Migrant Labor Remittances in Africa:
Reducing Obstacles to Developmental Contributions
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Abstract

For many African households and nations remittances are a tremendously important source of finance and foreign exchange, helping to stabilize irregular incomes and to build human and social capital. Remittance receivers are typically better off than their peers who lack this source of income. At the national level, remittances have a substantial effect on the balance of payments and on foreign exchange revenues. Yet remittance flows for Africa are heavily underreported and, to date, remain in the backwaters of academic study. Fewer than two-thirds of African countries (and only one-third of Sub-Saharan countries) report remittance data. Flows through informal channels are not captured at all. The documented benefits of remittances would be even greater if the substantial unrecorded flows were estimated and taken into account.

This preliminary analysis 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, we identify obstacles that limit the potential for greater contributions.

The study finds 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.

Authors' Affiliation and Sponsorship

Cerstin Sander
Senior Consultant
Bannock Consulting, 47 Marylebone Lane, London, UK, W1U2LD,
E-Mail: cerstin_sander@bannock.co.uk

Samuel Munzele Maimbo
Financial Sector Specialist
South Asia Finance and Private Sector, World Bank
Email: Smaimbo@worldbank.org

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Cerstin Sander is a Senior Consultant in small enterprise and microfinance with Bannock Consulting, London, UK. She holds a Master of Arts degree from Queen's University, Canada, in Comparative Development and International Relations (1993). Cerstin has spent the last 13 years working in international development as a member of staff of funding agencies, including the International Development Research Centre (IDRC), and as a consultant. Before joining Bannock Consulting in March 2003 she was based in Uganda as the regional private sector development advisor to the Austrian Development Cooperation responsible for programmes in Tanzania and Uganda. Cerstin has worked on assignments in Africa, Asia, the Caribbean, Latin America and parts of the Former Soviet Union in the areas of micro and small enterprise finance and development, institutional assessment, performance and evaluation, and socio-economic and fiscal impact. She has also conducted research on the SME financing gap as well as worked extensively on migrant remittances and money transfer and produced studies, conference papers, and publications on the topic

Samuel Munzele Maimbo is a Financial Sector Specialist in the South Asia Region of the World Bank. He Samuel holds a PhD from the University of Manchester, England in Public Administration (2001); a MBA (Finance) degree from the University of Nottingham, England (1998); a Bachelor of Accountancy degree from the Copperbelt University, Zambia (1994). He is also Fellow of the Association of Certified Chartered Accountants (FCCA), United Kingdom and an Fellow of the Zambia Institute of Certified Accountants (FZICA). He is author of *The Money Exchange Dealers of Kabul: A study of the Hawala System (2003)*, and co-author of *Informal Funds Transfer Systems: An Analysis of the Informal Hawala System(2003)*. His current research addresses the prospects of enhancing the development impact of migrant remittances in developing countries

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Executive Summary

Remittances from migrant workers are an increasingly important and highly stable source of external finance for many developing countries (Ratha 2003). But remittances to Africa, particularly Sub-Saharan Africa, have received little attention, partly because *officially recorded* flows are relatively low. Africa as a whole accounted for about 15 percent of total remittances to developing countries in 2002 ($80 billion); the countries of Sub-Saharan Africa received just one-third of the African total.

This preliminary analysis 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, we identify obstacles that limit the potential for greater contributions.

Remittance levels and channels are a function of migration and money transfer services—and, more broadly, of the financial infrastructure through which remittances flow. Although remittances and related aspects of migration and financial services are similar in some ways throughout the developing world, Sub-Saharan Africa is in other respects unique (see box). In particular, it differs in its migration and remittance patterns from North Africa.

For many African households and nations remittances are a tremendously important source of finance and foreign exchange, helping to stabilize irregular incomes and to build human and social capital. Remittance receivers are typically better off than their peers who lack this source of income. At the national level, remittances have a substantial effect on the balance of payments and on foreign exchange revenues in Egypt, Lesotho, and other countries.

Actual remittance flows for Africa are much higher than the statistics suggest, as they are heavily underreported. Fewer than two-thirds of African countries (one-third of Sub-Saharan countries) report remittance data. Flows through informal channels are not captured at all. The documented benefits of remittances would be even greater if the substantial unrecorded flows were estimated and taken into account.

Informal means of remittance include the hand-carrying of cash by migrants or their family and friends, as well as transfers through unregulated money transfer operators. Such informal flows are high in Africa because of the very high prevalence of domestic and intraregional migration—and because formal financial systems are weak or nonexistent. In Sub-Saharan Africa, in particular, more migrants stay on the continent than move overseas. Those who do follow the international migration paths established during colonial rule tend to be more educated and less densely clustered than migrants from other developing regions.

Unique Aspects of Remittances in Sub-Saharan Africa

- Migration is intraregional and domestic as well as short-term and seasonal.
- Officially recorded remittance flows are articially low, reflecting underreporting of flows through formal channels and high flows through informal channels.
- Officially recorded flows to Africa have not kept pace with those to other developing regions, despite growing migration (intraregional and international).
- Trust in informal remittance channels is eroding in some areas.
- Demand is growing for services to accompany or replace transfers of funds (for example, delivery of goods to family back home).
- Weak financial systems provide limited services, especially in rural areas, reducing access to financial services and products such as savings accounts and mortgages.
- Regulation of financial services is restrictive.

Some ethnic groups and nationalities, generally those whose cultural codes emphasize trust, are more likely than others to use informal means. Others prefer to use formal transfer services such as those offered by Western Union and its competitors.

Both forms of money transfer have filled a gap left by inadequate financial infrastructure in Africa, a structural weakness that affects not only the flow of remittances and their channels, but also the options for use and investment of the funds. Because financial services typically do not reach into the rural areas of the continent, many low-income earners lack access to formal transfer services. But the rapid expansion of Western Union and competing services throughout the African continent demonstrates the strength and potential of the remittance market. Banks and postal services have been slow to address that market directly (other than as agents for the specialized services), in part because they are hampered by regulations.

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 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 plans and investment options—would boost remittance flows and raise their impact on development.

Much more research must be done on remittance flows, money transfer systems, and related financial infrastructures in Africa. In the meantime, policies and regulations that hamper the flow of remittances through formal channels and that block their developmental effects should be reviewed and adjusted. The study explores these and other recommendations in detail.

Highlights from Findings

Remittances

- Developing countries received $80 billion in migrants' remittances in 2002.
- Africa received about 15 percent of global remittances to developing countries; Sub-Saharan Africa received 5 percent.
- Officially recorded remittance flows are heavily underreported for Africa.
- Even at currently recorded levels, remittances are an important source of income and capital for African households and nations; actual effects are greater than we can currently document due to data limitations.

Migration

- African migration patterns drive remittances, with substantial flows from Europe and South Africa.
- High internal and intraregional migration contributes to prevalent use of informal remittance channels.
- African migration has been heavily defined by former colonial links and cultural and linguistic affinities.
- North African and Sub-Saharan migration patterns differ. North Africans tend to move overseas; Sub-Saharan Africans are more likely to migrate within their country or region and also for shorter periods.
- African migrants overseas tend to be more educated than other immigrant groups.
- African migration patterns are changing in response to changes in socio-political and economic environments.

Developmental Effects of Remittances

- Remittances are an important source of finance for the African continent.
- Remittances help smooth incomes and contribute greatly to development of human and social capital.
- Remittance recipients tend to be better off than peers who do not receive remittances.
- National economies benefit from higher foreign exchange reserves and generally positive effects on their balance of payments.

Remittance Infrastructure

- Weak financial systems lead to underrecording of remittances, create service gaps (filled by informal money transfer operators), and discourage investment of remitted funds.
- Formal channels include money transfer services by banks and non-bank financial institutions, such as foreign exchange bureaus or dedicated money transfer operators; the latter tend to be the most popular for overseas remittances.
- Many migrants send money to locations with weak or no financial infrastructure; banks in their host country often lack correspondents in the receiving country.
- In domestic or intraregional markets, some bus, coach, or courier companies offer money transfer or transport services.
- Informal channels include service providers and agents using *hawala* or *hundi* models as well as transfers or transport based on personal relationships.
- Although some ethnic groups and nationalities have strong codes of trust, faith in informal systems is declining noticeably in many areas in response to theft and robbery.
- Use of transfer services depends on familiarity, trust, proximity, reliability, and awareness; access to the service by senders and receivers is a critical factor.
- Clients of money transfer services have related service needs, as evidenced by the growth of services that deliver goods to family members on behalf of migrants.

Regulatory and Policy Issues

- Financial and monetary policies and regulations affect the availability and the choice of remittance channels.
- Formal channels are more popular in stronger, liberalized economies with a stronger financial sector; informal channels tend to be used where the financial sector is weak, missing (due to conflict), or mistrusted (due to bankruptcies), and where foreign exchange transactions are controlled or capped.
- Conservative and restrictive licensing of money transfer services limits availability and outreach.
- Know-your-customer rules and other consequences of the global fight against money laundering and terrorist financing encourage conservative regulation and tight supervision of financial services, creating or raising hurdles for money transfer agents and their clients.
- Governments of countries with high remittance receipts are trying to stimulate greater flows through preferential foreign exchange rates and matching grants.

Why Focus on Remittances to Africa?

Until recently, the importance of the money migrants send home to developing countries has been little studied, with foreign direct investment and official development assistance receiving most of the attention. When migration experts and economists have taken an interest in migrants' remittances, they have done so in the form of country case studies or limited surveys.[3]

But as remittances have swelled in recent years, they have drawn more attention—as a raw financial flow, as an opportunity to expand financial services in the developing world, as a well of funds for money launderers, and as a source of capital with significant development potential.[4] For example, the 2003 edition of the World Bank's *Global Development Finance* (GDF) brought migrant workers' remittances to the attention of a broad audience of professionals and experts in development finance (Ratha 2003). And, for the past few years, the Multilateral Investment Fund of the Interamerican Development Bank has raised awareness and catalyzed initiatives related to remittances in Latin America and the Caribbean.[5]

What has raised current interest in remittances?

- ⇨ The *rapidly growing volume* of migrant remittances to developing countries
- ⇨ The *increase in migration from developing to developed countries*, fueled by economic opportunity and facilitated by affordable international travel
- ⇨ Stepped-up efforts to prevent money laundering and terrorist financing in the wake of the September 11 attack on the United States—with channels used for money transfers coming to be seen as risky
- ⇨ The role of *integrated financial systems, financial deepening,* and *pro-poor financial services*, which development agencies believe to be important for growth and sustainable development in developing countries
- ⇨ The potential of money transfer systems, such as those required for transmission of migrant remittances, to contribute to a well functioning and integrated financial sector
- ⇨ Growing interest in the *developmental effects and potential of migrant remittances*.

In October 2003 the first international conference on migrant workers' remittances will highlight the range of developmental, policy, and regulatory issues surrounding remittances and their relation to migration and financial systems and services. The conference builds on initiatives of the World Bank and the U.K. Department for International Development with strong and shared interest from other funding and investment agencies. This study is a contribution to the conference.

Africa, and particularly Sub-Saharan Africa, has received little attention in studies or discussions of remittances (Sander 2003). This may be explained in part by the relatively low share of remittances going to the African continent (15 percent of total flows to developing countries) and the even lower share going to Sub-Saharan Africa (5 percent), and by the relatively small number of international migrants from Africa, as well as their greater dispersion, compared to migrants from other developing regions.

3 Workers' remittances are monies sent from one individual or household to another. International remittances are sent by migrant workers who have left their home country. Domestic remittances (or national remittances) are sent by migrant workers who left their home village or town to work elsewhere in their home country. Most remittances are made in the form of cash rather than as goods.

4 Throughout this study, remittances are considered broadly as a financial flow. Some authors refer to them as a capital flow and argue the case. See, for example, Buch and others (2002). The terms workers' and migrants' remittances are used interchangeably in this study.

5 www.iadb.org/mif/v2/remittances.html

Remittances to Africa are nevertheless an important financial flow—with significant developmental effects. Moreover, their level is probably much higher than official data indicates. Many transactions go unrecorded or unreported, in large part because financial systems and services are weak in much of Africa. That weakness creates obstacles for the efficient transfer of remittances through formal money transfer services and limits the potential of remittances to contribute to development (for example, through investment). Regulatory and policy impediments block private-sector solutions to the problem.

In analyzing remittance flows, it is helpful to distinguish between *cross-border* (or international) and *domestic* (in-country) flows as well as between *officially recorded* and *unrecorded* flows. Most published figures on migrant remittances are based on officially recorded flows, meaning flows passing through banks or other formal financial institutions and captured as part of the balance of payments data reported by each country to the International Monetary Fund (IMF) and published annually in IMF's *Balance of Payments Statistics Yearbook*.

Fewer than two-thirds of all African countries, and just one-third of Sub-Saharan countries, report official figures (annex 1). Those figures include only cross-border flows captured by central banks as part of international transactions. As for domestic remittance transfers, nowhere in Africa are these captured as a separate category of domestic transactions; they can be traced only through household surveys.

An unknown but substantial portion of overall remittance flows goes unrecorded either because imperfect systems fail to capture the transactions involved or because the remittances pass through informal channels that do not report data.

The range of *informal transfer systems* includes personal carriage of cash or goods by migrants, their relatives, their friends, or trusted agents. Other informal services operate as a side business to an import-export operation, retail shop, or currency dealership. Most keep little paper or electronic documentation. Transactions are communicated by phone, fax, or e-mail to a counterpart who will make the payment. Details vary. For more information, see El-Qorchi, Maimbo, and Wilson (2002).

The best known of the informal services are *hawala* and *hundi*, which operate in a similar fashion. The terms can be used interchangeably, but *hawala* is typically used in the context of the Middle East and Arab countries and their migrant populations, whereas *hundi* is usually connected with South Asia (especially Bangladesh).

Drawing on relevant literature and experts in the field, this study surveys remittances in the African context, emphasizing their relation to financial systems and services. After analyzing available documentation to shed light on the motives behind migration, sending money home, the uses of remittances, and the choice of transfer channels and services, the study explores the actual and potential contributions of remittances to development. A subsequent analysis of remittance services and related regulatory and policy issues identifies obstacles to effective and efficient transfers. The study concludes with a brief summary of key findings and provides research and policy recommendations.[6]

Sub-Saharan Africa is the principal locus of the study. We concentrate on the region's distinct migration and remittance patterns, which differ from those of North Africa.

6 Data and analysis have been assembled from a dispersed body of research that deals with remittances from various angles, such as migration or financial flows. Thus, reference points for data, such as timeframes, change throughout the study, although we have tried to identify such changes and, whenever possible, to match data for consistency. The study also reflects the author's research on remittances and money transfers conducted in the context of other projects and professional exchanges. See El-Qorchi, Maimbo, and Wilson (2002).

Remittance Flows

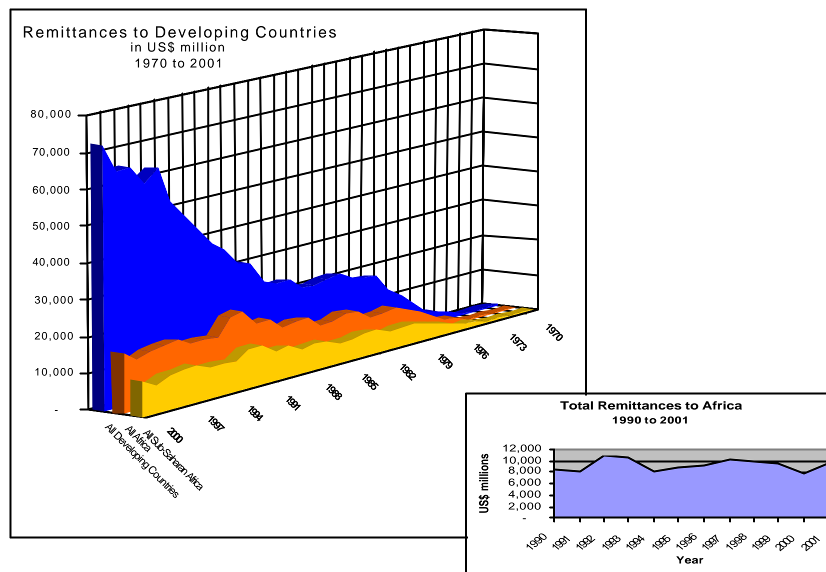
Remittances from migrant workers to their families in developing countries more than doubled over the past decade, from $33.1 billion in 1991 to $80 billion in 2002 (Ratha 2003; Sander 2003; annex 1). The 10 percent increase from 2001 to 2002 illustrates how growth in remittances has accelerated.

Remittances now constitute the second largest flow of external finance, well behind foreign direct investment but far ahead of official development assistance. Remittances also have proved more stable than other sources of finance, and most experts now believe that remittances create a steady net positive transfer.[7]

Informal transfers and formal but unrecorded transfers add another order of magnitude to remittance flows, bringing the estimated total to as much as $200 billion, more than foreign direct investment (annex 1). Also unrecorded but not included in most estimates are domestic remittance flows resulting from rural-to-urban and rural-to-rural migration. These can be substantial sources of income for many more households, more so than overseas remittances. Domestic remittance transactions are typically much lower in value than international ones, but their cumulative value is believed substantial, although this belief has been substantiated only in isolated case studies.

Officially reported remittance flows to Africa are relatively low compared to flows to other developing regions (figure 1). Official figures provide a skewed and incomplete picture, however, because data collection in the region is exceptionally poor and spotty. For Sub-Saharan Africa, for example, only about one-third of countries report data, much of which is of low quality. Thus, although remittance flows to Africa are heavily underreported, even the officially recorded flows indicate the significant financial inflow they constitute.

Figure 1:[9] Remittances to Developing Countries and to Africa



7 Workers' remittances were equal to 41 percent of foreign direct investment and 260 percent of official development assistance. Some researchers have begun to make the case that remittances in fact also contribute to economic growth, contrary to the dominant tenet in much of the literature. See, for example, Buch and others (2002).
8 Unless otherwise specified, figures are based on the data set provided by Ratha (2003). See also annex 1 of this report.
9 Unless otherwise specified, figures are based on the data set provided by D. Ratha also used for Ratha (2003). See also annex 1 of this report.

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) (figure 2).

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).[10] 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, reflecting the growth of flows to other regions rather than any absolute reduction in flows (Ratha 2003; Gammeltoft 2002; annex 2).

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). Central Africa records less than one percentage point in remittances (annex 2).[11]

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.[12] 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 underreport remittance levels.

Top Receiving Countries

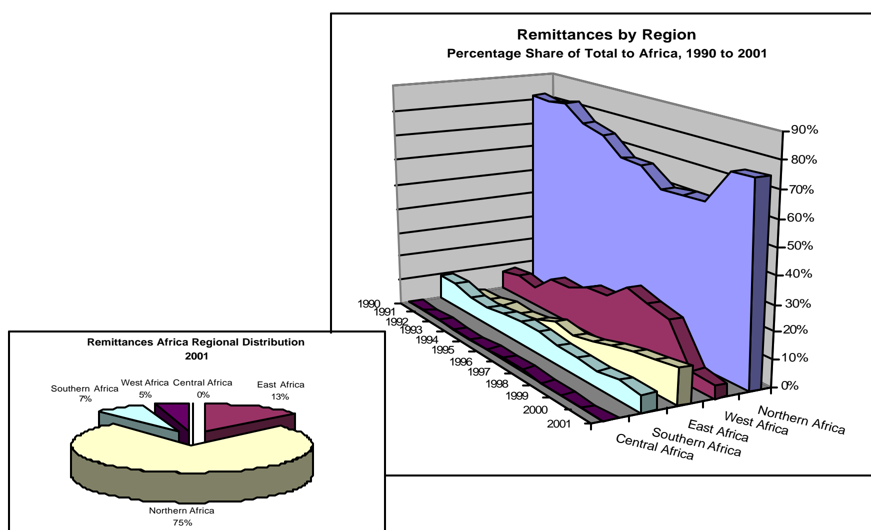
A few countries dominate the remittance picture in Africa. It will be seen that migration patterns explain that dominance.

10 Absent analysis close enough to account for changes in definitions for data collection, regulations, and financial services, it is difficult to determine what lies behind such fluctuations or trends.

11 Considering organizational groupings of countries rather than geographic or economic parameters, the countries of the Southern African Development Community (SADC) have been the top receivers of remittances, followed by those of the Economic Community of West African States (annex 3).

12 A study incorporating unrecorded remittances into the national accounts in Sudan showed an increase in the proportion of net current transfers from 6 per cent to 45 percent of the adjusted Sudanese GNP in 1983–84. It also adjusted net factor incomes upward to 17 percent of adjusted GNP from 7 percent of recorded GNP. Brown (1982), cited in Puri and others (1999).

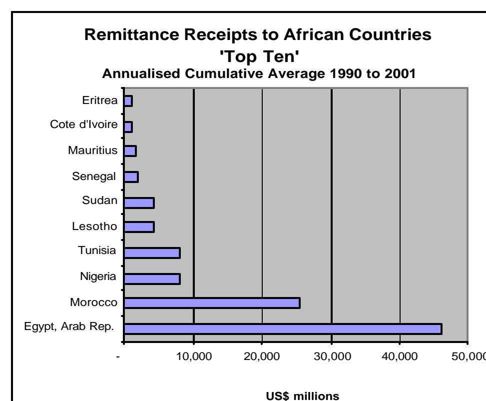
Figure 2: Remittances by African Region



Until 2001, Egypt was the largest receiver on the continent for a decade (in annualized nominal terms). In 2001, Morocco's remittance receipts overtook those of Egypt. In Sub-Saharan Africa the single largest receiver was Nigeria, which receives between 30 and 60 percent of remittances to the Sub-Saharan region (Orozco 2003a, 2003b), followed by Lesotho, Sudan, Senegal and Mauritius. Tunisia, Sudan, and Mozambique were also important recipients (figure 3).

Among the small African states, the top receivers were Mauritius, Lesotho, Cape Verde, and Botswana, although they also are the only four small countries with continuous data records. The other nine small African nations had no data for most of the years 1990 to 2001. Remittances for the small states have been declining compared to flows for the whole continent. While the data set is too small and weak to permit any solid conclusions, the apparent downward trend may reflect developments such as decreasing opportunities in South Africa for Basotho mineworkers, resulting in reduced remittances to Lesotho. Looking at individual countries, however, the flows can be quite erratic, an effect that may be traceable to inconsistent data reporting (annex 2).

Figure 3: Remittance Receipts by African Countries



Key Source Countries

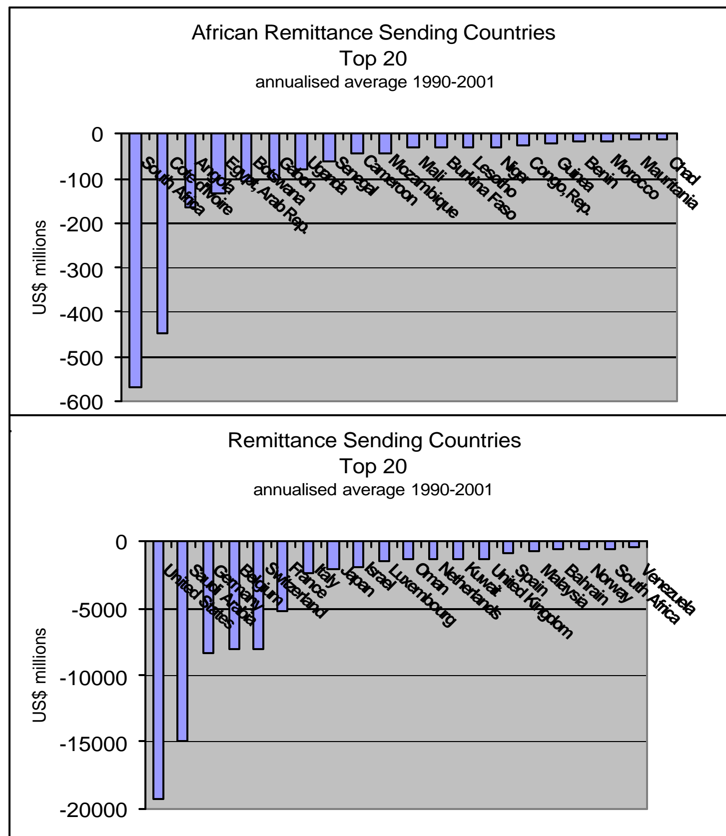
The continent's top five remittance sending countries for the period 1990 to 2001 were South Africa, Ivory Coast, Angola, Egypt, and Botswana (figure 4). Egypt and Côte d'Ivoire are thus key receivers as well as senders, a reflection also of migration patterns (annex 4). Both have gone through various phases of immigration. Due to economic downturn and war many migrants have left in recent years and remittance outflows have dropped.

The world's top sources of workers' remittances to developing countries in 2001 were the United States, Saudi Arabia, Germany, Belgium, Switzerland, and France (figure 4). The U.S.

total of $28.4 billion may be grossly overreported, as the United States is the main hub of correspondent bank transactions.[13]

Although disaggregated data are not readily available for overseas remittance transfers to Africa specifically, it is very likely that the top sending countries are the same as the top destinations for migrants—France, Italy, Saudi Arabia, and the United States.

Figure 4: African and International Remittance Sending Countries



13 See annex 5 for data graphs for 1970 to 2001.

Remittances and Migration in Africa

Remittances are inherently linked to migration.[14] Whether for economic or other reasons, migrants from developing countries leave their homes to improve their own livelihood and opportunities as well as to support the family back home.

Worldwide, one of every 35 people, an estimated 175 million, live outside their country of origin, up from 75 million in 1965. The prime motivator for migration has been and remains economic, but colonial history and the increasing ease of travel have profoundly shaped its patterns. Migration is projected to grow at an annual rate of 2 to 3 percent.

Remittances to developing countries have far outpaced migration over the past decade.

While not statistically correlated, migration patterns and remittance flows are clearly congruent. Migration is the undercurrent that drives remittances. Motives for migration, choice of destination, and the purposes and means for sending home money are thus important contextual aspects of remittances that should inform policymakers and providers of money transfer services.

Migratory Patterns and Trends

Like people in other developing regions, Africans migrate to reduce economic or political insecurity and to earn a better livelihood both for themselves and the family they leave behind. Migrant workers send money home from their host countries overseas or, as is often the case for African migrants, from neighboring urban centers or nearby countries.

The prime motivator for most African migrants is still economic, although war and political insecurity are increasingly compelling reasons. Refugees are a key group of African migrants. Most are displaced to neighboring countries, but some move overseas.

North African and Sub-Saharan African migrant flows differ substantially. As African migration has been heavily defined by former colonial links and by cultural and linguistic affinities, North Africans have tended to move to Europe, the Middle East, and (to a lesser extent) North America. In contrast, Sub-Saharan migrants have tended to stay on the continent, moving within the region or their country. The same patterns hold true for short-term and seasonal migration. Except for North Africans, distance and the cost of migration from the African continent are relatively high.

For selected countries, migration can be substantial. For instance, in Nigeria two-thirds of all households are estimated to have had emigrants, and about one-tenth of Nigerians now live outside their country of birth (de Haan 2000). Migration can also be strongly segmented by cultural group. Different tribes or ethnic groups may be more prone to migration. In one area of dry-land Mali, for example, migration is frequent within the Bambara group and less so among the Fulani or the Maure (de Haan 2000).

As the following sections discuss in more detail, seasonal or internal migrants often have low incomes and seek employment in urban centers or short-term income during peak agricultural seasons. Their migration patterns follow paths of opportunity, producing distinct clusters of

14 This section draws migration data and analysis from Schoorl and others (2000); de Haan and others (2002); IOM (2003); Gnisci and others (2003); Nyberg Sorenson and others (2002); Sander (2003); Seddon and others (2001); United Nations (2002); and Whitwell (2002).

emigrants and immigrants. Skilled or professional migrants, by contrast, tend to move for the longer term; they are more likely to move overseas and disperse.

The major host countries in Africa are:	Côte d'Ivoire, Gabon, Botswana, and South Africa
The main emigration countries are:	Mali, Burkina Faso, and Lesotho
The main host countries overseas include:	France, Italy, Saudi Arabia, and the United States

Internal and Seasonal Migration

Many African countries have a high rate of internal migration. De Haan (2000) estimated that during the 1980s one-third of Kenyan rural heads of household migrated. Similarly, in South Africa approximately 1 million people, mostly unskilled laborers, moved from other parts of the country to Gauteng (with Johannesburg as the major city) or the Western Cape (Cape Town).[15]

Seasonal migration is often internal but also intraregional; occasionally it leads overseas. It tends to increase with poor growing conditions or other hardships at home. A survey in the early 1990s in Eritrea showed that villages relied heavily on income from seasonal migration, to nearby towns or as far away as Saudi Arabia (de Haan 2000). In Mali migration is used to improve food security, as it relieves pressure on food stocks during the lean season (Toulmin 2000).

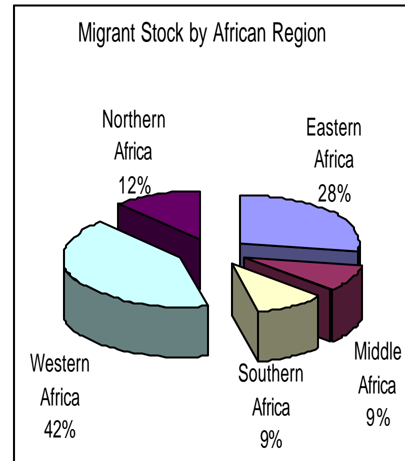


Figure 5: Migrant Stock by African Region (United Nations 2002)

For migrants, the boundaries of internal and intraregional migration are often of little consequence. Tribal, ethnic, or cultural boundaries often transcend those of nation states, and most migrants are more concerned with income opportunities than political boundaries.

Intraregional Migration

Intraregional migration is very common in Africa, a fact reflected in the continent's migrant stock. Africa is home to about 9 percent of migrants globally, compared to 6 percent for Southeast Asia and Latin America and the Caribbean, 23 percent for North America, and 11 percent for Western Europe. Within Africa, West and East Africa have the largest share of the continents' migrant stock—42 and 28 percent, respectively (figure 5).

Each African region contains one or two centers of attraction for immigration. The establishment of regional economic bodies has also tended to generate labor mobility. Within ECOWAS, for instance, Côte d'Ivoire and Nigeria attract immigration from Sub-Saharan Africa; within SADC Botswana and South Africa play the same roles.

West Africa and Southern Africa have gone through several phases of internal and intraregional migration.

West Africa has a long but irregular tradition of labor migration facilitated by shared sociocultural bonds that transcend language divisions. Côte d'Ivoire's liberal immigration policies over three decades made it a major hub for migrants and one of the top remittance-

15 The analysis by Cross (2003) was based on a 1996 migrant census.

sending countries on the continent until war and economic difficulties caused them to leave.[16] Until recently it was home to some three million migrants—about one-quarter of the population in the country.[17] Many worked as manual laborers on cotton, cocoa, and coffee plantations. Overall, one in three West Africans was estimated to be living outside his village or district of birth (de Haan 2000).

In *Southern Africa* migration has for decades been characterized by contract labor, predominantly within the mining industry. South Africa thus has long been a magnet for unskilled labor from the region. It is home to an estimated 3 to 8 million migrants, many from Zimbabwe, Lesotho, and Mozambique. Most are employed in the mining industry (Stalker 2000).[18] Although the flows of contractual labor increased markedly in the post-apartheid era, the demand for foreign labor in the mines has since declined as a result of economic weakness.[19]

East Africa is best known for its movements of refugees, especially around the Horn of Africa and the Great Lakes region, and less known for labor migration (IOM 2000). Tanzania, Guinea, and Sudan have the largest numbers of refugees in nominal terms, whereas Guinea, Congo, and Zambia have the highest proportion of refugees to total population. (See annex 7 for further data.)

Overseas Migration

Overseas emigration from Africa, especially Sub-Saharan Africa, is less pronounced than for other developing regions. Nonetheless, it is still significant. Europe and the Middle East have been the prime destinations.

Historical, cultural, and linguistic bonds have produced a strong flow of skilled and unskilled migrants between African nations and their former colonies. Many Sub-Saharan Africans have stayed on after training at institutions of higher education in Belgium, France, Portugal, Spain, and the United Kingdom.[20]

A Fundamental Shift in African Migration

- Increased out migration from Africa and increased emigration from Sub-Saharan Africa to developed countries
- More low-skilled labor migrating overseas
- More high-skilled professionals migrating within the continent
- Growing refugee flows
- More women migrating

Western Europe had a population of some 3.4 million African nationals in 2000, of whom about 2.3 million originated from North Africa. Malians, though predominantly drawn to Ivory Coast, also have substantial migrant communities in France.[21] Schoorl and others (2000) estimated that 10 to 20 percent of Ghanaians lived overseas during the 1980s and early 1990s. Overall, however, Africans people made up only about 5 percent of the total foreign and foreign-born population of the OECD countries in 2002 (OECD 2002).

The *United States* is home to far fewer African migrants than is Europe. Some 400,000 Sub-Saharan Africans and 110,000 North

16 Côte d'Ivoire is Africa's largest migrant receiving country, ranking thirteenth globally in 2000, with an international migrant stock of 2.3 million (IOM 2003). Due to recent warfare and insecurity in the country, however, many of the migrants have been forced to leave (Whitwell 2002; Gnisci and others 2003).
17 An estimated 1 million Malians used to live in Côte d'Ivoire (Martin and others 2002). One million Burkinabe resided in Côte d'Ivoire, compared to a total population of 11 million in Burkina Faso (Lachaud 1999).
18 In the 1980s around 8 percent of Basotho (people from Lesotho) were estimated to have migrated to South Africa; in 1986, 13 percent of the total population of Lesotho was registered as absent from the country (de Haan 2000).
19 Large flows, especially of low-skill immigrants to more prosperous states within the economic communities in Sub-Saharan Africa, have not always been popular, especially in times of economic decline. This "unease" has stopped organizations such as SADC from allowing free movement of labor between member-countries (NOMRA 1998).
20 In West Africa, the brain drain has been most pronounced in Burkina Faso, Ghana, Guinea, Mali, Nigeria, Senegal and Sierra Leone. Earlier concerns about high emigration rates eased in the second-half of the 1990s as more governments in Africa reported to view emigration levels as satisfactory (United Nations 2002).
21 An estimated 150,000 Malian emigrants came from the northern region of Kayes, which borders on Senegal (Martin and others 2002)

Africans migrated to the United States between 1978 and 1998 (IOM 2002).

Overseas migrants, especially to developed countries, have tended to be highly educated. For instance, African-born migrants in the United States had the highest levels of education of any immigrant group.[22] Professional and economic rewards are often their key motivations. Skilled and professional migrants tend to spend more time abroad than others. In Côte d'Ivoire, for example, the median number of years spent abroad was four for the less skilled and six for elite returnees. In a survey of Ghanaians, more than half of the elite returnees had spent over ten years abroad, whereas most of the less skilled had returned after six years (Tiemoko 2003).

Migration Trends

Recent changes in African migration, ascribable mainly to developments in the socio-political and economic environments, represent a fundamental shift in what has always been a complex pattern—a phenomenon markedly different from the relatively consistent patterns and trends observed for Asia or Latin America.[23] Although the probable outcomes of those changes have yet to emerge—and although data are generally lacking and unreliable—pressures for emigration are seen to be growing.

Net migration estimates for 1990–2000 show a trend of increased emigration from Sub-Saharan Africa to developed countries. Together with new outflows of North African workers to Kuwait and Saudi Arabia, the increase in Sub-Saharan emigration contributed to a rise in net migration from Africa during the 1990s.

Increased emigration can be attributed partly to economic stagnation and downturn in Southern Africa, West Africa, and elsewhere. Low-skilled laborers, who have traditionally migrated within the region, are found to have expanded their horizons to Europe, the Middle East, and Asia. Conversely, however, more highly skilled professionals have moved to take up professional opportunities on the continent—in Botswana and South Africa—rather than in Europe.

War and civil strife are growing drivers of African migration. This trend has ancillary effects, as refugees tend to set off or shape migration patterns on departure as well as on return. In their host destination, they can contribute to or cause conflict, leading to displacement of other groups. On return to their home countries, they can generate internal migration; for example, toward urban centers. When war affects a country of immigrants, such as Côte d'Ivoire, economic migrants can become refugees.

The motives for and patterns of migration are often gendered. In Ghana, for instance, the main reason for male migration has been economic, whereas for women it has been family related (Anarfi 2000). Gender differences may also occur between regions in a country. In Benin, for example, male migrants predominate in the north, female migrants in the center and south (de Haan 2000).

Overall, African migration has is becoming "feminized," as more women are migrating alone. Although the feminization of migration has been a global trend for some time, it is a fairly

22 Nearly 95 percent of all African-born migrants aged 25 or older had completed at least high school or more, and 49.3 percent of them had a bachelor's degree or more (Schmidley 2001, citing figures from the 2000 U.S. census).

23 Though global migration patterns have changed overall—toward growth and greater diversity—they remain true for the most part to trends set since the 1960s. Recent trends can be traced to complexities of labor mobility and migration-related policies and to geopolitical changes such as the 'fall of the iron curtain and the growing obstacles of "Fortress Europe." Greater global interdependence and the relative ease of travel are also important. For an analysis of global and regional migration trends, see Whitwell (2002).

new phenomenon in Sub-Saharan Africa, one that contrasts starkly with the traditional pattern of migrating males who leave their immediate family at home. Female migration tends to be linked to socioeconomic issues different from those of male migration, including vulnerability to exploitation (such as trafficking and domestic labor).

The Effect of Migration on Remittances

As African migration is generally on the rise, remittances are bound to remain a substantial and important flow. In fact, one would expect remittances to have grown with migration, although such growth has not been observed in official remittance data. It may be that growth occurred in informal or unrecorded formal remittances.

Typically, migration and remittance patterns do not mirror each other readily, nor do their respective flows correlate statistically, as discussed below. Rankings among the top remittance-receiving and -sending countries in Africa are only partially explained by migration patterns—distortions in the allocation of flows account for the rest. Distortions may arise because the value of the remittances of international migrants far exceeds those of intraregional and domestic migrants, even though international migrants are fewer in number. Another source of potential distortion is that refugees quite often remit to, or receive in, neighboring countries rather than their home countries.[24] Moreover, levels of remittances differ by migrant group and migrational intent as well as duration, among other factors, as further discussed in the next section. A very simple comparison of some hubs of African migration and remittances illustrates the relatively high level of congruency between the two phenomena—and also some differences (table 1).[25]

Remittances are one of the developmental effects of migration. As shown in the next section, such effects are felt most distinctly at the individual or household level, but also at the community and national levels.

Table 1: Major Hubs of Regional and International Migration and Remittances

Migration Major destinations	**Remittances** Major senders	**Migration** Major origins	**Remittances** Major recipients
Ivory Coast Gabon Botswana South Africa	South Africa Ivory Coast Angola Egypt Botswana Gabon	Mali Burkina Faso Lesotho	Egypt Morocco Nigeria Tunisia Lesotho Mali (11th position)
France Italy Saudi Arabia United States	United States Saudi Arabia Germany Belgium France Italy		

Source:

24 A Sudanese migrant mentioned to the author that, due to lack of money transfer services in Sudan, remittances were sent by hand whenever possible and otherwise had to be picked up in neighboring capitals such as Kampala or Nairobi. See also Gammeltoft (2002).

25 Correlations or fairly consistent patterns between migration and remittances might be found at higher levels of aggregation. Such patterns might allow for forecasts if formulas were devised to account for factors such as flow distortions, lags between the start of migration and the start of remittances, generational differences in amounts sent, and differences in migrants' economic power.

Developmental Effects of Remittances

Remittances make substantial developmental contributions to recipients and to their national economies.

For Africa, as for other regions, remittances constitute a major source of foreign exchange and influence, often quite significantly, the national balance of payments. They also make up a fair share of gross domestic product in many countries and may outstrip other financial flows, all ancillary effects of a private flow of funds intended primarily as family support and directed at individuals and households.

Remittances to Eritrea were 194 percent of exports and 19 percent of GDP in 1999. For Cape Verde the same values were 51 percet and 12 percent; for Comoros, 24 precent and 6 percent; for Egypt, 26 percent and 4 percent; and for Morocco, 18 percent and 5 percent (Rapoport and others 2001).

For remittance receivers, these funds are often an important or vital source of income and have an important income-smoothing effect. Although remittances are generally spent for consumption and other individual or household needs, a small portion is invested, usually in property or a business. Similarly, communal or collective remittances, while making up a tiny fraction of total remittances, are typically invested in community improvements. These applications are discussed in more detail below.

Macro Effects

The volume and share of remittances relative to other financial flows is smaller in Africa than in other developing regions. Africa, and especially Sub-Saharan Africa, is the most aid-dependent of all developing regions—with official development assistance accounting for about one-half of all financial inflows, compared to a global average for developing countries of about one-tenth.[26]

The economic effect of remittances to Sub-Saharan Africa is nonetheless pronounced and significant. Counting only officially recorded receipts, remittances in 2002 represented 1.3 percent of GDP for Sub-Saharan Africa and 2.2 percent of GDP for the Middle East and North Africa. This compares to 1.3 percent of GDP for all developing countries and to 2.5 percent of South Asia's GDP. (South Asia has the highest proportion of remittances to GDP.) Remembering that data for Africa are exceptionally spotty and unreliable, only four African countries were among the top 20 remittance-receiving developing countries in 2001 (see table 1; Ratha 2003).[27]

Remittances contribute substantially to the balance of payments in several countries. During the 1980s international remittances covered 80 percent of the current account deficit in Botswana; they were equal to almost three-quarters of total commodity export earnings in Sudan; and constituted more than half of Lesotho's foreign exchange earnings (de Haan 2000). In Lesotho in the 1990s, Basotho mine workers' remittances from South Africa accounted for as much as 67 percent of GDP (IOM 2000). In Ghana in 1998, remittances constituted the fourth biggest source of foreign exchange after cocoa, gold, and tourism (Schoorl and others 2000).

26 As a proportion of total international financial flows (public and private), remittances were greatest in parts of North and West Africa. In Nigeria and Lesotho, the ratios of remittances to aid were 7:1 and 4:1, respectively. In contrast, for countries such as Mozambique and Rwanda, remittances constitute only about 3 to 5 percent of total international flows (foreign direct investment, official development assistance, and remittances) (see annex 2).
27 On a per capita basis, the only African country to have reached the top 10 is Cape Verde (IOM 2000).

Somaliland receives an estimated $500 million annually, four times the value of livestock, the main export (Ahmed 2000, cited in Ammassari and others 2001).

Micro Effects

Aggregate remittance figures tell us little about the benefits to individual recipients or about how recipients use the funds. Anthropological and migration research, as well as household surveys, however, indicate strongly the importance of this flow as part of an income stream for remittance receiving households. Remittances contribute to:

- Improved standards of living
- Better health and education
- Human and financial asset formation.

Average Remittance Values

Most international migrants send between $100 and $1,000 per transaction. Intraregional and domestic remittances are generally significantly lower.[28]

Ratha (2003) cites $200 as a global average transaction value, an estimate based on extensive research on remittances between the United States and Latin America. Remittances to African countries are less well researched.

Data are sketchy on the percentage of their incomes migrants actually send home. Anecdotal evidence suggests that remitting up to one-third is not uncommon, and some surveys have recorded remittances of between 30 and 60 percent (McDonald). Variations are subject to myriad factors—among them the migrant's profile, salary level, cost of living in the host country, volatility of the home currency, and differentials in interest on savings between the host and the home country (Nyberg Sørensen 2002).

The migration period also affects sending patterns. A fairly common pattern is for temporary migrants to send larger shares of their income home, often up to half, whereas longer-term migrants and follow-on generations tend to send less. Anecdotal evidence suggests that the amount Ethiopian migrants send home falls the longer they stay abroad. The remittances of Mexican migrants are curvilinear—recent migrants and those who stay more than 10 years send less (Orozco 2003c). Turkish migrants, even of the second generation, are found to continue to send money home (Koc and others 2001).

The following examples of remittance patterns are drawn from various studies:

- Senegalese migrants in France sent home between FF 6,500 and 8,500 annually in the mid-1990s (Schoorl and others 2000); Malian migrants sent between FF 800 and 3,900 annually during the same period (Martin and others 2002).
- Ghanaians sent home between $1,000 and $14,000 annually in 1999 and 2000; males sent more than female migrants; and "family-influenced" migrants sent more than those who were not influenced (Tiemoko 2003).
- Migrants from Côte d'Ivoire sent home $6,000 to $9,300 annually in 2000; women sent as much or more as men; family-influenced migrants sent more than those who were not influenced (Tiemoko 2003).
- Migrants in South Africa sent home an average of R 2,300 in 2000 (Immigration Laws 2000).
- Egyptians in the United States sent home an average of about $300 (Orozco 2002).

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28 This follows in part logically as income levels for migrants in industrialized countries tend to be higher than for domestic or intra-regional migrants. Regarding lower values for domestic remittance transfers, see also, for instance, Cox, 2002 on Viet Nam, Cross, 2003 on South Africa, and Sander et al., 2001 on Tanzania and Uganda.

Uses of Remittances

Remittances are an important contribution to recipients' total income. Although no data are readily available to show how many households receive remittances and in what amount, the earlier GDP analysis indicates that officially recorded international remittances alone provide a significant contribution. When recorded remittances are combined with informal and other unrecorded remittances, their contributions to household and national are clearly substantial even if not readily quantifiable. In many parts of Africa, unrecorded remittances include urban-to-rural payments that are not captured in official statistics. Estimates suggest these domestic remittances could contribute as much as three-quarters of non-farm earnings in areas close to major cities and one fifth of non-farm earnings in more remote areas (de Haan 2000).

> **Leading Uses of Remittances**
>
> Studies show that most remittances are used for:
>
> - ⇨ Daily needs and expenses (70–90 percent of remittances), typically labeled as consumption or as improving the recipients' standard of living
> - ⇨ Health-related expenses and education, often grouped with consumption when seen as improving the standard of living
> - ⇨ Consumer durables (stereos, televisions, washing machines)
> - ⇨ Improvement or acquisition of housing, purchases of land or livestock
> - ⇨ Sociocultural investment (birth, marriage, pilgrimage, death)
> - ⇨ Loan repayments (often loans to pay for cost of migration)
> - ⇨ Savings
> - ⇨ Income- or employment-generating activities

Typically remittances constitute a net positive transfer from relatively richer to relatively poorer individuals or households. They form a family welfare system that smoothes consumption, alleviates liquidity constraints, and provides a form of mutual insurance. The vast majority of remittances go to family members who are either spouses or parents. Women head many recipient households.[29]

The bulk of remittances are used for consumption or investment in human capital (education, health, better nutrition), as data from a number of surveys and much anecdotal evidence indicates (de Haan 2000).[30] Investment in land, livestock, and in building or improving a home is also relatively common but secondary to daily needs and human capital expenses. Still less is used for investments, such as in savings[31] or business, or to repay debt, such as a loan for the expenses of going abroad. Insecurity tends to be the main motivator for investment; the type of insecurity affects the type of investment.[32]

The high proportion of remittances devoted to consumption reflects that migration and remittances are part of the strategies of individual migrants and their families to escape poverty and raise their standard of living. In Zimbabwe, for example, households with migrants were found to have less cultivated land than households without migrants, but slightly higher education levels (de Haan 2000). A household survey in Burkina Faso in the mid-1990s found that about 15 percent of households received international and domestic remittances; these tended to benefit the poorest households and rural, female-headed households. It was estimated that international remittances reduced the headcount poverty of rural households by about 7 percent and of urban households by about 3 percent (Lachaud 1999).

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29 For syntheses and discussions of various studies, see Buch and others (2002), Rapoport and others (2002), and Sander (2003).

30 In Ghana, 70 percent of remittances are used for recurrent expenditure (school fees, health care, and so on). Less than 30 percent are invested in assets (land, cattle, construction) (Schoorl and others 2000). In Mali, 80–90 percent of remittances go toward consumption; little is invested in local business (Martin and others 2002).

31 As land, livestock, and buildings are typical ways to invest and save in many of the migrants' home countries, the distinction is one of saving within the financial system.

32 Land is more attractive than a financial investment if the currency is volatile or if there is high inflation. Insecurity as the motivator for investment is a point made by AFFORD (2001). Similarly, a study in Egypt in the early 1990s found that remittances were invested primarily in land, where the economic rates of return were higher than in other areas (cited in El-Sakka 1997).

Consumption, land, and other purchases, as well as investments financed by remittances, also constitute contributions to the local economy. In Western Kenya, for example, an area with a poor climate for agriculture, remittances were found to fuel a sustained demand for local non-farm goods and services such as construction and education (Reardon 1997). Remittances spent by rural households may thus have a larger multiplier effect than those spent by urban ones, as the former tend to consume more domestically produced goods and services (Ratha 2003).

Communal Use of Remittances

Most remittances are transfers between individuals or families, but some migrants participate in community or church groups that make collective remittances to their home communities. Often they are collected through fundraisers and applied to a range of investments, including building or renovating schools or churches.[33] Because they are communal or collective, however, such remittances are very different from household or individual remittances, both in their intended use and in their low volume.

Although no comprehensive survey of communal or collective remittances to Africa has been done, there are references in the literature to communal or collective sending and use of remittances, such as by Malians and Senegalese in France. The best documented and profiled cases in English describe the "hometown associations" of Latin Americans in the United States. Unlike the hometown associations, associations of African migrants in France, such as the Malians, often link up with municipalities and nongovernmental organizations, both in the host and home communities (Grillo and others 2003).

African migrants' groups take the form of associations, cultural or church groups, refugee groups, ethnic professional groups (such as the Society of Black Lawyers), and virtual organizations that use the Internet (Somali Forum) (AFFORD 2001). AFFORD also highlights the example of the Somali diaspora that built the University of Hargeisa.[34]

The Kayes region of Mali, home to the great majority of migrants to France, has benefited from support by some 40 immigrant associations in France, most of which have counterparts in Kayes. In the span of a decade, these associations supported 146 projects with a total budget of about three million euros, of which some 94 percent came from immigrant savings and the rest from donor-funded NGOs. AFFORD (2001), quoting Libercier and Schneider (1996), estimates that over 60 percent of the infrastructure in the villages of Kayes can be attributed to the diaspora in France.[35] The success of the individual projects has depended largely on the level of involvement of local villagers. Where expatriates covered the full cost, villagers took least interest and were difficult to engage. The sustainability of projects has been imperiled whenever returning migrants start projects that do not meet the needs of villagers (Dieng 1998).

Many Ghanaian expatriates participate in ethnic- and town-based associations abroad. In the 1980s and early 1990s, some health institutions in Ghana were kept afloat with donations from these foreign-based Ghanaian associations (Schoorl and others 2000).

Nigerian migrants reportedly make individual or pooled remittances through "home improvement unions" (IOM 2000).

33 In considering Eritrean and Bosnian refugees' capacity and desire to participate in reconstruction in their home countries, Al-Ali and others, cited in AFFORD (2001, table 3), identify a number of economic, political, and social factors that apply generally to migrants sending remittances.
34 http://www.afford-uk.org/research/archives/case_study.htm
35 See also Martin and others (2002) and http://migration.ucdavis.edu/ceme/mali.html.

Opportunity Costs of and Obstacles

The developmental effects of remittances depend on their continued flow, which in turn depends on the ease with which money can be transferred. Weak financial infrastructure and limited availability of efficient and low-cost money transfer services constitute opportunity costs, or hurdles, that reduce the potential developmental effect of remittances. The cost of transfer services, in particular, have been discussed in the media, in migrant circles, and by donor agencies. If it were economical to send smaller amounts, or if other hurdles were reduced, the volume of remittances might swell. Ratha (2003) estimates that if transaction costs were lowered by even 5 percent overall remittances to developing countries would increase by $3.5 billion. Certainly a larger share would pass through formal channels.

Because remittances constitute many small transactions between geographically dispersed senders and the receivers, prevailing fees have remained high. Fees also reflect service characteristics such as accessibility, speed, and reliability. Before jumping to conclusions on the need for lower cost transactions, therefore, it is important to understand the underlying cost factors affecting senders, receivers, and service providers, as well as differences in markets and in the cost structures of existing services, such as banks and money transfer operators. To date, these areas have received little documented attention, in the absence of which any directive intervention could well have a negative effect, such as reducing the availability of services.

Although transaction costs are important, other aspects of the remittance process can be even more discouraging, both at the sending and receiving end. For example, migrants have few opportunities to manage their finances, including remittances, in their home countries. The existence of services that send goods or vouchers for goods reflect, in part, the desire of migrants to support recipients *in a particular way*, rather than to send cash. Currently it is not possible to send money home with instructions that some of the money be credited to a savings account and the rest paid out to a specific individual. Saving in any form (let alone in foreign denominations to reduce foreign exchange losses) and products to build up financial assets in migrants' home countries are extremely rare and very limited. Other investments, such as land purchases and construction, must be made in person or through a family member and cannot exceed the savings available. Mortgage products are few and far between in most African countries; where available, they are not easily accessible to a migrant.

The following sections explore financial-service infrastructure related to remittances and the policy and regulatory environments surrounding financial services, foreign exchange, and investments.

Remittance Channels and Financial Infrastructure

Most remittances are made in the form of money. To a much lesser extent they take the form of goods (such as staple foods or electronic items) or services (religious ceremonies or airline tickets). The focus here is on the financial infrastructure for money transfers. Other modes of remittance are touched on to remind readers of the demand for nonfinancial remittance services.

Remittance channels to and within Africa are similar to those in other parts of the developing world. They are classified in two categories: formal and informal.[36] Both include financial and nonfinancial service providers. Each of the principal remittance channels has advantages and disadvantages, differing from others in accessibility, service, and cost (table 1; annex 8).

Formal Channels

Formal channels include money transfer services by banks and non-bank financial institutions, such as foreign exchange bureaus and dedicated money transfer operators (MTOs), the best known of which are Western Union and MoneyGram. The vast majority of MTO transactions in developing countries are receipts of funds.

Other MTOs tend to have much smaller networks serving geographic niches or specific populations. Some are Internet based; a few include the option to have goods delivered or to purchase vouchers to be redeemed in shops in the home country. On a very small scale, some diaspora associations facilitate remittance transfers of money and goods, formally or informally. In some areas domestic and intraregional remittances are made by bus, coach, and courier companies that transport money or goods as part of their regular and official service.[37]

Informal Channels

Informal systems of remittance transfers in Africa are similar to those found in other regions, such as Asia or the Middle East. The similarities are probably due in part to the longstanding trade and migration links between those regions and Africa (El-Qorchi 2002; Buencamino and others 2002).

It is still very common to send money with friends, relatives, and drivers of taxis or buses—or to carry it oneself. Other informal systems are modeled on *hawala* or *hundi* services or are single-destination services provided by individual business people. Indian diaspora and Somali refugee communities in East Africa, for example, have long had such systems.[38] In Eastleigh, a neighborhood of Nairobi known as "Mogadishu," informal agents with radio or satellite phones to Somalia handle money transfers home (Omer 2002; Kabucho and others 2003). Similarly, certain homes or businesses of Ghanaians, Ugandans, and other nationalities living overseas are known among migrants to provide transfer services from a back office.

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36 This section draws on Sander (2003). Sander offers examples from various developing regions; those cited here pertain to Africa. Other key sources include Orozco (2003), Ratha (2003), Genesis (2003), Cross (2003), and Sander and others (2001).

37 The distinction between transfer and transport services is that the former books the transaction through some form of accounts and system of reconciliation, whereas the latter involves physical transport of the valuta ; see also Sander et al., 2001, where this distinction is made, and transport services, such as coaches and courier companies, are described based on market research in Tanzania and Uganda.

38 Similarly, for West Africa it is probable that equivalent systems are run by the Lebanese business community, although no specific references have been found.

Informal channels are common in many African countries. Because the formal financial infrastructure is weak in much of Africa, access to financial services, especially for rural and low-income populations, is very limited. Internal and intraregional migrants, of which Africa has a disproportionate share, are even more likely than overseas migrants to use informal channels for transfers.

The prevalence of informal channels can vary by ethnic groups and nationalities as well. Whereas some groups are said to have very strong codes of trust, such as the Somalis, others fear what one Nigerian called "the Nigerian factor"—a lack of trust. Several studies of microfinance, savings, and money transfer in East Africa have revealed a noticeable decline in trust in informal systems and a heightened sense of vulnerability to theft and robberies (Sander and others 2001; Omer 2002).[39]

User Preferences

nformal channels are used with particular frequency wherever the financial sector is weak, mistrusted (for example, due to bankruptcies), or missing altogether (as in Somalia and other countries in conflict or emerging from conflict). Severe controls on foreign exchange also tend to stimulate use of informal channels.[40] Conversely, the use of formal channels increases in liberalized economies with a strong financial sector.[41]

The inefficiencies and market failures of weak or mistrusted banks in Africa have left a gap that has been filled by informal services and prepared the ground for formal MTOs. MTO services are already popular in many countries—some migrant groups prefer them to informal services. In addition to their other drawbacks, banks have limited outreach. Post offices, which offer access to an extended network, are spurned by clients in receiving countries who have experienced their inefficiency and poor service. Stories of insufficient cash on hand and other delays in receiving funds are common in East Africa and elsewhere. At the same time, where post offices do operate effectively, as in many parts of South Africa, postal money orders are a preferred option, especially for domestic remitters. Even in South Africa, however, not all post offices in the country can handle money orders because of the cost and risks involved (Cross 2003; Nagarajan 2003; Sander and others 2001).

Overall, a broad range of factors influences a migrant's choice of remittance channels. External factors, such as foreign exchange fluctuations and controls in their home countries, and subjective factors, such as preference for a service whose staff speak their language or share their cultural values, shape choices.[42] Other factors include *accessibility* to the service at the sending and receiving ends, a concept that involves awareness, familiarity, and trust as well as physical proximity—all of which can be as important as the cost of the service. Formal services,

39 Other information is based on the author's research in East Africa and on conversations with African diaspora in the United Kingdom. Just as hawala stands for transfer in Arabic, other languages use similar terminology. Ghanaians in Twi will tell their family that they have sent money home, using a phrase that translates literally as "I've made you money." South Africa has a service called "hand-to-hand" in Afrikaans. Money transfer operators use company names that reflect similar ideas of transfer or gift. For instance, an Arab speaker pointed out that Al-Barakaat, the name of a Somali MTO, means blessing.
40 In Uganda, the liberalization of the financial market, and particularly of foreign exchange trade and allowing foreign denominated accounts, is said to have led to increased remittances. (See, for instance, Kasekende cited in Ratha, 2003) Past weaknesses in data collection, however, do not allow for a good assessment. To date, Bank of Uganda reported all residual foreign exchange transactions as workers' remittances. A more refined system in line with BoP definitions has been developed and is being tested. (conversation with BoU staff, February 2003)
41 In Kenya, where the banking industry is relatively well developed, bank transfer services are used for domestic and intraregional money transfers—more so than in Tanzania and Uganda (Sander and others 2001; Kabucho and others 2003).
42 The choice of channel can also vary by migrant group and their cultural values. For example, Sudanese Bedouins working in the Gulf often brought home remittances in the form of gold jewelery—a reliable "currency," a sign of wealth, and a gift for the wives from whom they had been separated (Young 1987, cited in Russell and others 1990).

particularly those offered by banks, are often less accessible than informal ones. Generally, though not always, their fees are higher than those of informal services, especially for low-value transactions like remittances.

Transfer Costs and Other Service Characteristics

Globally, the average cost of a remittance is about 13 percent of its value. Although research is scarce on the costs of transfers to African countries, some general parameters are known. Costs vary by the amount remitted, service used, destination, and origin; they range from a low of 0.2 percent to about 20 percent (Ratha 2003; Orozco 2003). Costs tend to be highest for small transactions, as most of the transfer services charge a minimum fee. While some studies find that certain migrant groups are highly sensitive to cost, others find that familiarity or convenience can often lead to the use of a more expensive service (Puri and others 1999; annex 9).

On average, transfers through MTOs costs more than transfers between accounts, such as wire transfers through the SWIFT system. At the same time, MTOs have a more demand-oriented network of points of sale, much shorter average transaction times, and do not require that customers maintain an account. Speed and reliability is part of their service—and their marketing strategy.

In recent years, competition among service providers has begun to lower costs. This trend has been observed in parts of the Latin American market—notably from the United States to Mexico—but also for some African destinations. Remittances from and to high-volume markets are often cheaper than those to other destinations, especially if there is competition in the markets—either among MTOs or between MTOs and informal services. Western Union, for example, maintains a single set of standard rates for transactions from some of its markets, but in London it offers lower rates for money transfers to selected high-volume destinations, such as Ghana and Nigeria.

For global MTOs such as Western Union and MoneyGram fees start at about $15, with actual fees depending on the sending and receiving country. Fees are often structured by brackets of transfer values. Smaller MTOs typically charge a commission, commonly 5 percent, though it can be higher.

Banks usually combine a minimum fee with a percentage fee. Minimum fees at banks range from $5 to $50 depending on the sending and receiving country as well as the product. Percentage fees are sometimes flat, sometimes bracketed on a declining percentage for larger amounts.

Most informal services charge 3–5 percent, although substantially higher rates are not uncommon. The fees of informal services are often lower than those of MTOs in their market; such services adopt foreign exchange rates falling between the highs and lows of commercial rates of banks and foreign exchange bureaus. Some informal services charge no fees, realizing revenue solely from gain on foreign exchange.

Informal services and MTOs offer attractive services that banks and other formal agents have neglected or deliberately shunned in choosing to focus on corporate clients and high-income individuals. These include access, proximity, outreach, speed, ease, familiarity, awareness, and innovations such as those described in the following paragraphs.

Access – Access to the transfer service at both the sending and the receiving end is a critical factor. While capitals and other urban centers offer fairly good access to financial services,

rural regions tend to be much less well served. Many remitters, however, need to send money to locations with poor financial infrastructure in which banks in their host country have little or no contact. A study of Sahelian migrants sending remittances home from France, for instance, found that fully one-third sent their remittances by hand, another third by post office, and only 6 percent through banks (Russell and others 1990). Similarly, Sudanese emigrants send remittances informally or to neighboring countries such as Uganda and Kenya for lack of transfer services in Sudan.

The interface of formal international remittance services with service points in the sending and receiving country is also an important aspect. Many formal remittance channels weaken or break down beyond an initial arrival point in the migrant's home country. For instance, only banks that are part of the SWIFT network or similar systems, or that have correspondent banks, can receive international transfers. In some countries, this fact excludes postal banks. In Kenya, for example, postal banks can receive international transfers only as agents of Western Union. Where they have sprung up and are expanding, ATM systems are often not yet integrated—remaining limited to a specific bank and for use only with their cards, or to one or another network, such as VISA *or* Mastercard (as in Uganda).[43] Such constraints are costly to the sender and to the receiver. A study in South Africa estimated that as much as 40 percent of the total value of a remittance of R200 to a rural recipient could go toward banking charges and transport costs (Cross 2003).

Proximity and Outreach – Many MTOs and informal services are successful because they work with migrants in "micro-markets"—often limited to certain cities or even neighborhoods within those cities.[44] The Kenya Post Office Savings Bank, the main Western Union agent in Kenya, reported that the loss of a point of sale in a key migrant area in the United States had noticeably reduced transactions. Having a service point in the right neighborhood and with the right "feel" (such as service in the migrant's native tongue) can make all the difference in attracting business. Teba Bank in South Africa is a good example of a dedicated financial institution in a high-volume market: it is closely linked with its core clientele of miners, for whom it provides money transfer services. Most banks, unlike MTOs, choose not to pursue the "low-end" remittance clientele; in many more cases they lack the retail network to serve that clientele effectively.

Speed and Ease – MTOs and informal systems such as *hawala* and *hundi* are fast. Some services are almost instantaneous; others take one to three days. Most bank transfers, by contrast, are quoted as taking three to five business days.[45] MTOs and informal systems are also the most straightforward and least complicated person-to-person transfer services; unlike bank transfers, neither the sender nor the receiver need have an account, although some MTOs require identification.

Familiarity – The choice of a transfer service may turn on comfort or familiarity. Many remitters are unfamiliar with banks and fear, often rightly, that they will not be welcomed as clients. Banks can be intimidating to people not used to dealing with them, and many banks

43 The limited availability of bank branches and ATMs in rural towns is a big problem in South Africa. In the Eastern Cape, many rural branches had to close in the mid-1990s due to the general economic decline, the rise in violent bank robberies, and the spread of Internet banking among higher income groups, which undercut the rationale for an expensive, risky local-bank structure accessible to the poor. Where they are available, however, ATMs are becoming increasingly popular as a way of getting around restricted banking hours (Cross 2003; see also Genesis 2003.)
44 Concentrations of Kenyan migrants can be found in Minneapolis in the United States and in Tottenham, north of London. To capture their business, MTOs must be present in their neighborhoods. Western Union and its Kenyan agent, Kenya Post Office Savings Bank, seek out these communities when making marketing trips and scheduling events.
45 Anecdotal evidence indicates that bank transfers often take longer than the quoted time. In areas where drafts rather than account transfers are used, as to Bangladesh, the process typically takes 10–15 days (Siddiqui and others 2001).

frankly prefer to deal with wealthy individuals and corporate clients. Those preferences are reflected in access barriers such as account fees and minimum balances on accounts.[46]

Awareness – Another common factor is lack of awareness of services. Many banks, post offices, and other providers fail to market their services or to purse segmented strategies, such as advertising in different languages or recruiting multilingual staff. Recognizing this failure, some recipient-country governments, such as Mali's, compensate by informing their migrant communities of services through newsletters and information events at their embassies and consulates in sending countries. In contrast, larger MTOs and their agents often advertise heavily and aggressively. Kenya Post Office Savings Bank, for example, organizes regular marketing events with Kenyan diaspora in locations such as Minneapolis, Minnesota, and Columbus, Ohio.[47] Smaller, regionally focused MTOs reach their client group by advertising in community papers or shops popular with the migrant community. Informal systems tend to operate by word of mouth.

Niche Innovations – In addition to fast and efficient service in areas that lack banking infrastructure, informal transfer services also offer innovative remittance methods designed to suit overseas workers' earnings patterns. In some instances this has improved service levels and led to the development of new products within the formal sector. In Egypt for example, several exchange companies now offer door-to-door delivery of money following the example of Philippine banks that successfully introduced and implemented the service to compete with unofficial market operators (Buencamino 2002; Azzam 2002).

Other niche market approaches can be found in Kenya and Senegal. For Kenyan migrants, U.S.-based Internet services such as WatuWetu offer vouchers that can be redeemed at stores in Kenya.[48] Similarly, Senegalese migrants in France, through groups such as Sénégal Conseils, an association in Lyon, remit funds to Senegal both in cash and in the form of goods. Through Sénégal Conseils, migrants in France can purchase goods and have them delivered to family members in Senegal. Transactions are fairly rapid; accounts between the organization in France and the company in Senegal are reconciled perhaps two or three times a year. Those who are unable to cover the entire cost of goods immediately can pay in installments over a maximum of six months, incurring interest charges of between 10 and 50 percent (Dieng 1998; Russell and others 1990, citing Conde 1986).

In domestic and regional markets, some transfer services have developed a niche where domestic financial systems are inefficient. In East Africa, for example, some of the courier and overland bus companies provide money transfer or transport services that many people use for private transfers, including remittances, as well as for business purposes (Sander and others 2001). These cover domestic and sometimes intraregional markets but generally do not extend overseas.

The next section discusses policies and regulations that influence the use of remittances and the choice of remittance channels, including formal money transfer services.

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46 In looking at reasons why many South Africans favor informal transfer services over banks, even though bank transfers are generally less costly, Genesis (2003) found the following explanations:
People who fall outside the formal economy often mistrust formal institutions such as banks.
Bank branches can be intimidating.
Senders and receivers may be concerned about privacy.
Potential clients may be unaware of banks' products because of a lack of marketing or because potential clients are illiterate (or financially illiterate).
Clients may stop looking for alternative means of transfer, a phenomenon known as consumer inertia.
47 Author's conversation with KPOSB staff.
48 http://www.watuwetu.com. Financial transfers are being set up.

Table 2: Pros and Cons of Various Remittance Channels

		Pro	Con	Cost	Access	Service
Formal financial (transfer)	Bank	Often cheapest option for large transfers; reliable but often slow; money never lost, but sometimes delayed; good networks in most sending countries	High cost for small transactions; less accessible in home than in host countries; sender and receiver must maintain accounts (ID requirements, minimum balances, maintenance fees); restricted banking hours; few locations in poor and rural areas); little interest in the customer group and their business; cumbersome to track lost funds	High	Medium/low	Medium
	Post office	Often cheaper than other formal services; extensive network of service points worldwide	Slow; possible delays at payout due to poor service quality and lack of liquidity in many developing countries	Low	High	Medium/ low
	MTO	Fast, reliable, very accessible in major centers	High cost per transaction, especially for small transactions; unfavorable foreign exchange rates; less available outside main centers	High	High	High
Formal nonfinancial (transport and transfer)	Coach/ bus/ courier companies	Domestic and intraregional services; most transport rather than transfer funds; low cost; reliable; usually used for small transactions, though not exclusively	Limited to domestic or intraregional service area and routes; risk of loss in transport systems when there is no record of the content of the shipment and no liability on the part of the transporting company; loss due to theft or road robberies	Low	High/ medium (within limited service areas)	High/ medium
Informal (transport and transfer)	*Hundi*, *hawala*, and similar services	Cost typically lower than formal services; reliable; often good foreign exchange rates; trust relationship; fast transfers; may deliver to door; may advance money; serve clients and locations not served or underserved by formal providers	Cost may be higher than formal services	Medium/low	High	High
	Self, relatives, friends	Trust; no fee or direct cost; door-to-door delivery; operate in areas with no or very limited financial services	Slow; risk of loss with slow, partial, or no recovery of funds	Low	High	Medium

Regulatory and Policy Issues

A migrant's choices of whether and how much to remit, through what channel, and for what use are shaped by factors such as the economic and political stability or volatility of the home country, by foreign exchange and taxation policies, and by regulations and policies that affect money transfer services.[49]

Regulatory and policy contexts vary widely in African countries, but no comprehensive review has been done of the conditions that hamper or enable remittances in receiving countries. Generally, the focus of discussions on remittance-related regulation and policies has been monetary policies, particularly foreign exchange policies, and taxation. Less attention has been paid to financial and private-sector regulations and to policies that affect the availability and accessibility of financial services and products or the ease or attractiveness of investing in financial products or businesses.

Equally important for their effect on the volume and channels of remittance are policies and regulations in the sending country, an area that to date has received much less attention than receiving-country policies. Remitters' choice of channel is influenced by whether MTOs are allowed to operate in a given area, what licensing and other regulatory requirements they must meet, and who may serve as agents—both in sending and receiving countries.

Policies Affecting the Sending and Investment of Remittances

Policies and regulations can hamper the *sending of remittances*, especially through formal channels. Examples include:

- Monetary policies, such as foreign exchange restrictions or requirements that all foreign exchange dealings pass through the central bank or a state bank
- Financial sector regulations that affect the availability of financial services, as when bank regulations require banks to open full branches wherever they want to operate and do not allow for less costly alternatives, or when MTOs cannot obtain licenses or permission to operate through agents other than banks

Factors influencing the *investment of remittances* include:

- Restrictions on foreign exchange holdings, such as requirements that clients open foreign exchange denominated bank accounts
- Denial of repatriation of savings and other funds
- "Taxation" of remittances through foreign exchange rate controls or by withholding a share of remittances
- Limited range of financial investment products
- Bureaucratic obstacles to setting up a business

Recently, the international Financial Action Task Force on Money Laundering (FATF), which works with national regulators around the globe to prevent money laundering and the financing of terrorist activities, has had a noticeable effect on the financial industry, including money transfer services.[50] FATF's work is discussed here with reference to the know-your-customer rule.[51]

Several aspects of the policy and regulatory environment in remittance-receiving and -sending countries in Africa affect migrant remittance flows—attracting, limiting, or deterring them. Those aspects include:

- Know-your-customer rules
- Financial market liberalization vs. control
- Licensing and regulation of money transfer services
- Government-led incentives for sending and investing remittances.

49 This section draws and builds on Sander (2003). Sander provides examples from various regions, including Africa.
50 http://www1.oecd.org/fatf/. A well-documented example of the effect of FATF's efforts is the closure of Al-Barakaat, an MTO in Somalia, in November 2001. The closure provoked crackdowns in neighboring countries, uncertainty among consumers, and probably diversion to informal services (Omer 2000).
51 Other changes in the financial services industry are likely to occur once the current round of GATS negotiations is concluded. The GATS talks include negotiations on liberalizing access of financial service firms to all member countries. An assessment of the discussions and their potential implications for remittances is beyond the scope of this study. It would require analysis of a debate that is highly polarized and politicized.

Know-Your-Customer Requirements

Most banks will transfer money only for account holders. But opening an account—which typically requires identification and proof of residence—can be difficult for migrants, even those who have legal status.[52] new or tighter know-your-customer requirements and other regulations, adopted as part of antiterrorism and anti–money laundering initiatives, contribute to better controls, accountability, and transparency.[53] At the same time, they have raised hurdles to using banks, both for individuals and MTOs.

Know-your-customer rules have imposed new compliance requirements on all financial service providers for client identification, verification, and record keeping. The new requirements affect providers' cost and client policies. Operationally, for example, compliance requires development of adequate or updated policies or protocols, new or adjusted systems, manuals, and staff training.

Those costs are relatively more burdensome for MTOs, particularly smaller MTOs, than for banks. MTOs must finance compliance from narrow margins and ensure rollout throughout their network of agencies. The know-your-customer rule has also changed the way MTOs do business, obliging them for the first time to ensure clients' identity.[54]

The new rules have changed the way banks view MTOs as clients. Anecdotal evidence suggests that banks have become highly risk averse and are less likely to open accounts for MTOs, especially smaller firms. Some have reportedly asked MTOs to move their accounts to another bank.[55] Because MTOs must have a link with the banking system, problems with accounts can hamper or curtail their business. Similarly, banks have tightened or increased account requirements for individual retail clients, further limiting migrants' access to banking services.

Financial Liberalization

Generally foreign exchange controls and state-regulated financial sectors are seen as a deterrent to sending and receiving remittances.[56] Where receiving countries enforce official foreign exchange rates or otherwise tax remittances, informal transfer channels become more attractive.

In Sudan and Egypt, for example, informal channels have been a popular way of avoiding restrictive foreign exchange rules (Puri and others 1999). Sudan has now introduced measures, including devaluation, to attract and channel remittances. Although devaluation was undertaken for broader economic reasons, it had the effect of making legal exchange of remittances at official rates more attractive (El-Sakka 1997). In Uganda, the liberalization of the financial market—to

52 In the United Kingdom a proof of residence in the form of a utility bill or an account statement from another U.K. bank is required in addition to identification. A new arrival or someone living in shared or all-inclusive rental accommodations may well lack the required documentation.
53 "'Knowing your customer' is the process of positively identifying the customers that are conducting business with an organization. The organization must apply a process of due diligence in the identification of both personal and business customers for all types of transactions. This process includes obtaining adequate identification and taking reasonable steps to verify the identity, credentials and supporting information provided by customers." (Omer 2002.)
54 Western Union, for instance, now runs a check, presumably for "known suspects," on clients with Muslim or Arabic names before accepting or paying out funds.
55 Banks' risk-averse attitudes toward MTOs as clients reveals a general lack of clarity about complying with know-your-customer requirements. In the United States, only a few banks have a country-wide network; if none is willing to take the MTO's account, the MTO may be forced to stitch together a patchwork of regional or local banks or leave the business.
56 The examples presented here are drawn from van Doorn (2002) and Ratha (2003).

loosen foreign exchange trade and allow foreign-denominated accounts—is said to have led to increased remittances.[57]

In a few instances, foreign exchange restrictions in sending countries can affect migrants. South African foreign exchange restrictions limit the amounts that migrants from throughout southern Africa can transfer out of the country (Genesis 2003).

Remittance transfers are but one aspect of the liberalization of financial markets. Generally, however, a liberalized market will attract more remittances, and a larger share of those remittances will flow through formal channels. To what extent that happens depends in part on policies governing the licensing and regulation of money transfer services.

Licensing and Regulation of Money Transfer Services

In countries where foreign exchange trade has been liberalized, commercial banks and, in some areas, foreign exchange bureaus offer money transfer services or act as agents for an MTO. Where foreign exchange trade or remittances themselves are state controlled, the central bank or other government bank is the officially licensed channel.

Even in liberalized environments, licensing and other forms of regulation affect the range of services available for money transfer. MTOs are particularly sensitive to licensing requirements. While banks use correspondent banks or the SWIFT system for their money transfer products, MTOs must set up a network of agents and thus, unlike banks, must deal with the regulatory environment in the receiving country as well as the sending country. Rules differ from country to country and are often complex. Where the MTO's agents are banks, the MTO may not need to register, but the partner bank must secure the approval of the central bank. In some cases, the MTO must establish itself as a legal entity before being allowed to operate in the country.

Where the issue of licensing money transfer services is addressed by law or process in African countries, it is usually handled by the central bank. Because various entities provide money transfer services, different parts of the central bank are typically involved with licensing or permissions. The two key departments tend to be bank supervision and foreign trade.

Banks are generally licensed to deal in foreign exchange under their banking license. This is not true, however, for most postal banks, which tend to operate under communications (as opposed to banking) statutes. Both are typically required to get approval from the supervision department of the central bank before introducing a product that involves foreign exchange. Failure to do so can lead to suspension or closure of the service.[58]

Licensing of MTOs varies by country (annex 10). In much of Africa, the agents of MTOs are licensed banks authorized by the central bank to conduct money transfer operations. In most areas, foreign exchange bureaus, too, require a license, usually granted by the central bank. But a foreign exchange trading license alone may not enable the firm to do business as an MTO. It is prudent, if not required in most cases, to seek permission of the regulator within the central bank.

Most central banks, such as that of Kenya, are more inclined to permit banks than foreign exchange bureaus to operate as an MTO. South Africa prefers that banks handle money transfers.

57 Measures permitting residents to open foreign currency accounts in Uganda increased private transfers to the country from $80 million in 1991 to $415 million in 1996. In October 2002, deposits in foreign exchange accounts made up 27.8 percent of all deposits in the country (Kasekende, 2000 cited in Ratha, 2003).
58 When Kenya Postal Savings Bank began to act as an agent for Western Union its money transfer operations were suspended until the Central Bank of Kenya granted the authorization.

That preference was solidified by its experience with Western Union and Union African Money Transfers (UAMT), which ran afoul of foreign exchange control regulations (Genesis 2003). On the other hand, the Bank of Uganda's foreign exchange and trade department has been more liberal in granting permission.

From the author's conversations with some central bank staff, it is apparent that FATF rules and procedures have led bankders to overcompensate in order to stay "on the safe side." The result is highly conservative assessments and a preference for saying no as opposed to "let's think about how we can make it work."

African regulations and legal interpretations tend to be conservative compared to those in some parts of Latin America, which allow a variety of points of sale for money transfer services, including pharmacies and other retail services. Innovation in the use of new technologies, such as transfers by mobile phone, will tend to receive a conservative assessment by regulators and are likely be limited to financial service providers, whereas much broader outreach could be achieved if nonfinancial points of sale were allowed to join the service network.

Government-led Incentive Policies

While the majority of African governments and regulators remain conservative on the question of financial services, some, recognizing the contribution of remittances to their country and people, have sought ways to facilitate them. Mali and Sudan, for example, are actively engaged in attracting remittances or in creating incentives to invest. Other schemes are offered by host countries as incentives for migrants to return home.[59]

Mali's government has tried to boost international migration by setting up a Ministry for Malians Abroad to provide information about employment abroad (de Haan 2000). In cooperation with the United Nations Development Programme (UNDP), the Malian government has set up a program for the "transfer of knowledge through expatriate nationals." The program supports the temporary returns of Malian university professors to participate in research. With UNDP paying salaries and other costs, 133 Malian consultants have returned since the program started in 1996. Several programs have emerged from collaboration between the French and Malian governments. The Franco-Malian co-development framework, for example, inventories the skills of Malians abroad and encourages them to help support the Malian education system and small business development. The Malian diaspora provided a fund of €2.6 million to supplement financing of local projects.

For some time Sudan has granted emigrants an "incentive exchange rate," slightly higher than the official rate, to encourage them to send money home. To relieve pressures on limited foreign exchange and provide for the country's need for imports, the government initiated a "nil value" custom policy on imported goods. Under the scheme, holders of hard currency deposits remitted from abroad and retained in special accounts over six months have the right to use the funds for imports, with customs relief of up to $14,000. Sudan's Land for Emigrants Program provided quick and easy exchange of hard currency for building plots in the Khartoum area at preferential prices (El-Sakka 1997).

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59 One program, for instance, provides incentives for the voluntary return of unauthorized Malians in France. Returnees receive a $3,600 grant to set up a business in Mali. Of 500 returnees who have taken up the offer, 80 percent were still in business after two years, although with limited scope for expansion, as returnees have had problems getting bank loans in Mali due to a lack of track record and guarantees (Martin and others 2002; Widgren and others 2002) An earlier French government program involving Senegalese migrants was less successful. In the 1980s France offered business-formation loans as an incentive to return home. Of ten businesses formed by migrants in 1983, five were no longer in operation within six years, and the other five were failing (Diatta and Mbow 1999, cited in Black and others 2003).

Ghanaians who have been outside the country for at least one year are allowed to bring back a wide range of goods for personal use, tax free. These include clothing, appliances (such as refrigerators), and household goods. The policy has prompted many Ghanaians to convert their remittances into goods before traveling. Once in Ghana, they sell the goods to recover their money. This practice has resulted in availability of a wide range of goods in Ghana (Anarfi 2000). The International Monetary Fund (1987) estimated that 4.9 percent of total imports in 1985 went through unrequested transfer, mostly by migrants.

Before 1967, Egyptian emigrants were obliged to transfer 10 percent of their income in foreign exchange. Since then, the Egyptian government has tried new and more ambitious measures to attract emigrant remittances through official channels. Among those measures are progressive devaluation of the Egyptian pound, tax-exempt interest on special deposits of foreign exchange earnings, invitations to Egyptians living abroad to purchase foreign-currency-denominated development bonds on advantageous terms, and instant delivery of locally produced durable goods to emigrants who paid in foreign exchange.

One of the Egyptian government's most successful schemes to encourage formal remittances of hard currency earned by emigrants was the special import system known as the Own Exchange Import System, which offered import permits to individuals who could provide the necessary foreign exchange from their own sources, and not from official foreign exchange pools. The main sources of foreign exchange to these importers were the savings of emigrants. The system encouraged emigrants to use their savings to finance the imports Egypt needed from abroad. Goods financed by emigrant savings under the system represented, on average, more than two-thirds of total recorded savings sent home by emigrants.

One of the effects of Egypt's liberal polices towards remittances has been that the central bank has been able to accumulate mounting reserves of foreign exchange. Thus, after liberalization, the bank had access to 18 months' worth of foreign exchange to buy imports;, before liberalization, the average reserves were less than 3 months (El-Sakka 1997).

Compulsory schemes are still enforced in some cases. In Mozambique and Lesotho, for example, legislation compels migrants to remit 60 percent and 30 percent of their earnings, respectively. The amounts involved constitute a significant proportion of the foreign exchange earnings of both countries. Although miners (and the Chamber of Mines) oppose the system, miners' wives seem to favor it. For the same migrants, the South African miners' bank, TEBA, has developed services to facilitate voluntary remittances by mineworkers. More funds are being remitted voluntarily than through the compulsory system, suggesting that the abolition of compulsory deferred pay would not be as disastrous for these countries as is often made out. The primary losers would not be individual households but the governments, which benefit from the interest on deferred pay (Crush 1996).

Increasingly aware of the benefits of remittances, African governments have begun to create more facilitating environments, as opposed to the early models of control. Those efforts could be complemented by improvements in financial systems and services, such as easier transfers, more service points, and opportunities to save or invest remittances.

Conclusions and Recommendations

Through their effects on foreign exchange reserves, balance of payments, improved livelihoods, and investments in human capital, remittances are important for African households and nations. That remittances create a stable net positive transfer is becoming widely accepted.

Remittance volumes are substantial in much of Africa—and substantially underreported. Contributing to underreporting are the weakness of many African financial systems and high levels of domestic and intraregional migration, which contribute to unrecorded remittances. Accordingly, assessments of the developmental contributions of remittances are underestimations to the extent they rely on official figures.

Other obstacles—embedded in financial systems and policy environments—limit the volume of remittances, divert them into informal channels, and discourage their use for saving, investment, and development.

The magnitude of remittances through informal channels and the adverse effects of weak financial systems require further probing. The following recommendations for research are intended to generate better information to support policy changes and other interventions to boost remittances and increase their impact on development.

For millions of Africans, remittances fill the gap left by low or nonexistent social and welfare transfers. They thus make a developmental contribution that is very different from and indirectly complementary to public interventions. To protect and amplify that contribution, remittances should be facilitated through incentives and a more accommodating policy environment. It is important that governments avoid the temptation of diverting remittances for other purposes or attempting to exert undue control over them.

Further research and policy analysis would improve our understanding of remittances as a private and public financial flow—large, highly segmented, and consisting of many small transactions—and enable governments and their development partners to create policies that maximize the individual and social benefits of remittances.

Recommendations for Further Research

Much 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 countries and subregions. A more integrated set of recent studies of migration, remittances, and money transfers covers West Africa, Southern Africa, and East Africa.[60] A growing set of studies on remittances in the context of financial services reflects and responds 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 but 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 could be done, as proposed below, to collect and analyze data and translate the findings into actions by bringing together key stakeholders from policymaking and regulatory bodies, financial service providers, and diaspora groups.

60 The recent studies include the Sussex research project on Transnational Migration, Return and Development in West Africa, funded by the U.K. Department for International Development (Ammassari and others 2001); the South African Migration Project (SAMP 2003); and research on "push-pull factors in international migration" conducted by the European Commission and Eurostat (Schoorl and others 2000).

Flows – Overseas as well as domestic and intraregional flows need to be better documented and synthesized in the African context to understand their magnitude and implications, including their developmental contributions.

Financial systems – The effects of weak financial systems and various regulatory and policy environments on remittance flows and uses needs to be investigated systematically.

Financial services – Transfer service profiles, their underlying cost structures, and transaction costs are only partially understood. A much better base of knowledge is required to guide changes to policies and regulations so as to improve financial services for remittances and other purposes.

Technologies – The role of technology in the transfer of remittances needs to be explored. Communication technologies, in particular, have contributed to a quiet revolution in Africa. While still in their infancy, such technologies have already had a great effect on business and life on the continent, banking and financial services; they offer great potential to extend financial services into rural Africa and other underserved areas. How can we ensure that that potential is realized?

Migration – Because migration and remittance trends are not easily correlated, migration patterns and trends may appear to be of limited relevance. Before refocusing our attention, however, it would be wise to determine whether and how changing migration patterns affect remittances and the market for money transfer services. Such a determination will require a better understanding of the forces behind the trends in remittance flows. In particular, it will be necessary to take into account the definitions used in reporting remittances and the actual and potential effects on remittances of changes in regulations, financial structures, and service availability.

Recommendations for Policy and Regulation

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.

Changes in the following areas could facilitate remittances and amplify their developmental effects by improving policy and regulatory environments.

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 put ourselves in a better position to review and enhance the regulatory frameworks used in Africa, we must improve our understanding 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, but 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.[61] 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).

61 "In recent years, many emerging market issuers have resorted to future-flow securitization to access international markets, often to avoid credit rationing in the face of deteriorating sovereign risks. Workers' remittances have been used quite frequently along with other future-flow receivables such as oil exports or credit card receivables. In the hierarchy of future flows that are amenable to international securitization, major international rating agencies rank electronic remittances in the same category as airline ticket receivables, credit card receivables, and telephone receivables, next only to crude oil exports. 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. Assuming that about half of all recorded remittances pass through the banking system, and assuming an over collateralization ratio of 5:1, developing country issuers could potentially raise about $7 billion a year using future remittance-backed securitization. However, developing countries should carefully weigh the trade-off between lower borrowing costs and longer maturities that securitized debt offers and the inflexibility associated with servicing such debt." (Ratha 2003, based on Ketkar and Ratha 2001.)

Annex 1: Remittances as Financial Flows

Official remittance data, published in the IMF's Balance of Payment Statistics Yearbook and in the World Bank's annual *World Development Indicators*, are an excellent starting point for analyzing remittance flows. But the accurancy of this important data is compromised by the low quality of submissions and uneven reporting at the country level.

Data for African countries are particularly weak. Figures for 2000 and 2001 were available for about 60 percent of all African countries and only about one-third of the Sub-Saharan countries (16 of 49 countries).[62]

Reported data do not always reflect private transfers through banks or other regulated channels.

The data also suffer from varying levels of underreporting—notably of transfers through informal channels, which can be significant. Underreporting tends to be higher for countries with weak financial sectors or unstable political-economic situations, and for those in which significant migration occurs within the service distance of alternative or informal remittance channels. For Sudan, Choucri (1984, cited in Puri and others 1999) estimated that 85 percent of all remittances went unrecorded. Kenya reports no data at all, but Kenyans apparently received approximately $420 million in 2002.[63]

Some flows reported as remittances belong in other categories. Uganda, currently in the process of improving its data collection, has been reporting residual foreign exchange transactions as remittances.[64]

Data presented in this study are based on the source used in the respective studies quoted. Where figures and graphs refer to Ratha (2003), they are based on a data set for 1970 to 2001 kindly shared by Dilip Ratha of the World Bank. This set is based on IMF balance of payments data on workers' remittances, migrant transfers, and employee compensation (item codes 2391, 2431, 2310).

Remittances are unlike other private financial transfers—they "do not constitute financial flows in the strict sense" (Buch and others 2002). The two reasons are that (i) remittances are classified as current transfers in current accounts, unlike other financial flows, which are recorded in the capital or financial accounts of the balance of payments; and (ii) remittances are transfers between nationals rather than a capital import from nonresidents or non-nationals which would give rise to a change in the assets and liabilities of residents vis-à-vis nonresidents.

62 If a country does not report on time, a proxy is used to generate an estimate that appears in the statistics (Buch and others 2002).
63 Author's conversations with staff of commercial banks in Kenya, January 2003.
64 Author's conversation with Bank of Uganda and Ministry of Finance staff, February 2003

Annex 2: Additional Data and Graphs on Flows and Composition

Table A2.1: African Countries in Top 20 Receivers (as percentage of GDP)

Country	Percent	Rank in top 20
Lesotho	26.5	2
Cape Verde	13.6	10
Morocco	9.7	13
Uganda	8.5	18

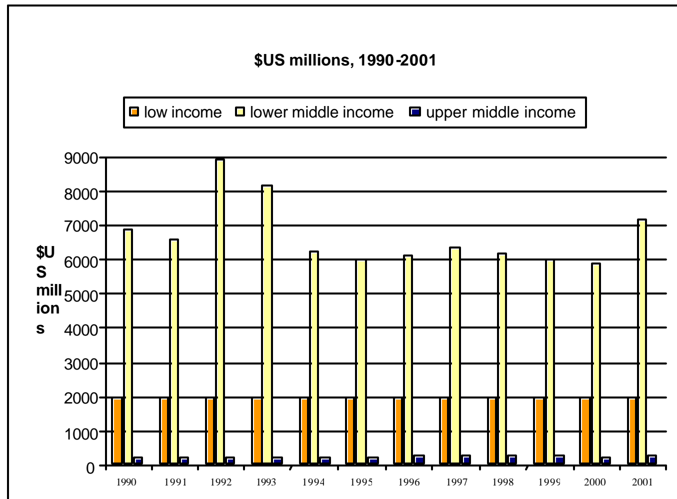
Source: extract from Ratha (2003).

Table A2.2: Remittances as percent of Total Financial flow (as a percentage of GDP)

Country	Percent
Morocco	66
Egypt	51
Tunisia	51
Cape Verde	35
Nigeria	30
Benin	27
Burkina Faso	27

Source: IOM (2003)

Figure A2.1 Remittances to Africa by Income Group



Source: based on Ratha data set.

Table A2.3: Remittances Received by African Region

(US$ millions)

	2001	Percent	Average 1990 to 2001	Percent
North Africa	7,099	75	6,626	72
West Africa	453	5	1,330	14
Southern Africa	631	7	722	8
East Africa	1,263	13	564	6
Central Africa	1	0	23	0

Source: based on Ratha data set.

Table A2.4: Remittances and Official Development Assistance

Percentage of Total International Financial Flows
1994 to 1999 average
Africa, global, and selected other regions

Region	Remittances	ODA
Eastern and Southern Africa (data for 14 of 25 countries)	9	44
West Africa (data for 15 of 23 countries)	21	59
North Africa (data for 4 out of 7 countries)	54	26
Middle East (data for 4 out of 10 countries)	72	27
South Asia	51	20
Central America	22	5
Total (global, data for 104 out of 157 countries)	17	11

Source: extract of Table A.5, Gammeltoft (2002).

Annex 3: Remittances by African Regional Organization

Figure A3.1: Worker Remittances to Africa by Organization – 1990 to 2001

Source: based on Ratha data set.

Annex 4: Remittance Flows from South Africa and Ivory Coast

Figure A4.1: Remittances from Ivory Coast

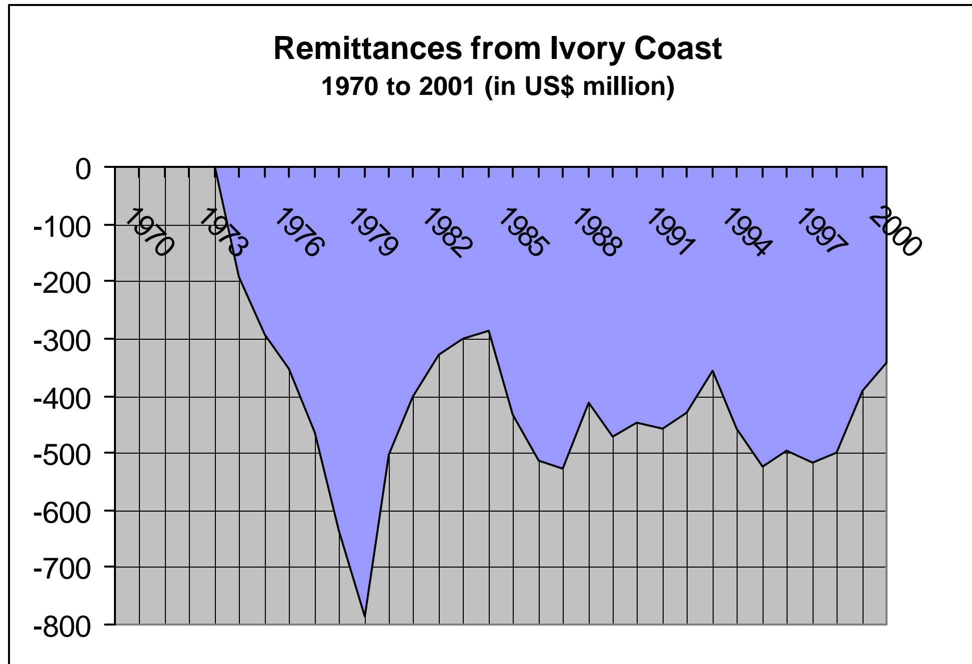
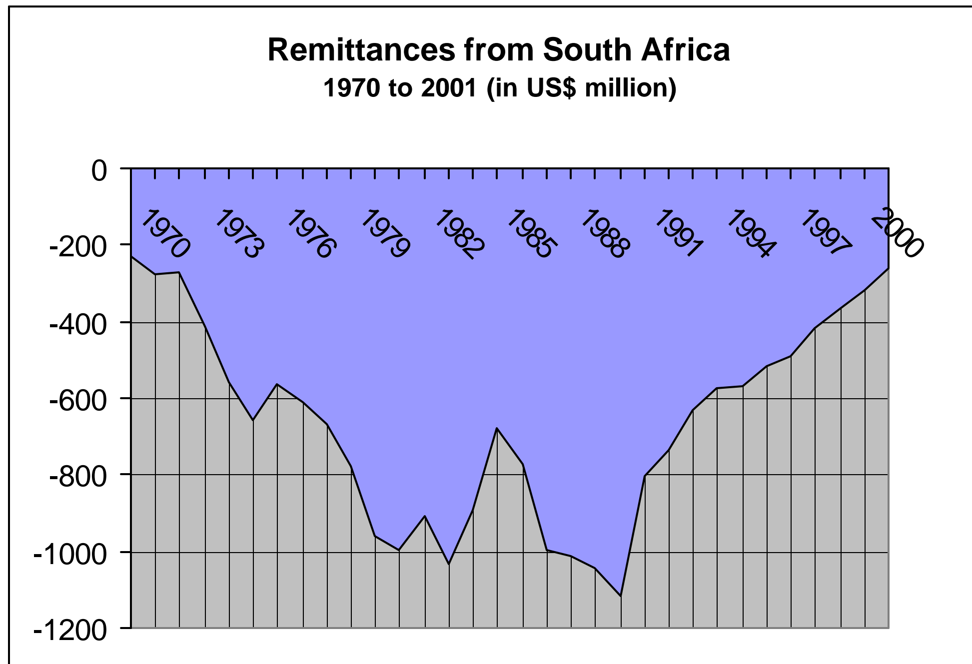


Figure A4.2: Remittances from South Africa



Annex 5: Top Remittance Receiving and Sending Countries

Figure A5.1: Top 10 Remittance Receiving Countries

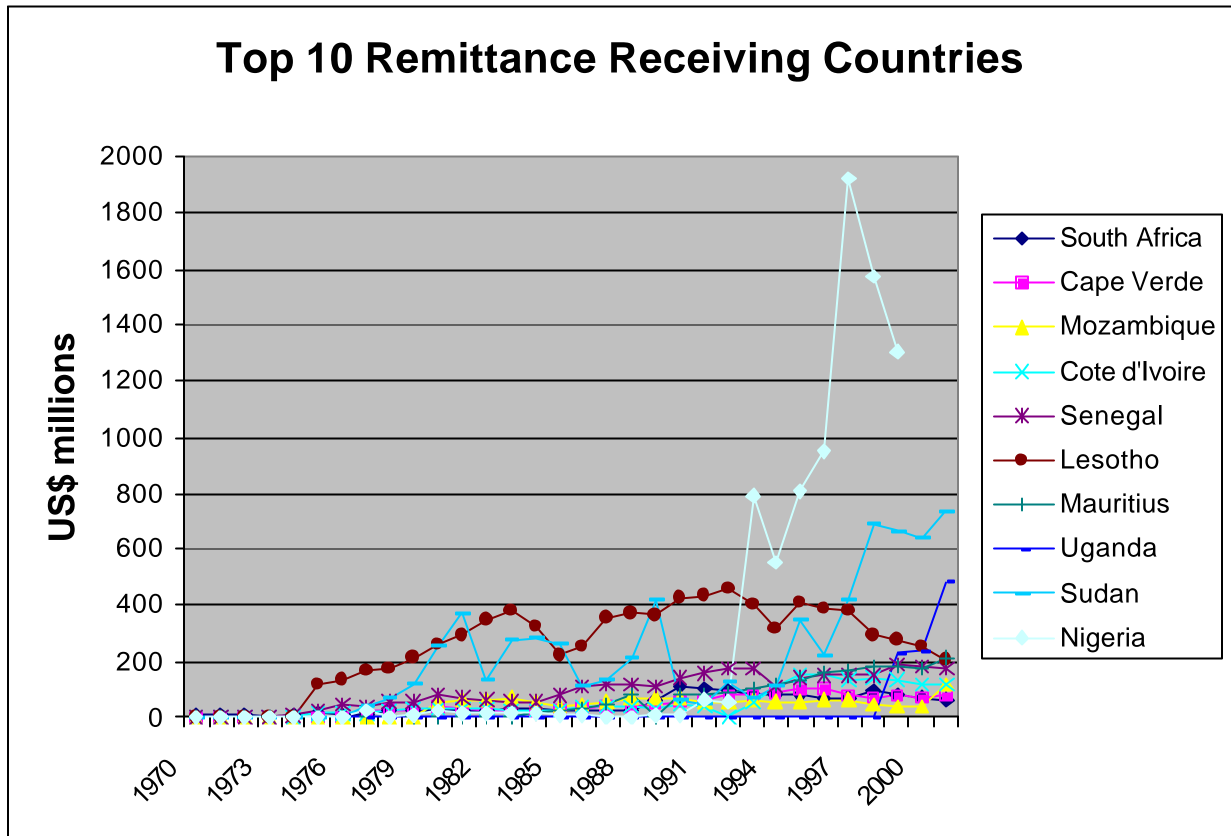


Figure A5.2: Top 10 Remittance Receiving Countries (excluding Nigeria)

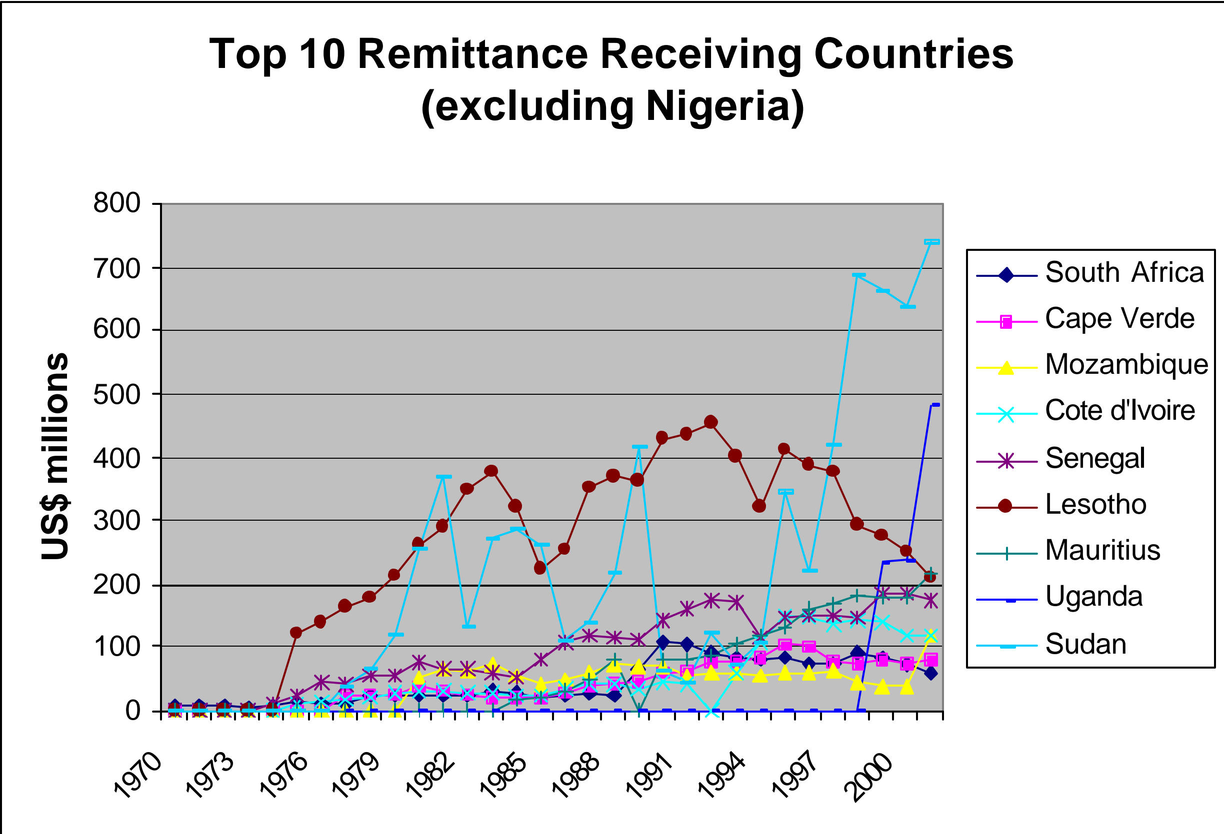
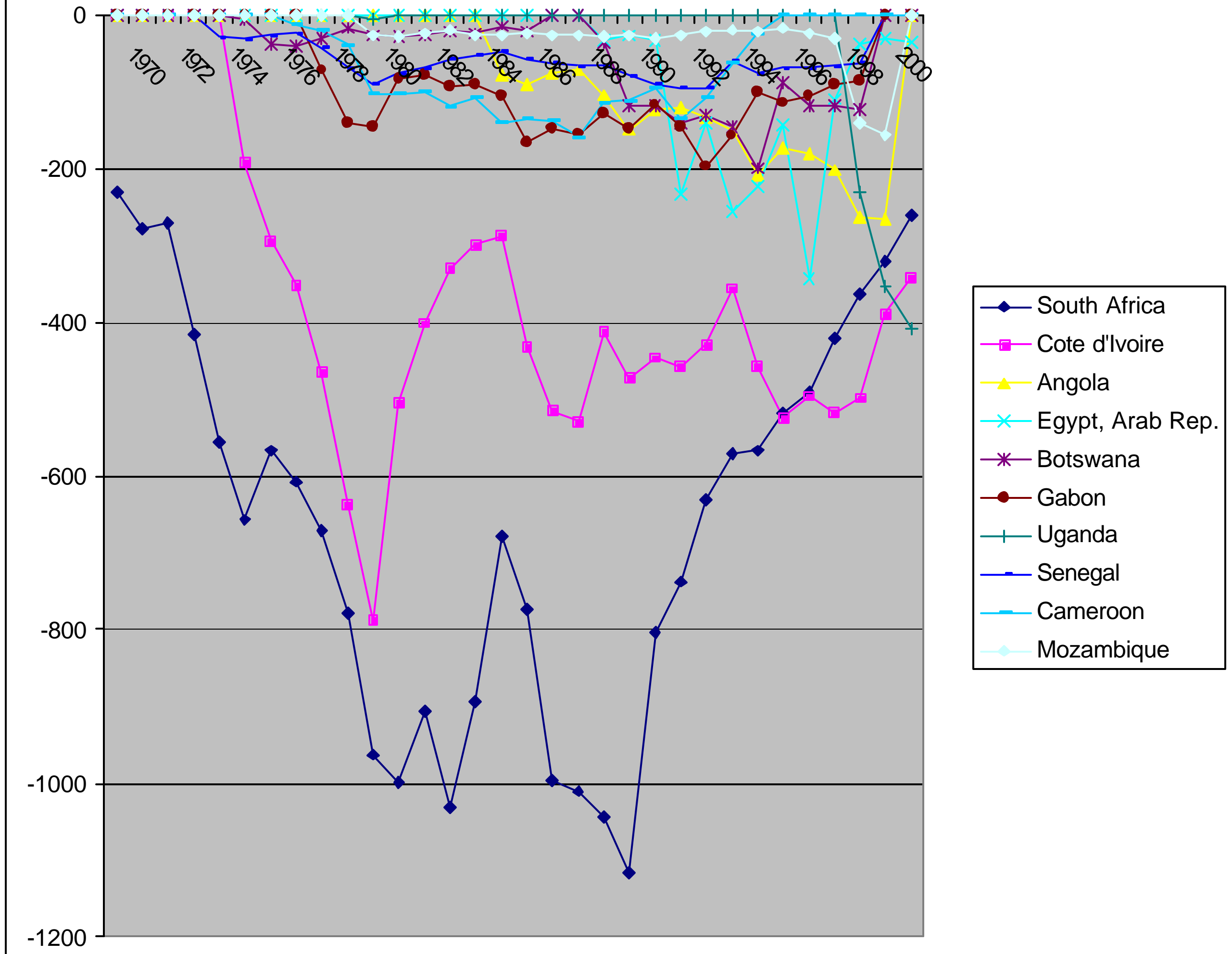
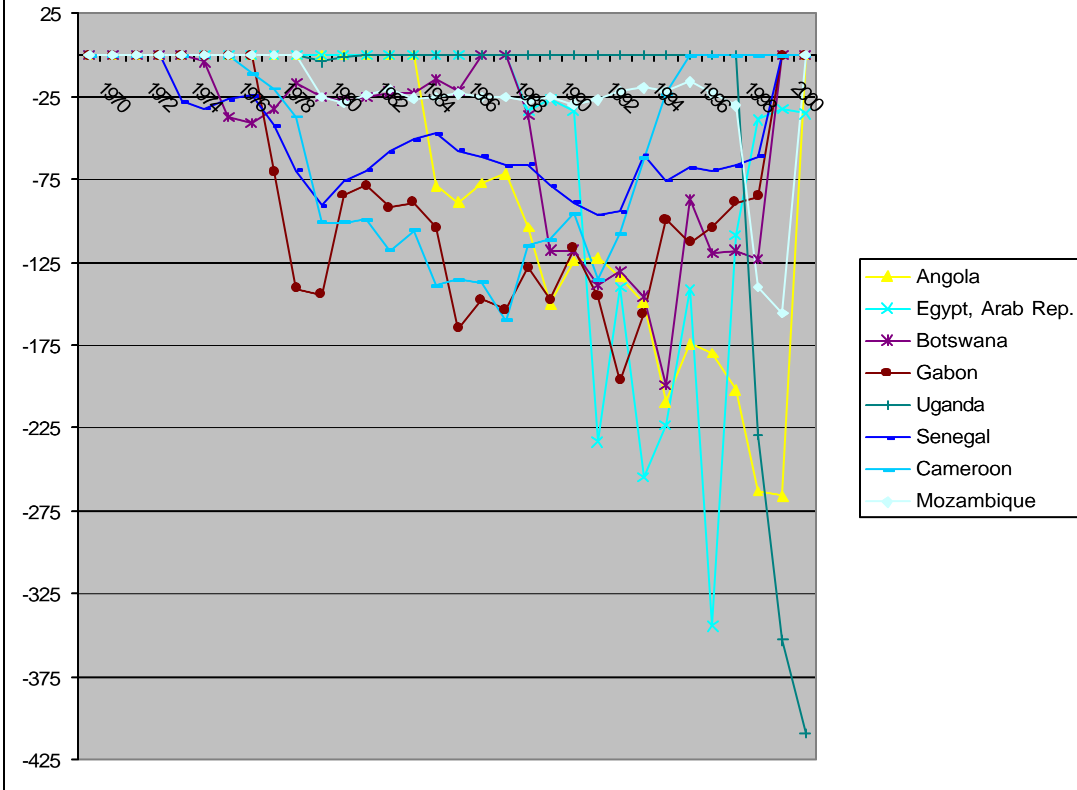


Figure A5.3: Remittance Receipts to African countries


Top 10 Remittance Sending Countries in Africa
1970 to 2001 in US$ million
0
-200
-400
-600
-800
-1000
-1200
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
South Africa
Cote d'Ivoire
Angola
Egypt, Arab Rep.
Botswana
Gabon
Uganda
Senegal
Cameroon
Mozambique


Top Remittance Sending Countries in Africa
excluding South Africa & Ivory Coast
1970 to 2001 in US$ million
25
-25
-75
-125
-175
-225
-275
-325
-375
-425
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
Angola
Egypt, Arab Rep.
Botswana
Gabon
Uganda
Senegal
Cameroon
Mozambique

Annex 6: Migrants' Destinations

A look at the destinations of migrants from Egypt, Morocco, Ghana, and Senegal illustrates that the reasons for migrating include socio-economic considerations as well as social networks, geographic proximity or opportunity, historical links, and socio-cultural factors such as language. Of recent migrants surveyed in four countries in 1999, the top destinations were mixed between Europe, the immediate region, and North America, with only Italy receiving significant numbers of migrants from three of the four (see table below).

Table A6.1:Major Destination Countries for Selected Migrant Populations

(percentage of sample)

	Nationality of migrants			
Destination	Ghana	Senegal	Egypt	Morocco
United States	17			
Germany	14			
Nigeria	10			
Italy	9	29		28
UK	9			
Gambia		17		
Mauritania		10		
Ivory Coast		7		
Saudi Arabia			39	
Iraq			17	
Kuwait			11	
Jordan			10	
France				29
Spain				20

Source: extracted from Schoorl and others (2000). (this is not a table in Schoorl but data mentioned in Schoorl and collated into this table)

Annex 7: Migrant Stocks

Source: United Nations (2002).

Migrant Stock**	
Regional Migrant Stock compared to Global Migrant Stock	
Africa compared to global	9 percent
Europe compared to global	11 percent
Northern America compared to global	23 percent
Migrant Stock by African Region:	
Eastern Africa	28 percent
Middle Africa	9 percent
Southern Africa	9 percent
Western Africa	42 percent
Northern Africa	12 percent
Total Africa	100 percent

** "Migrant stock: Number: For most countries, the mid-year estimate of the number of people who are born outside the country. For countries lacking data on place of birth, the estimated number of non-citizens. In both cases, migrant stock also includes refugees, some of whom may not be foreign-born. The letter code indicates the type of data underlying the estimates: B (Birth place): indicates the data refer to the foreign-born; C (Citizenship): indicates the data refer to non-citizens; I (Imputed): indicates no data were available and estimated by a model. Per cent of population: the migrant stock as a percentage of the total population. Source: Population Division of the United Nations Secretariat. Data available online at: http://www.unpopulation.org." (UN, 2002)

Country or area	Net migration (average annual)	
	Number (thousands)	Rate per 1,000 pop.
	1995-2000	
World	0	0.0
More developed regions	2,321	2.0
Less developed regions	-2,321	-0.5
Least developed countries	-306	-0.5
Africa	-447	-0.6
Eastern Africa	278	1.2
Western Africa	-119	-0.6
Northern Africa	-261	-1.6
Middle Africa	-332	-3.7
Southern Africa	-13	-0.3
South Asia	-1,311	-0.4
Latin America	-494	-1.0

Country or area	Total population (thousands)	Migrant stock		Number of refugees a/ (thousands)	Refugees as percentage of population
		Number (thousands)	Percent of population		
	2000	2000		2000	
Top refugees					
United Republic of Tanzania	35,119	893	2.5	681	1.9 percent
Guinea	8,154	741	9.1	427	5.2 percent
Sudan	31,095	780	2.5	415	1.3 percent
Dem. Rep. of the Congo	50,948	739	1.5	333	0.7 percent
Zambia	10,421	377	3.6	251	2.4 percent
Uganda	23,300	529	2.3	237	1.0 percent
Kenya	30,669	327	1.1	206	0.7 percent
Ethiopia	62,908	660	1.0	198	0.3 percent
Algeria	30,291	250	0.8	170	0.6 percent
Congo	3,018	197	6.5	123	4.1 percent
Côte d'Ivoire	16,013	2,336	14.6	121	0.8 percent

Country or area	Total population (thousands)	Migrant stock	
		Number (thousands)	Percent of population
	2000	2000	
Top re migrant stock			
Western Sahara	252	113	44.9
Gabon	1,230	250	20.3
Saint Helena f/	6	1	15.2
Côte d'Ivoire	16,013	2,336	14.6
Gambia	1,303	185	14.2
Libyan Arab Jamahiriya	5,290	570	10.8
Burkina Faso	11,535	1,124	9.7
Guinea	8,154	741	9.1
Namibia	1,757	143	8.1
Congo	3,018	197	6.5
Liberia	2,913	160	5.5
Sao Tome and Principe	138	7	5.3
Zimbabwe	12,627	656	5.2

Country or area	Total population (thousands)	Migrant stock			Number of refugees a/ (thousands)
		Number (thousands)	Letter code	Percent of population	
	2000	2000			2000
Africa	793,627	16,277		2.1	3,627
Eastern Africa	250,318	4,515		1.8	1,662
Western Africa	224,189	6,782		3.0	710
Northern Africa	174,150	1,945		1.1	606
Middle Africa	95,404	1,490		1.6	603
Southern Africa	49,567	1,544		3.1	47
Côte d'Ivoire	16,013	2,336	B	14.6	121
South Africa	43,309	1,303	B	3.0	15
Burkina Faso	11,535	1,124	B	9.7	1
United Republic of Tanzania	35,119	893	B	2.5	681
Sudan	31,095	780	B	2.5	415
Nigeria	113,862	751	C	0.7	7
Guinea	8,154	741	C	9.1	427
Dem. Rep. of the Congo	50,948	739	C	1.5	333
Ethiopia	62,908	660	B	1.0	198
Zimbabwe	12,627	656	B	5.2	4
Ghana	19,306	614	B	3.2	13
Libyan Arab Jamahiriya	5,290	570	C	10.8	12
Uganda	23,300	529	B	2.3	237
Zambia	10,421	377	B	3.6	251
Mozambique	18,292	366	B	2.0	0
Kenya	30,669	327	B	1.1	206
Senegal	9,421	284	B	3.0	21
Malawi	11,308	280	B	2.5	4
Algeria	30,291	250	C	0.8	170
Gabon	1,230	250	C	20.3	18
Congo	3,018	197	B	6.5	123
Gambia	1,303	185	B	14.2	12
Togo	4,527	179	B	4.0	12
Egypt	67,884	169	B	0.2	7
Liberia	2,913	160	B	5.5	69
Cameroon	14,876	150	B	1.0	44
Namibia	1,757	143	B	8.1	27
Niger	10,832	119	B	1.1	0
Western Sahara	252	113	I	44.9	..
Benin	6,272	101	B	1.6	4
Rwanda	7,609	89	B	1.2	28
Burundi	6,356	77	B	1.2	27
Mauritania	2,665	63	C	2.3	0
Madagascar	15,970	61	C	0.4	0
Central African Republic	3,717	59	C	1.6	56
Botswana	1,541	52	C	3.4	4
Mali	11,351	48	C	0.4	8
Sierra Leone	4,405	47	C	1.1	7
Angola	13,134	46	B	0.4	12
Swaziland	925	42	B	4.5	1
Chad	7,885	41	I	0.5	18
Tunisia	9,459	38	C	0.4	0
Djibouti	632	28	I	4.5	23
Morocco	29,878	26	C	0.1	2
Somalia	8,778	22	I	0.2	1
Guinea-Bissau	1,199	19	B	1.6	8
Comoros	706	18	B	2.6	0
Eritrea	3,659	13	I	0.4	2
Cape Verde	427	10	B	2.4	0
Mauritius d/	1,161	8	B	0.7	0
Sao Tome and Principe	138	7	C	5.3	..
Lesotho	2,035	6	C	0.3	0
Equatorial Guinea	457	1	C	0.3	0
Saint Helena f/	6	1	B	15.2	..

Annex 8: Transfer Amounts and Costs

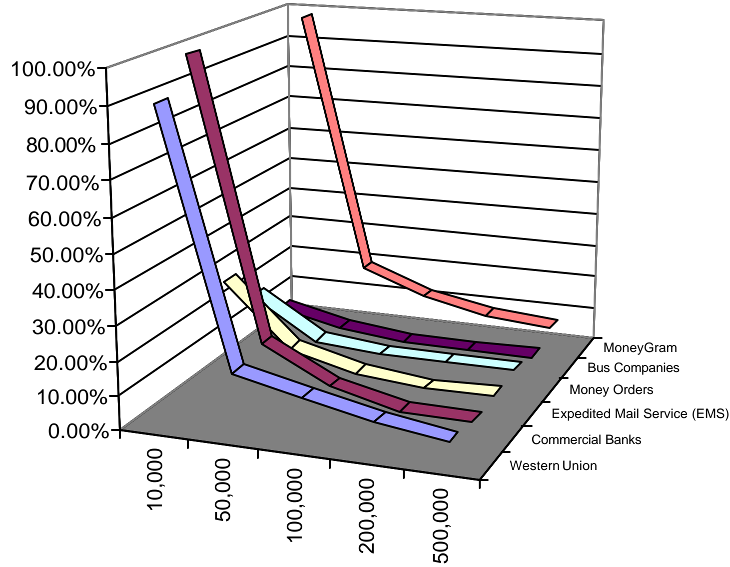
Table A8.1: Transfer Amounts by Country and Costs

Country (data source)	Amount and cost of transfer	Year of estimate	Notes
Egypt (Orozco, 2003a)	13.8 percent of $200 via major MTOs in the United States	2003	Formal; estimate of transfer costs from the United States based on 2 MTOs
Morocco (Iskander 2002 as cited in Orozco, 2003a)	Groupe Banque Populaire: 1. Transfers to a BP account costs 0.1 percent of the total value provided it's over $100. 2. Credit to pick up at any BP branch costs 90 dirhams or $9 dollars independent of the amount.	2002	Formal; Approximately 60 percent of all remittances go through Banque Populaire according to the study
South Africa (Immigration Laws, 2000, Number 23)	R120 (Average cost/ transfer)	2000	Informal; Western Union estimate
South Africa (internal money transfers) (Cross, 2003)	For a transfer of R200: 1. "Face-to-face" withdrawal at bank: R16-25 or 8-13 percent/transfer; 2. Bank ATM (Teba Bank): R3.70-4.70 or 1.5-2.4 percent/transfer, 3. Post Office ATM (SASWITCH): R9 or 4.5 percent; 4. Post office money orders: R28.25 or 14 percent.	2002	Formal; there are charges at the receiving end, for all transfers except for the post office money order, where the sender pays the charge up front.
South Africa (internal money transfers) (Genesis, 2003)	Transfer through: 1. Friend, between 0 and R10 for a R250 transfer 2. Taxi driver, between R15-R25 for a R250 transfer	2003	Informal; chance of money going missing yields a probability-based cost.
Senegal (Dieng, 1998)	Between 3-10 percent of the transfer amount, decreasing scale	1998	Informal; through a Senegalese association in France
Ghana (Orozco, 2003b)	7.5 percent of the transfer amount ($200)	2003	Transfer through ethnic store or exchange House in the United States
Zimbabwe (Orozco, 2003a, 2003b)	11.9 percent of the transfer amount ($200)	2003	Formal; major MTO in the United States
Mozambique and Swaziland (Orozco, (2003b))	1 percent of the transfer amount ($200)	2003	Formal; Low cost is a result of services offered by Theba Bank, a miners' bank that transfers remittances from South Africa to migrants' families who have bank accounts in the recipient countries.

Annex 8 – continued

Figure A8: Pricing of Formal Transfer Products in Tanzania

(1 $ca. TSH 800)



Source: Sander, 2001; (1$ca TSH 800)

The diagram shows low-value transfers ($12 to $625) and the fee percentage per transaction.

Source: Sander, 2001

Annex 9: Remittances by Channel from Country Case Studies

Table A9.1: Remittances by Channel

(Illustrative of type of information available through migration/remittance studies)

	Formal	Informal
Egypt	Estimated 1/3 of migrants' potential savings (1996) (El-Sakka 1997)	estimated 20 percent in-kind (1997) (El-Sakka, 1997)
Morocco	60 percent of all bank transfers go through the state-owned Groupe Banque Populaire (2002) (Iskander 2002; cited in Orozco 2002)	
Ghana	5 percent of total; available channels include Social Security Bank money transfer and Money Gram; Agricultural Development Bank money transfer, Standard Chartered Money Gram; Western Union (Anarfi 2000)	95 percent in-kind (Anarfi 2000)
Sudan	11.3 percent of total (Russell et al., 1990) 24 percent of sampled migrants use bank transfers (1980) (Galaleldin 1980, cited in Russell and others 1990)	85 percent (Choucri); 20 percent in-kind (Abdalla) (Russell et al., 1990)
Southern Africa		Rd 1 billion sent with bus and taxi drivers (2000) (Immigration Laws 2000)
Swaziland		Non-cash transfer is double that of cash transfers (1984) (Russell 1984, cited in Russell and others 1990)

Annex 10: MTO Licensing Regulations

This overview illustrates some of the variations based on a cross-section of sending countries.

Germany	MTO would need a full banking license (high cost)
Norway, Scandinavian countries	MTOs unregulated.
South Africa	Regulator prefers that banks handle money transfers, in part due to the strict reporting requirements related to the country's foreign exchange controls.
UAE	Now has registration and reporting system for *hawala* dealers.
United Kingdom	As of June 2002, mandatory registration of "money service businesses," which previously were unregulated; licensing requirement is said to have driven out a plethora of small and inefficient MTOs.
United States	MTOs must comply with federal and state licensing requirements. Since 1999 they must register with the federal government and pay a fee. They also must register in each state in which they will operate, or have an agent operate. At the state level, in addition to fees, a bond must be posted. Fees and bond values vary by state. Bonds range from $50,000 to 250,000. There are also capitalization requirements. California has the highest requirement: $250,000 minimum capital, Because MTOs must register on behalf of their agents, registration for smaller operators pursuing specific ethnic markets can be very expensive. Regulation of mail- or Internet-based services is unclear.

Source: van Doorn (2002), Omer (2002), Genesis (2003), author's conversations; U.K. registration information for MSBs found at http://www.hmce.gov.uk/business/othertaxes/msbregistration.htm.

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