Reducing the Cost of Migrant Remittances to Optimize their Impact on Development:

Tools and Financial products for the Maghreb Region and the CFA Franc Zone

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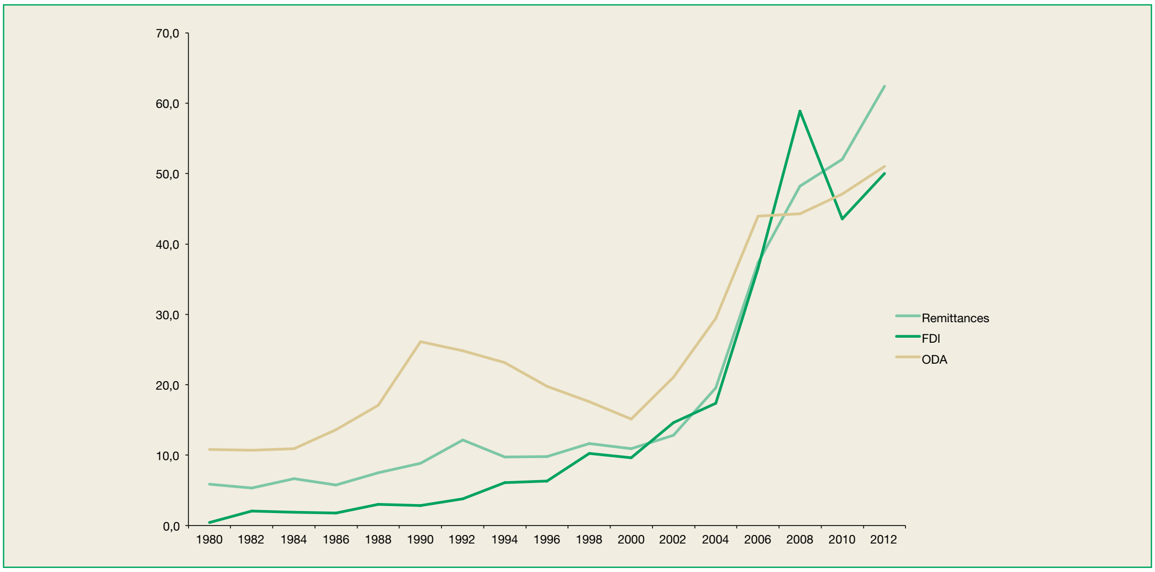
Executive Summary

Remittances from migrants are an important source of funding for the economies of many developing countries. In these countries, large segments of the population benefit from these remittances and, without these resources, would otherwise live in precarious conditions. Others see these financial flows as viable business opportunities. This situation creates an organic harmony between senders (remitters) and recipients that transcends mere family relationships, with the former having what is perceived as an abiding moral obligation towards the latter.

The volume, stability and resilience of migrant remittances makes this source of revenue essential for financing inclusive growth in the recipient African countries, and also provides a potential base for partnerships and mutually supported development between countries of origin and countries of residence

What is remarkable is that, even when the migrants' countries of residence are beset with economic and financial crisis, as has been the case at the end of the last decade, remittance flows tend to remain stable and less affected by the economic situation than official development assistance (ODA) and foreign direct investment (FDI).

External Financial Flows To Africa (US $ billions)



Sources: AfDB Statistics Department; UNCTAD Online Date Base; OECD.

This type of harmony and sense of moral duty tends to be trans-generational, with children and generations who were either born in, or have become full citizens of the countries of residence, continuing to contribute in various ways to maintaining the ties inherited from their parents and remitting money in various forms. This is especially true of central Maghreb and CFA Franc zone countries that form the core focus of this study[1].

The study covers five recipient countries; Cameroon, Comoros, Morocco, Senegal and Tunisia in relation to a single source of migrant remittances, France. The choice of these countries is based on the highly differentiated features of their respective remittance markets. The range of countries covered in the study goes from a country where remittances largely occur through informal channels (Comoros), to a country where the bulk of transfers go through banks (Morocco). It also considers countries in an intermediate state where cash remittances are sent primarily through money transfer companies (Cameroon and Senegal), and investigates differences in the roles played by local intermediaries in these two countries[2]: in Senegal, micro-finance institutions effectively play a greater role than the traders.

Reducing the costs of remittances contribute more to improving the living standards of recipient populations, as well as the development of the recipient countries

Various market studies suggest that costs for remittances remain high, despite the fact that the supply of financial products and services cater only partially to the needs of both remitters and receivers. However, more resources could be mobilized through remittances if the costs were lower and if the financial products and services offered are better adapted to the actual needs of the remitters and receivers. These additional resources could then contribute to the improvement of living standards of the direct beneficiaries, as well as the development of the economies of the recipient countries.

This report examines ways of reducing the cost of migrant remittances and optimizing their contribution to mutually supportive development, based on partnership arrangements between the financial systems in both the countries of origin and the countries of residence. The report recommends the promotion of financial innovations coupled with a re-adjustment of the regulatory frameworks, in line with the objectives set by the G20 and the CICID[3].

1 This study is a continuation of work and other activities initiated by the African Development Bank (AfDB) with the support of France: the 2007 study: *Migration and Development, A Development Challenge*; the launch of the ADB "Migration and Development" (2008) initiative; the creation in 2009 of a dedicated Trust Fund, the "Migration and Development Fund", whose first contributor was France; the set up in 2009 of a program aimed at building the operational capacity of the financial sector in the Maghreb and the CFA Franc Zone.

2 Africa's remittances markets remain much more complex, although these two countries can be considered as representative of many others. For example, the study findings and recommendations could not be used as they are in countries still in conflict (such as Somalia) or in fragile states (such as Guinea).

3 Inter-ministerial Committee for International Cooperation and Development (France).

Good knowledge of the transfer markets and the local context is the key to improving operations in order to reduce the costs of remittances and meet the needs and expectations of senders and receivers

The study presents the general context of migrant-remittances in the five countries considered and includes:

- An analysis of formal transfer markets;
- A review of the legal and regulatory provisions governing them;
- An evaluation of both banking and non- banking products and services on offer;
- Proposals of innovative financial products and services which take into account the increasing reliance on information and communication technologies (ICT);
- Recommendations aimed at contributing to the reduction of the volume of informal transfers, lowering transfer costs, increasing transparency in market operations, and boosting migrant remittance markets especially through the introduction of new financial and banking products and services.

At present, the structures and features of remittance markets tend to foster a stabilization of transfer costs at relatively high levels.

The main characteristics of transfer markets in the countries that were investigated include:

- The relatively high volume of cash transfers in all the countries; banks are often an unavoidable step in the process;
- The increasing but cautious recourse to other transfer products, particularly account -to-account transfers with partial cash payment to recipients[4];
- The significant increase in the supply of conventional bibancarisation[5];
- The biased interest of financial intermediaries directed almost exclusively to the remitters[6].

This situation directly impacts on financial inclusion and access to banking services for the recipient population. It in fact, translates into a preference for remittances in cash, which resonates well with the logic of market operators, including banks, for whom these operations are simple, cheap, risk-free and highly profitable. It is no surprise then that the lowering of transfer costs, when initiated by the intermediaries

4 The two accounts owned by the same person.

5 Bibancarization corresponds to dual bank accounts, one in the country of residence and the second in the country of origin.

6 With the exception of Moroccan banks, which also try to reflect on the interests of recipients.

(money transfer companies, banksand micro-finance institutions) would be strategically driven more by a desire to capture and maintain clients and increase profit margins (through an enlarged customer base) rather than by a willingness to promote financial inclusion and access to banking services for the recipients. Their profit margins remain considerably significant and could afford to fall further without significantly affecting the returns from their operations. While addressing the issue of reducing transfer costs as agreed to by international bodies such as the G20, current practices address other considerations that result in the stabilization of transfer costs at high levels, well above those that the G20 aimed to achieve by the year 2014.

The present state of affairs calls for greater international and regional cooperation, coupled with ongoing dialoguing with remittance market operators

The objectives will be to reduce the cost of remittances and promote financial inclusion and access to banking services for the beneficiary populations

At present, transfer costs are tending towards stabilization, rather than falling. There is therefore justification for concerted official action at national, regional and multilateral levels if transfer costs are to be reduced and if financial inclusion is to be effectively promoted, in accordance with the conclusions and recommendations of the G8 Summit of Aquila and the G20 of Nice. Special attention should be paid to regional and sub-regional transfer costs, because these costs are even higher for intra-African transfers - including those between neighbouring countries.

Maghreb and Franc Zone countries as well as other African countries would benefit from the efforts of the G20 Global Partnership for Financial Inclusion (GPFI)[7]. Implementation of the general principles of financial inclusion as set out by the GPFI would contribute to the strengthening and expansion of their financial systems. They would also benefit by getting more involved in the GPFI programs, particularly those that relate to the regulatory and standardization aspects. Furthermore, given the potential structuring and inclusive role of remittances in recipient countries, and the importance attached to them by the G20

7 See in particular : «G20 Leaders Commit to Further Efforts to Promote Financial Inclusion Through the GPFI» (http://bit.ly/1kalWBT); GPFI Report to the Leaders, G20 Leaders Summit, Cannes, November 5th, 2011 (http://bit.ly/1nApYF5) ; G20 Financial Inclusion Experts Group - ATISG Report, *Innovative Financial Inclusion – Principles and Report on Innovative Financial Inclusion from the Access through Innovation Sub-Group of the G20 Financial Inclusion Experts Group*, May 25th 2010 (http://bit.ly/1fQ3Fut).

Development Group (under pillar 6), there would be merit to the GPFI giving them greater prominence, particularly within the framework for the promotion of financial inclusion in the recipient countries.

The remittances markets are very dynamic. They show a continuous increase in flows and the profiles of the market practitioners have become more and more diversified, resulting in increased competition and greater transparency. Consequently, transfer costs are reduced and a broader range of dedicated products and services are becoming available

This development ought to go hand in hand with concerted official action by the relevant authorities in both receiving and remitting countries, in order to ensure a significant reduction in costs, promotion of financial inclusion, and reducing informal transfers as well as the risks of money laundering and funding of terrorism[8]

The study identified five types of currently and potentially active operators on the transfer markets:

- Money- Transfer Companies (MTCs);
- Banks and Post Offices;
- Microfinance institutions (MFIs);
- Mobile-phone Operators (MPOs) and other companies in the business of technology and electronic-banking;
- Financial and Stock Market professionals.

In recent years, certain markets such as Cameroon and Senegal have witnessed the development of local MTCs, a trend which tends to bring down transfer costs. However, these MTCs do not yet have the muscle to challenge the quasi-hegemonic position of the major players such as banks and post offices which continue to take advantage of their privileged positions in the remittance market. Within the MTCs themselves, the behaviour of the major players differs from that of local MTCs which are much younger and less well-established. Banks and post offices have realized the importance of migrant remittances and the commissions that they generate: relying in particular on new technologies, these institutions try to diversify the goods and services they offer, but these remain generally

8 Although the study considers only the countries mentioned, these characteristics are found in other parts of the continent, including in countries in conflict or crisis (such as Côte d'Ivoire).

limited and un-competitive. Large Micro-Finance Institutions (MFI's) are also starting to show increasing interest in this market: they attempt to diversify their products in order to capture a market share, particularly by targeting newly-arrived migrants. Some MFIs have teamed up with local MTCs operating regionally or internationally, while others try to obtain the status of European payment institutions, through the acquisition of small structures that are struggling. They also attempt to form partnerships with European banks and financial institutions. To cope with this competition and maintain their comparative advantage, major players associate themselves with banks, post offices and MPOs to offer additional products such as mobile-phone transfers and the use of "m-payments" (mobile payment).

Paying more attention to these new market players, through coaching and support, would not only contribute to the strengthening of the financial systems of the recipient countries, but it would also positively impact formal transfers as well as the fight against money laundering and funding of terrorism.

An update of the regulatory and supervisory frameworks would promote the diversification of financial products and services on offer. It would contribute to increased competition, the reduction of transfer costs and the promotion of financial innovations

The exclusivity clause is clearly losing impact in all surveyed markets, not just because of the emergence of new players and the evolution of those market, but also largely due to the decisive measures put in place by monetary authorities, as well as publicity drives carried out by sites such as AFD "envoidargent.fr". However, measures to remove exclusivity clauses remain partial and often tainted with formalism because they are not systematically monitored or supervised, and because preference is still given to certain operators, as is the case with the postal banks in France and Tunisia. Moreover, they are not always accompanied by the necessary publicity and awareness campaigns in the African countries[9] studies.

Measures that are likely to encourage the market to diversify the range of products and alternative and/or additional services offered must also be considered,

9 The partial information collected suggests that it also prevails in many other African countries.

particularly with regard to savings and investment products. Viewed holistically (to meet the expectations of both individuals and the community at large), they can indeed be promising vehicles for change, lead to more significant transfer cost reduction, and contribute to a better allocation of the remitted resources.

The study shows that the regulatory frameworks remain relatively rigid in recognizing the value of savings for remitters, particularly in the form of productive investments. Countries give priority to the stability of their national economies and financial systems as well as the protection of the beneficiaries of the financial services. Their first legitimate concern is to ensure the compliance of transactions with the recommendations of international bodies such as the Financial Action Task Force (FATF) and the Basel Committee. However, due to the regulatory constraints they impose, a number of provisions need to be reviewed closely in order to prevent the stagnation of the markets and the development of the informal market. In effect, the legal safeguards around bibancarisation operations do not seem optimal. Despite positive developments, particularly in the WAEMU with micro-finance in certain countries, for example Cameroon and Senegal, with the use of ICT and the development of e-commerce in general, the regulatory frameworks still require special attention. Their revision and improvement is necessary for the strengthening and diversification of the financial products and services that could contribute to reducing transfer costs and improving the mobilization of the savings needed to finance productive development projects. Some regulatory and supervisory authorities (such as the WAEMU and in some cases CEMAC) are moving in this direction. It will benefit others to draw inspiration from them. At the same time, dialogue is necessary between regulators and supervisors, in both countries of residence and recipient countries, if progress is to be made in this regard. This applies not only to the countries of the OECD, but to African countries as well[10].

Diversification of financial products and services, combined with an increased use of new technologies, are solutions that could help to reduce the cost of remittances for migrants and promote financial inclusion

The study shows that **reducing transfer costs cannot be achieved solely through the lifting of the exclusivity**

10 The existence of the Association of African Central Banks should facilitate such an exercise.

clause. To achieve the desired reduction, there must be a diversification of financial products and services offered, as well as increased use of technology which will help meet the needs of the main players on both ends of the transfer chain, the remitter and the recipient.

Four types of financial services and products are considered:

- products and services to improve "conventional" transfers[11];
- Bibancarisation[12] products and services;
- Collective Investment Support products for Diaspora Associations;
- Long-term institutional investment products (stock market, banking and financial products);
- Products and services relying on ICT for North/South remittances via mobile banking, e-money and e-banking.

These products and services contribute to increased bibancarisation, reinforcement of banking systems in the countries of origin, reduction in the use of cash (and consequently, in cash–remittance operations), decrease in informal transfers, and promotes the mobilization of migrant remittances in the countries of origin.

At present, the supply of products and services varies from one market to another. All countries tend to offer their nationals residing abroad the products available in their respective domestic markets, and on the same terms as the local population. Despite their attractiveness, however, these products do not facilitate access to loans in the countries of residence for funding operations in the countries of origin[13]. This further limits the savings and investment opportunities for residents abroad. The limited success of conventional bibancarisation and its development prospects leads to the suggestion of an alternative that falls partially within the framework of mutually supported development and involves regulatory amendments as well as some financial engineering, the Mutually Supported Bibancarisation. This option is meant to complement and not replace the conventional bibancarisation.

Practitioners, new technologies, products and services, which favour the reduction of the costs of remittances, financial inclusion and inclusive development: paths to explore

Due to the observed diversity in the technical and regulatory situations, it is essential to encourage the

[11] Cash transfer to an account with the possibility of having a cash provision, which may be withdrawn from that account.

[12] Mutually Supported Bibancarisation: remote opening of a bank account from the country of residence in the country of origin, access to property loans in the country of residence for the acquisition of real estate in the country of origin, set up of savings products in the country of residence with a view to invest in the country of origin and the development of savings products (housing savings) in the countries of origin for non-residents.

[13] With the exception of Morocco, where the introduction is very recent.

exchange of experiences and partnerships between countries. In this case, this is applicable to the countries covered by the study. However, there is merit in extending such discussions and partnerships to other countries facing the same issues, both African countries as well as other OECD member-States. These partnerships should focus in particular on banking and non-banking regulation and supervision.

In conclusion, the study proposes **five paths to explore** with a view to developing and strengthening banking and non-banking products with remitters and their communities of origin in mind:

- Increase the role of MTCs[14] in the handling of emergency money transfers, with the aim of reducing informal transfers and strengthening competition;
- Reinforcement traditional bibancarisation as a tool for the use of banking services and financial inclusion in the countries of origin, as well as the mobilization of transferred savings;
- Promotion of mutually supportive banking integration as a tool for bancarisation and financial inclusion in the countries of residence, for a greater mobilization of savings from nationals residing abroad and dual-citizenship holders, for local development and the realization of their personal projects;
- Reinforcement of ICT for banking services: mobile and electronic banking and, more broadly, remote banking, as tools for facilitating transfers and banking ;
- Promotion of financial and stock-exchange products as tools for mobilizing savings and leveraging the expertise of nationals residing abroad and dual-citizenship holders for inclusive development, strengthening economic and financial systems, as well as better integration of the countries of origin into the global economy.

The report outlines the practicalities of implementing these recommendations, particularly through its wide dissemination, the organization of thematic meetings among the stakeholders and partners, and the setting up of specialized working groups, with the support of G20 countries, France in particular, and bilateral and multilateral institutions such as the African Development Bank and the “Agence Française de Développement”.

[14] Particular attention shall be paid and support shall benefit to the MTCs, which still have a limited regional and international reach and a potential for high growth.