources. In analyzing market competitiveness, critical issues to be assessed include the number and types of players, their operational efficiency and the range of services they can provide.

Remittance service providers for Africa: the rule of money transfer operators

Money transfer operators (MTOs) dominate the market for transfers from the United States and European migrant destinations. There are fewer than 100 MTOs operating in the entire African marketplace, together comprising almost 90 per cent of all remittance service providers (RSPs).

Of the MTOs, Western Union and MoneyGram are, by far, the most significant market players. As pioneers these companies were instrumental in creating the international network that has made remittance transfers possible. Both companies, however, have protected the returns on their initial investment by requiring that agents sign exclusivity agreements.⁵ These agreements effectively 'lock' more than half of all available payout locations. Because they apply to all agents – banks, foreign exchange bureaus and post offices, among others – an effective control of 65 per cent of the authorized payout market results. Entities wishing to partner with these companies have to sign exclusivity agreements. This prevents other competitors from expanding their network beyond institutions that are not agents of the two largest companies or are not in the market (this is the case with most MFIs).

The continuing dominance of Western Union and MoneyGram is not a result of exclusivity agreements alone, however. Among the institutions paying out remittances there is also a lack of knowledge of the money transfer market. Many African banks incorrectly perceive Western Union and MoneyGram to be the only companies offering international money transfer services. As a result, banks are prepared to sign exclusivity agreements in return for guaranteed volume. As competition increases and more actors enter the market, banks remain locked into exclusive agreements and become less competitive. At the same time, those living in the geographical area covered by these institutions remain subject to higher costs than the market would otherwise dictate.

Remittance-paying institutions in Africa

Most regulations in Africa permit only banks to pay remittances. In most countries, they constitute over 50 per cent of the businesses paying money transfers. About 41 per cent of payments and 65 per cent of all payout locations are serviced by banks in partnerships with Western Union and MoneyGram.⁶

^{5/} Exclusivity agreements prevent the agent paying out remittances from offering the same service on behalf of any other company.

^{6/} Excludes Algeria, where payments at post offices are especially significant.

A review of 463 banks in 39 countries shows that, while banks are active in rural areas, a gap remains between the share of branches in rural areas (64 per cent) and the share of the population living in these areas (83 per cent).

While non-bank RSPs play only a marginal role in most countries, there are alternative models that highlight the potential role of post offices, foreign exchange bureaus, retail stores and MFIs. Post offices, for example, constitute 95 per cent of the payers in Algeria, while MFIs constitute 29 per cent of the payers in the Central African Republic.

While post offices have a strong geographical presence they lack the capacity to pay remittances

Money transfers paid by post offices

In Africa as a whole, post offices do not yet play a significant role in transferring remittances. The notable exception is Algeria, where the postal system is engaged in a partnership with the French postal system. Algerians sending money home from France have adopted the use of post offices as one of their preferred methods of sending remittances.

While post offices have a strong geographical presence, they lack the capacity to pay remittances. Many cannot yet realize their full potential because they lack sufficient cash flow to pay transactions, effective communications infrastructure or properly trained staff. In total, about 20 per cent of all post offices in Africa currently pay remittances.

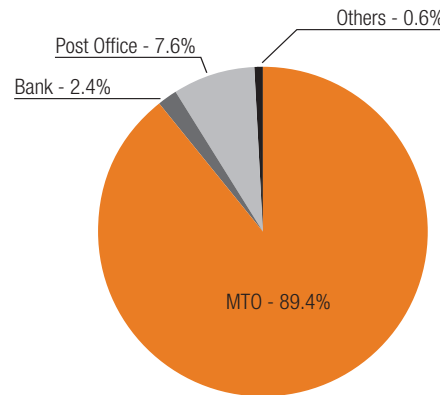
Post offices play a very significant role in rural areas: 74 per cent of all post office locations paying remittances are outside the capitals of their respective countries. The potential for increasing their market share is significant, especially in rural areas. There are also challenges, however, as 36 per cent of the post offices outside of Algeria are agents of Western Union and are bound by exclusivity agreements.

Money transfers paid by MFIs

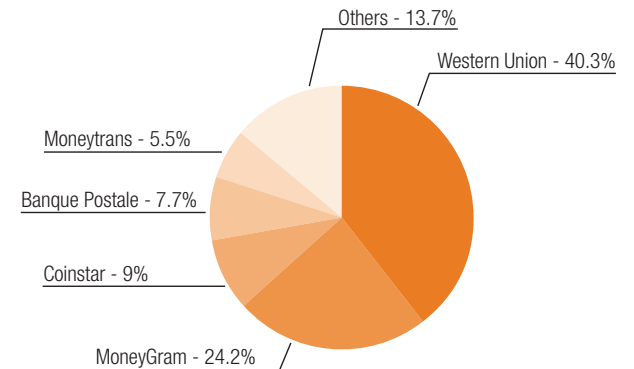
In places where other non-banking financial institutions are allowed to transfer remittances, the participation of MFIs remains relatively limited. For the continent as a whole, only 3 per cent of payout locations are MFIs. But, as the example of the Central African Republic shows, MFIs can play a much greater role.

The 3 per cent of MFIs paying remittances are managed by 72 institutions in 17 countries. Half of these MFIs are concentrated in three countries: Comoros (24 per cent), Senegal (17 per cent) and Uganda (14 per cent). Despite their limited presence, they exhibit almost as much payment capacity as banks, having an average of four payout points where banks have six on average.

Percentage of payout locations per type of RSP



Percentage of MTO payout locations per company



The main reason why participation of MFIs is so low is because regulations prevent them from entering the market. As a result, banks are able to position themselves as the only entities capable of handling foreign cash transfers. In countries where MFIs are not blocked by regulations, they often remain unaware that it is possible to participate in this market, or do not have the capacity to do so.

In countries where MFIs do pay remittances they often operate as sub-agents of banks (e.g. Uganda). This situation curtails their independence and limits the revenues they receive from the services they provide – this can equate to up to 50 per cent of what they would otherwise receive. In addition, their lack of presence in the market reduces competition.

MTO participation in the remittance market in Africa (%)

Country	Western Union	Money-Gram	Coinstar	Money Express	Express Funds International	Express Money Transfer	Trans-horn Money Trans	Money Transfer	Other
Algeria	20	1	0	0	0	0	0	0	79
Angola	30	65	0	0	0	0	0	0	5
Benin	64	5	2	18	0	0	11	0	0
Botswana	51	12	0	0	0	0	0	0	37
Burkina Faso	65	11	2	12	0	0	11	0	0
Burundi	85	3	3	0	0	0	10	0	0
Cameroon	41	22	12	14	0	0	11	0	0
Cape Verde	97	3	0	0	0	0	0	0	0
Central African Republic	96	4	0	0	0	0	0	0	0
Chad	59	23	3	15	0	0	0	0	0
Comoros	67	5	2	0	0	0	0	0	26
Congo	43	27	3	20	0	0	7	0	0
Cote d'Ivoire	39	10	28	0	0	0	12	0	12
Djibouti	67	6	17	0	0	0	0	0	11
Democratic Republic of the Congo	45	3	29	0	0	0	23	0	0
Egypt	30	58	0	0	0	0	0	0	12
Equatorial Guinea	80	0	20	0	0	0	0	0	0
Eritrea	7	10	0	0	0	0	0	7	76
Ethiopia	33	14	2	0	0	24	0	0	28
Gabon	97	3	0	0	0	0	0	0	0
Gambia	63	23	3	4	0	0	0	1	7
Ghana	39	24	4	0	11	0	0	1	20
Guinea	66	18	1	5	0	0	1	0	9
Guinea-Bissau	64	13	8	0	0	0	0	0	15
Kenya	33	10	34	0	0	0	0	1	22
Lesotho	0	12	0	0	0	0	0	0	88
Liberia	0	98	0	0	0	0	0	0	2
Libian Arab Jamahiriya	18	26	0	0	0	0	0	0	57
Madagascar	86	14	0	0	0	0	0	0	0
Malawi	43	38	5	0	0	0	0	0	14
Mali	77	14	1	3	0	0	5	0	0
Morocco	36	41	4	3	0	0	16	0	0
Mozambique	37	17	0	0	0	0	0	0	47
Namibia	0	23	0	0	0	0	0	0	77
Niger	63	12	0	13	0	0	1	0	11
Nigeria	47	35	17	0	0	0	0	1	0
Rwanda	79	3	0	0	0	0	18	0	0
Sao Tome e Principe	50	50	0	0	0	0	0	0	0
Senegal	38	9	21	15	0	0	17	0	0
Sierra Leone	32	36	1	0	0	0	4	6	21
Somalia	0	0	0	0	0	0	0	0	100
South Africa	1	99	0	0	0	0	0	0	0
Sudan	41	0	54	0	0	0	0	2	2
Swaziland	0	24	0	0	0	0	0	0	76
United Republic of Tanzania	44	9	0	0	0	0	0	0	47
Togo	50	7	1	26	0	0	16	0	0
Tunisia	69	31	0	0	0	0	0	0	0
Uganda	50	32	3	0	0	0	0	0	15
Zambia	39	61	0	0	0	0	0	0	0
Zimbabwe	52	44	4	0	0	0	0	0	0

Source: Data collected for this project

Inbound payment of remittances by institution (%)

Country	Bank	Forex	MFI	Other	Post	Retail
Algeria	23	0	0	1	40	36
Angola	100	0	0	0	0	0
Benin	26	0	0	8	54	11
Botswana	37	6	0	15	26	15
Burkina Faso	31	2	2	14	38	13
Burundi	68	0	21	11	0	0
Cameroon	30	5	15	48	3	0
Cape Verde	22	4	0	54	20	0
Central African Republic	70	0	20	0	0	10
Chad	53	0	0	47	0	0
Comoros	12	0	9	0	76	3
Congo	28	0	17	26	28	0
Cote d'Ivoire	18	26	4	10	39	3
Djibouti	23	0	0	23	46	8
Democratic Republic of the Congo	25	0	0	67	0	9
Egypt	76	0	0	24	0	0
Equatorial Guinea	75	0	0	13	13	0
Eritrea	42	58	0	0	0	0
Ethiopia	89	0	0	10	1	0
Gabon	21	10	0	10	59	0
Gambia	34	42	0	15	1	9
Ghana	90	0	3	0	6	0
Guinea	47	6	0	28	0	19
Guinea-Bissau	26	26	0	48	0	0
Kenya	67	0	2	5	25	0
Lesotho	100	0	0	0	0	0
Liberia	69	0	0	28	0	3
Libian Arab Jamahiriya	81	0	0	19	0	0
Madagascar	52	6	0	24	18	0
Malawi	70	10	0	15	0	6
Mali	59	0	17	15	9	0
Morocco	35	0	0	55	4	6
Mozambique	100	0	0	0	0	0
Namibia	96	2	0	1	0	0
Niger	33	0	6	18	28	14
Nigeria	81	0	0	2	2	15
Rwanda	63	0	24	9	4	0
Sao Tome e Principe	100	0	0	0	0	0
Senegal	13	0	9	26	53	0
Sierra Leone	62	20	0	16	0	3
Somalia	0	0	0	0	0	100
South Africa	100	0	0	0	0	0
Sudan	18	46	7	29	0	0
Swaziland	100	0	0	0	0	0
United Republic of Tanzania	65	0	0	10	25	0
Togo	23	0	14	25	38	0
Tunisia	78	0	0	8	14	0
Uganda	63	0	17	19	1	0
Zambia	84	0	0	5	11	0
Zimbabwe	53	0	0	19	28	0

Regulatory framework

Rules that pertain to cross-border payments and financial access cover five distinct regulatory issues:

- **Authorized paying institutions**
- **The role of non-bank financial institutions**
- **Limits on and requirements for money transfers**
- **Ownership of foreign currency accounts**
- **Anti-money laundering**

Regulations that restrict, limit or authorize institutions to carry out foreign currency transfers include those regulating foreign currency management and authorizing institutions to perform foreign currency transactions. The decision to allow a particular institution to perform international money transfers is instrumental to expanding financial access for remittance senders and recipients.

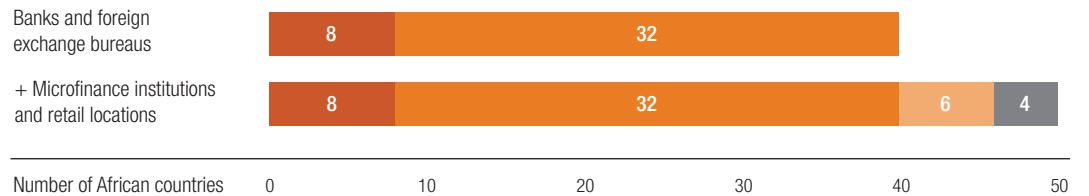
Authorized paying institutions

African countries primarily authorize banks, and secondarily foreign exchange bureaus, to perform international foreign currency payments. Of the 50 countries reviewed, eight authorize banks only, and 32 authorize banks and foreign exchange bureaus. Six countries allow banks, foreign exchange bureaus and MFIs to pay out directly, and four allow the above plus retail locations to pay remittances.⁷

For countries with a low number of banks, this restricts access to international payments and creates an incentive to use informal methods of money transfer. Currently, 80 per cent of the banks in 39 African countries pay remittances, but the percentage jumps to 90 per cent in countries where only banks are allowed to pay. This situation strongly discourages other market actors from entering the market. In countries where only banks are authorized to perform money transfers there are fewer places to withdraw remittances.

Market entry is complicated further when only a limited number of MTOs have effective control of the available bank agents paying remittances. In countries where only banks are authorized to pay remittances, half are agents of Western Union. The combination of exclusivity agreements and restrictive regulation leads to the concentration of payments in a few MTOs. A number of countries have banned such exclusivity agreements, including Nigeria.

Types of institutions permitted to pay out remittances in Africa



^{7/} In practice the participation of exchange bureaus is insignificant.

The role of non-bank financial institutions

Non-bank financial institutions such as credit unions or MFIs could potentially expand the reach of remittances and related services significantly. This is the case both in terms of geographical coverage and in terms of meeting the financial needs of the less wealthy client base.

Regulations covering microfinance activities vary widely across Africa, in part because of the fact that virtually no microfinance legislation existed prior to 2007. In some cases, the only clearly regulated MFIs are cooperatives or credit unions, and in almost half the countries no specific MFI legislation exists. Even while several countries allow MFIs to carry out money transfer services, these organizations are faced with legal and institutional challenges.

In countries where only banks are authorized to perform money transfers there are fewer places to withdraw remittances

According to the study, the Democratic Republic of Congo, Ghana and Kenya are the only countries in which MFIs are allowed to carry out international money transfers. Even in these countries, however, their participation is limited by a lack of technical capacity enabling them to function as payers. Most countries prohibit MFIs from making money transfers. These countries treat remittances as foreign exchange transactions, which are reserved for banks and foreign exchange bureaus. For example, MFIs in Uganda are not permitted to engage in electronic commerce of any kind.

Limits on and requirements for money transfers

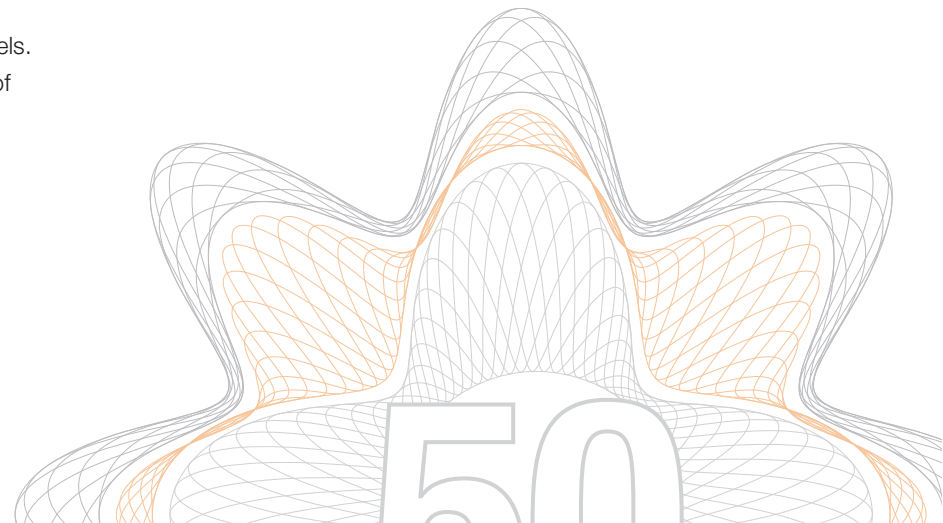
Regulations regarding limits on and requirements for the amount of money transferred are important in protecting against fraud and capital flight. States may choose to limit the amount of money a person (physical or juridical) can bring into or take out of a country. These regulations can, however, hinder migrants from investing in their home countries if they are overly restrictive.

Only Botswana, Burundi, Morocco and Tunisia limit inbound transfers, requiring amounts under US\$10,000 to be reported to government authorities through customs or banking channels. Additionally, a handful of countries require proof of a beneficiary for any amount of money transferred into the country.

Most countries covered in this report have liberal requirements for inbound transfers, but are more restrictive for outbound transfers. Because of the significance of intra-regional migration, restrictions on outbound money transfers create demand for the use of the informal sector.

While about half the countries have the same limits on and requirements for both inbound and outbound transfers, 23 countries require outbound amounts of less than US\$10,000 to be reported to the central bank. In more than half the African countries studied, proof of a beneficiary is also required to make an outbound transfer. In some more extreme cases, such as those of South Africa and Zimbabwe, money may only be transferred out to relatives whose need of the money has been proven to the central bank.

Countries with more restrictions on outbound payments often belong to monetary unions, such as the Central African Monetary Union (UMAC) and the West African Economic and Monetary Union (UEMOA), or have legislation dating from before 1998.



Ownership of foreign currency accounts

The ability of remittance recipients to own foreign currency accounts allows them to receive and maintain savings from remittances in a foreign currency. Nearly all countries studied have legislation pertaining to the maintenance of foreign currency accounts. These accounts are easiest to obtain for non-residents opening a business account, while residents seeking personal foreign currency accounts face considerably more obstacles.

Just under half the countries studied allow residents to open personal or business foreign currency accounts without restriction or permission from the central bank. Nine countries explicitly require residents to obtain permission from regulatory agencies prior to opening an account. The remaining countries do not allow residents to maintain such accounts for either personal or business use. Non-residents are allowed to open foreign currency accounts in all African countries, but require central bank approval to do so for personal use in Franc Zone, UMAC, and eleven other countries. Debits from such accounts are more restricted than credits to such accounts, for example through minor limitations on transfer destinations or proof of local payment being required if debited in local currency.

Anti-money laundering

In most African countries systematic anti-money laundering legislation was introduced around 2002 in response to increased international attention to countering terrorist financing in the wake of the attacks on the United States on September 11th, 2001. Legislation in most countries reflects efforts to comply with the “40 Recommendations” and subsequent “9 Special Recommendations” of the Financial Action Task Force on Money Laundering. However, accountability and compliance remain central issues that are difficult to assess based on current regulations. In the case of remittance transfers, compliance can be difficult to achieve in an equitable and effective manner, as compliance costs are high, especially relative to the sums transferred.

Meeting these legal requirements poses a challenge in opening the remittance marketplace to payers outside the traditional banking sector. Extra compliance staff, record-keeping costs and training of employees significantly increase the cost of doing business. Smaller, non-banking financial institutions generally lack this kind of capacity and the funds to develop it.

The Democratic Republic of Congo, Ghana and Kenya are the only countries in which MFIs are allowed to carry out international money transfers

Role of MFIs in remittance transfers and financial access

Financial access for remittance recipients includes access to both money transfers and related financial products such as savings, loans and insurance products – critical to defining the path out of poverty and towards financial independence. Financial access allows people and businesses to build assets and wealth in their communities and, through these, to maximize the development impact of remittances.

The role of MFIs is of particular interest, as these are present in more rural areas and specifically target market segments underserved by larger financial institutions.

Expanding the role of MFIs could yield great benefits. The study shows, however, that two potential key changes would need to be addressed:

- **First, regulatory frameworks need to be examined and streamlined to allow MFIs to play a greater role in money transfers and potentially in deposit-taking.**
- **Second, investments in the capacity of MFIs and their employees are needed to enhance their knowledge of new services, integrate new technology and ensure regulatory compliance.**

Savings

In Africa, a relatively low number of people save money in formal institutions when compared with other regions of the world. A survey was conducted among clients and potential clients within the geographical reach of predominantly rural MFIs. Questions were asked on a range of topics, including the nature of the demand for financial products, geographical location, whether respondents have relatives abroad and whether respondents receive money from them. The results highlight the extent of the relationship between remittances and financial access.

Almost a quarter of the respondents surveyed receive remittances. Recipients receive an average of about US\$650 annually, primarily through agents of the two major MTOs. Only 13 per cent of the respondents who were also MFI clients and 11 per cent of non-clients use formal savings accounts.

Remittance recipients have accumulated savings of US\$224 on average, more than twice that of non-recipients

However, MFI clients are more likely to receive remittances than non-clients and are also more likely to have some form of savings account. This is significant because it illustrates the link between remittance recipients and their use of financial services.

Increasing the use of formal savings accounts would allow funds to be used to the maximum benefit of both remittance recipients (interest earnings) and their communities (reinvestment through loans). The inclusion of MFIs among the kinds of institutions permitted to pay remittances can increase their lending base and, in turn, can help spur local development.

Remittance recipients have accumulated savings of US\$224 on average, more than twice that of non-recipients. MFI clients also have significantly higher savings than their non-client neighbours. People with a formal savings account also tend to have higher average amounts saved than those without such accounts. Fifty-two per cent of recipients save or invest in some way.

Profile of rural people within the reach of MFIs

In order to understand the unique role MFIs can play in offering financial services linked to remittances, and the business case for this link, it is essential to understand the potential market.

Remittance recipients have higher incomes

The average respondent is 36 years old and earns a monthly income of US\$191, with remittance recipients having an almost 26 per cent higher median income (US\$220) than non-recipients (US\$175). MFI clients have slightly higher monthly incomes than their non-client neighbours.

Gender differences in savings are most pronounced in Burundi, Egypt and Morocco, where men's savings far surpass those of women

The survey offers some interesting insights into the gender differences in savings patterns among those who receive remittances. Average monthly income excluding remittances is significantly higher for men (US\$195) than for women (US\$175). Interestingly, when the receiving of remittances is included, women have a slightly higher monthly income (US\$226) than male remittance recipients (US\$218). Among non-recipients, men have significantly higher monthly incomes (US\$195 versus US\$164 for women).

Remittance recipients save twice as much as non-recipients

While the average respondent has savings of US\$135, men have significantly higher savings (US\$155) than women (US\$112). Those receiving remittances also have significantly different savings habits, with savings of US\$224 compared to US\$109 for non-recipients. This is especially the case for women, where remittance recipients have 2.5 times the savings of non-recipients on average.

Gender differences in savings are most pronounced in Burundi, Egypt and Morocco, where men's savings far surpass those of women.

MFI clients are overwhelmingly small business people

Over one quarter of respondents identified themselves as business people, followed by occupations in sales and agriculture. Significantly higher levels of clients and remittance recipients are businessmen and women.

Characteristics of the population surveyed (%)

	Receives remittances		Does not receive remittances		Total
	Client	Non-client	Client	Non-client	
Sex					
Male	53	57	53	62	58
Female	47	43	46	38	42
Occupation					
Businessperson	43	25	35	20	27
Salesperson	15	12	16	17	16
Agricultural worker	9	11	15	15	13
Construction worker	5	6	7	10	8
Professional	7	12	6	7	8
Teacher	10	10	7	9	8
Unemployed	2	6	5	7	6
Retired	2	5	2	6	4
Homemaker	2	3	2	4	3
Student	3	7	2	5	4
Other	2	3	3	4	3

There is greater demand for business loans among women

Women showed greater interest in business loans than did men (20 versus 15 per cent) and are more likely to be business people (32 versus 24 per cent).

By comparison, men are more often agricultural workers (15 versus 11 per cent), construction workers (10 versus 5 per cent), professionals (9 versus 5 per cent), retired (6 versus 2 per cent), teachers and unemployed.

Ninety-three per cent of remittance-receiving MFI clients own a mobile phone

Remittance recipients own cell phones at a higher rate (88 per cent) than non-recipients (76 per cent); this difference is even greater between MFI clients and their neighbours. Mobile phone owners are likely to receive more remittances than those who do not own a mobile phone. This underlines the potential of mobile banking to reach out to remittance recipients in rural areas.

The percentage of men owning mobile phones is higher than that of women (82 versus 75 per cent).

Those who receive remittances spend more time in school

Remittance recipients have more years of schooling on average, with the majority of recipients having at least a high school education. The non-MFI client group has a larger share of college graduates than the client group.

Important gender differences exist in education, with a higher rate of women than men having had no formal schooling (13 versus 8 per cent). Moreover, male representation increases as the level of education increases. While higher shares of women than men have only had a primary education, the ratio is effectively equal at middle school, and by university significantly more men than women hold degrees (14 versus 10 per cent).

Gender, remittances and financial access

Respondents to the survey were 58 per cent male and 42 per cent female, with a slightly higher share of women receiving remittances (24 per cent) than men (22 per cent). Receiving remittances plays a particularly important role for women, in terms of both income and savings.

The average remittance received was higher for men than for women (US\$218 versus US\$195). In a number of countries, the amount of remittances received differs greatly by gender. In Chad, for instance, men receive average transfers of US\$164, while women receive US\$66. Zambia has the largest absolute difference, as men receive US\$758 per

transfer, while women receive US\$434. In addition, men are more likely to save than women (55 versus 52 per cent).

Few men and women in Africa participate in the financial system

In terms of financial access, both men and women show low participation in financial institutions. Remittance recipients, however, are more likely to have more savings and are more likely to have a relationship with a financial institution.

One indicator of the demand among clients for cross-selling of other financial services is the current use of loan products. The survey shows that remittance recipients and non-recipients alike have significant financial obligations in business, education and health. A particularly high share of MFI clients have small business loans.

Factors likely to increase the level of remittances include the amount of savings, the number of people in the household, ownership of a bank checking account and the receipt of remittances from countries within the European Union.

Variables that tend to decrease remittance levels are the holding of an extra job, ownership of a bank or a credit card and the desire to migrate.

Policy implications and recommendations

This report identifies a number of challenges, including:

- **Lack of accurate, timely information**
- **Regulatory framework restrictions**
- **Poor market competition**
- **Lack of payment points in rural areas**
- **Limited access to financial services among remittance recipients**

In light of these obstacles, this report advances several recommendations that can enhance financial access in Africa.

Improving information to improve policy decisions

As yet, relatively little is known about remittances to Africa. The key to both informed policy decisions and private-sector interest is the availability of timely, accurate information. As more information becomes available on a regular basis, governments, the private sector and the donor community are each better able to play their roles in maximizing the impact of remittances.

Pursue regulatory reform

Regulatory reform is central to leveraging the impact of remittances. There are a range of businesses that have the operational and financial capacity to conduct transfers, but that are not permitted to do so. When banks can perform transfers and MFIs can only act as sub-agents, both institutions suffer as they encounter barriers or lack incentives to enter the market.

Bank branch presence is limited or lacking in rural areas. However, MFIs are present in these areas and view the remittance recipients as a client base to which they can provide other financial services.

Allowing more actors to perform money transfers will expand the reach beyond banks and foreign exchange bureaus, allowing greater competition among RSPs. While there are eight banks on average in each African country, there are more than 15 MFIs, half of which are regulated, and at least three or four of which could compete as payers.

Africa has a very low number of payout locations. Mexico alone has almost as many payout locations as the entire African continent, despite having only one-tenth of Africa's population. Simply bringing MFIs into the market would double the number of payout locations.

In order to offer solutions that allow MFIs equal market access, it is important that governments provide basic benchmarks regarding their capacity to comply with the standard regulations on financial crime prevention, cash flow and liquidity to cover payments, technological innovation, trained staff, market presence and financial service cross-sale.

Phase-out exclusivity agreements

Contracts that prevent agents from forming partnerships with other providers block competitors from entering the market. Given the fact that 60 per cent of payers in Africa are banks, and that 80 per cent of banks are already paying remittances, the opportunities for RSPs to enter the African marketplace are restricted.

Mexico alone has almost as many payout locations as the entire African continent. Simply bringing MFIs into the market would double the number of payout locations

Often MTOs make ‘under-the-table’ agreements with banks in order to circumvent exclusivity, but this is clearly not a practical solution. Regulators should consider carefully whether market conditions warrant the existence of exclusivity agreements, or whether they can be phased out.

Encourage competition through foreign currency market promotion

Competition is enhanced through the dissemination of information and networking tools. Greater interaction among market players stimulates competition by making competitors aware of potential partners.

Information on market size and product possibilities highlights potential business opportunities that bring more players into the market. This in turn stimulates competition and helps reduce the costs of remitting. Transfer costs to Africa are among the highest, with their sources reflecting the limited participation of other competitors or the poor technology infrastructure used to execute money transfers. Addressing these issues through fostering greater competition will enhance the possibilities of affordable remittance transfer.

Strengthen the link between financial development and foreign currency payments

Providing other financial services to remittance recipients strengthens the link between remittances, finances and development. Technical assistance in product design, financial literacy, MFI training, and goals and benchmarks for financial access are essential.

Goals and benchmarks

Commitment to integrating migrants and their families into the financial system must be accompanied by specific goals and standards.

Establishing targeted goals for group access over a given period of time, and using that time to improve recipients’ understanding of financial preferences, can hasten financial inclusion. Players in the financial intermediation field should consider assisting banks and other financial institutions in increasing financial outreach and establishing standards.

Product design and marketing

Technical assistance to financial institutions in the design and marketing of new or existing financial products for remittance clients is a proven leveraging tool. Priorities must include learning which strategies have worked for other institutions, but also doing client field work to learn what financial preferences exist and where clients’ financial needs lie.

Several products have been developed and successfully introduced into the ‘remittance client’ market – for example, savings products, home improvement loans and insurance products. More nascent are remittance-backed financial products. Many institutions are considering continued remittance receipt as part of the demonstrated history of earnings used to assess and approve credit. At this point in time, most institutions lack a properly designed assessment method to estimate risk or opportunity costs. Designing a remittance-backed tool for credit or cash advances could bring benefits to recipients and institutions alike.

Marketing these products is central to a successful strategy of financial access. In many cases, marketing design includes tailoring material to reflect clients’ needs.

Technical training in money transfer and financial services

Another important factor in motivating banks and MFIs to enter the money transfer market is training in money-transfer service provision. Such training should focus on at least five components:

- **Trends and patterns in migration and remittances**
- **The regulatory environment and compliance**
- **Market participation and engagement with RSPs**
- **Financial service cross-sale**
- **Technological innovation adaptable to money transfer**

Financial literacy

Financial literacy projects have yielded important results in improving financial access globally. In Latin America and Eastern Europe, projects have shown that up to 80 per cent of those receiving financial education express interest in making use of financial services.

Few efforts have focused on educating remittance senders/recipients with the goal of expanding their knowledge of financial instruments.

There is a strong correlation between owning a savings account and financial education. The lessons learned from experiences in Latin American and Caribbean countries show that offering financial literacy training brings people into financial institutions and provides important payoffs, including building the deposits of the institution, increasing credits to the community and significantly raising revenue for the businesses performing the work.

Technological development

Financial access benefits from technological development, including the adoption of new hardware, the development of software platforms, and the adaptation and integration of existing technologies. In the case of remittances, the key to technological development lies in strengthening payment networks. The following three methods are useful:

- **Adopting innovative software platforms that allow financial institutions to pay in foreign currency**
- **Integrating advanced technologies such as card, internet or mobile-based transfers**
- **Expanding payment networks to small-scale merchants**

Methodology

This report presents the results of an analysis of the regulations governing money transfers, the extent of market competition and financial access. It is based on primary data collected on the laws, regulations and ordinances on foreign currency transfer and microfinance in 50 African countries.

Regulatory framework

The study involved collecting data on all licensed and authorized paying entities, covering RSPs, payers, paying location participation in areas outside the country capital, cost of remitting and type of institution paying transfers, among other variables. The dataset provides information about the level of competition, the extent of exclusive agreements between some money transfer operators and banking institutions and the presence of payout networks in rural Africa.

Surveys

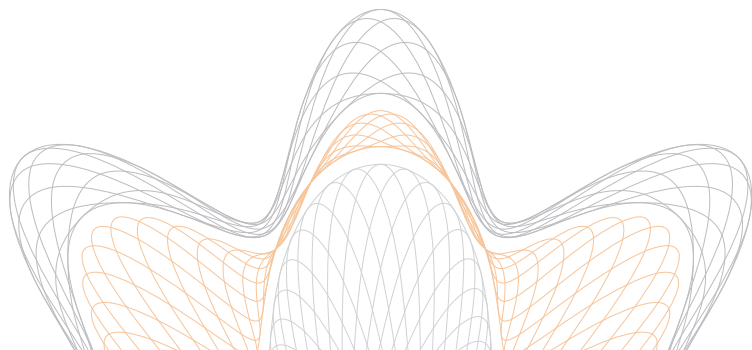
Surveys were carried out in 19 countries in collaboration with MFIs belonging to the INAFI network. Staff in each institution surveyed 200 clients and 400 neighbours within the geographical coverage of the MFI branches.

Lastly, one-on-one interviews were conducted with banks and MFIs in seven African countries included in the study.

Urban versus rural areas

Defining an 'urban area' in a way that aligns with available information on populations and payout locations is challenging. Population data are available for cities with more than 100,000 inhabitants in nearly every country. Additional data are available for many major cities on the size of the population in the city proper and the suburban fringe. Data on remittance payout locations, by contrast, are only available by the name of the city where the paying institution is located. Thus this report used the definition of urban to maximize allowance of the information available under both classifications: including cities of more than 100,000 people and limiting spatial boundaries to the city proper.

For further information regarding the methodology employed in this report, please visit www.ifad.org.



International Fund for Agricultural Development (IFAD)

IFAD is an international financial institution and a United Nations specialized agency dedicated to eradicating poverty and hunger in the rural areas of developing countries. Through low-interest loans and grants to governments, IFAD builds and finances poverty reduction programmes and projects in the world's poorest communities. Seventy-five per cent of the world's poorest people, almost one billion women, men and children, live in rural areas of developing countries and depend on agriculture and related activities for their survival. IFAD focuses on poor, marginalized and vulnerable rural people, enabling them to access the assets, services and opportunities they need to overcome poverty. IFAD works closely with governments, other United Nations agencies, donors, non-governmental organizations, community groups and rural poor people themselves.

For more information, please visit www.ifad.org

IFAD Financing Facility for Remittances

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For more information, please visit www.ifad.org/remittances



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