Remittances can Reduce Poverty in Sub-Saharan Africa

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Theme: The impact on Africa of remittances from migrants has a greater dimension and transcendence than anywhere else in the world. This is due to both the characteristics of the remittances and the particular conditions of the continent. Accordingly, these flows are the most forceful weapon with which to reduce poverty in the region, but their impact on development is weaker in Africa than in any other region.

Summary: This analysis will examine the effect of remittances in sub-Saharan Africa, a region which, until now, has not shown any capacity to generate an endogenous growth while it suffers serious, perhaps insurmountable, difficulties in attracting significant monetary flows. The absence of infrastructures and the existence of diseases preclude relevant tourist figures, whereas its precarious economic situation makes it less attractive for foreign investment. The region has hardly any payment capacity to receive international loans which, overall, makes it difficult to access capital that would enable investments to export something more than raw materials, for which access to international markets is very limited given the protectionist practices of the developed world.

Analysis: The international agenda for aid to development is taken up by the Millennium Development Goals, the top priority of which is to reduce poverty. Specifically, it is intended to halve the number of persons who live on one dollar per day, and to halve the number of persons who suffer hunger.[1] It must be recalled that remittances from migrants are the best-known means of achieving this objective because these flows have no counterflow, ie, they are gifts. Whoever receives €300 is just €300 less poor than before. If the recipient belongs to the most precarious group, those who live on less than one dollar per day, this amount is just enough to allow them to forget their penury for one year.

Remittances sent by migrants to sub-Saharan Africa have many possibilities of ending up in the hands of person with these characteristics. According to the United Nations, 46.4% of the population belonged to this group in 2001. This means 313 million persons, or 30% of all the poor with these characteristics throughout the world. Furthermore, the UN says that the African destitute only have US$0.60 a day while the rest of the world has an average of US$0.80.[2]

For example, a remittance of €300 enables a typical family in Ecuador to live for one month. But if this money is sent to Burundi, it would represent three years of average

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[1] The United Nations Statistics Division has created a specific page on Millennium Development Goals and their degree of achievement: *http://unstats.un.org/unsd/mi/mi_worldmillennium_new.asp*
[2] *The Millennium Development Goals Report*, United Nations, 2005.

production, bearing in mind that the IMF determined that the GDP per capita for that country was US$91 per annum in 2004.

It could be thought that the sending of remittances is as subject to uncertainty as any other traditional economic flow. But remittances are characterised by being 'far more stable and less cyclic than any other flow of capital'.[3] Accordingly, they act as insurance against economic instability. For example, when remittances exceed 3% of GDP they acquire a sufficient critical mass to make 'financial crises less probable when foreign exchange reserves are reduced'.[4]

One of the reasons is that the most evident of its determining factors are usually the family ties between the sender and the receiver of the funds. This link is permanent and is not attenuated, for example, by financial market conditions which, on the contrary, do affect foreign investment. These ties are even closer when the country of destination goes through crisis situations, such as natural catastrophes, which have a devastating effect on flows such as revenue from international tourism.

In the case of Africa, those family ties are far stronger than in the traditional European nuclear family, due to both their characteristic informality and to polygamy wherever it is legal. This means that the number of receivers per sender is higher than in other areas, thus extending the relationship between families and remittances.[5] And this also spreads the effect of remittances on poverty.

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[3] International Monetary Fund, *World Economic Outlook,* April, chapter II.

[4] Matteo Bugamelli (Banca d'Italia), *Do Migrants' Remittances Reduce the Probability of Financial Crises in Emerging Markets*, *Working Paper* presented at the *Third Workshop on Emerging Markets*, Bank of Spain, Madrid, 24-25/XI/2005.

[5] Richmond Tiemoko, Migration, *Return and Socio-Economic Change in West Africa: The Role of Family, Working Paper* nr 15, Sussex Centre for Migration Research, University of Sussex, 2003.

Who Receives Remittances in Sub-Saharan Africa?

Ranking of Receipt of Remittances in Sub-Saharan Africa (in US$ millions in 2003 –unless otherwise indicated-)

Sudan	1224
Nigeria 95)	804
South Africa	436
Uganda (02)	365
Senegal (02)	344
Lesotho (02)	184
Cote d'Ivoire	141
Mali (02)	138
Cape Verde	92
Benin (02)	84
Mozambique	69
Togo (02)	69
Ghana	65
Swaziland (02)	62
Botswana (95)	59
Burkina Faso (02)	50
Ethiopia (02)	33
Sierra Leone (02)	22
Madagascar (02)	17
Guinea (02)	15
Namibia	13
Comoros (95)	12
Djibouti (02)	12
Cameroon (95)	11
Niger (02)	8
Rwanda (02)	7
United Republic of	7
Mauritania (95)	5
Gabon (02)	4
Seychelles (02)	2
Congo (02)	1
Malawi	1
Mauritius (02)	1
Angola	..
Burundi	..
Central African	..
Chad	..
Equatorial Guinea	..
Guinea-Bissau	..
Kenya	..
Liberia	..
Zambia	..
Zimbabwe	..
TOTAL	4357

How Much Does Africa Receive in Remittances?

The official figure of remittances received by sub-Saharan Africa is US$4,357 million, according to the UNCTAD for 2003. But this figure is three times less than their actual value, as shown by its disproportion with the number of migrants from the region. According to the United Nations *Population Division* for the period 2000-05, net annual migration from African countries is 455,000 persons whereas the *stock* of migrants in the region is 16 million persons, of which 3 million correspond to North Africa.

The imbalance between figures for migrants and for remittances is partly explained by the poor quality of the statistic. Of the 44 countries in sub-Saharan Africa, no figures are given for 10, including some with such significant diasporas as Angola. Furthermore, the countries for which figures are given receive remittances irregularly and, in many cases, with a delay. There are five cases in which the figure of remittances dates back to 1995, as occurs with Nigeria, whose diaspora has a highly significant dimension. It is evident that given the extreme poverty of the region there are far more urgent things to do than keep accurate national accounts.

Another part of the explanation is that conditions in Africa entail that the degree of informality in remittances is higher than the world average.

A joint report prepared by the IMF and the World Bank indicates that informal remittances could represent up to 75% of those accounted at world level.[6] These informal remittances often travel through paralegal systems, organised clandestinely and which are given different names depending on the geographical region: from *fei-ch'ien* (China) to *hundi* (Pakistan, Bangladesh) and commonly known as *hawala* in Arab countries. Connections have been detected between these informal networks and the financing of illegal activities and even terrorism.[7] The same report mentions that this informal phenomenon is more acute in Africa than in any other continent.

For its part, the Bank of Spain affirms that its official figure for remittances leaving the country underestimates the true dimension by between '17% and 46%'.[8] These percentages are far higher for African countries. For example, a Eurostat report claims that '95% of remittances to Ghana are in kind'[9] while a report issued by the ILO calculates that 85% of remittances received by Sudan are informal[10] and another analysis reveals that the total amount of remittances exceeds the official figure. To give an example, 'bank deposits by migrants represent one third of all private deposits in the banking system in Mali'.[11]

This greater propensity in sub-Saharan Africa towards informal remittances can be explained by the weakness of their financial systems, which are inexistent in certain countries. This is why it is impossible in practice to send remittances using formal systems and users have to resort to informal ones. Another reason is the high proportion of intra-

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[6] Caroline Freund and Nikola Spatafora, *Remittances: Transaction Costs, Determinants, and Informal Flows*, Policy Research Working Paper, World Bank, 2005.
[7] For an analysis of this aspect, and others, of remittances as an economic flow in general, see Íñigo Moré, *Emigrant's Remittances in Spain: An Opportunity for Action Abroad*, Elcano Royal Institute, WP nr 3/2005, available at *http://www.realinstitutoelcano.org/documentos/167.asp*
[8] Bank of Spain, Balance of Payments 2004.
[9] John K. Anarfi, K. Awusabo-Asare and N.N.N. Nsowah-Nuamah, *Push and Pull Factors of International Migration: Country Report Ghana*, Eurostat, 2000.
[10] Shivani Puri and Tineke Ritzeme, *Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues*, *Working Paper* nr 21, Social Finance Unit, International Labour Organisation, Geneva, 1999.
[11] A.S. Fall, 'Enjeux et défis de la migration internationale de travail ouest-africaine', *Cahiers de Migrations Internationales*, nr 62, International Labour Organisation, Geneva, 2002.

regional migrations, where migrants come and go, taking their remittances with them because of labour phenomena, such as seasonal work in agriculture, or cultural traits, such as nomadism.

Who Receives the Remittances in sub-Saharan Africa?	
Reception ranking of Official Aid to Development in Sub-Saharan Africa (US$ million in 2003 according to OECD DAC	
Mozambique	2,058
Ethiopia	1,307
Egypt	1,286
Tanzania	1,233
Ivory Coast	1,069
Congo DR	807
South Africa	657
Ghana	653
Zambia	641
Uganda	638
Others	11,949

Accordingly, a minimum estimate of remittances actually received in sub-Saharan Africa could be three times the official figure, setting it at around US$13,000 million per annum, which is an amount far higher than foreign investment in the region and approximately one half of total Official Aid to Development which, in net terms, is the main economic flow in the region.

Sub-Saharan Africa has always been the world's main destination for official aid to development and its leadership has increased in the past few decades. Between 1973 and 1982, it absorbed 26% of all aid granted by members states of the DAC, an OECD department that analyses these flows. The percentage increased to 31% in the following decade (1983-92), reaching 32% between 1993 and 2002. In the case of European aid, this percentage exceeds 40% for all periods.[12] In 2002 the whole of Africa received Aid to Development in an amount of US$22,296 million.[13]

At the same time, the region received foreign investment of US$9,249.6 million in 2003, led by three oil-producing countries: Equatorial Guinea (US$ 1,430.7 million), Angola (US$1,414.7 million) and Nigeria (US$1,200.0 million).

In this context, remittances are one of the principal flows of foreign exchange received by the region and, therefore, their effect is particularly significant.

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[12] Carlos Montes and Stefano Migliorisi, *EU Donor Atlas*, *Mapping Official Development Assistance*, report financed by the European Union, May 2004.
[13] OECD DAC, *Net Aid by Region*.

How Many Africans are there in Spain?	
Ranking of Sub-Saharan Emigrants Registered in Spain According to INE (January 2005 data)	
Senegal	**28,463**
Nigeria	**25,800**
Ecuatorial Guinea	**18,687**
Other African countries	**18,213**
Gambia	**11,889**
Mali	**11,800**
Ghana	**10,315**
Mauritania	**9,157**
Guinea	**8,766**
Guinea Bissau	**4.612**
Angola	**3,645**
Cameroon	**3,521**
Cape Verde	**3,438**
Liberia	**1,331**
TOTAL	**159,637**

How Much Leaves Spain?

There is no map of the destinations of remittances sent from Spain. The Bank of Spain reported, for the first time and for 2003, a fragmentary distribution of the three main destinations (Colombia, Ecuador and Morocco). This exercise in transparency was extended in October 2005, and the first ten destinations of remittances for 2003 and 2004 were given. The only sub-Saharan country in this *top ten* is Senegal, which ranked 10th in 2004 with 2.1% of all remittances. It can be calculated that this represents €58 million for the year. Nevertheless, the it can be estimated that the potential of these remittances by calculating that the last census includes 163,014 sub-Saharans, headed by those born in Senegal, with 28,463, and Nigeria, with 25,800.

The same census reports almost 5 million foreigners. Of these, 1.5 million come from developed countries and, for the most part, they do not perform economic activities in Spain where many reside as long-term tourists. Accordingly, we can assume that they do not send remittances. Another 3.5 million come from developing countries. If we divide the official figure of remittances for 2004, €3,436 million, by the number of migrants on the census likely to send remittances, we find an annual average of approximately €1,000 each. By applying this average to the number of sub-Saharans on the census, we could estimate that they have capacity to send remittances to their families of at least €163 million per annum. In the specific case of Senegal, the approximate average remittance per person on the census is almost €2,000, double the general average. This could be due to three reasons: either they are more reluctant than the rest to register on the census, or they have a greater propensity to send remittances, or they have higher incomes (the most realistic explanation is possibly a combination of the first two). The fact is that by applying those €2,000 to the universe of sub-Saharans, we would find a maximum estimated spectrum of €326 million per annum. In its minimum degree, the estimate would represent a figure that would be sufficient to eradicate the extreme poverty of half a million persons per year, whereas, in its maximum expression, the figure would represent one million poor persons fewer.

Nevertheless, this potential figure possibly exceeds the real figure due to the pathologies described, which hamper the flow of remittances to the region. The weakness of their financial systems means that very few local entities are capable of paying those transfers at destination and, therefore, their services are expensive. According to a report issued by *remesas.org*,[14] the average price of sending a remittance of €150 from Spain to sub-Saharan Africa is 9.8% of the amount sent, which is 63% more than a transfer to Ecuador, which would cost an average of 6%. Naturally, the price difference influences the lower demand (163,014 sub-Saharans on the census compared with almost half a million Ecuadorians), but it also reflects the problems in offer because barely one half of authorised remittance agents work with sub-Saharan Africa, whereas almost all do with Ecuador. This situation derives from the scarcity of reliable payers at destination, although it could also be influenced by the unattractiveness for any company to travel to find a correspondent in Gambia, for instance, while destinations such as Colombia could be sought where, to begin with, there is a plurality of paying entities to choose from, a more or less reliable jurisdiction in the event of conflicts and where it is not necessary to be vaccinated against a long list of exotic diseases.

All this suggests that no advantage is being taken of the potential of African migrants to reduce poverty in their countries of origin, as these funds are not remitted or are sent in precarious or more onerous conditions than to other destinations.

Do They Generate Development?

While the devastating effect of remittances on poverty is evident, there is no agreement on their effect on the broader concept of development. The reason seems to lie more in where one looks than in the remittances themselves. While remittances reduce poverty automatically and autonomously, their effect on development depends on how they are used by the receiver. If they are kept untouched under the mattress, then they produce no effect whatsoever. If they are used for expenses in relation to health, education or are invested, albeit to refurbish a home, then they will produce a positive effect. But this will not occur if the money is spent on luxury items, such as an imported DVD player.

It is impossible to determine the extent of development produced by remittances that leave Spain because we have no official map of their destinations.

Nevertheless, we can venture to say that their effect on development in sub-Saharan Africa is very limited. The simplest way to reap their profits is to deposit them in a bank. If the receiver is unable to invest them, then financial institutions can find a productive destination. But financial systems in Africa are extremely fragile and tiny. Some countries have less than fifty bank offices, including branches of the Central Bank.

In the event that the receiver should decide to invest these funds by himself, he will find very few options given the absence of specialised markets. In many countries in Africa it is necessary to travel more than 100 km to find a market in which to acquire essential goods such as water pumps, to convert arid land into irrigated land, or sacks of cement, for building.

Without overlooking that in some African societies the vestiges of a traditional aversion to

[14] *www.remesas.org*

work still exist among the aristocratic elite who believe, for example, that agriculture is dishonourable, and prefer husbandry.

Regarding the institutional framework, we must say that, in general, Africa is a region that does not stand out for the interest shown by its migrants. Partly because the priorities of the region are different, but also because of the asymmetry between a diaspora that has taken on a democratic perspective and the tyrannical nature of many African regimes. This means that governments consider their migrants as potential opponents, who are prepared, at the least, to finance the overthrow of the regime. It also seems that this perception is not too far from reality, and the World Bank[15] reached the conclusion that 'a broad diaspora increases the risk that a civil conflict will be repeated in any country'.

Conclusions: In short, the extreme precariousness of Africa hones the capacity to reduce poverty by the remittances of migrants. But this same precariousness reduces the possibility for remittances to generate development, given the under-development of financial sectors, which makes it particularly expensive to send funds to the region.

One way to solve this first problem could be to encourage more remittance agents to offer services to the region. There are two easy ways to achieve this. On the one hand, by authorising the creation of small remittance agents specialised in sending funds to the region. This would be feasible if the requirements laid down by the Bank of Spain for the granting of licences to remittance agents were reduced. At the present time, a minimum capital of €300,000 is required to commence this activity. This amount could be reduced for institutions that wish to specialise, for example, in only a few countries in sub-Saharan Africa. This would stimulate competition in the sector, which would bring down prices.

The same result would be achieved by treating remittance agents in the same way as any other company vis-à-vis receiving incentives for internationalisation granted by the State, by creating a specific programme for them. In this way, more institutions would travel to Africa to conclude agreements with payers, thus increasing offer and reducing prices. Either of these two methods would give users alternative methods to informal remittances, which are very often controlled by the same mafias responsible for illegal migration.

With regard to the development these remittances would generate, it would be easy to boost this by treating migrants in the same way as any other person, offering them the same support as the State gives to anyone else who wishes to invest abroad. For example, by enabling their access to investment policies in which CESCE covers political risks on behalf of the State. It is true that investments than can be made with the remittances of migrants are negligible. But the migrant is just as vulnerable to their expropriation as anyone else. Another example would be to enable them access in equal conditions to lines of state financing to undertake investments abroad. We must mention that neither of these options is expressly prohibited for migrants and/or operations in small amounts, but the institutions that perform these activities have not yet approached this community, whose special characteristics would perhaps make it advisable to create a specific institution to channel this support, and to provide assistance and advice.

[15] P. Collier and A Hoeffler, *Greed and Grievance in Civil War*, Working Paper nr 2355, World Bank, Washington, 2000.

The final result would be a stable flow of remittances that would offer an alternative path to development of the region, which has relied on traditional aid to development until now and which is finding it difficult to become part of an efficient action in receiving countries. Accordingly, projects are frequently not completed, while cases of corruption are not unknown in the region. Remittances are person to person flows as far as this problem is concerned. Individuals should be aware of local conditions and take great care to choose the destination of their funds and give them the use intended. After all, it is their money.