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Migrant Labor Remittances in Africa: Reducing Obstacles to Developmental Contributions

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Migrants have received heightened international recognition from the development community in recent times. New World Bank estimates on the volume of remittances show that documented remittance flows continue to increase at a rapid rate, putting global annual flows at US\$88 billion for 2002 (revised up from earlier estimates of US\$80 billion reported in the 2003 World Bank Global Development Report) and projecting \$90 billion for 2003, based on trends in the first half of the year. Actual figures are generally accepted to be much higher. This means that remittance flows constitute the largest source of financial flows to developing countries after Foreign Direct Investment (FDI), and indeed in many countries exceed FDI flows. They are also more stable than other capital flows such as FDI, ODA and capital market flows.

A recent World Bank study by Cerstin Sander and Samuel Maimbo examines how Africa has fared in this growing financial phenomenon. This preliminary study of migrant remittances in Africa is based on a review of widely dispersed data and documentation. Its purpose is to

stimulate and inform discussions of the role remittances play in African economies and to help stakeholders design appropriate policy interventions. By exploring the actual and potential links between remittances and development, the study identifies obstacles that limit the potential for greater contributions.

The study reports that Africa received some \$12 billion in officially recorded workers' remittances in 2002, about 15 percent of global remittance flows to developing countries in 2002. Split regionally, Sub-Saharan Africa received \$4 billion, or 5 percent of the global total, whereas the Middle East and North Africa together received \$14 billion (18 percent). North Africa alone accounted for about \$8 billion (10 percent). The authors make the following key observations:

Whereas remittances to developing countries have more than doubled over the last decade, remittances to Africa have grown little and, as a result, have declined in relative share. Total remittance receipts to Africa over the past decade peaked in 1992 (at \$10.7 billion) and were at their lowest in 2000 (\$7.8 billion).

For Sub-Saharan Africa, the share of global workers' remittances to developing countries dropped from some 8 percent in 1980 to 5 percent in 2002 (Ratha 2003; Gammeltoft 2002). This reflects the growth of flows to other regions rather than any absolute reduction in flows.

The strong and consistent flow of remittances to North Africa reflects patterns of migration to Europe and the Middle East. Most remittances to Africa over the past decade were received in North Africa (72 percent), followed by East Africa (13 percent), and Southern and West Africa (7 and 5 percent, respectively). Central Africa records less than one percentage point in remittances.

The most pronounced change in Sub-Saharan Africa over this period is that remittances to West Africa have decreased relative to total flows to the continent, whereas remittances to East Africa have increased. This change could be due partly to liberalization of the financial sector, as in Uganda; to increased refugee flows into East Africa; and to the expansion of money transfer operators in the East African market since the mid-1990s. Only a thorough analysis of changes in both regions—one that included unrecorded flows, changes in data-collection definitions, and changes in available services—could offer a persuasive interpretation.

No estimate of unrecorded flows (formal or informal) is available specifically for Africa. If one were to extrapolate from global estimates, total flows would be 2.5 times the official data. In Africa,

however, unrecorded flows appear to be exceptionally high, especially in certain countries. In Sudan, for example, informal remittances are estimated to account for 85 percent of total remittance receipts. Overall, the weakness or absence of financial systems on the continent and the high proportion of intraregional migration suggest that informal remittances are likely to be a substantial share of total remittances. What is certain is that the official figures grossly under-report remittance levels.

In analyzing these trends, the authors argue that throughout Africa, financial and monetary policies and regulations have created barriers to the flow of remittances and their effective investment. A few governments, recognizing the valuable contributions of remittances, have facilitated foreign exchange transactions or provided investment incentives such as matching grants. More could be done, however, especially in the context of the regulation of the financial industry. Restrictive licensing of money transfer services, for example, limits access to remittances and restricts the potential impact of remittances in many areas. Other regulations and policies create unattractive environments for investment and block improvements in financial services. Removing those obstacles—and broadening and adapting relevant financial products and services, such as savings and investment options—would boost remittance flows and raise their impact on development.

In reaching these conclusions, the authors acknowledge that the connections between financial service policies and the volume and channels of remittances are only partially understood. To date, those connections have been explored primarily in the context of foreign exchange controls, taxation, and state monopolies in financial services. Regulations directed at money transfer operators and transfer services in both sending and receiving countries have received scant attention, despite their clear impact on the availability and viability of services. The measures promoted by the Financial Action Task Force are one source of such regulations, as are conservative regulatory perspectives that tend to limit financial services to a very narrow band of providers (primarily banks), to the exclusion of newer models of non-bank financial services and innovations in service delivery.

To facilitate remittances and amplify their developmental effects by improving policy and regulatory environments, governments, the authors argue, need to consider reforms in the following areas:

- **Licensing** – Current licensing regulations for money transfer services center on foreign exchange trading. For smaller money transfer operators and informal services they often are opaque and hard to access; compliance may be unaffordable. To be in a better position to review and enhance the regulatory frameworks used in Africa, we must improve our under-

standing not only of African remittance markets, but also of the business models that make non-bank transfer services attractive to various client segments elsewhere in the world, and of how those models are licensed and regulated. A facilitative framework in which licensing requirements were adjusted to reflect actual needs for transparency and for managing foreign exchange exposure could greatly enhance the availability and outreach of basic financial services, including money transfers.

· **Regulation** – In the context of transfer fees there may be room for facilitative regulatory interventions. An in-network bank transfer within South Africa costs much less than the same in-network transfer across the border to Lesotho (Genesis 2003)—a situation common throughout Africa. Yet, except for foreign exchange gains and losses, the systems used and the costs incurred are the same. Could banking networks be persuaded to make their transfer fees “border blind”? A common currency simplifies the problem: in July 2003 fees dropped for Euro transfers within the European Union. The European model should be explored for markets such as West Africa, with the CFA, and for countries whose currency is pegged to the South African Rand.

· **Ancillary financial products** – Because money transfer is the pivotal service for remittances, ancillary financial services and products tend to be overlooked.

This is unfortunate, because related services and products, such as savings, loans, mortgages, and other investment products could, if cross-sold with transfers, be attractive to remittance senders and receivers. Possibly the most effective step, given that the vast majority of remitters and recipients are small-time savers rather than potential investors or venture capitalists, would be to improve financial systems and services to allow for saving in connection with remittances. Saving would enhance the income smoothing effect of remittances as well as their contribution to domestic savings and capital formation. Although some governments have recognized the benefits of consolidating small remittances by allowing foreign-exchange-denominated accounts and issuing special bonds, the capital potential of remittances does not seem to have been explored much beyond that, particularly by commercial financial and investment services.

· **Securitization** – At the level of international financial flows, remittances have begun to make a mark. In Brazil, for example, remittance flows contribute positively to the country’s credit ratings. For example, in August 2001 Banco do Brasil issued \$300 million worth of bonds (with five year maturity) using as collateral future yen remittances from Brazilian workers in Japan. The terms of these bonds were significantly more generous than those available on sovereign issues. Rated BBB+ by Standard and Poors, these securities were several notches higher than

Brazil’s sovereign foreign currency rating BB– at the time. Other countries, such as El Salvador, Mexico, Panama, and Turkey, have also used future workers’ remittance-backed securities to raise external financing. Rutten and others (2003) have suggested that remittance flows could be securitized to provide financing for African agriculture. Similar financing deals are becoming popular in emerging markets such as Mexico, the Philippines, and Turkey. Thus treated, remittance flows may contribute to overcoming “information asymmetries in inefficient domestic financial markets and thereby improve the quality of investment in developing countries” (Buch and others 2002).

This study is one of a very few comprehensive financial sector studies of remittances and the only focusing on the Africa region. In undertaking this study, Sander and Maimbo make a valuable contribution to the growing literature on remittances in Africa and their effect on economic development. Most studies of remittances in Africa to date have been done from the perspective of anthropologists and migration experts. While providing valuable insights, such studies, in aggregate, are dispersed, snapshot surveys of migrant groups, countries, or subregions. Sander and Maimbo synthesize many of their findings and, through a focus on the financial infrastructure, contribute to a growing set of studies on remittances in the context of financial services which reflect

and respond to the recent public debate on remittances (Cross 2003; Genesis 2003; Omer 2002; Sander and others 2001; Sander 2003). These studies illuminate the global remittance debate and begin to fill the void on Africa but they have not yet attained the levels of documentation and analysis shown in studies of remittances in Latin America (MIF 2003; Orozco 2003) and at the global level. Much more, the authors argue, could be done to collect and analyze remittance data and to translate the findings into actions by bringing together key stakeholders from policymaking and regulatory bodies, financial service providers, and diaspora groups.

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