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West African Financial Flows and Opportunities for People and Small Businesses

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About the project objective's and methodology

Objective: learn about the size, scope and of cross border payments by people and businesses within West Africa

Methodology: Field work in four countries including interviews with experts, migrants, data gathering and administration of survey in Ghana to West Africans

Type	Ghana	Mali	Nigeria	Senegal	Other	Total
Academic	7	1	2	1		11
Bank	7	12	7	4		30
Government	2	7	6	2	1	18
MFI	4	5	1	6		16
MTO	2		1	4	4	11
US (AID/DOS)	4	2	2	1		9
SME	5	3	1			9
Business	2		3	3		8
Post office		2				2



Comparative Regional Bloc Poverty, Trade, and Dependency and Informality Data

Regional Bloc	Regional per capita GDP	Trade – regional trade % of total exports	Dependency - % trade with industrialized world	Informality – size of informal sector	Total Exports by trade bloc expressed as a percentage of world exports 1998	Pop. (millions)
NAFTA	\$21,215	Mexico 90% USA 36%; Canada 88%; average 71%	USA 55.6%; Canada 94.7%; average 75%	12.9% average, (Mexico 30%)	18.40%	424
EU	\$20,181	60%	78%	8.8% (2000)	35.50%	450
ASEAN	\$6,276	23.35%	61% (2001)	66.50%	6.10%	512
MERCOSUR	\$4,531	11.50%	73%	35.9% average	1.50%	220
CACM	\$1,934	28%	75%	56.3% average	0.30%	35
ECOWAS	\$367	7%	80%	91.50%	0.40%	251

NOTE: Data for most of these groups refer to 2000, or 2001.



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West Africa: at the interplay between trade and migration

- Cross border trade settlements have been present in West Africa prior to the colonial period;
- Yet official figures present a small trade volume, reflecting only trading among large corporations rather than small businesses;
- **informal parallel trade:** the “circuitous flow in which illegal exports generate the foreign exchange needed to engage in the illegal import of other goods. Most parallel trade involves the exchange of smuggled primary export commodities and goods imported from outside the sub-region.”
- the typical payment system has been characterized by unrecorded cash-to-cash transactions;
- Government officials interviewed in all countries are convinced that levels of intraregional trade are not significant and therefore the need to facilitate trade settlements is not a priority.
- However, trade experts and analysts as well as traders believe the volume is at least double.

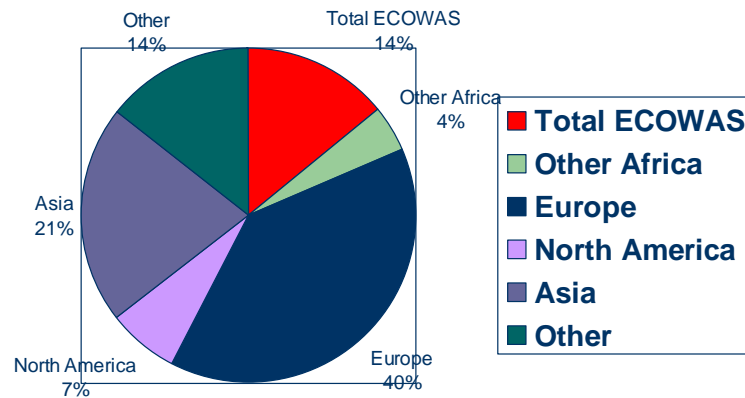


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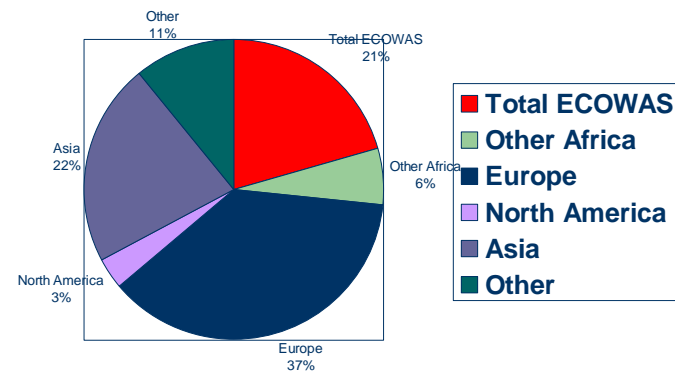
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Official trade figures selected WA countries (2004)

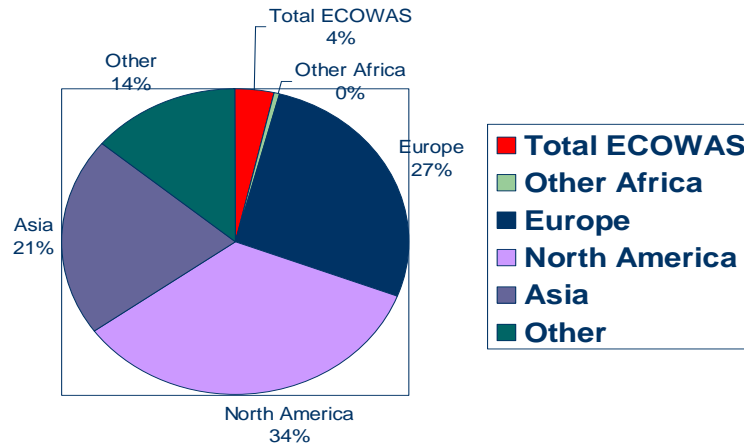
Ghanaian International Trading Partners (2004)



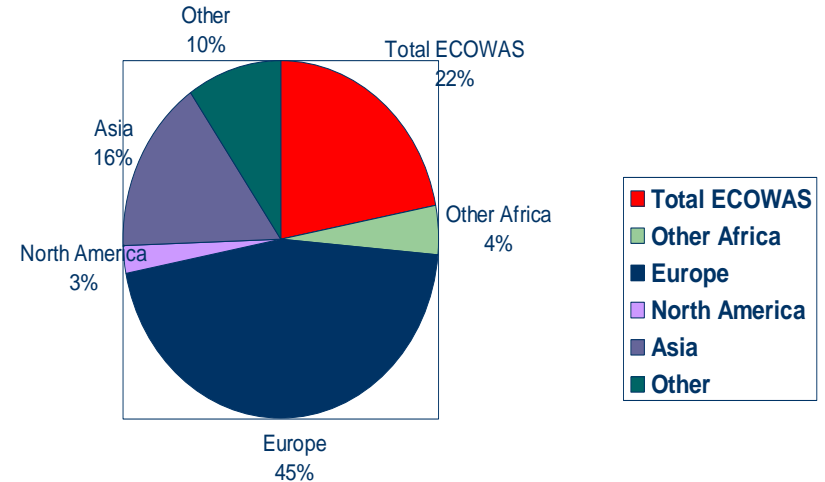
Mali International Trading Partners (2004)



Nigerian International Trading Partners (2004)



Senegal International Trading Partners (2004)





Basic trends among traders

- At least one in ten West Africans (out of a possible minimum of 3 million) are intra-regional traders who either engage in buying and selling foreign tradable goods with neighboring countries, or personally travel to other West African countries (in particular Ghana, Sierra Leone, Burkina Faso, and Mali).
- Each trader conducts an annual average of US\$20,000 in cross border transactions, amounting to an aggregate amount of four billion dollars.
- Traders interviewed said they would take goods (imported Asian commodities, textiles from Senegal or Togo) worth US\$2,000 (500,000 Naira) to and from Nigeria at least once a month.
- Even using a more conservative figure of 200,000 traders conducting US\$10,000 cross-border transactions a year yields a minimum of US\$2 billion.



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Some features of intra-regional trade. . .

- *Ghana*: various trading corridors:
 - border zone of North East Ghana, a tri-juncture spanning Ghana, Togo and Burkina Faso, is characterized by the extreme mobility of persons and goods (textiles and agricultural goods);
 - Benin and Nigeria: imports from Asia channeled via Benin and redistributed among neighboring countries.
 - Trading is cash based and traders carry an average of US\$2,000 per trip and return three weeks later to Nigeria once the goods are sold, to buy more.
 - Even large companies conducting more than US\$10,000 a month in transactions often settle their payments on a cash basis and through informal means;
- *Nigeria*: a trading node for West and Central Africa
 - because of trade restrictions, informal trading is a widespread practice, particularly importation of agricultural goods as well as automobiles: because of foreign currency restrictions, high import duties and bans, traders use informal networks to bring cars from Togo, Benin, and Côte d'Ivoire .
 - traders going to Ghana buy their goods at wholesale warehouses, pay sales taxes on the purchase and ship them to Ghana (textiles, music, videos, DVDs, and other electronic devices);
 - Imports of merchandize is also brought by West African suppliers who sale textiles and finished apparel made in Togo or Benin or Asia.



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Some features of intra-regional trade. . .

- *Senegal*: trading center for French speaking West Africa;
 - Official figures show that one third of exports goes to West Africa, Côte d'Ivoire in particular;
 - Its imports are also significantly from West Africa: 10% comes from Nigeria
 - Traders are often organized in trade unions and have created their own credit unions: UACOIDEFS, UNACOIS [100,000] members conduct high volume of commerce that predominantly operates in the informal market and works on cash to cash transfers;
 - Their members carry operations involving more than US\$100,000 in sales.
- *Mali*: historically regarded as a trading center, is a trade corridor between Senegal and Nigeria and other French speaking countries, including Côte d'Ivoire.
 - The official statistics record small activity performed mostly by large companies and financed by major banks;
 - There is an important volume of agricultural exports to the West Africa region consisting of mangos, potatoes and rice. The products are paid in cash as part of a person to person transaction between a producer and buyer. Financing is done generally outside financial institutions.
 - There is also importation of goods by an entrepreneurial class of semi-formal small businesses who buy imported goods from agents and distributors coming to Mali. Jemeni, one of Mali's MFI's acknowledge that about 5% of all its clients are in the import business.



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Some features of intra-regional trade. . .

- Conservative Intra-regional trade estimates: 250,000 traders conducting average sales of US\$7,500.

	<i>Ghana</i>	<i>Nigeria</i>	<i>Mali</i>	<i>Senegal</i>
Intra-regional Traders	40,000	75,000	25,000	75,000
Volume	\$7,500	\$7,500	\$4,000	\$7,500
Estimate	\$ 300,000,000	\$562,500,000	\$100,000,000	\$562,500,000
Percent of WA migrants	10%	5%	10%	10%



Remittance transfers within the region

- Trade and migration are inextricably connected practices in West Africa with many trans-border migrants acting as traders, buying and selling both domestically and internationally produced goods;
- Movement of people across borders is a function of the supply and demand of regional labor markets, given asymmetries and other differences between two or more countries;
- West Africans living in other West African countries may represent 5 and 10% of the host country's population; but no statistical record exist;
- ECOWAS Statistics Office estimates 300,000 West Africans live in each WA country;



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Population of resident foreigners (,000)

	Total foreign population				ECOWAS Residents			
	2000	2001	2002	2003	1999	2001	2002	2003
Côte D'Ivoire	4281	4418	4557	4680	4020	4557	4420	4559
Gambia	233	252	252		208	244	244	...
Ghana	740	760	786	...	422	448	463	...
Guinee	295	304	314	304	378	295	304	295
Liberia	1,2 45	485	1,0 45	545	106	125	194	140
Níger	196	202	209	215	122	130	134	139
Nigeria	467	481	495	697	288	305	314	477
Sierra Leone	136	136			127	127		



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Estimates of Intraregional Remittance Flows

	Ghana	Nigeria	Senegal	Mali
Estimated Migrants (10-15% of pop.)	2 million (10% of pop.) predominantly Burkinabes, Nigerians	5 million (half of which is WA), predominantly Ghanaians, Togolese	2 million predominantly Malians, and other French speaking West Africans.	1 million (5% of population) transient groups, including 50,000 Nigerians
Estimated average / median annual amount (US\$)	400	400/150	200/100	200/ 100
Total amount sent by 60% of adult migrants (using median sent)	\$408,000,000*	\$510,000,000	\$204,000,000	\$51,000,000

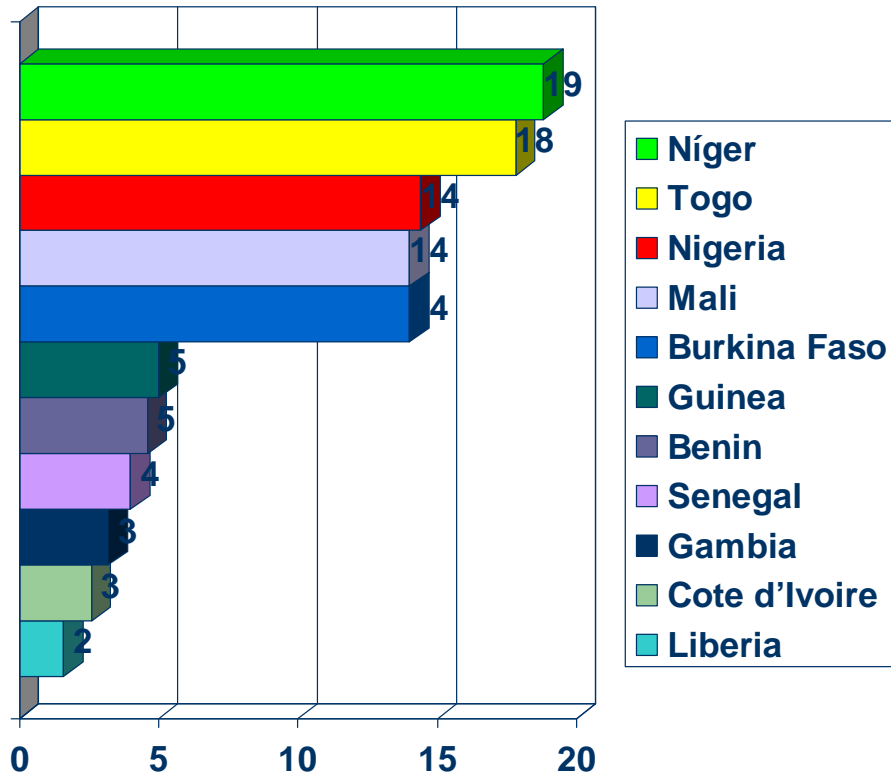
Note: The formula employed consists of deducting 15% for under-aged population, and multiplied by 60% and by the annual amount sent. * We estimate remittances for two and three million



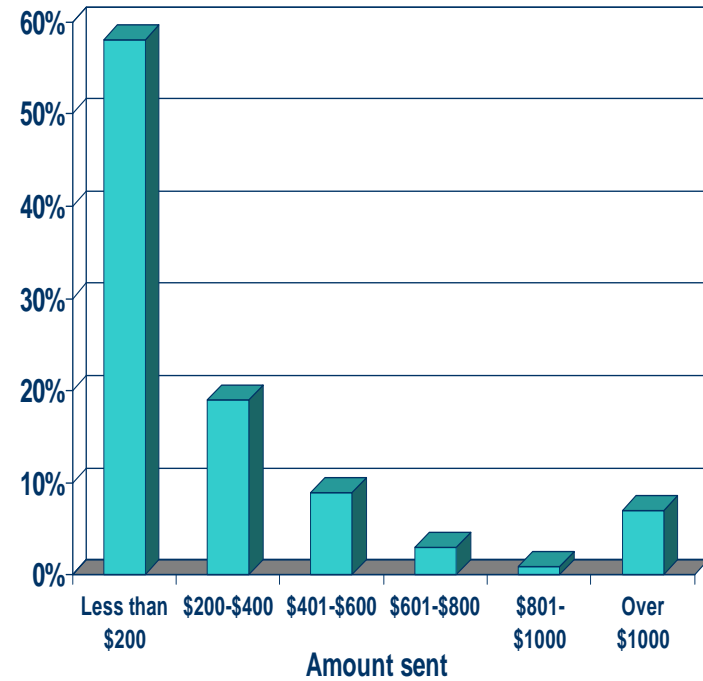
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West African migrants in Ghana, by country of origin



Sending Remittances



N=305

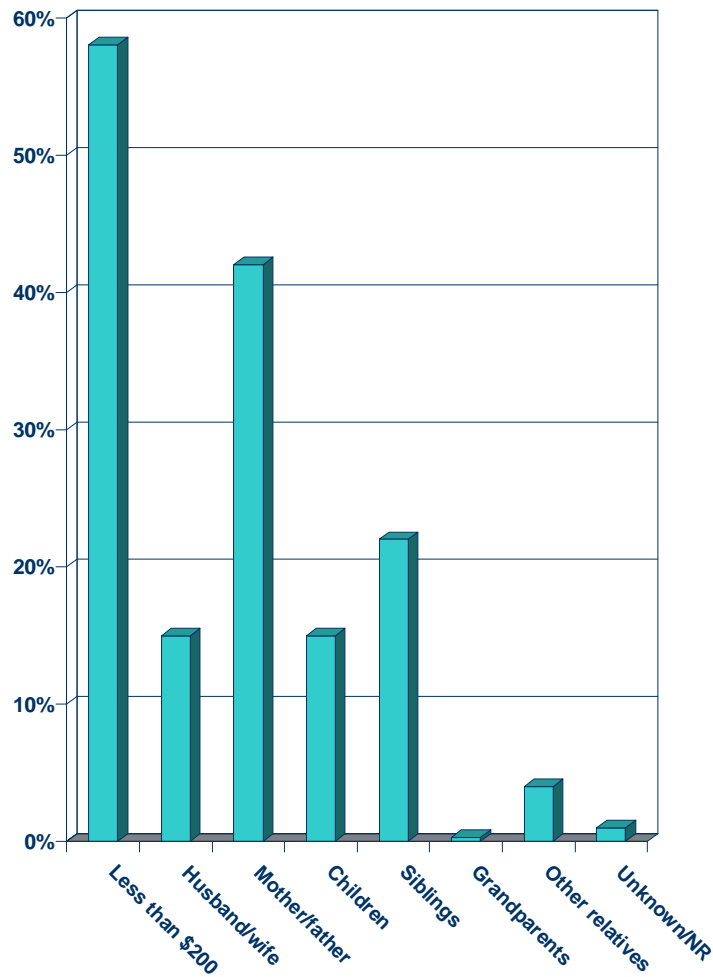
Note: The average remitter sends 3 times a year



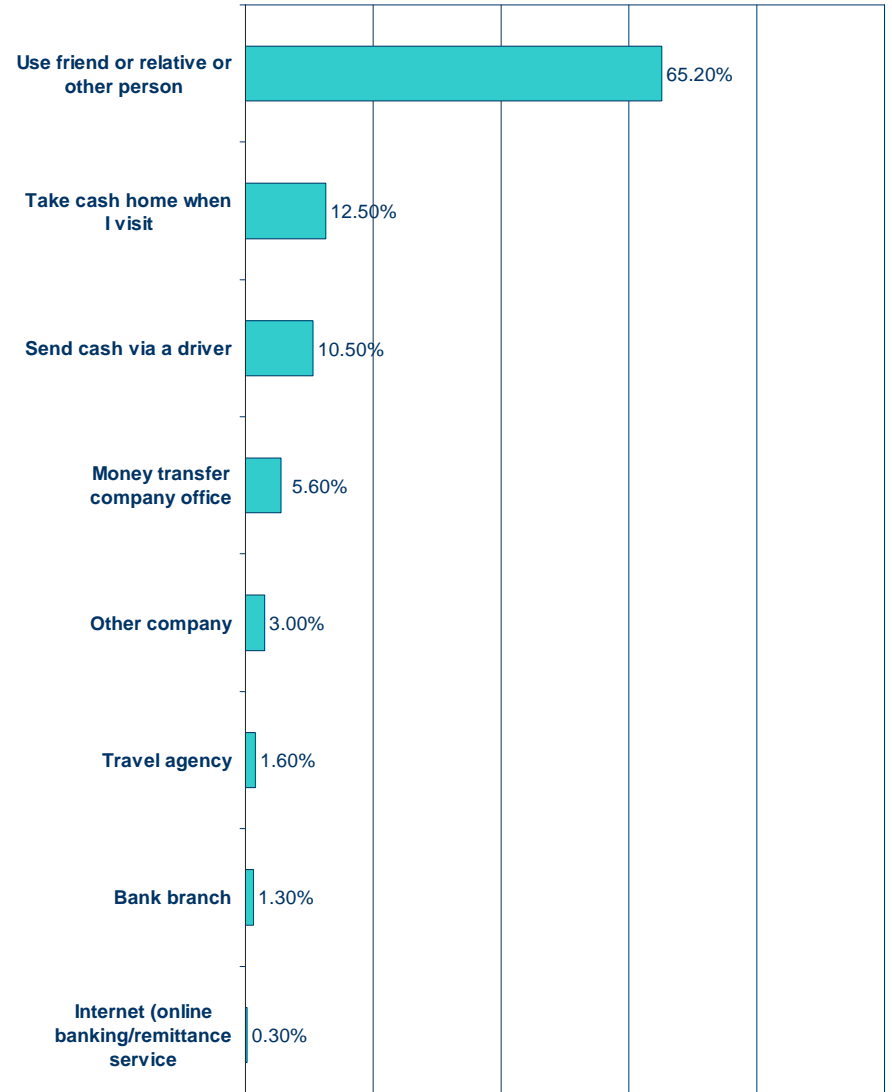
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Remittance Beneficiary



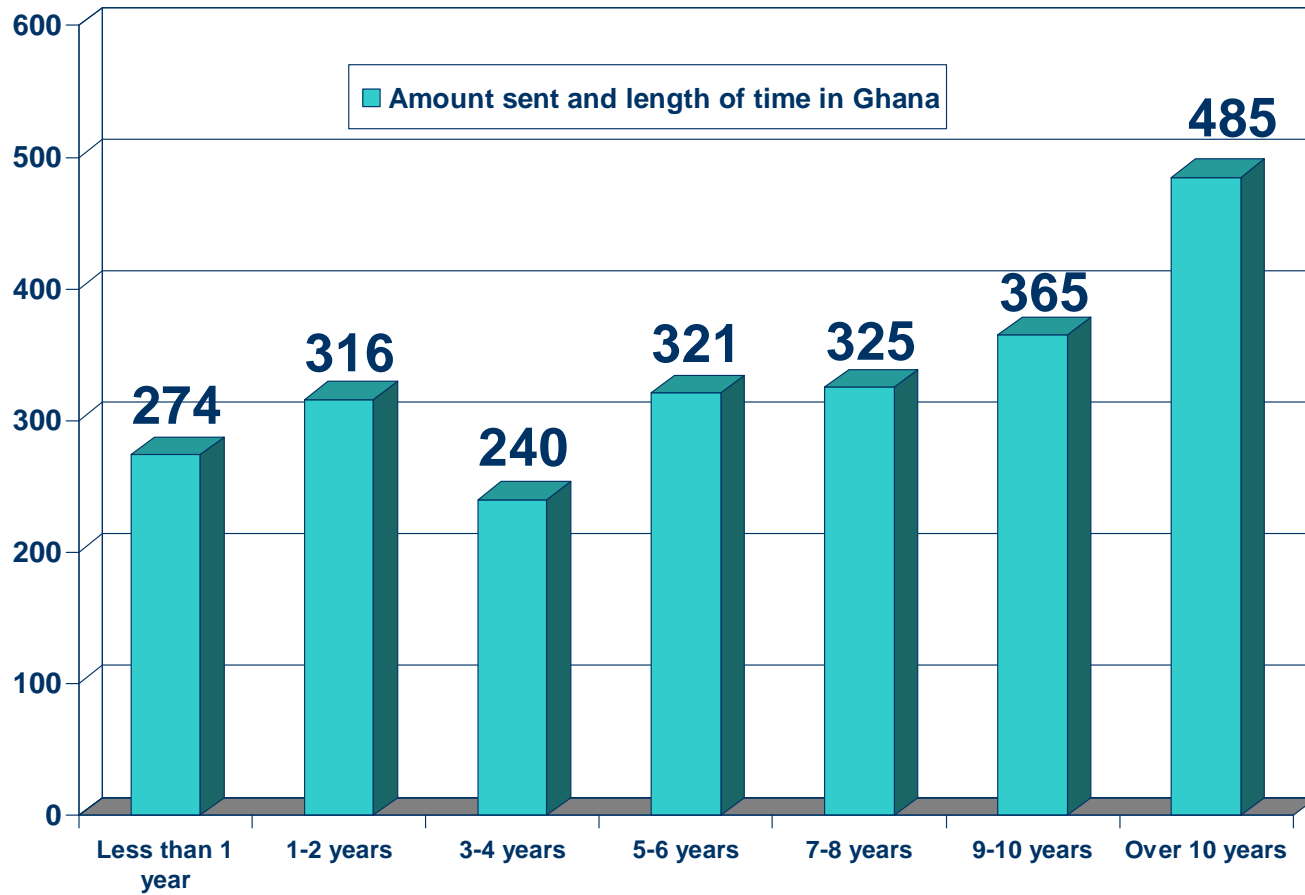
Remittance Transfer Method





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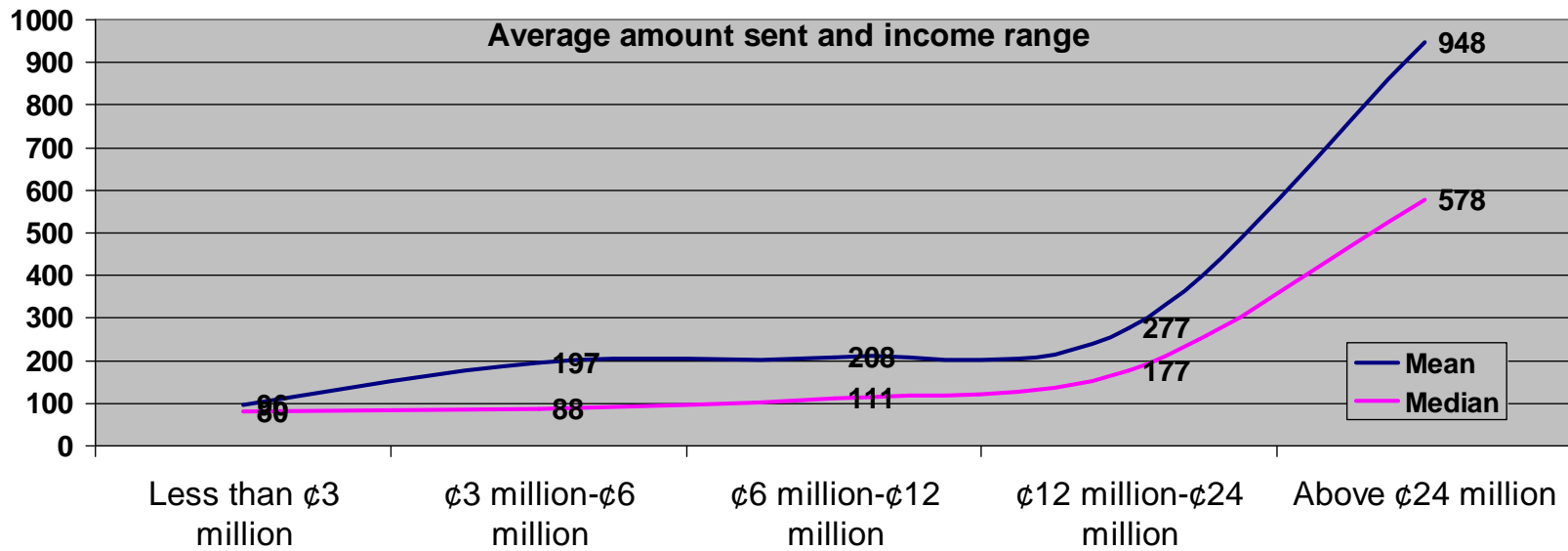
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Determinants of Remitting by West African Migrants

	B	S.E.	Wald	df	Sig.	Exp(B)
Last time visited home country	.000	.000	.643	1	.422	1.000
<i>Extent of contact at home</i>	<i>-.011</i>	<i>.004</i>	<i>6.662</i>	<i>1</i>	<i>.010</i>	<i>.989</i>
<i>Savings account in HC</i>	<i>-.006</i>	<i>.002</i>	<i>5.879</i>	<i>1</i>	<i>.015</i>	<i>.994</i>
Owning a bank account in host country	.100	.264	.145	1	.704	1.106
Belongs to an HTA	-.008	.007	1.290	1	.256	.992
<i>Age</i>	<i>.412</i>	<i>.150</i>	<i>7.548</i>	<i>1</i>	<i>.006</i>	<i>1.510</i>
Gender	-.122	.301	.163	1	.686	.886
<i>Education</i>	<i>.008</i>	<i>.003</i>	<i>4.825</i>	<i>1</i>	<i>.028</i>	<i>1.008</i>
<i>Income</i>	<i>.249</i>	<i>.109</i>	<i>5.216</i>	<i>1</i>	<i>.022</i>	<i>1.283</i>
Household size in Ghana	-.019	.042	.200	1	.655	.981
<i>Household size in home country</i>	<i>-.020</i>	<i>.007</i>	<i>7.664</i>	<i>1</i>	<i>.006</i>	<i>.980</i>
Constant	-.723	.870	.691	1	.406	.485



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Regulatory Environment on Cross Border Payments and Foreign Currency



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a)



b)



= Structure of Economy + Regulatory Environment



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- A high level of intraregional economic interaction in West Africa – mostly informal transactions outside of the banking system.
- On average, only 5% of the population in West Africa has a bank account = little reliance on banks & greater reliance on informal channels.
- The high prevalence of informality in the economy is related, in part, to the prevailing regulatory environment governing banking and foreign currency controls.



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- Presently in the ECOWAS region
 - 8 different monetary policies and currencies in operation
 - WAEMU zone among the 8 Francophone countries.
 - 6 Anglophone and 1 Luciphone each have their own unique currency and national systems of monetary policy
 - Are working independently through the West Africa Monetary Institute (WAMI) towards the adoption of the fiscal and policy requirements in order to create the West African Monetary Zone (WAMZ).
 - A common currency, the ECO, is expected to be introduced on December 1, 2009.
 - The ultimate goal is to unite the WAEMU and the WAMZ to form a West African Monetary Zone in all of ECOWAS.



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- *Principal obstacle to using formal systems is the inconvertibility of the Anglophone currencies to the Francophone currencies, which leads to multiple conversions for traders, and remittance senders.*
- Traders and migrants are crossing the border everyday with large sums of money on their persons, irrespective of the laws that limit the export of currency.



Brief overview of regulations in the region

- Legislation

- Payment systems are principally governed by the Banking Acts, Foreign Exchange Acts and regulations.
- Banking Acts typically regulate the licensing of banks, capitalization and powers of supervision and control.
 - Note: In Senegal and Mali, the Banking Law of 1990, was developed through the regional mechanism, is applicable throughout the Union and is incorporated into domestic legislation of each WAEMU Member State.
- The Foreign Exchange Acts regulate payments and currency.
- The regulations establish the limits on amounts allowed for import and export of currency.



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- In the post colonial era there was a heavy emphasis on controlling foreign exchange to back up reserves and much of the present regulatory environment reflects that by establishing restrictions.
- Outbound transactions are quite restricted and lead to informality.



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- Cash
 - Ghana only allows the exportation of the equivalent of ₵5,000 (US\$0.54)
 - Nigeria only allows ₦ 1,000 (US\$7.74).
 - WAEMU countries may freely circulate CFAF in the region up to CFAF 300,000 (US\$542) without justification, but the banknotes may not be exported to other ECOWAS countries.
- Outward flows of local and foreign currency occurs notwithstanding legal restrictions.



- Banks
 - “Authorized Dealers” are permitted to deal in foreign exchange but in practice these licenses are only given to banks.
 - In all 4 countries studied, with some exceptions, traders may only settle payments through a bank but only with the correct supporting documentation.
 - In Ghana and Nigeria local currency is to be settled through banks and for explicitly stipulated purposes.
 - In WAEMU countries it is for transactions above CFAF 300,000 (US\$542).
- Since approximately 5% of the population has a bank account most of this is done informally.



- Microfinance Institutions (MFIs)
 - MFI's are not explicitly allowed to engage in money transfer activities.
 - Remittance senders and traders are underserved by banks.
 - The potential to make cross border payments through microfinance institutions may already exist in some cases such as in the the WAEMU countries and potentially in Ghana under the new bill.
 - It is important to investigate this possibility further.
 - Throughout the region access to banks is limited but membership in credit unions may be higher.
 - The BCEAO estimates that there may already be more than 1 million members of credit unions in Senegal.



Money Transfer Organizations (MTOs)

- In Ghana and Nigeria – outbound transfers through MTOs are completely prohibited.
 - Money transfer organizations currently operate but only under a special arrangement with banks, increasing transaction costs.
 - MTOs such as Western Union & MoneyGram cannot engage in outbound payments, even though the net settlement would go through the banking system.
 - In Nigeria, inbound payments, can be received in Naira and in certain outlets, in US dollars. In Ghana and in WAEMU, inbound may only be received in the official currency.



MTOs continued

- In WAEMU, outbound payments are allowed through money transfer companies but are limited.
 - Senegal CFAF 1,000,000 (US\$1,807) per person, per day, per transaction.
 - Mali CFAF 3,000,000 (US\$5,422) per person, per day, per transaction.
 - Money Transfers sent inside the zone are subject to a 15% tax on charges.
 - Money sent outside the CFAF Zone are subject to a 2.5% tax on principal.



Legal Reforms

- With a view to attracting foreign investors, the Bank of Ghana has developed a draft foreign exchange bill and new corresponding regulations that would repeal the Exchange Control Act, 1961 (Act 71) and its corresponding amendments.
 - It would take precedence over all other existing legislation relating to foreign exchange.
 - If passed, the new regulations would allow a person traveling outside Ghana to take any amount (no limit) of Ghanaian currency outside Ghana and foreign currencies could be brought into Ghana without limit.
- There is no draft legislation yet in Nigeria but there have been some discussions sponsored by the Central Bank on improving payment systems.
 - On March 27, 2006, the Central Bank Governor announced that further liberalization of the foreign exchange market in Nigeria will soon be introduced; however, the proposed change would not liberalize free circulation of foreign exchange as the Ghanaian bill provides.



Challenges and Constraints for Cross Border Payments

Stringent Regulatory Controls

- Unfortunately, those seeking to perform these transactions face substantive hurdles from the regulatory environment. These hurdles are explained in part by two obstacles:
 - (1) inconvertibility of the national currencies within the region and
 - (2) limited number of available choices to send cross border payments, which are legally authorized through banks in all of the ECOWAS countries, covered in this study, but are nevertheless subject to restrictions in terms of amounts and require supporting documentation.



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- The Central Bank and bank authorities acknowledge that there are people inefficiently carrying out money across the border but argue that is a negligible number.
- Essentially only large traders, who are licensed and conducting business in the formal economy, can conduct international trade payments through banks.
 - Still they protest that the banking system is inefficient and takes too long.
- Money transfer companies are eager to enter into the market but are constrained by the regulatory environment dealing with foreign currency as well as money transfers.



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- There exist very few MTOs working in this market, particularly in the francophone countries.
- One microfinance institution interviewed established an agreement with a bank and a money transfer company to provide this service to its clients but this is a costly arrangement that ultimately gets passed on to the consumer.
- As demonstrated by this study, the healthy volume deserves attention and governments should modernize the regulatory environment to promote greater choice for traders and migrants.



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- The government and the private sector should find a way to balance the need to regulate flows of capital with the need to provide a stable, predictable environment, conducive to sending and receiving remittances and to settle trade payments, while not being overly restrictive.
- *One option is to amend the legislation to permit MTO's, MFI's and Credit Unions to obtain a license directly from the Central Bank or any other regulatory authority, without having to work through a middleman.*



Structural and Institutional factors that hinder effective cross border payments

1. Regulatory Controls
2. Unawareness and Neglect
3. Informality and Poverty: Un-Banked Nature of People, Business and Money
 1. Banking industry
 2. Taxes and Documentation
4. Weak Perceptions of Intraregional Flows and Dynamics
5. Transaction Costs Problems: in trade and money transfers



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Comparing Formal Requirements for Cross-Border Trading

Region Or Economy	Documents for export (number)	Signatures for export (number)	Time for export (days)	Documents for import (number)	Signatures for import (number)	Time for import (days)
East Asia & Pacific	7.1	7.2	25.8	10.3	9	28.6
Europe & Central Asia	7.7	10.9	31.6	11.7	15	43
Latin America & Caribbean	7.5	8	30.3	10.6	11	37
Middle East & North Africa	7.3	14.5	33.6	10.6	21.3	41.9
OECD: High income	5.3	3.2	12.6	6.9	3.3	14
South Asia	8.1	12.1	33.7	12.8	24	46.5
Sub-Saharan Africa	8.5	18.9	48.6	12.8	29.9	60.5
Ghana	6	11	47	13	13	55
Mali	10	33	67	16	60	61
Nigeria	11	39	41	13	71	53
Senegal	6	8	23	10	12	26
United States	6	5	9	5	4	9



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Transaction Costs to send CFAs from Mali and Senegal

Country & amount sent	Western Union	MoneyGram	Money Express	MoneyTrans
Mali CFA F 250,000 US\$451.84	19,550(UEMOA)US\$35.33 29,500 CFA F (US\$53.32) or approx 12% (Ghana/Nigeria)	22,000 (UEMOA) US\$39.76	Service not available	15,390 CFA F US\$27.815 or 6%
Mali CFA F 100,000 US\$361.47	14,950 CFA For approx 15% (US\$27.00) (Ghana/Nigeria) 10,350 CFA F US\$18.70 (UEMOA)	Service not available	Service not available	
Senegal	19,890 (UEMOA) US\$35.95	15,210 (UEMOA) US\$27.50	12,000(UEMOA) US\$21.68	



Short Term Recommendations

1. Engage and inform government officials about levels of cross-border settlements in West Africa through working groups
2. Develop an operational strategy for a pilot project on financial intermediation for small traders performing cross-border payments and commerce.
 - a) Ghana: United Petty Traders Association
 - b) Mali: Committee of Nigerians in Mali
3. The use of a technology fair to promote dialogue and practical understanding of how technology and remittances intersect and how new technology can be used in the developing world.
 - a) Front end technology intensive business models for MTOs
 - b) Integration of money transfers with other financial services
 - c) Using mobile telephony as a multifunctional banking device
 - d) Back end technologies that support innovative business models



Medium Term Recommendations

4. **Promoting policy change on foreign currency controls**
 - a) Current policies limit intra regional trade integration, which inhibits overall economic growth
 - b) Governments can increase formal flows by offering incentive to banks and MTOs to enable the transfer process and relaxing currency controls for some transfers

5. **Promoting alternative financial remittance and banking opportunities**
 - a) Implement low cost money transfer models such as regionally based payment systems through Ecobank or bilateral corresponding banking agreements for money transfer payments
 - b) Link banking and cellular technology for cell secure, cost effective and convenient money transfers
 - c) Technical assistance is required to identify affordable financial products and commercialize them

6. **Data compilation and trade documentation**
 - a) Develop a sound statistical and methodological measure of money flows
 - b) Identify the constraints in the trading paperwork (steps and procedures) and streamline the process