

The UK-Nigeria Remittance Corridor

Challenges of Embracing Formal Transfer Systems in a Dual Financial Environment

*Raúl Hernández-Coss
Chinyere Egwuagu Bun*



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Contents

Foreword	vii
Acknowledgments	ix
Acronyms	xi
Executive Summary	xiii
Introduction	1
1. At the First Mile	5
Remittances and Migration in the UK	5
Nigerian Diaspora Community	8
Remittance Patterns	8
Remittance Service Providers	11
Circumstances that Influence Sender Choices	13
Legal Framework Affecting Remittance Transfers	15
UK Government Initiatives on Remittances	18
Main Findings in the First Mile	20
2. At the Intermediary Stage	21
Remittance Transfers through Formal Intermediaries	21
Remittance Transfers through Informal Intermediaries	24
Costs Associated with Formal Transfers	26
Market Opportunity for New Technologies	30
Payments Systems	32
Main Findings in the Intermediary Stage	35
3. At the Last Mile	37
Significance of Remittances for Nigeria	37
Locations of Nigerians Abroad	40
Remittance Beneficiaries	41
Using Remittances for Housing	43
Remittance Service Providers in Nigeria	43
Postal Service	48
Informal Funds Transfer Operators	49
Legal and Regulatory Framework Affecting Delivery of Remittances	50
Financial Market Integrity	51

Nigerian Government Initiatives on Remittances and Economic Growth	53
Key Findings in the Last Mile	54
4. Conclusions and Policy Recommendations	57
Conclusions	57
Policy Recommendations	62
Appendix A. United Kingdom Regulatory Overview	67
Appendix B. Nigeria Regulatory Overview	71
References	75
Map of Formal Flows in the UK-Nigeria Corridor and Current and Potential Networks for Distribution in Nigeria	81
LIST OF TABLES	
1. Select Indicators for Nigeria	3
2. Remittance Transfer Fee from UK to Nigeria, May 2005	27
3. Value of Remittances Exchanged for Local Currency by Banks, 2002–05	29
4. Transfer Cost of £100 from UK to Nigeria	30
5. Key Payment Instruments in Nigeria	34
6. Breakdown of Home Remittances through MTOs by Country of Origin, 2002–04	41
7. Main Findings .	58
LIST OF FIGURES	
1. Recorded Workers’ Remittances to Developing Countries and Sub-Saharan Africa (1990–2004)	2
2. Top 15 Remittance-sending Countries, 2004	6
3. Migrant Communit	7
4. Market Shares of MTOs Operating in the UK-Nigeria Corridor, 2005	12
5. Circumstances that Influence Senders’ Choices	14
6. Typology for UK Risk-based Approach to AML/CFT	16
7. Channels for Origination in the UK and Distribution in Nigeria	22
8. MTOs Retail Prices for Sending Money from UK to Nigeria, April 2004	28
9. Workers’ Remittances to Three West African Countries	38
10. Workers’ Remittances to Nigeria, 1997–2004	39

11. Remittance Flow Origination by MTOs, 2004	40
12. Estimated MTO Market Share in the Origination of Remittance Transfers to Nigeria, 2005	44
13. Historic Data on the Different Foreign Exchange Rates Available in Nigeria, 2000–04	47
14. MTOs Average Fees for Transferring £500, 2004	61

LIST OF BOXES

1. Nigerian Migration History	9
2. MTN Top-up Card	13
3. Requirements for Opening a Bank Account in the UK	17
4. UK Money Transmitters Association	17
5. EU Payments Directive: New Legal Framework for Payments in the Internal Market	18
6. Sending Money Home? Initiative	19
7. Bank Transfer Systems in the UK-Nigeria Remittance Corridor	23
8. Most Common Remittance Transfer Process from UK to Nigeria	25
9. Telecommunications Industry in Nigeria	31
10. CPSS/World Bank Task force for General Principles on International Remittance Systems	33
11. TARGET and SWIFT Payments Systems	34
12. How the CBN Compiles BoP Data	39
13. Making Ends Meet for Ekundayo and His Siblings	42
14. Common Uses of Remittances in Nigeria	42
15. Exclusivity vs. Multiple Agreements Agent for One MTO	45
16. Nigerian Postal Service	48
17. Bus Transport System and Money Transfer in Nigeria	50
18. Jefri Couldn't Take His JAMB Exams	50
19. Nigeria's Removal from NCCT List	52
20. Remittances + Housing = Market Opportunity: The Mexican Experience	60
A1. EU Payments Directive: New Legal Framework for Payments in the Internal Market	68
B1. Legislation to Combat Money Laundering and Financing of Terrorism in Niger	73

Foreword

As part of the World Bank work on remittances, the Financial Market Integrity Unit of the Financial and Private Sector Development Vice-Presidency (FPD) is undertaking a series of studies, Bilateral Remittance Corridor Analysis (BRCA). In complementing the macroeconomic analysis, these micro-level studies of specific remittance corridors are directed at expanding knowledge on workers' remittances to developing countries, with a view to developing best practices on options to protect the integrity of remittance markets and improve efficiency and transparency of remittance flows.

The analysis of remittance corridors is providing new knowledge and facilitating better understanding on the size and nature of remittance flows, the incentives that influence remittance senders and recipients in their choices of mechanisms to send money to families at home, policies by regulators on emerging new players such as money transfer operators, and implications of compliance with standards on anti-money laundering and terrorist financing. These studies also provide new information useful to regulators in their efforts to leverage on remittances toward improving access of remittance senders and receivers to financial products.

These studies show that each remittance corridor has different characteristics. Information and analysis on each corridor provides the basis for policy choices specific to authorities of each corridor. In particular, new information allows authorities to design policies that best meet local conditions, while also complying with international AML/CFT standards.

The UK-Nigeria remittance study adds new knowledge and lessons to authorities and the private sector, in particular in the Sub-Saharan Africa region. The main outcome of the UK-Nigeria Corridor study is the set of recommendations on policy choices for Nigerian and UK authorities based on new information specific to the corridor. Such information, as well as innovative experiences in several other corridors now provides a stronger basis for the formulation of appropriate policies to suit local conditions, as well as for improving effectiveness of oversight on new financial intermediaries in the financial sector. The analysis will also assist authorities to take advantage of the flexibility being accorded by standard-setters in implementation of measures affecting money transfers to meet international standards on anti-money laundering and combating terrorism financing.

In addition, new data and knowledge specific to the UK-Nigeria corridor adds value to the private sector in terms of increasing transparency on cost of transfers, existing and potential risks, new players in the market, existence of informal and unregulated transfer channels and value as well as sources and uses of remittance flows. Increasing transparency through dissemination of this information and analysis are important factors in influencing market competition among new and existing remittance service providers, as well as facilitating greater compliance with international standards on anti-money laundering and combating terrorism financing. Another important developmental impact is that knowledge of the nature and characteristics of the remittance markets and its players

provide the entry point for authorities to design policies, and the private sector to develop products that leverage on remittances to promote access to financial services for both remittance senders and recipients.

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Acronyms

ADB	Asian Development Bank
ABCON	Association of Bureau de Changes Operators of Nigeria
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AFFORD	African Foundation for Development
BACS	Bankers' Automated Clearing Services
BDC	Bureau de Change
BoP	balance of payments
BRCA	Bilateral Remittances Corridor Analysis
BCSB	Banking Codes Standards Board
BSD	Banking Supervision Department
BTA	business travel allowance
CBN	Central Bank of Nigeria
CCL	Check and Credit Clearing Company
CDD	Customer Due Diligence
CFT	Combating the Financing of Terrorism
CHAPS	Clearing House Automated Payment Scheme
COMPAS	Centre on Migration, Policy and Society
CPSS	Committee on Payment and Settlement Systems
DfID	Department for International Development
EC	European Commission
ECB	European Central Bank
ECOWAS	Economic Community of West African States
EFCC	Economic and Financial Crimes Commission
EFT	electronic funds transfer
EU	European Union
FATF	Financial Action Task Force
FDI	foreign direct investment
FFT	formal funds transfer
FSA	Financial Services Authority
FT	funds transfer
FX	foreign exchange
GSM	Global System for Mobile communications
HMCE	Her Majesty's Customs and Excise
HMRC	Her Majesty's Revenue and Customs
HTA	Hometown Association
IADB	Inter-American Development Bank
IFEM/DAS	Inter-bank Foreign Exchange Market/Dutch Auction System
IFT	informal funds transfer
IMF	International Monetary Fund
IMO	international money order
INCSR	International Narcotics Control Strategy Report
IOM	International Organization for Migration

IT	information technology
KYC	Know Your Customer
£	British Pound
ML	money laundering
MSB	Money Service Business
MTO	money transfer operator
₦	Nigerian Naira (NGN)
NCB	national central bank
NCCT	Non-Cooperative Countries and Territories
NCIS	National Criminal Intelligence Service
NFIU	Nigeria Financial Intelligence Unit of the EFCC
NGN	Nigerian naira
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OFID	Other Financial Institutions Department (CBN)
OFT	Office of Fair Trading
ONS	Office of National Statistics
OPEC	Organization of Petroleum Exporting Countries
PEP	Politically Exposed Person
PMI	primary mortgage institution
PTA	Personal Travel Allowance
RCP	Remittance Country Partnership
ROSCA	Rotating Savings and Credit Association
RSP	remittance service provider
RTGS	real-time gross settlement
SEPA	Single European Payments Area
SOCA	Serious Organized Crime Agency
SSA	Sub-Saharan Africa
STR	Suspicious Transaction Report
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	technical assistance
TARGET	Trans-European Automated Real-Time Gross Settlement Express Transfer
TT	technology transfer
UBA	United Bank of Africa
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

Currency Conversions

US\$1 = £ 0.552815 US\$1 = ₦132.853
 £1 = US\$1.80892

Executive Summary

This report describes how United Kingdom residents of Nigerian origin transfer remittances home and how the funds are distributed to their beneficiaries in Nigeria. The review presents the remittance industry conditions existing in the UK-Nigeria remittance corridor at the origination and distribution stages of the transactions, and the intermediaries who facilitate the transfers. The report makes conclusions and compares these main findings with lessons from other corridors. It also suggests policy actions to promote formal transfers and potentially increase the integrity and efficiency of the remittance market in the UK and Nigeria.

To facilitate remittance flows and realize the development and poverty reduction potential in recipient countries, the World Bank is studying remittance systems around the world through the Bilateral Remittances Corridor Analysis (BRCA) initiative. This report is the first BRCA that studies flows from Europe to Sub-Saharan Africa (SSA). The report will feed into a forthcoming remittance corridor comparison across regions that will identify common characteristics and lessons on how to encourage formal remittance flows in both sending and receiving countries, and promote integrity and transparency.

The UK is among the top 10 remittance-originating countries worldwide. In 2004 the officially recorded flow from the UK to developing countries was US\$4.42 billion. An estimated 10–15 percent of these flows went to Nigeria. Nigerians have been migrating to the UK for over 50 years and have established a highly-educated migrant community with professional jobs that sends money home frequently. Yet, no specialized remittance products for this corridor have evolved besides the generic favored cash-to-cash money transfer operators (MTO) transfers and the expensive and lengthy account-to-account bank transfers.

Nigeria is the largest recipient of remittances in SSA. The country receives nearly 65 percent of officially-recorded remittance flows to the region and 2 percent of global flows. The Central Bank of Nigeria (CBN) began collecting data on remittances in 2002. It reported approximately US\$2.26 billion in remittances for 2004. As is the case for other countries in the region, underreporting of remittance flows to Nigeria is common because of data collection deficiencies and the prevalence of informal transfer mechanisms. The latter account for 50 percent of total flows to the country.

The UK-Nigeria remittance corridor has an equal dominance of formal and informal remittance intermediaries. Although several formal financial institutions for transferring money exist in the UK, many people choose to send money informally. The most common method is to give a person traveling to Nigeria cash to deliver to beneficiaries. Sometimes, remittances are in kind, for example, clothes or cars, or a phone card (and sending the PIN by e-mail). In Nigeria, with over 3000 commercial bank branches, a dual financial environment comprising formal and informal service providers competes for clients. This environment exists due to Nigerians' distrust of the formal institutions, poor transport, and communications infrastructure outside urban areas, and an inefficient payments system in which over 90 percent of transactions are in cash.

Senders who choose the formal system use MTOs most frequently. In the UK, a sender can walk into an MTO outlet and initiate a transaction. In Nigeria, only banks have the

license to disburse remittances. Therefore, MTOs in the UK must have a Nigerian bank agent to complete their transactions. The beneficiary picks up the transfer from the bank in Nigeria in foreign currency or Naira by showing identification and presenting a unique transaction code. A beneficiary who chooses to take the money in foreign currency usually changes it at a Bureau de Change (BDC). Often, if the beneficiary is in a rural area, money sent formally may require an informal component when it reaches Nigeria. In this case, when the money gets to Nigeria, a designated person picks it up and carries it via public transportation to the beneficiary. Bank account holders often can transfer money to Nigeria through correspondent banks and the Society for Worldwide Interbank Financial Telecommunication (SWIFT).

UK banks are cautious about conducting transfers to Nigeria because of reputational risks associated with Nigeria's financial sector and their conservative approach to account-holder relationships. Financial crimes such as advance-fee-fraud and corruption by politically-exposed persons are prevalent in Nigeria. Equally damaging was Nigeria's presence on the Financial Action Task Force's (FATF) list of countries with regimes weak in combating money laundering and financing terrorism. The country's inclusion on the list caused other countries to scrutinize transactions with Nigerian banks and created a perception of distrust of Nigerian financial institutions. Against this background, UK banks have been reluctant to engage in this remittance market by developing specific remittance products for formal transfers to Nigeria. UK banks have done so in other corridors, such as India.

Several issues deter a strong shift to formal transfers in the UK-Nigeria corridor. Data are deficient in the UK and in Nigeria on the size of remittances, cost structure of transfers, and beneficiaries' use of funds. This data is essential to make policies to increase the development impact of the flows, increase transparency, and develop new products that increase Nigerians' access to financial services. The UK's minimal MTO registration requirements make banks uncomfortable in maintaining accounts for them. The legal and regulatory framework in Nigeria restricts competition and the development of remittance infrastructure that leverages new technologies. The new Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT) regime presents an opportunity to reduce these negative perceptions.

More collaboration between the UK and Nigeria is necessary to develop the remittance market, encourage the use of formal channels, and enhance the development potential. Among its benefits, the remittance country partnership (RCP) between UK and Nigeria aims to reduce the cost of remittance transfers. The Nigerian government is engaging its diaspora to help grow the economy.

This report recommends that each government: (1) focus on improving data collection at its end of the corridor, and (2) do more research to provide its policymakers and its private sector with accurate information. Revising the regulatory and legal framework for remittances in Nigeria is necessary to stimulate competition, reduce costs, and extend distribution points to rural areas. Revisions could include prohibiting exclusive contracts between banks and individual MTOs, licensing BDCs to conduct money transfers, building the capacity of the postal service to conduct remittance business, and engaging the telecommunications sector in the industry.

Introduction

In 2004, developing countries received approximately US\$126 billion in remittances, an increase since 2001 of \$41 billion, or 49 percent (World Bank 2005b). Official flows to Sub-Saharan Africa (SSA) are relatively low in comparison to other developing countries; World Bank data on worker remittances show that official flows to SSA in 2004 were US\$6.1 billion, or approximately 5 percent (Figure 1).

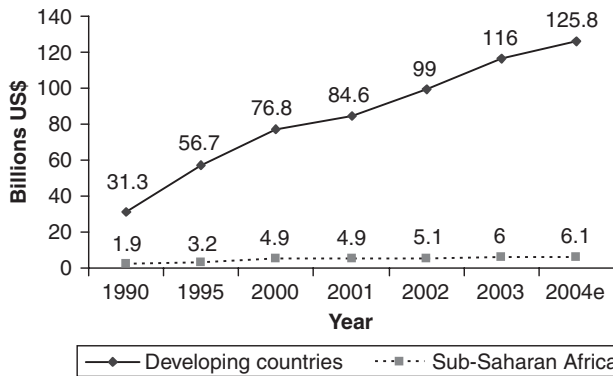
Underreporting Remittances

Actual remittance flows for Africa are much higher than statistics suggest, because remittances are heavily underreported (Sander and Maimbo 2003). Regardless of a more accurate figure on remittance flows to the region and their underreporting, the economic development prospects for the Africa region are low in comparison to other regions. With the exception of SSA, all Regions expect to achieve the Millennium Development Goal (MDG) of reducing poverty by 50 percent from their 1990 levels by year 2015. Unless its economies grow significantly, Africa in general will continue to fall behind the rest of the world (World Bank 2006b). Remittances can complement development initiatives by providing a consistent source of additional income for people in developing countries.

Bilateral Remittance Corridor Analysis

To facilitate remittance flows and realize the development and poverty reduction potential in recipient countries, the World Bank is studying remittance systems around the world

Figure 1. Recorded Worker's Remittances to Developing Countries and Sub-Saharan Africa (1990–2004)



Source: World Bank

through its Bilateral Remittances Corridor Analysis (BRCA) initiative. This report is the first BRCA that studies flows from Europe to SSA. The report will feed into a forthcoming remittance corridor comparison across regions. The comparison will identify common characteristics and lessons on how to encourage formal remittance flows in both sending and receiving countries, and promote integrity and transparency.

The two objectives of this report are to provide an overview of the United Kingdom-Nigeria remittance corridor and to suggest five policy recommendations. The recommendations will highlight how to:

1. Encourage the use of formal remittance systems,
2. Improve transparency and integrity of the financial sector,
3. Reduce remittance transfer costs,
4. Improve data collection practices, and
5. Increase the development impact of remittances in Nigeria.

UK Involvement in the Remittance Discussion

The UK has initiated industry studies to improve transparency and encourage formal systems. An example is the recent “Sending Money Home? A Survey of Remittance Products and Services in the UK” (DfID 2005a). This publication followed the G8 Summit in Sea Island 2004 at which countries agreed that remittances should be more accessible and available at a lower cost. The publication is a significant step toward the goal of increasing information and lowering costs. It also provides information on relevant products for six target countries including Nigeria.

Table 1. Select Indicators for Nigeria

GDP (current US\$)	72.1 billion
Workers' remittances and CoM, received in relation to GDP (%)	3.15
Workers remittances and compensation of employees (US\$)	20.9 million
Workers' remittances and CoM, paid in relation to GDP (%)	0.03
Foreign direct investment, net inflows (BoP, current US\$)	1,870 million
FDI in relation to GDP (%)	2.60
Official development assistance and official aid (current US\$)	573 million
ODA in relation to GDP (%)	0.80
Exports of goods and services (current US\$)	39.4 billion
Imports of goods, services, and income (BoP, current US\$)	17.1 billion
Workers' remittances, received and CoM to FDI (%)	121.22
Workers' remittances, received and CoM to ODA (%)	396.36
Workers' remittances, received and CoM to exports (%)	5.77
Workers' remittances, received and CoM to imports (%)	13.26

Source: World Bank 2006a.

Nigeria in the Context of West Africa

Nigeria is in West Africa, which has a history of extensive migration. One-third of West Africans are estimated to live outside their town of birth (Black and others 2004). The implementation of the ECOWAS Protocol on free movement of persons¹ has enhanced migration within the region.² When West Africans migrate out of the region, they tend to migrate to European countries with whose people they share historical relationships and a common national language and that have more economic opportunities. Thus, migrants from francophone countries usually migrate to France, and those from Anglophone countries usually go to the UK. Hence, the bulk of remittances to countries such as Ghana and Nigeria tend to flow from the United Kingdom.³

Nigeria is the most populous African nation. Its over 130 million people account for 47 percent of West Africa's population, and 41 percent of the West Africa region GDP (World Bank 2006c). The country is a member of ECOWAS and a leading player in the British Commonwealth, and maintains a long historical relationship with the UK. There is widespread belief that Nigerians are the largest single African national group living in Europe and North America (Black and others 2004). Table 1 shows how Nigeria's workers' remittances and employee compensation received in 2004 compared to select indicators.

1. The Economic Community of West African States (ECOWAS) was established in May 28, 1975 in Lagos. ECOWAS aims to promote cooperation and integration within the States and, as an ultimate goal, to establish a West African Economic Union that would enable free movement of persons without visa within the West African subregion.

2. For example, in Ghana there are 500,000 West African immigrants working on cocoa farms and in the hotel industry.

3. The United States also has become a major source of remittances to the region.

UK-Nigeria Remittance Corridor

A distinguishing feature of this remittance corridor is that, although formal financial institutions are present at both ends, approximately half of the funds flow informally to Nigeria.⁴ When studying remittance flows to Nigeria, it is important to consider the dual nature of the financial environment in the country in which viable formal and informal financial systems and institutions coexist. The challenge is not the lack of formal systems but the need to increase incentives for senders and recipients to embrace these systems.

Outline of the Report

In line with earlier studies under the BRCA Initiative (Hernández-Coss 2005a, 2005b), this paper is organized around the three fundamental stages of a remittance transaction:

1. Chapter 1, or *The First Mile*, focuses on the origination stage, whereby Nigerians in the UK make their decisions regarding the amounts to send home and choose among the alternative remittance instruments and service providers available to them.
2. Chapter 2, or *The Intermediary Stage*, focuses on the payments infrastructure and how the funds are transferred by remittance service providers in the UK to distribution service providers in Nigeria.
3. Chapter 3, or *The Last Mile*, focuses on the distribution stage, in which the funds are paid to the recipients in Nigeria.

Chapter 4 presents conclusions, policy recommendations, and an action plan, based on the main findings of the study, for consideration by authorities and policymakers in both the UK and Nigeria.

4. This estimate is the result of field interviews. It is consistent among market participants in both the UK and Nigeria, public sector officials, and literature review conducted by the World Bank.

At the First Mile

This chapter summarizes research findings on the origination of the remittance transactions in the UK based on interviews with authorities, remittance industry players, Nigerian senders, and relevant literature. It discusses remittance transfers and migration; the Nigerian community and its remitting patterns; main characteristics of remittance service providers; circumstances that influence senders' choices; legal and regulatory framework affecting remittance transfers, particularly integrity and transparency of flows; and UK government's initiatives on remittances.⁵

Remittances and Migration in the UK

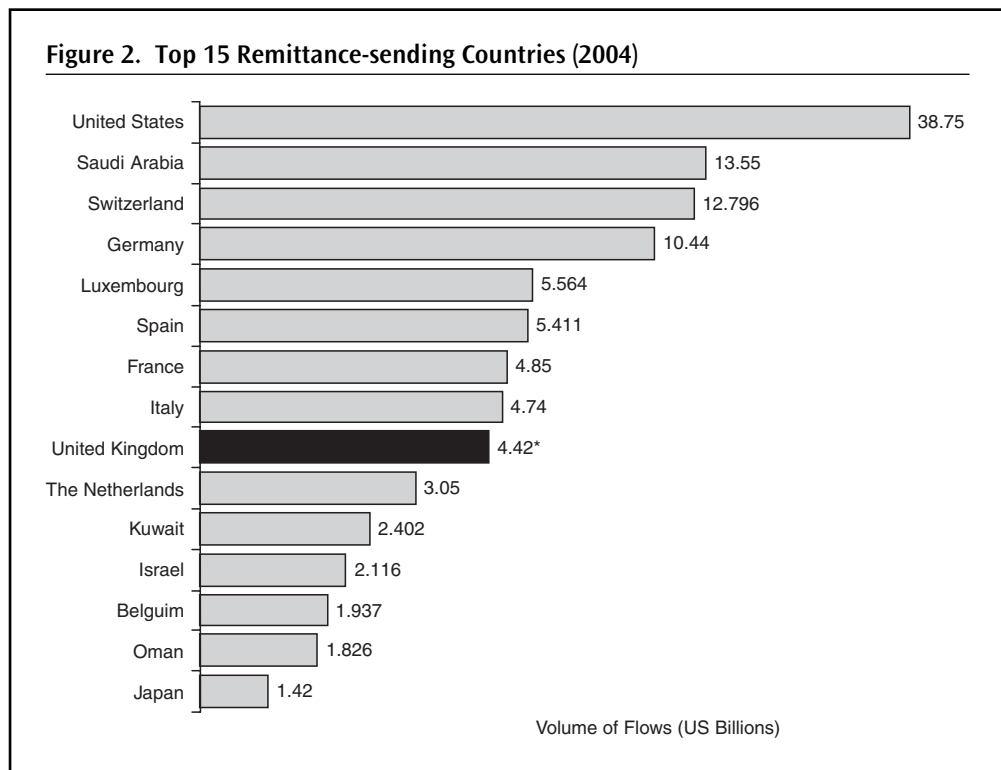
Africa, Eastern Europe, and South Asia are major regional destinations for UK remittances (DfID 2005a). In Africa, the majority of remittances from the UK go to Ghana, Kenya, Nigeria, Somalia, and South Africa. In 2004 the estimated remittance outflow from the UK to developing countries was £2.3 billion,⁶ or approximately US\$4.42 billion.⁷ This represents an increase of approximately 77 percent since 2001 (Figure 2).⁸

5. This section presents estimates from the World Bank, the UK Remittance Working Group, DfID, IMF, and public and private sector officials and remittance senders interviewed in the UK.

6. UK Remittances Working Group 2005 and DfID estimates based on experience with the RCP discussions with central banks and development activities.

7. Bank of England US\$/£ exchange rate of 1.91990 for December 31, 2004.

8. According to World Bank (2003) estimates, in 2001 the UK ranked 16 of the top 20 country sources of remittance payment worldwide, with an estimated outflow of US\$1.3 billion.



Source: World Bank, DFID/UK Remittance Working Group estimates for UK flows.

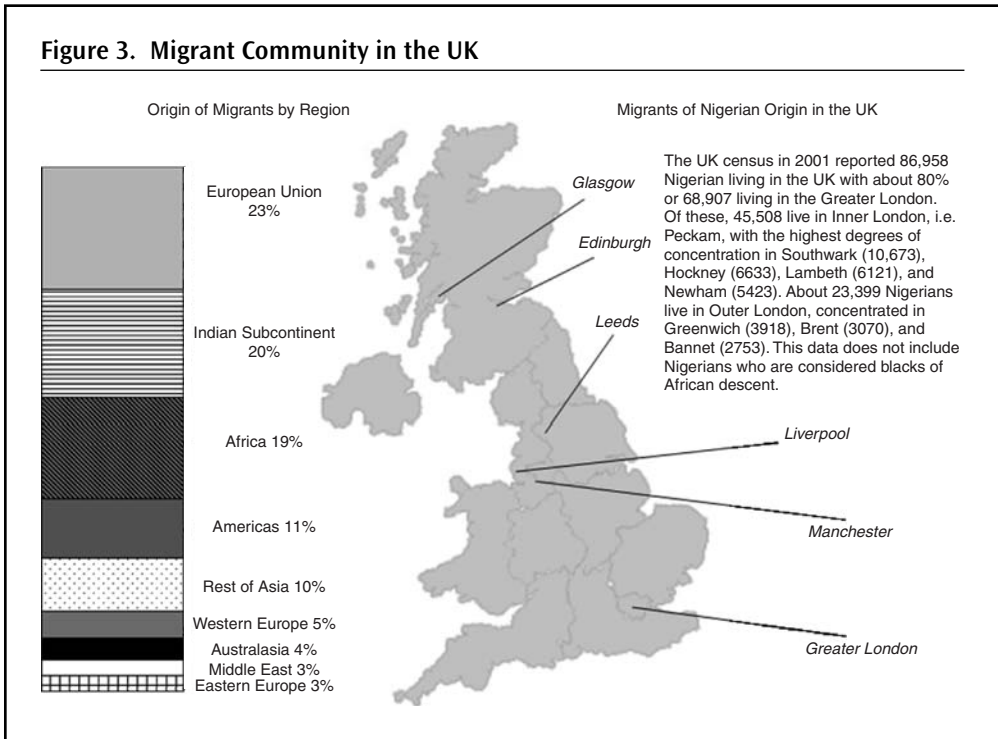
No official data exists on the volume of the remittance corridor between the UK and Nigeria. The World Bank estimates that Nigeria receives 10 percent to 15 percent of total remittances originating from the UK—a remittance corridor value of US\$450–650 million.⁹ These estimates take into consideration the population of Nigerians in the UK; the average remittance transaction, which is US\$300–400 monthly; and comparisons to other countries in the region. For example, the UK-Ghana remittance corridor is valued at US\$360 million.¹⁰

United Kingdom: A Multicultural Nation

The UK is home to approximately 4.8 million foreign-born people of all ages. Approximately 3.6 million of these are of a working age 25–49 (Haque 2002). To be British in the present day implies a person who might have her/his origins in Africa, the Caribbean,

9. Bank of England. Exchange rate August 2005, US\$1 = £0.552815, or £1 = US\$1.80892.

10. Bank of Ghana 2005.



Source: World Bank, COMPAS 2004, and Kempton 2002.

China, Greece, India, Turkey, the UK, or anywhere else in the spectrum of nations.¹¹ Although different groups have migrated to the UK for millennia, several groups who migrated within the last 40 years still maintain close economic and social ties with their communities at home. The largest proportion of UK's current migrant population was born in other countries within the European Union (23 percent),¹² followed by those from the Indian subcontinent (20 percent), and Africa (19 percent). Relatively few have come from the Middle East (3 percent), Eastern Europe (3 percent), Australasia (4 percent), and others (1 percent). Half of those who are foreign-born are UK nationals, even although they were originally migrants (Figure 3; Kempton 2002).

11. Philips, Mike. BBC History. "Windrush-the Passengers." www.bbc.co.uk/history/society_culture/multicultural/windrush_01.shtml

12. The UK has been experiencing increasing migration from the new European Union countries. For example, the new states that joined the EU in May 2004 were Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Within 6 months (by November 2004), almost 91,000 people from those 8 states had registered to work in the UK. Poland accounted for 48,500, or more than half, of the applicants. Management Issues News. www.managementissues.com/display_page.asp?section=researchandid=1654

Nigerian Diaspora Community

Approximately 90,000 Nigerians live in the UK. Over several decades of migration, they have established a significant migrant community and regularly send remittances home.¹³ The majority of those recorded live in Greater London and, of these, half live in inner London (Shah 2005). Research indicates that this figure may be higher and does not include the undocumented and UK citizens of Nigerian descent. Nigerian remittance senders include those who are UK citizens, those who have a “right of abode” or permanent residence, those who are in the UK on a temporary status such as a student or work visa, those who have illegal status because their visas are expired, and those who are undocumented (Box 1).

Ethnic, religious, and regional differences existing in the Nigerian community in the UK make this a very diverse group. Of the over 250 distinct ethnic groups who make up Nigeria, two of the major groups—the Ibos from the Southeast and the Yoruba from the Southwest—constitute a significant number of the migrant population (EIU 2005). Other ethnic communities include the Edo and the Ogoni.

The majority of the Nigerian population in the UK is highly educated and professional (Elam and Chinouya 2000). Nigeria has experienced the emigration of thousands of highly educated professionals including in financial institutions and in the information technology industry, lawyers, physicians, nurses, and entrepreneurs.¹⁴ Some work as taxi drivers, traffic wardens, and transportation workers industry. Therefore, its diaspora provides a substantial contribution of remittances to Nigeria (Van Hear 2004).

Remittance Patterns

The typical remitter is altruistic and sees remittances as a means of providing economic support to individual recipients at home. The migrants interviewed stressed the importance of being able to stay in touch with their families and improve the economic situation by sending remittances. The Nigerian culture in general requires the more fortunate family members to provide for the less fortunate, and parents to invest in their children, who in turn will take care of them in their old age. Since there are limited formal welfare systems in Nigeria, senders often feel obligated to provide for immediate family members as well as for extended family, friends and orphans.

Remittances to Nigeria can be for individual or collective use. It is normal for a migrant to remit money to friends on a regular basis to provide for the welfare of his or her relatives, for example, elderly parents. A growing trend is for Nigerians living abroad to send their children to boarding schools in Nigeria and bring them back to the UK for their university education. These parents often remit money to their children in the boarding schools for living expenses. The length of stay and the level of skills of the sender determine the remittance patterns for individual remittances.¹⁵

13. COMPAS 2004. The exact figure from the UK census in 2001 was 86,958.

14. Among the migrants to the UK, Nigerians are recognized as being very entrepreneurial.

15. World Bank interviews, 2005 and 2006.

Box 1: Nigerian Migration History

1950s–70s	1980s	1990s–present
<p>Many Nigerians from elite and skilled sectors of the population were encouraged to move to England to study and then return to Nigeria to take positions left by the departing British administration.* The majority of these Nigerian communities have been established in the UK since the 1960s following independence from Britain.</p>	<p>A significant wave of Nigerian migration to the UK began in the mid-1980s, after Nigeria’s economy began to slow and political tension ensued.</p>	<p>Recently, the trend has been for Nigerians to remain in the UK and become established professionals. After a period of residence, some Nigerians become eligible for British citizenship, and often their offspring are British citizens by birth.</p> <p>Black UK citizens are usually described as Black of African or of West Indian/Caribbean descent. If a Nigerian becomes a citizen by birth, descent, or naturalization, then s/he is counted as part of the Black of African Descent ethnic group. This categorization makes it difficult to determine the population of Nigerian origin who are sending remittances home.</p> <p>Many of these people, including second and third generation who were born in the UK and are British, still maintain close ties with their families at home, and send remittances regularly.</p>

Source: Elam 2000, World Bank interviews, DFID 2005b.

The length of stay determines sending patterns. Sending patterns are different for migrants who plan to return after temporary residence abroad, those who prefer to maintain residences in both countries, and some who have no plans to return.¹⁶ Migrants with closer ties to Nigeria tend to remit money more frequently. Those who intend to return after a temporary period set a target amount to save and, after accumulating the target savings, move back. Sometimes they send money periodically to Nigeria to finance real estate so that, when they return, they have a home.¹⁷ Some individuals move back home once they fulfill, or pass on to someone else, their obligations such as paying for education and supporting family at home.

16. Based on World Bank interviews in the UK and Nigeria, April 2005.

17. Sending money toward the acquisition of assets such as land and financing does not always mean that the migrant plans to return home to Nigeria. Such transmittals could be the means to provide direct housing services to the home family, or a signal of the migrant’s resource commitment to the home family. For example, in Osili’s study (2001) of Nigerian emigrants in the United States, approximately half of the sample had initiated substantial housing investments in their communities of origin in Southeastern Nigeria. Approximately half of the houses that make up migrants’ residential housing investments in home villages are occupied by the migrants’ home family in Nigeria in the absence of rental payments.

Some migrants maintain residences in both UK and Nigeria. Those who migrated as children tend to live in the UK and visit home occasionally. Some children born and raised in the UK diaspora have never been to Nigeria, and a few Nigerians may never move back if they have lost connection with relatives in Nigeria, if they are living undocumented in the UK, or if they cannot afford to go home.

Sending patterns vary between highly skilled migrants with high salaries and low-skilled migrants with low wages. Often the highly professional migrants tend to have an associated high standard and cost of living. Because of their lifestyle commitments, such as mortgages, and expensive car payments, they do not regularly send remittances. They tend to send money seasonally during the holidays or for social events such as weddings and funerals, and send large amounts at a time.

It appears that the Nigerian migrants in the lower income brackets send money more frequently through migrants carrying cash and have more affiliations within the community.¹⁸ The migrants involved in unskilled labor often live with wealthier Nigerians, do not own houses, and tend to send the bulk of their money home. Many in this group are women, who have left their families at home because of desperate economic reasons and somehow have ended up in the UK. They will send money home frequently at any cost.

Collective Remittances

In the UK, Hometown Associations (HTAs), diaspora networks, and interest groups exist to influence homeland politics, develop social projects in Africa, and the raise the professional development of the migrants in the UK (COMPAS 2004). Nigerian HTAs have a strong presence in the UK as well as in other Anglophone African countries, such as Ghana. These HTAs tend to be the most common means of sending collective remittances home to counterpart communities in Nigeria for development projects such as scholarship funds and community projects. For instance, *Odoziobodo Club of Ogwashi-Ukwu*, based in London, supports the development of *Ogwashiuku* town in Nigeria (COMPAS 2004).

The majority of HTAs remain unregistered as charities and do not develop formally as nonprofit organizations. The leadership of these HTAs are volunteers, people who have other occupations. They raise funds among group members and transfer it physically in cash to their hometowns. Most of them do not employ the use of money transfer operators (MTOs). In some remittance corridors, the home governments match funds sent by migrant HTAs for community development.¹⁹ There are lessons that the Sub-Saharan Africa (SSA) nongovernmental organizations (NGOs) and HTAs in the UK can learn from the Latin American experience of aligning HTAs in America with the municipal, state, and federal governments in their home countries. However, there are constraints on how

18. Based on World Bank interviews with the Nigerian Subcommittee on Migration and the Economic and Financial Crimes Commission—EFCC, Abuja, Nigeria, in March 2006. Subcommittee members interviewed include representatives from the Federal ministry of Labor and Productivity, Special Assistant to the President on Migration and Humanitarian Affairs, Special Assistant to the President (Human Trafficking and Child Labor), and the Director of Programs, Office of the Special Assistant to the President on (Migration and Humanitarian Affairs.)

19. In the U.S.-Mexico corridor, migrants' collective remittances through HTAs are matched by the federal, state, and municipal governments in a "3 × 1" program to fund projects such as roads and schools.

various home governments are structured that could make a three-party approach of remittance backing by governments challenging in the Region.²⁰

Often, the ethnic characteristics of the African HTAs limit the adoption of 3 × 1 schemes. The ethnic subdivisions within the diaspora community are the bases for HTAs, which organize around the traditional authority, for example the *chief*, *Oba*, *Eze*, or *Emir* in Nigeria. Usually the traditional authority works in parallel to the institutional levels of government, and social welfare programs are limited to indigenes or subjects of that specific area. For example, if the resident of a town in Nigeria is not originally from that area in terms of ethnicity, the traditional authority or chief would not consider him or her to be a subject and thus has no obligation to provide for that person's welfare.²¹

Remittance Service Providers

In the UK, Remittance Service Providers (RSPs) include banks, money transfer operators (MTOs), and informal providers. Formal money transfers occur through the MTOs (cash-to-cash), banks' bank-to-bank transfers (account-to-account), postal service (cash-to-cash), card value transfer, and informally mainly through people carrying cash.²² MTOs tend to offer lower rates than banks and target the regular and low-value-service customers while UK banks tend to market their remittance services to high-value account holders (DfID 2005a).

MTOs have the largest market share for remittances originating through formal channels, with Western Union as the biggest market player (DfID 2005a). There are approximately 1,000 MTOs registered in the UK²³ The remittances sent via MTOs frequently arrive in less than 24 hours. Some MTOs have the ability to transfer the remittances in as little as 15 minutes (Figure 4).

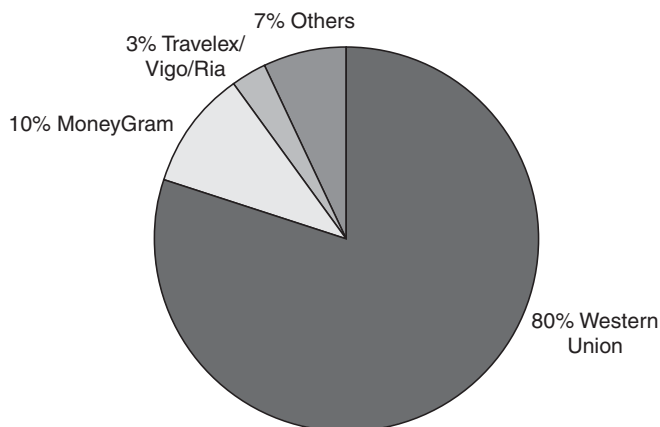
UK banks are cautious about participating in this corridor and developing remittance products for nonaccount holders. So far, no UK bank has developed any specific remittance products for Nigerian migrants who send money frequently, as is the case in other destinations, for example, India. UK banks offer only generic products such as electronic payments via Society for Worldwide Interbank Financial Telecommunication (SWIFT) and bank draft payments. Some offer an International Money Order (IMO) service in British pounds or U.S. dollars. Remittance transfers through banks take 2–10 days, significantly longer than MTOs' processing time (DfID 2005a). Some UK banks perceive a

20. Based on World Bank interviews with African Foundation for Development (AFFORD), February 2006.

21. Often a person can live and interact within a community for several years and not be considered an indigene or member of the community for traditional purposes because his or her ancestral line originated elsewhere.

22. When there is an emergency, formal channels such as MTOs and banks are the preferred channels. As in other African countries, such as South Africa, Christian burial rituals are often expensive. Usually, certain events that are communally organized require funding from Nigerians abroad. In Nigeria, when a person dies, the first question commonly asked is whether s/he has a child or relative abroad. This family member abroad is often required to send US\$1,000–2,000 to help with funeral arrangements.

23. According to the Her Majesty's Revenue and Customs (HMRC), the supervisory body for money services businesses in the UK.

Figure 4. Market Shares of MTOs Operating in the UK-Nigeria Corridor, 2005

Source: DFID consultation with key market participants 2005.

reputational risk with doing business with Nigerian banks. According to the UK National Criminal and Intelligence Service (NCIS) and UK banks, financial crimes associated with Nigeria are mainly of a fraudulent nature.²⁴ Incidents such as travelers' check fraud, advance fee fraud ("419"),²⁵ and corruption cases involving Politically Exposed Persons (PEPs) deter UK banks from conducting business with Nigeria.

The UK Postal Service has a very large network, making it one of the most accessible origination points for remittance transfers. The postal service²⁶ provides access to everyone who lives in the UK through its mail, post offices, parcel businesses, and money transfer services through money orders and MoneyGram.²⁷ British postal orders are redeemable in 47 countries. In partnership with MoneyGram, money transfer services are available to more than 84,000 locations in 170 countries, including Nigeria.²⁸ MoneyGram has the largest network in the UK, largely due to the Post Office's providing 3100 of MoneyGram's 4000 locations.²⁹

The communications industry is developing new mechanisms, such as phone card value transfers, to remit money. This service allows Nigerians living in the UK to buy airtime and

24. NCIS has been absorbed into the Serious Organized Crime Agency (SOCA).

25. Advance fee scam, also known internationally as "Four-One-Nine," or "419," referring to the fraud section of the Nigerian criminal code.

26. The group is a member of the Universal Postal Union (UPU). The postal services of the UPU's 190 member countries form the largest physical distribution network in the world. www.upu.int/about_us/en/glance.html

27. The group collects, processes, and delivers 82 million items to 27 million addresses each day. Royal Mail Group Plc. www.royalmailgroup.com/home.asp

28. www.postoffice.co.uk/portal/po/content2?catId=19400180andmediaId=19700176

29. UK Remittances Working Group and DfID 2005. MoneyGram's partnership with the Post Office in the UK shows the value of establishing relationships that leverage existing infrastructure.

Box 2: MTN Top-Up card

The MTN top-up card is very easy to use and is activated through a five-step process:

- Step 1. Purchase a MTN top-up card from any participating retail outlet or agent.
- Step 2. Scratch off the covered area to reveal secret top-up PIN, a 12-digit number.
- Step 3. Contact relative back home to pass on the top-up PIN.
- Step 4. Nigerian recipient keys in the PIN into her/his phone to load the airtime according.
- Step 5. Nigerian recipient's account with MTN is credited with the airtime value of the top-up denomination immediately (MTN Nigeria network terms and conditions apply).

For problems with the service, the recipient can call the MTN Nigeria helpline on her/his handset, or another helpline for subscribers outside of the MTN network. The sender can send as many PINs as s/he wishes, and there are discounts for affiliate groups or bulk orders.

Sources: MTN Nigeria, www.mtnonline.com/product/tucfaqs.asp#2, www.uk2nigeriatopup.com/FAQS.html

send it to their friends and family in Nigeria. Top-Up cards are telephone cards with transferable value, purchased in the UK and used in Nigeria by beneficiaries to make phone calls (Box 2). Since typical money transfer rates and commissions are expensive and minimum transfer values are approximately £100, sending a “Top-Up PIN” is cheaper and easier than sending small amounts of money home to help relatives pay their telephone bills. These cards are available in £2.50, £8.50, and £17.00 denominations.³⁰

Informal providers transfer an estimated 50 percent of the remittances in this corridor.³¹ Sometimes third parties are involved, and some people develop a good reputation for physically carrying and delivering money to beneficiaries. These informal services are free; however, some senders may give the messenger a gift such as a bottle of wine or a shirt as an expression of gratitude. Sometimes, a Nigerian who is in the United States or UK temporarily for business can request funds from a resident to use while abroad. When she returns to Nigeria, she provides the equivalent of the money in Naira, at a pre-agreed rate, to the relatives of the person who loaned her the funds in the United States.

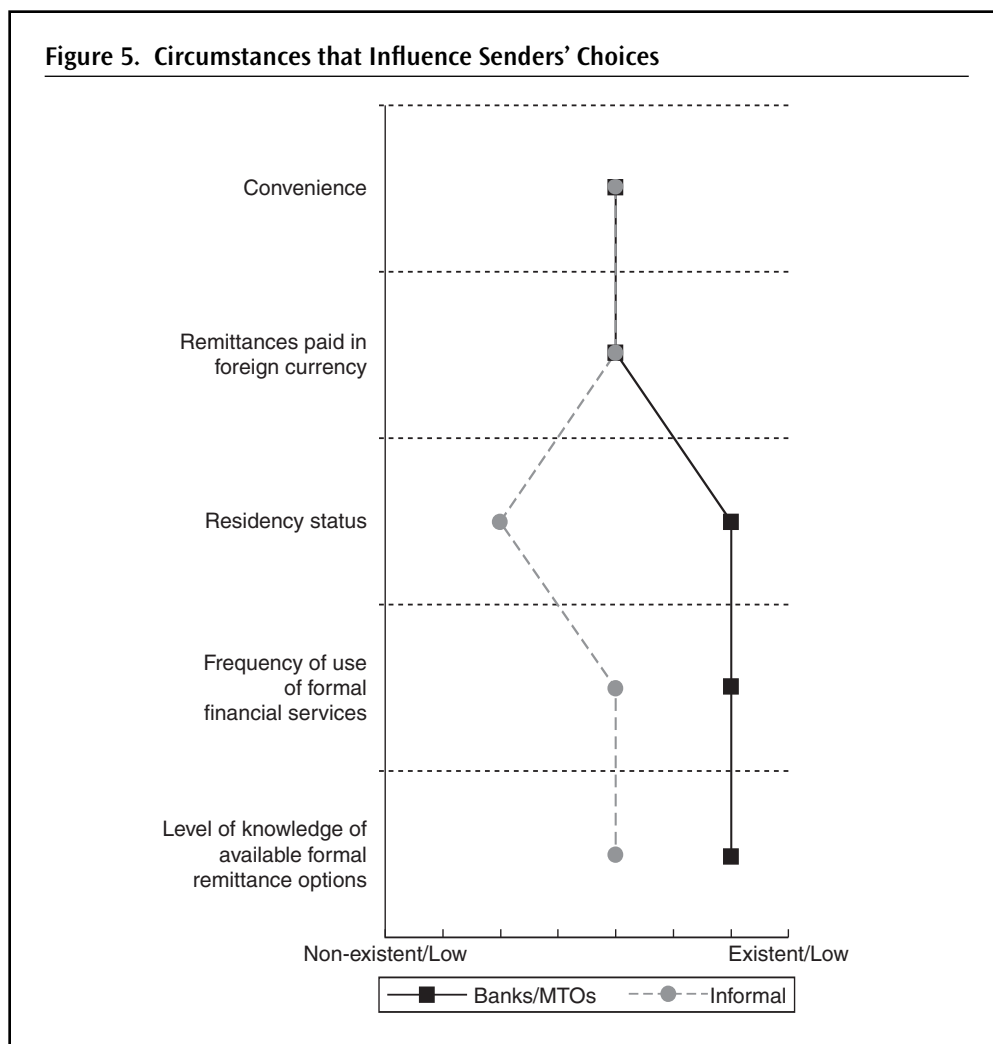
Circumstances that Influence Sender Choices

Convenience, favorable foreign exchange rates, senders' residency status, use of formal financial services, and limited knowledge of available remittance options are the main influences affecting senders' choices (Figure 5). Senders consider MTOs, and gradually banks, as the most reliable means of sending money home. Senders also perceive informal providers, such as migrants carrying cash, to offer security and ultimate sending and receiving convenience with no commission (DfID 2005a).

Remittance channels that offer customers convenience attract more clientele. It is convenient to send cash through persons traveling home to Nigeria to deliver to family,

30. MTN top-up card, www.uk2nigeriatopup.com/index.html

31. This estimate is based on World Bank interviews with UK authorities, banks, MTOs, and remittance senders.



Source: World Bank 2006.

friends, and acquaintances. The sender enjoys a personal contact with the courier and does not need to go to the physical office of a bank or an MTO. The persons transporting cash do it as a favor, at no cost to the remitter. With a few exceptions, sending cash through this mechanism is reliable because both the senders and recipients know and trust the migrant carrying cash. The migrant also gives the recipient news of their relatives' welfare in the UK and deliver letters and gifts from the remitters. On the other hand, sending money through MTOs is convenient especially during emergencies when no one is available to physically transport cash.

Senders want their beneficiaries to get a favorable exchange rate and more value in the local currency. In Nigeria, recipients have the option of receiving the remittances sent through banks and MTOs in Nigerian Naira (₦), or in hard currency such as U.S. dollars, British pounds, Euros, and CFA. Money sent physically in hard currency also relies on bureau de changes (BDCs) for foreign exchange instead of a bank, for the same reasons.

The residency status of the sender in the UK is a consideration when choosing a remittance channel. Undocumented residents may prefer to send money through the informal sector to avoid interaction with formal institutions that require I.D., such as passports. These individuals fear disclosing their immigration status and possible deportation.

Users of the informal systems often have a low level of awareness of the benefits and incentives available in the formal system.³² Senders who are aware of the available remittance options tend to send money formally; those who do not use formal financial services tend to send money home through informal means.

Legal Framework Affecting Remittance Transfers

The UK legal and regulatory framework on remittances does not inhibit market entry for new players or limit the development of new remittance products. The basic requirements for entry are registration for MTOs, and registration and licensing for banks. MTOs must register with Her Majesty’s Revenue and Customs (HMRC), while banks adhere to regulations by the Financial Services Authority (FSA), and are required to register with the Banking Code Standards Board.³³

To set up an MTO business, the operator pays a registration fee of £60 per premises to the HMRC. HMRC reviews the business for the appropriate procedures to control to counter money laundering and financing terrorism, train staff on antimoney laundering and combating financing of terrorism (AML/CFT), conduct customer due diligence (CDD), and submit suspicious transaction reports (STRs). HMRC provides training tools, which include videos and notice booklets, and conducts onsite supervision. Noncompliant businesses receive warnings, follow-up visits, and possible penalties.

Before a bank can get its license, the FSA conducts both onsite and offsite supervision to ensure compliance with various requirements, including AML/CFT. The FSA risk assessments of firms consider money service businesses (MSB) activities if they are “material,” that is, if they account for more than 10 percent of the business or have particular strategic importance or risk. The UK Financial Intelligence Unit has reorganized to form a new agency, the Serious Organized Crime Agency (SOCA), which will implement the government’s drive against money laundering.³⁴

As part of their CDD procedures and AML/CFT requirements, banks ask potential customers for numerous documents, including an identification, such as a passport, and

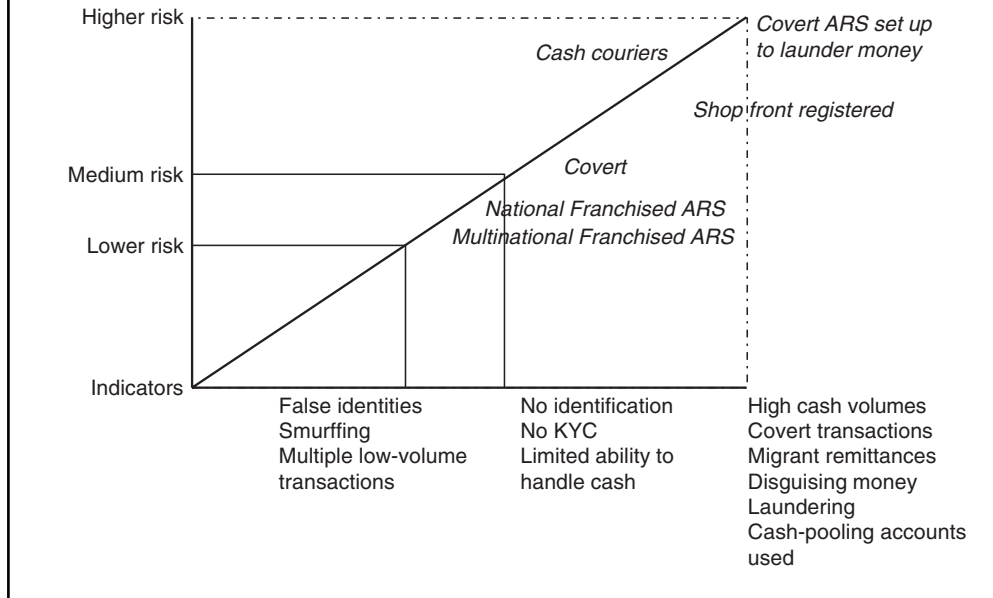
32. World Bank BRCA Team interviews with the CBN, Abuja, March 2006.

33. According to FATF Special Recommendation VI, all funds transfer systems (formal and informal) should be licensed or registered with governing authorities. Of course, mere licensing or registration does not mean that a system is supervised in the same way as institutions in the regulated financial sector. According to the June 2003 Financial Action Task Force (FATF) International Best Practices Paper, licensing implies that the regulatory body has inspected and sanctioned the particular operator to conduct such business. Registration means that the operator simply has been entered into the regulator’s list of operations. The FATF “is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing.” www.fatf-gafi.org

34. Burns 2005. SOCA is an Executive Non-Departmental Public body that is sponsored by, but operationally independent from the UK Parliament. It is formed from the combination of various agencies including the former National Crime Intelligence Service (NCIS). www.soca.gov.uk/aboutUs/index.html

Figure 6. Typology for UK Risk-based Approach to AML/CFT

The UK employs a risk-based approach to implement AML/CFT regulations that considers the institutional type and services offered.



Source: FATF Typologies Report 2005; Figure 5, UK Risk Assessment.

proof of address. Although many UK residents have bank accounts, approximately 3 million adults do not. They include the retired, low-income wage earners, and part-time workers paid in cash.³⁵ Often it is necessary, in addition to having personal I.D. such as passports and driving licenses, to have a proof of residence such as a utility bill (Shah 2005). Because of these regulations, persons who are not of legal status in the UK or for some other reason cannot produce acceptable I.D. have reduced access to formal financial services.

Some banks interviewed in the UK do not conduct business with smaller MTOs that may present ML and FT risks. Recently, some MTOs' corresponding bank accounts were closed due to the perception that MTOs are high-risk business entities that require additional monitoring of transactions. This situation, which is occurring in other major remittance sending countries,³⁶ is one of the issues driving the development of the UK Money Transfer Association (Box 4).

Banks are not comfortable with the level of regulation for MTOs because it does not include a "fit and proper" test, and the penalties for noncompliance are light.³⁷ Currently,

35. Shaw 2005. The number of Nigerians with Bank accounts is not known.

36. According to Orozco (2006) in 2006 Bank of America decided to cancel all its accounts with MTOs, including those with larger international franchises, such as MoneyGram and Western Union.

37. The highest penalty is £ 5,000 for a MTO that is registered and breaches regulations.

Box 3: Requirements for Opening a Bank Account in the UK

To open a bank account in the UK, citizens need to provide either a passport or some form of identification and a utility bill with the home address. Other nationals, including Nigerians, need to provide a valid full passport. Where applicable, visas need to be current. If the Nigerian nationals live in the UK, that is, working or studying, a letter from a known employer or known university or college confirming their address is needed. It is difficult for banks to verify addresses of the applicants who reside in Nigeria. Although most Nigerian nationals living in the UK generally do not need to be classified, account holders intending to send and/or receive transactions from Nigeria, and Politically Exposed Person (PEPs) often do need to be classified. Agreement to open the account for classified customers may require senior approval.

Source: World Bank interviews with UK banks, April 2005.

the UK has initiated a consultative process for the Payment Services Directive adopted in December 2005 by the European Commission (EC). The Payment Services Directive aims to improve the competitiveness of the EU through integrating national payment markets and providing support for the European payment industry in building the infrastructure necessary for a single payment market (Box 5).

Box 4: UK Money Transmitters Association

The UK Money Transmitters Association (MTA) has approximately 500 members. It aims to be the voice of all the many retailers who have registered with Customs and Revenue as money service businesses (MSBs) to make money transfers. The MTA will represent the concerns of retailers who offer money transfers within the nonbank sector. The association aims to represent fairly the diversity of the businesses registered with HMCR that offer money transfer services. For example, the association will cater to money remitters who provide a service to customers wishing to send a few hundred pounds back to relatives in their countries of origin. Equally, MTA will represent the businesses that offer high-value foreign exchange for customers who may wish to buy property abroad.

MTA's key objectives are to:

- Establish and promote shared high standards across the money transfer industry and establish an industry-wide “quality mark.”
- Establish and promote “best-practice models” in connection with issues such as effective customer ID checks, training systems and procedures, suspicious transaction reporting, record-keeping, and audit trails.
- Provide training, information, and support to money transmitters to help them comply with the regulations.
- Engage in dialogue with the regulator to ensure that the 2003 money laundering regulations are fairly and consistently applied.
- Establish an effective dialogue with the banks to ensure that they behave reasonably in their relations with money transmitters.
- Be the voice of the industry with national and international government.

Source: www.ukmta.org/.

Box 5: EU Payments Directive: New Legal Framework for Payments in the Internal Market

The European Commission's key aim with the new Payments Directive is to facilitate the creation of a Single European Payments Area (SEPA). With the introduction of the Euro, the commission sees this as an important political priority.

However, the directive also will significantly affect money remitters by creating the possibility of a license for them to operate EU-wide. This license could substantially benefit larger companies. In terms of regulation, in many EU member states, this license would constitute a reduction in entry barriers from the current regime, which requires a banking license to offer remittance services. Currently, in the UK, money remitters are not subject to financial regulation, although they have to comply with anti-money-laundering requirements. The directive is likely to mean a slightly higher level of regulation in the UK. The precise level will depend on the outcome of negotiations in the European Parliament and Council of Ministers once the EC has adopted a legislative proposal for the directive.

The UK government has been seeking to ensure that the regime introduced by the directive is proportionate to the risks of providing payment services, which are not equivalent to the risks of taking deposits. The directive is also likely to contain a waiver that will give Member States the option to exempt small remitters from the license requirement. However, even if they are waived, small remitters will still have to comply with requirements regarding information given to customers, execution of payments, and liability.

The directive is likely to take effect in 2008.

Source: HM Treasury.

UK banks report that they have trouble when conducting business with Nigerian banks.³⁸ UK banks find it difficult to establish corresponding banking relationships with Nigerian banks because of challenging Know Your Customer (KYC) procedures of Nigerian banks' clients. The UK banks are not confident with the manner in which the Nigerian banks conduct these procedures.

Consumer protection is accessible in the UK through the financial Ombudsman. The UK financial Ombudsman helps to settle individual disputes between consumers and financial firms. It covers complaints about most financial products and services provided in (or from) the UK. If there are any problems with a transfer, customer assistance is available through a dedicated customer helpdesk or team, general customer services call center, or contact with a branch or an agent. Some providers, mainly UK banks, offer a complaints procedure.

UK Government Initiatives on Remittances

DfID is initiating Remittance Country Partnerships (RCPs) with selected countries, namely, Bangladesh, Ghana, and Nigeria, all of which receive large volumes of remittance transfers from the UK. These partnerships include a range of measures to remove impediments to remittance flows, improve access, and the terms of that access, for low-income and rural people to remittances and other financial services in both sending and receiving

38. World Bank BRCA Team interviews with commercial banks in the UK, April 2005.

Box 6: Sending Money Home? Initiative

In 2004 DFID and the Banking Codes Standards Board (BCSB) conducted the UK Remittance Products Survey entitled, “Sending Money Home?” as a significant first step toward achieving transparency and reduction of costs of remittances originating from the UK. The study provides comparable and accessible information on the products and services available to people wanting to send money home from the UK to developing countries.¹ This information is web based (www.sendmoneyhome.org) and leaflet based, available in relevant languages.

The publication hopes to increase transparency on remittance service issues such as costs, speed of transfer, and the customer services that banks, building societies, and MTOs offer. The hope is that making this information public will encourage competition and innovations within the money transfer market to developing countries and help remitters make better choices. This publication provides information for the corridors between the UK and Bangladesh, China, Ghana, India, Kenya, and Nigeria, and will be extended to an additional nine countries. Selection factors include the size of the migrant groups in the UK and the economic situation in the countries.

To accurately represent the costs, available remittance products, and customers’ knowledge and practices when sending remittances from the UK, the research methodology involved a survey of remittance providers; qualitative research among the members of the different migrant groups; and mystery shopping at remittance provider outlets such as MTOs, banks, and building societies. The Sending Money Home Initiative encourages the use of formal channels through providing information on the costs, speed, and security that the customer can expect from these channels.

The study found out that, when sending money via MTOs, prices ranged from 5 percent to 12 percent for sending £100, and from 4 percent to 6 percent for £500. Below certain threshold amounts, no identification is required to transfer funds through MTOs. However, these amounts tend to be *lower* for MTOs, that is, MTOs’ requirements could sometimes be *more* stringent and there is a variation in the minimum amounts requiring ID-based on the MTO. According to the DFID study, “Sending Money Home,” MoneyGram and First Remit require ID for anything over £500; Travelex and Western Union over £600; NatWest and RBS £1000; Chequepoint £1900; and Express Funds, a Ghanaian MTO, £2000.

“Sending Money Home” also surveyed banks, including those active in the UK–Nigeria remittances corridor. Banks that contributed to the survey included Abbey, Barclays, Citibank, NBOS, Co-operative, HSBC, Nationwide, Lloyds, TSB, NatWest, and Royal Bank of Scotland (RBS). Although often more expensive and slower than MTOs, banks tend to offer more competitive prices for transferring amounts over £500.

Sources: World Bank and DFID 2005.

countries. The partnerships also strengthen the capacity of the financial sector to provide efficient and widespread transfer payment services. DfID together with other UK partners conducted a UK Remittance Product Survey, which provides comparable and accessible information on products and services to remittance senders (Box 6).

Initiative with Nigeria

The goal of DfID’s proposed RCP with the Nigerian government is to reduce the transaction costs and barriers to access for Nigerian remittance senders and recipients. The RCP would enhance competition, improve transparency, address legal and policy constraints to remittance flows in the UK and Nigeria, promote the use of technology, and build the capacity of Nigerian remittance-receiving institutions (Shah 2005). The RCP also aims to encourage easy and inexpensive access of financial services to low-income people. The RCP also aims to encourage a higher level of involvement of banks, NGOs, nonbank financial

institutions such as mortgage and savings institutions, and institutions that serve low-income people in the remittance market.

DfID is working with the CBN to improve data collection capacity and on a range of other financial sector issues such as facilitating banks to develop corresponding banking products. DfID is collaborating with the CBN to develop a household survey to enable the private sector to understand how low-income people use their money. This information will be useful for developing products for the Nigerian financial market. DfID also is developing a matching grant scheme to support the financial sector for remittance products. DfID packages a variety of financial sector initiatives by using existing instruments and introducing remittances as a crosscutting issue.

Main Findings in the First Mile

There is a Need for New Transfer Mechanisms that Respond to the Demands of the Nigerian Diaspora. After over five decades of migration, the UK Nigerian population is established, diverse, highly-educated, and professional. These Nigerians are a potential consumer group for specialized remittance banking products. The characteristics of the Nigerian community would seem to correlate ideally with a high preference for formal funds transfer systems. However, research indicates within the diaspora an equal prevalence of informal transfers to formal systems. Nigerian migrants who do not have legal immigration status and have a lower level of education than the vast majority, or who are not aware of the various remittance and banking products, may have limited access to formal financial institutions.

An enabling regulatory environment for RSPs does not guarantee participation in the remittance market. The legal and regulatory framework affecting remittance transactions in the UK does not inhibit market entry for new MTOs or limit the ability of banks to develop new products. However, Nigeria's AML/CFT history has drawn higher scrutiny for transactions and deters banks' involvement in the remittance market. Therefore, fewer international banks are interested in developing specialized remittance products with Nigerian banks. UK banks seemingly prefer more stringent regulations for MTOs, a few of which they consider to be of high risk for ML and FT.

Development of remittance corridors toward higher formality requires governments' interventions through effective policies and bilateral initiatives. The UK government has taken positive steps to promote formal transfer mechanisms and reduce transaction costs and barriers to access for remittance senders. In partnership with the Nigerian government, DfID is developing initiatives to reduce the cost of remittances and enhance the impact of these flows in the lives of the recipients. The proposed remittance country partnership (RCP) between the UK and Nigeria could facilitate the introduction of more remittance products, thereby increasing competition, improving transparency, influencing policy by addressing legal constraints to remittance flows between the UK and Nigeria, promoting the use of technology to develop innovative products, and building the capacity of the remittance-receiving institutions in Nigeria. However, the success of these initiatives depends on the commitment of both governments to develop effective policies.

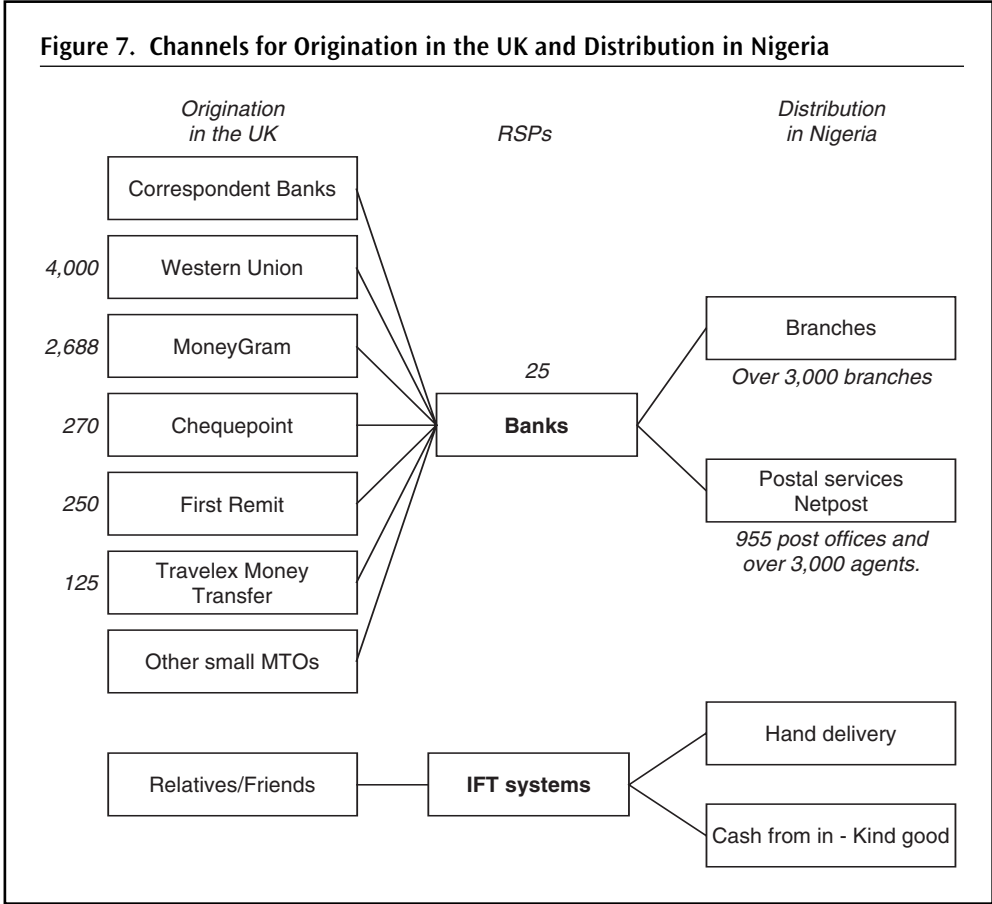
At the Intermediary Stage

This chapter describes the current formal and informal payments infrastructure for remittances in the UK-Nigeria remittance corridor. It touches on key issues specific to this corridor such as the dominance of MTOs and banks with MTO arrangements, the cost structure of formal transfers, the presence of informal transfer intermediaries, and the potential for remittance products that leverage new technologies.

Remittance Transfers through Formal Intermediaries

MTOs and banks capture funds at the origination while banks with MTO partnerships dominate the distribution. Remitters prefer MTOs because of reliability, speed, accessibility, and a more flexible customer identification process.³⁹ MTO transfers take less than 24 hours, while corresponding bank transfers take 2–10 days. Figure 7 describes the origination and distribution options available in the UK-Nigeria Corridor regardless of their settlement process.

39. As in most remittance transactions, when the remittance transaction is initiated, the sender pays all fees charged by MTOs. In most instances, transaction and exchange fees are applicable. The transaction fee charged to the customer is split with the bank agent in Nigeria. The potential exchange fee is the source of most of the profit made by MTOs.



Source: World Bank.

Origination

Remittance transfers from the UK to Nigeria originate mainly through MTOs, and primarily in cash through face-to-face transactions.⁴⁰ MTO services are sometimes available online and by telephone. It is not necessary to have a bank account in the UK or in the recipient country to use MTO services.⁴¹

MTOs and banks require identification for money transfers above a certain threshold, which varies from provider to provider. Bank transfers to Nigeria can occur through account-to-account, telegraphic, via Foreign Exchange house, and banker’s draft (Box 7).

Messaging

Communication between the capturing agents in the UK and the disbursement agents is through email. In Nigeria, the central offices electronically transmit the information to the

40. www.sendmoneymoneyhome.org/Country percent20summaries/Nigeria.html
 41. www.sendmoneymoneyhome.org/Country percent20summaries/Nigeria.html

Box 7: Bank Transfer Systems in the UK-Nigeria Remittance Corridor

Account to account transfer. The originator instructs her or his bank to make an electronic transfer of funds to the bank account of a beneficiary in Nigeria. This transfer can take 24–48 hours from initiation in the sending country to action in Nigeria, and an additional 24–72 hours to complete the domestic leg of the transaction. Although expensive, electronic account-to-account is the most secure means of international transfer. The fees are charged to the sender's account or deducted from the principal. The currency conversion takes place at the retail end of the transaction, from which the recipient picks up the money.

Telegraphic transfer. The process is the same as above, except that the beneficiary does not hold an account with the receiving branch and is therefore required to visit the branch and collect cash upon production of suitable identification. The term, “telegraphic transfer” is a legacy of telex-based systems. While this method is still in use in smaller banks and institutions, the standard medium for such traffic today is the global interbank SWIFT network.

Transfer via a foreign exchange (FX) house. The originator visits a FX house, pays cash over the counter, and issues his instruction. The FX house converts the currency to Naira and issues a payment instruction to a bank in Nigeria. The FX house will send electronic messages to a bank with which it has a bilateral or corresponding agreement. Once the bank in Nigeria receives the instruction, the money is paid into the recipient's account, or paid out to a non-bank-account holder upon presentation of suitable ID. The FX house may or may not make a transaction charge but will use a retail rate of exchange as its prime source of revenue.

Bankers' draft. The originator instructs her bank to issue a bankers' draft, and mails it directly to the beneficiary in Nigeria. The beneficiary submits the draft over the counter at her local bank branch, and the bank submits it through clearing channels for settlement. Once the bank receives the proceeds, they are credited to the beneficiary's account. As the transaction relies on paper from end to end, it is by far the slowest means of payment, and carries relatively high risks of loss and delay, among other concerns. It should be noted that in many developed countries, to steer clients toward using the more automated and efficient electronic products, banks are raising charges for drafts.

Sources: World Bank BRCA Team 2006, DFID RCP Report 2005b.

outlets. Information sent to the disbursement agent includes the name of the beneficiary, the amount, and the instruction to pay in Naira or foreign currency. The sender tells the beneficiary the transaction code, usually by a call to a mobile phone.

Settlement

The MTO makes a credit transfer from its bank account in the UK to its account with the Nigerian disbursing bank in the UK or the United States. With MTOs operating instant transfers, the settlement takes place the next day or within 3–4 days. The other methods could take 2–3 weeks, but in most cases, the average is one week.

Credit and Liquidity Risks

The banks in Nigeria assume a credit risk because they often disburse funds and wait for 1–3 weeks before they settle their accounts with the MTOs. Banks use the spread that they gain on foreign exchange transactions, called float trade, between the period of disbursement and settlement to compensate for the credit risks that they assume. This risk will vary depending on the agreement with the MTOs working with the banks, amounts disbursed, and time of the year.

In the case of remittances paid in local currency, the banks' liquidity depends on the cash deposits made during the day and the branch reserves. Banks need to advance hard currency to branches based on the branches' estimates of demand. These estimates are based on historic patterns, nature of branches (urban vs. rural), and frequency of transactions. Some banks provide hard currency reserves to cover three days and some for approximately one month, depending on the needs of the branch.

Disbursement

To receive the funds, the beneficiary provides the code and identification to the disbursement agent. Identification documents used in Nigeria to collect remittances include driver's license, international passport, and identification of individuals by a recognized authority in the absence of formal I.D. Box 8 illustrates the transfer process from origination to disbursement.

Remittance Transfers through Informal Intermediaries

Informal intermediaries are prevalent in this corridor. The most common methods include people carrying cash, community or ethnic networks, trader networks, value transfers, and bus couriers. For emergencies, the tendency is to use formal channels, such as banks and MTOs.⁴² IFTs that involve the physical transfer of cash on behalf of friends and relatives usually are free and reliable, and serve a social function.

Persons Carrying Cash

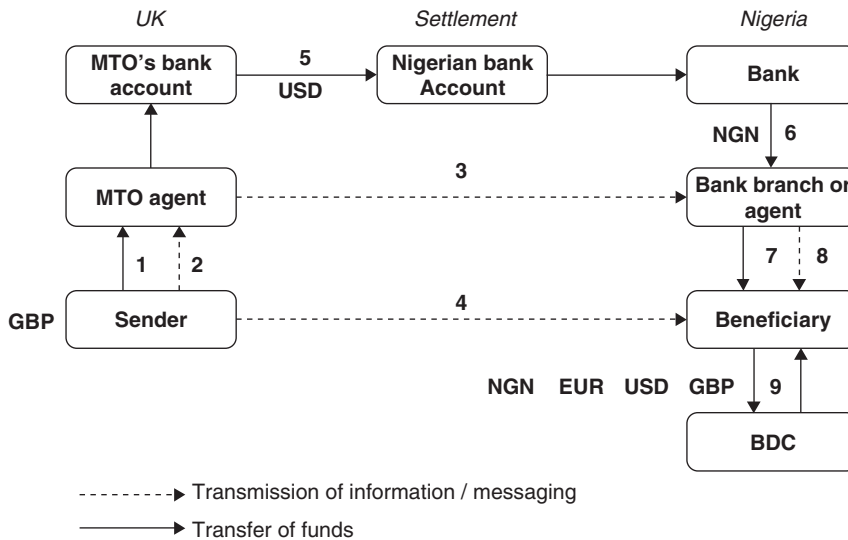
The most common method of transferring money is physical cash through friends and family or through persons known to friends and family. This method of sending money is usually free and depends on the trustworthiness, integrity, and reputation of the courier. This method is declining in some communities because of trust issues. Sometimes, senders express their gratitude through gifts like a shirt or a bottle of wine to the person carrying cash instead of paying a fee. The sender informs the recipient that money has been sent and provides the name and contact information of the traveler. The recipient contacts the traveler and collects the money.

Most of these remittances seem to be for legitimate purposes. However, the former present some concern for authorities with regard to ML and FT. FATF special recommendation IX requires that travelers physically carrying cash declare amounts exceeding a pre-set maximum threshold of US\$15,000. According to government officials in Nigeria, there are no restrictions on the amount of money brought physically into the country. Instead, there is a requirement to declare amounts of US\$10,000 or more at the port of entry. Compliance with this requirement is low to nonexistent.

42. BRCA Team interviews with Economic and Financial Crimes Commission (EFCC), Nigeria, March 2006.

Box 8: Most Common Remittance Transfer Process from the UK to Nigeria

MTOs are the most common RSPs used in the UK for remittance transfer to Nigeria. Banks in Nigeria dominate the distribution of these flows. The following figure illustrates the process from origination to final conversion into Nigerian Naira.



1. Remittance senders in UK have access to an extensive network of MTOs' outlets. Most MTO remittance transfers are originated in cash.
2. Sender presents documents for identification and provides beneficiary's information. Agent provides sender with transaction code.
3. Capturing agent sends remittance transfer information to disbursing agent containing name of beneficiary, amount, which in Nigeria could be paid in local or foreign currency.
4. Sender informs beneficiary of transaction code, usually done by call to a mobile cell-phone.
5. Credit transfer is made by MTO from its bank account in UK to a bank account of Nigerian disbursing bank in UK or US. With most MTOs, settlement is conducted next day. MoneyGram takes 2–3 business days.
6. Banks' liquidity is supported by cash deposit made during day.
7. Credit risks assumed by banks are compensated by spread they gain on foreign exchange dealings.
8. Beneficiary provides code and identifies to receive funds.
9. If beneficiary receives remittance in foreign currency, amount could be exchanged at bank at interbank rate or s/he could change amount at BDC at a more favorable rate.

Source: World Bank interviews.

Community Networks

Some agents operating within communities bundle remittance payments and send them to their corresponding agents in Nigeria, who distribute them to the relevant beneficiaries. The precise nature of these networks has not been established. It is not known whether the arrangement has no physical movement of cash and therefore includes an

exchange facility; or whether the hard cash is physically taken back to Nigeria, such as an informal courier service.

Trader Networks

Some remittance inflows occur through trader networks, such as second-hand car traders. Unlike Hundi or Hawala networks, this method does not appear to be “institutionalized.” No data is available to assess its significance or scale, the extent of its use, and whether it is linked to smuggling activity. Arguably, if there are significant inflows of cash through trader networks, or other informal money transfer networks, for these informal methods to function, there must be corresponding outflows from Nigeria. The fact that money outflows from Nigeria are legally restricted would strengthen the argument that businesses, investors, and consumers would use informal methods to send out money.

Value Transfer

This is a system of settling accounts without the physical transfer of cash. This system is on the rise and involves Sender A in the UK paying money to a contact in the UK, who informs a businessperson in Nigeria of the account credit, and the businessperson pays the beneficiary in Nigeria. The settlement of these accounts sometimes occurs through car dealers who import cars, sell them in Nigeria, and repay the remittance to the businessperson at an agreed rate. This method proliferates mainly in the Italy-Nigeria remittance corridor, in which the presence of undocumented Nigerian immigrants is increasing rapidly. This method has security implications because of its basic informal nature, which creates a potential for robbery of the businessperson. Since it is a home business, it is usually associated with high traffic to the provider’s house. Sometimes, instead of sending money home to Nigeria for the recipient to purchase food, a sender could approach a contact in the UK to facilitate a value transfer. The sender pays *Businessperson A* in UK a certain amount equal in value to the food. *Businessperson B* in Nigeria buys and delivers food to the recipient equal in value to the amount paid by the sender, minus the fees charged for the transaction. There is no information on how the two *businesspersons* settle their accounts. This method is useful for beneficiaries who are ill or disabled and not able to carry out daily functions.

Bus Courier

Local bus couriers play a role in the distribution of international funds. Research conducted in Lagos shows that this is a common method to transfer money if individuals cannot travel to and from the large cities to collect the money. The initial recipient of the international remittance can visit an interstate bus terminus in Lagos and pay a fee to send an envelope of money to a bus terminal in another state. The sender writes the name of the final recipient, and the required delivery information, on the envelope. To collect the money, the recipient must visit the bus station and provide a means of identification.

Costs Associated with Formal Transfers

The cost of sending money from the UK depends on the transfer method (Table 2). Services offered by MTOs are the cheapest for transferring money from the UK to Nigeria.

Table 2. Remittance Transfer Fee from UK to Nigeria, May 2005

(£)		
Transfer method	Remittance provider	Remittance cost
Cash transfer	First Remit	5
	Chequepoint	5
	MoneyGram	7
	Travelex Money Transfer	7.5
	Western Union	12
Bank draft	Chequepoint	5
	HBOS	7
	NatWest	8
	Royal Bank of Scotland	8
	Nationwide	12
	Co-operative	13
	Barclays	15
	HSBC	15
Loyalty card	Travelex Money Transfer	7.13
International money order	Barclays	8
Electronic/SWIFT	Co-operative	13
	HBOS	14
	NatWest	18
	Royal Bank of Scotland	18
	Barclays	20
	Nationwide	20
	Lloyds TSB	20
	HSBC	21
Priority Electronic/SWIFT	Abbey	25
	Citibank	30
Priority Electronic/SWIFT	Barclays	35

Notes:

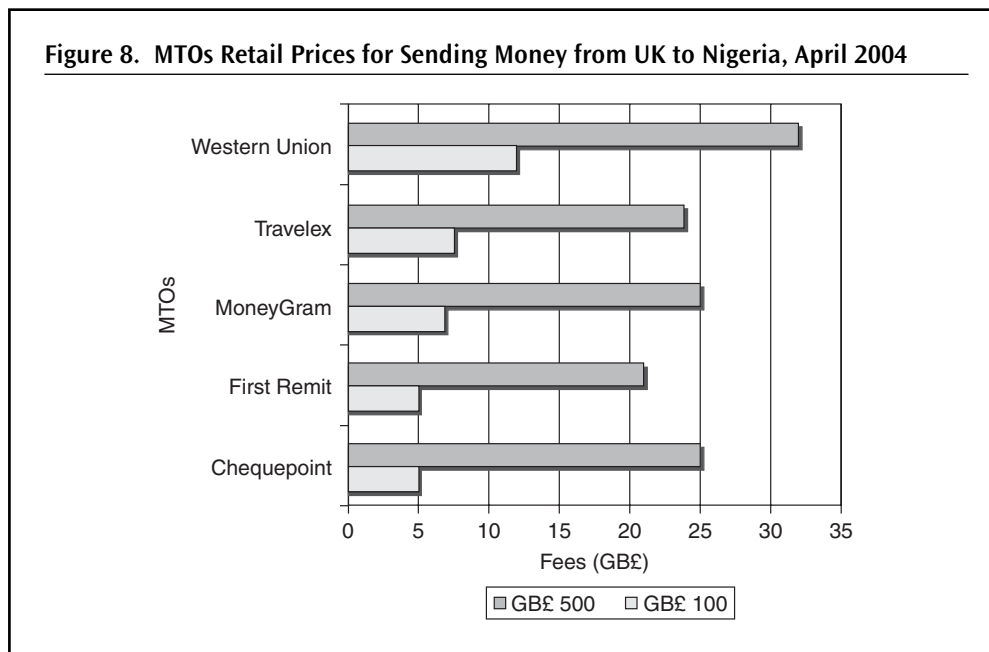
1. Some companies require a minimum amount through their services.
2. Average cost of sending to Nigeria GB£ 100 using different remittance service providers.

Source: DFID 2005a.

The average transaction ranges from US\$100–500. In contrast, during peak periods (*Hajj* and Christmas), transactions range from US\$1,500–3,000.⁴³

According to the DfID study, sending money via MTOs prices ranged from 5 percent to 12 percent for £100, and from 4 percent to 6 percent for £500 (Figure 8). The sender

43. BRCA Team interviews with EFCC, Nigeria, March 2006.



Note: This figure shows only transfer fees, rather than total costs. Exchange rates costs are not included.
Source: DFID 2005a.

covers the financial costs involved in the remittance transfer. The recipient may incur other costs, such as transportation to the disbursement agents, that are not currently possible to measure. The recipient does not need to pay any fees to the bank acting as the MTOs' agent in Nigeria. Since 2001, the Nigerian government has asked banks to pay beneficiaries in hard currency if requested.⁴⁴

Remittance recipients have the option of exchanging the money they receive through a BDC, from which they get a higher foreign exchange (FX) rate than the CBN rate used by banks. The beneficiaries may receive remittances either in foreign currency—U.S. dollars, Euros, British Pounds, the CFA⁴⁵ francs—or in Nigerian Naira (₦). Although availability is not always guaranteed, the foreign currency option for remittances also is available to people in rural areas. This policy has encouraged more people to use formal institutions to transfer money from the UK, rather than informal operators. BDCs charge a service fee of 1 percent of the exchanged amount or ₦1, whichever is higher. The commission accords with the instructions from CBN.⁴⁶ Some BDCs are concerned that the CBN commission ceiling limits the ability to profit from the transactions.⁴⁷

44. The rationale for this directive is to stop the exploitation of beneficiaries by banks and to promote increased inflow of foreign exchange through formal channels.

45. *Franc de la Communauté financière de l'Afrique* is the currency used by Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo, Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon.

46. World Bank BRCA Team interviews with Specific Resources Ltd, Abuja, May 2005.

47. World Bank BRCA Team interviews, Abuja, May 2005.

The amount of remittance disbursed into Naira by banks is declining as their cost to pay remittances in hard currency is increasing. There are three possible exchange rates in Nigeria: CBN or Inter-bank Foreign Exchange Market/Dutch Auction System (IFEM/DAS) rate, BDC rate, and black market rate. The difference between the

BDC and black market rate is small and continues to shrink. It is expensive for banks to pay remittances in hard currency. Besides the cost of stocking hard currency specifically to pay out remittances, there are transportation costs and security costs (Table 3).

Often banks need to transfer funds by road from cities and to branches in remote areas, and guards are necessary for the safety of staff and funds.⁴⁸ The tendency is for recipients to take their remittances from the bank agent in hard currency and exchange them at a BDC. Banks will continue to lose money-exchange business for remittance funds unless they begin to offer exchange rates comparable to those offered by the BDCs (Table 4).

Table 3. Value of Remittances Exchanged for Local Currency by Banks, 2002–05 (million Naira)

2002	2003	2004	2005
323.60	243.24	200.86	211.74

Profit Equation for RSPs Involved in the Corridor

Banks and MTOs in the UK rely on transfer fees and volumes of transactions to make profit. The need to maintain a certain volume of transactions is the underlying reason for exclusivity conditions for banks in Nigeria that are agents of MTOs in the UK.⁴⁹ Banks in Nigeria that enter into an agreement with a MTO in the UK receive a certain percentage of the commission charged by the MTO to the sender. The commission received by the bank is 25–35 percent of the fee charged.⁵⁰ In addition, the bank has the opportunity to cross-sell other banking products, such as savings accounts, to the individuals collecting remittances. Many banks (agents of MTOs) have stated that, since becoming agents, they have seen a rise in the use of retail banking products by remittance beneficiaries. There is no data available to show this increase and the associated products (Shah 2005).

Banks are losing potential account holders because they cannot offer exchange rates as attractive as the BDCs'. Some Nigerian banks' interest in the remittance market is for the commission alone, not as a link to other financial products. So far, only one bank is looking at remittances as a path for providing services such as saving accounts, credit, or insurance, thus transforming remittance customers into bank clients. Some banks are trying to increase their aggregate volume of remittances through their MTOs partnerships,

48. Interview with commercial bank agent in Lagos.

49. Exclusivity contracts occur when, as a condition of being able to offer a specific remittance service, an RSP or agent is prohibited by the MTO from offering any other remittance service associate with another MTO.

50. World Bank interviews with commercial banks in Lagos.

Table 4. Transfer Cost of £100 from UK to Nigeria**A. Transfer originated at a MTO paid and converted at a bank, £100**

Transfer fee (GBP)	Foreign exchange rate	Amount converted (Naira)	Fee for beneficiary (Naira)	Amount received
5	130	13,000	0	13,000

B. Transfer originated at a MTO, paid at a bank, and converted at a BDC, £100

Transfer fee (GBP)	Foreign exchange rate	Amount converted (Naira)	Fee for beneficiary (Naira)	Amount received
5	140	14,000	1	13,999

C. Transfer originated at a bank, paid and converted at a bank, £100

Transfer fee (GBP)	Foreign exchange rate	Amount converted (Naira)	Fee for beneficiary (Naira)	Amount received
13	130	13,000	0	13,000

Source: World Bank estimates.

but the exclusivity of their contractual obligations with MTOs limits their expansion. At the same time, to maintain their volume and monopolistic role of distributing remittances, some banks do not want to see other entities enter into the business, be they MTOs or BDCs.

Transaction costs have come down in some corridors by 50 percent or more significantly through promoting competition, innovating payments systems, and increasing access to financial services for senders and recipients.⁵¹ CBN's policy of allowing remittance disbursements on hard currency has the positive impact on transfer costs of reducing the FX spread made by banks and using BDCs to create competition to combat the black market FX. There is still a relatively high cost of formal transfers associated with this corridor, mainly because of low competition in the distribution of remittances in Nigeria, absence of innovative payment instruments, and presence of exclusivity contracts between MTOs and Nigerian banks.

Market Opportunity for New Technologies

There is a potential to increase distribution and reduce transfer costs in the corridor by developing telecommunications networks to connect more recipients to formal financial systems. In most remittance-recipient countries, including Nigeria, lack of good roads, unreliable energy sources, and political issues or conflicts have prevented the wiring necessary for basic services such as electricity and telephone landlines. Very fortunately, new

51. An example of this trend is observed in most corridors originated in the U.S with Latin American countries. See Orozco 2006.

Box 9: Telecommunications Industry in Nigeria

After oil and gas, telecommunications is the fastest growing industry in Nigeria. It had a growth rate of 240 percent in 2004. The Global System for Mobile communications (GSM) industry in Nigeria is about four years old. The penetration of fixed lines is very low; in 2002, the number of main telephone lines was five per 1000 inhabitants and there is a large mobile phone market waiting to be tapped. In early 2006, Nigeria had approximately 18 million cellphones with 15 million subscribers. The four main players in the industry are Mobile Telephone Networks (MTN), Glo-Mobile, M-TEL, and V-mobile. MTN has the largest subscriber base, followed by Glo-Mobile. MTN Nigeria was created in August 2001 to construct, own, maintain, and operate a GSM cellular telecommunications network in Nigeria. In 2002 MTN Nigeria received a US\$100 million loan from the International Finance Corporation (IFC) to expand the coverage and capacity of its network and thereby provide the infrastructure for the rapidly increasing number of its subscribers.

GSM Costs

The cost of communication for the subscriber remains high, approximately ₦40, or 31 cents per minute. (The current bank exchange rate is US\$1 = 128 Naira.) The ideal subscription rate would be ₦14–18 per minute, or 11–14 cents per minute. Interconnection fees are very expensive at ₦15. The high cost of services results from a lack of infrastructure, unreliable power supply, multiple-taxation, and multiple regulations. Cell power sites run 24 hours on generators, which run on diesel fuel, and require round-the-clock security. The poor condition of many roads makes transportation difficult, especially to remote areas. Industry operators often have to establish proprietary networks and separate networks for power supply and transmission to mitigate infrastructural and operational efficiencies. In Lagos, companies are beginning to share cell power sites, so costs are coming down.

NCC

The Nigerian Communication Commission (NCC) regulates the telecommunications market. The industry is highly regulated and heavily taxed, with GSM providers paying about ₦3 billion in taxes to operate a cell tower. The Consumer Protection Council in Nigeria charges GSM providers a fee equivalent to 10 percent of their promotions. The current regulatory environment creates business barriers for GSM providers who want to become remittance market players. It is possible for some GSM subscribers to check their account balances with their phones. Given the phenomenal increase in mobile technology and the innovative uses of mobiles in rural areas, mobile-to-mobile money transfer is being thought of as the future for remittance channels. This technology is taking off in different countries, for example, SMART *Padala* in the Philippines.

- Sources:* 1. World Bank interviews with telecommunications companies in Nigeria, March 2006.
2. The Economist Intelligence Unit 2005.
3. Smart Communication, Inc. 2006.

technologies are enabling many places to bypass their poor infrastructure and to access modern conveniences.⁵²

Given the right conditions, the system of using mobile phones to transfer money in the Philippines and South Africa could be feasible in Nigeria.⁵³ However, the cost of operation is still high, and there are regulations governing the GSM industry that are impeding

52. According to Gwin (2005), 70 percent of Africa's phone subscribers is connected via cellular phones. Africans are turning to technology for more than just talk. For example, many bank customers in Nairobi use cell phones to monitor their accounts via text messaging.

53. BRCA Team interviews with telecommunications companies and USAID Nigeria.

its development. It is possible to use mobile phones to facilitate remittances informally; however, there is no information explaining how the system works or its potential for abuse by criminals.⁵⁴ The challenge is how to take advantage of these various technologies and adapt them in a way that is feasible for this corridor.

Payments Systems

The UK has a developed payments system, whereas Nigeria has a developing payments system with a predominantly cash economy. The difference in payments systems infrastructure between the origination and distribution makes formal transfers more problematic, especially for bank transfers that rely on correspondent bank partnerships. A sophisticated structure, the UK payments system links to 15 European Union banking systems and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). On the other hand, Nigeria's extensive use of cash and its large informal economy creates a dual payments system that exhibits features of both developed and rudimentary payments mechanisms. The recently released General Principles for International Remittance Systems is intended to guide the development of remittance markets worldwide (Box 10).

Payments Systems Infrastructure in the UK

In 2002 clearing systems in the UK processed over 5 billion clearing transactions, valued at £86,025 billion (OFT 2003). The payments systems have two broad classifications: clearing schemes and plastic card networks. Clearing schemes include Bankers' Automated Clearing Services (BACS), Check and Credit Clearing Company (CCL), and real time gross settlement (RTGS), cleared by the Clearing House Automated Payment Scheme (CHAPS). The plastic card networks cover debit, credit, and ATM cards. CHAPS Euro, established in 1999, enables its members to make large payments in Euros across the UK. Through the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET system), CHAPS Euro can facilitate cross-border payments in euro to the 15 European Union banking systems (Box 11).

Payments Systems Infrastructure in Nigeria

The use of physical cash is at the core of the Nigerian payments systems because transactions take place in a cash economy. Although the use of checks is increasing significantly, cash is still the preferred method of settling payments in Nigeria. The incidence of financial sector distress that became pervasive in the late 1980s further eroded public confidence in the banks, and seriously jeopardized the smooth operations of payments systems (Nnanna and Ajayi 2005). The key payment instruments available in Nigeria are cash, checks, electronic funds transfer (EFT), and plastic money cards (Table 5).

54. BRCA interview with USAID Nigeria.

Box 10: CPSS/World Bank Task Force for General Principles on International Remittance Systems

The leading forum for international cooperation and policy development in payment systems is the Bank for International Settlements' Committee for Payment and Settlement Systems (CPSS). At the same time, over the last 10 years, the World Bank has accrued considerable experience in formulating such policy and supporting the reform of payment systems in more than 65 countries.

At the end of 2004, the World Bank and the CPSS convened a task force to address the needs of international policy coordination for remittance systems.¹ The task force has issued the consultative version of *General Principles for International Remittance Systems*. The main objective of the *General Principles* is to guide the formation of a competitive and sound remittances market through which remittance services can be offered safely and efficiently, and at the lowest possible cost.

The *General Principles* are expected to become the fundamental framework and key point of reference for authorities, other stakeholders, and other international organizations. In particular, public authorities should evaluate what action to take to achieve the public policy objective through implementation of the *General Principles*, while remittance service providers should participate actively in the implementation of these *principles*.

The five *General Principles* are:

1. **Transparency and consumer protection.** The market for remittances should be transparent and have adequate consumer protection.
2. **Payment system infrastructure.** Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.
3. **Legal and regulatory environment.** Remittance services should be supported by a sound, predictable, nondiscriminatory, and proportionate legal and regulatory framework in relevant jurisdictions.
4. **Market structure and competition.** Competitive market conditions, including appropriate access to domestic payments infrastructure, should be fostered in the remittance industry.
5. **Governance and risk management.** Remittance services should be supported by appropriate governance and risk management practices.

Source: Committee on Payment and Settlement Systems and World Bank 2006.

Note: 1 The WB cochairs this task force with the CPSS. Other task force members include the ADB; AMF; IADB; IMF; central banks of Brazil, Germany, Italy, Mexico, Philippines, Sri Lanka, and Turkey; Hong Kong Monetary Authority; European Central Bank; Federal Reserve Bank of New York; and the Board of Governors of the U.S. Federal Reserve System.

E-payments and Plastic Money

The e-payments system is still evolving. Nigeria is part of the SWIFT network. NetPost-Nigeria offers two e-payment services⁵⁵:

Money Transfer: Works with Western Union to transfer money to remote parts of Nigeria.

55. www.netpostnigeria.com/services.html

Box 11: TARGET and SWIFT Payments Systems

TARGET is the real-time gross settlement system for the euro. It is a decentralized system consisting of 15 national (RTGS) systems (CHAPS for the UK), the European Central Bank (ECB) payment mechanism (EPM), and the Interlinking system. The Interlinking system is a telecommunications network linking the national RTGS systems and the EPM.

Cross-border TARGET payments are processed via the national RTGS systems and exchanged directly on a bilateral basis between national central banks (NCBs). Given this, TARGET incorporates RTGS systems, which have been established under local conditions. The payment services offered to the final customers of different national systems are not identical. The Interlinking procedures, however, are the same for all countries.

To initiate a cross-border payment, the paying bank sends a payment message to the NCB through its RTGS system. The sending NCB checks the validity of the payment and the availability of sufficient funds. The amount of the payment is then debited irrevocably and instantaneously from the RTGS account of the sending bank and credited to the Interlinking account of the receiving NCB in the ECB. As soon as the receiving NCB receives the payment message, it checks the security features and verifies that the receiving bank is a member in its domestic RTGS system.

If so, the receiving NCB converts, when appropriate, the message from the Interlinking standard into the domestic standard. It then credits the receiving RTGS account and delivers a positive acknowledgement to the sending NCB/ECB. Finally, the receiving NCB sends the payment message through the local RTGS system to the receiving bank.

All TARGET messages are submitted to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network. SWIFT is the industry-owned cooperative that supplies secure messaging services and interface software to 7,000 financial institutions in 198 countries. Messaging traffic increased by 18.5 percent in 2002 with 1.8 billion messages transmitted. Due to the network effects of messaging standards, the increased usage has put SWIFT in a strong position for future market growth.

Sources: Office of Fair Trading 2003, www.swift.com

Table 5. Key Payment Instruments in Nigeria

Payment instruments	Key features
Cash	Used for 80–90% of transactions. Nigeria has ₦545.8 billion (approximately US\$4.1 billion) in circulation.
Checks	Large-value transactions are usually check based.
Electronic funds transfer (EFT)	New product introduced to facilitate electronic transactions. They can be retail, as in the Nigerian Electronic Funds Transfer (NEFT); or wholesale, as in the Nigeria Interbank Settlement System (NIBSS) Fast Funds.
Plastic money	E-purse (Valucard), debit (ATM cards), and credit cards, such as MasterCard. Nearly 12,000 debit (ATM) cards have been issued in Nigeria, but only 8,000 are active.

Source: Nnanna and Ajayi 2005.

PostCash: Makes it easier to send money from anywhere in the country to any town, village, or city in Nigeria.

Less than 1 percent of Nigerians use e-purses (Valucard) because, among other inefficiencies, they are offline, not integrated with host banks, and prone to fraud. In 2004 Visa Card acquired 15 percent of Valucard, which was expected to give this payments system a boost. The key problems facing the acceptance and use of debit cards/ATM services in Nigeria include limited geographic spread of financial institutions, especially in rural areas; inadequate infrastructure; lack of public awareness; lack of interoperability between issuers and service providers; and security concerns (Nnanna and Ajayi 2005).

Main Findings in the Intermediary

Informal and Formal Transfer Mechanisms Coexist Mainly Due to a Dual Financial Environment. The UK–Nigeria Remittance Corridor is a dual financial environment, with equal dominance of formal and informal service providers. Although formal remittance options and products exist through banks with wide networks and MTOs, as much money travels through informal as formal channels to Nigeria. Informal mechanisms are prevalent, mainly through travelers who carry cash on behalf of others to Nigeria and distribute it to the beneficiaries. Sometimes, money transferred formally using an MTO or bank requires an informal component when it gets to Nigeria whereby the money first goes to someone in a big city who then hand-carries it on public transportation to the final recipient.

Remittance Products in Addition to Cash-to-Cash Transfers are Limited. Banks in the UK do not seem to have an interest in developing new remittance products beyond their traditional account-holder relationships. This fact could explain in part why migrants prefer informal transfer mechanisms. Exclusivity contracts, competition inhibited by distrust of Nigerian Banks by both senders and UK banks, high costs of formal transfers in comparison to other corridors, lack of competition in the disbursement of remittances in Nigeria, and payments system weaknesses in Nigeria all contribute to the relative high cost of transfers in this corridor.

Potential for New Technologies is Strong. There is potential to develop new remittance products, in the Nigerian market, linked to technology that could help overcome geographic barriers, connect more recipients to formal systems, and reduce costs. Products using new technologies could have cost-reducing potentials if their design meets the needs of both senders and recipients in the corridor. There is a need for a remittance product targeted to Nigerian migrants and linked to telecommunication devices such as mobile phones that enable transmission of social information in addition to the service. To move to a situation in Nigeria whereby mobile phone technology can be used to store and transfer value, regulatory infrastructure needs to be in place. The present regulatory environment creates additional costs for providers and subscribers and impedes the development of the market.

At the Last Mile

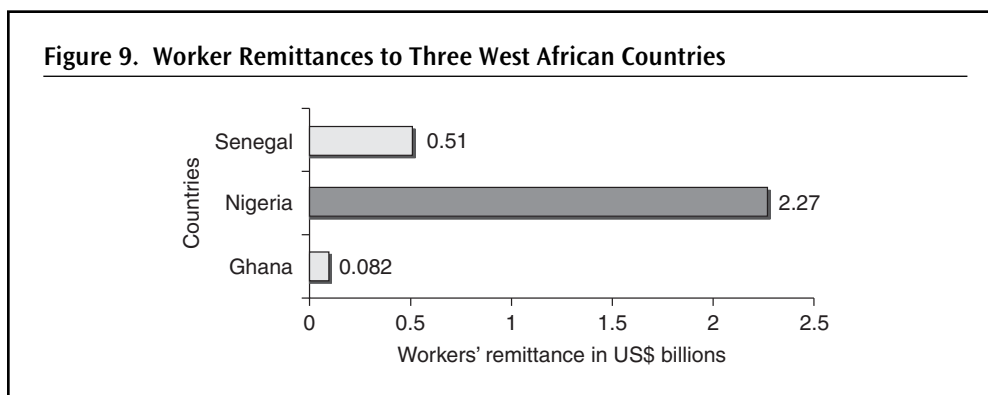
This chapter focuses on the issues affecting the distribution of remittances in Nigeria. The chapter is based on interviews with authorities, remittance industry actors, Nigerian remittance recipients, and relevant literature. It provides an overview of the significance of remittances for Nigeria; information on Nigerians living abroad and their beneficiaries; a description of the remittance market in Nigeria, including informal operators; the regulatory framework affecting remittance transfers; and the Nigerian government's initiatives affecting remittance flows.

Significance of Remittances for Nigeria

Nigeria is the largest recipient of remittances in Africa and the most populous country in the Region.⁵⁶ Estimates show that the country receives approximately 65 percent of total official remittance inflows within Sub-Saharan Africa (SSA) and 2 percent of formal global remittance flows (Figure 11; Orozco 2003a). Nigeria is an oil-producing country and a significant member of Organization of Petroleum-Exporting Countries (OPEC).⁵⁷ Nevertheless, the country's economic situation remains marked by high levels of poverty and income disparity. In 2001 approximately 70 percent of Nigerians were living below the

56. Excludes North African countries, namely, Algeria, Djibouti, Egypt, Libya, Morocco, and Tunisia. Nigeria has over 130 million people.

57. Organization of Petroleum-Exporting Countries (OPEC) is an international organization made up of 11 oil-producing nations. They are Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates (UAE), and Venezuela.



Source: World Bank 2006.

international poverty line of US\$1 a day.⁵⁸ In the same year, Nigeria was ranked 18 among the top 25 remittance-receiving countries in the world.

In 2004 the Central Bank of Nigeria (CBN) reported approximately US\$2.26 billion in remittance inflows, which is equivalent to 3.15 percent of the GDP.⁵⁹ Remittance flows have surpassed official development assistance (ODA) since 2002, when they accounted for nearly five times more than its value of US\$271 million (Shah 2005). Oil revenues continue to be the major source of financing to the economy, accounting for US\$22 billion in 2003.⁶⁰ In 2002 the CBN began collecting data from banks and MTO bank agents on remittances. The increased scrutiny and improved recording of remittances, and the disbursement of remittances in foreign currency, which encouraged senders to use formal channels more, may explain the sharp increase of these flows (Figure 10).

Only US\$842,733,390.16, or 37.25 percent of total remittance flows, are recorded by the CBN to be originated by MTOs and disbursed by banks in Nigeria. The rest are flows that originate in correspondent bank transfers, SWIFT, foreign domiciliary accounts (accounts held by individuals in foreign currency), noncommercial imports, private source imports and other in-kind transactions. CBN's compilation of BOP data appears in Box 12.

Informal transfers mainly through friends and family play a critical role in the distribution of remittances and in underestimating the total remittance flows.⁶¹ An estimated 50 percent of remittances to Nigeria are unrecorded. However, when they are added to the CBN's officially recorded flows, the estimated total inflows were US\$2,123.38 million in 2003 and US\$4,524.64 in 2004. Combining the information from the CBN, Nigerian banks, and remittance market players, the estimated total current inflow of remittances to Nigeria, formal and informal is approximately US\$5 billion.⁶²

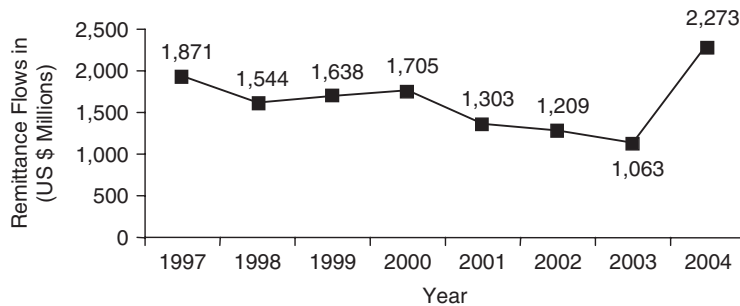
58. The dominance of the oil sector has led to a negative neglect of the agricultural sector in policy resources, resulting in declining productivity, growth, and competitiveness as well as increased poverty (UNDP 2004).

59. GDP was US\$72,105,349,000. IMF balance of payments statistics data show that the total inflow to Nigeria in 2004 was US\$2.273 billion (World Bank 2004).

60. The industrial sector comprises crude petroleum, mining and quarrying, and manufacturing (CBN 2003).

61. World Bank BRCA Team interviews with CBN, Abuja, May, 2005.

62. World Bank BRCA interviews. A recent study by the United Bank of Africa (UBA) estimated the formal inflow to Nigeria to be US\$2.9 billion; the total inflow, US\$5 billion; and 10 percent annual growth.

Figure 10. Workers' Remittances to Nigeria, 1997–2004

Source: International Monetary Fund 2005c.

Box 12: How the CBN Compiles BoP Data

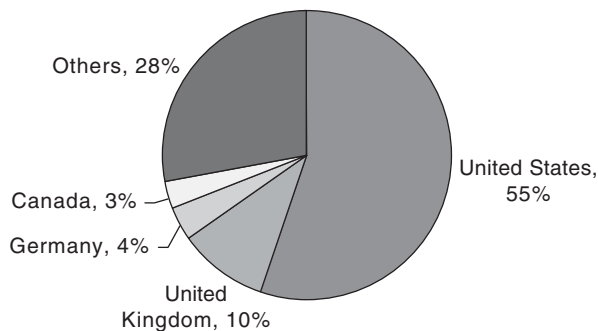
When compiling balance of payments (BOP) data, the CBN considers reports from banks on MTO transactions, ordinary domiciliary accounts (accounts held by individuals in foreign currency), SWIFT transfers, correspondent bank transfers, private source imports and other in-kind transactions.

CBN data shows that remittances are increasing and that in-kind remittance are decreasing. As shown in table, In 2004 the total current transfers recorded by banks as *home remittances* were US\$2,262 million. From this amount about \$US 510 million were estimated to be in kind transfers in the form of consumer goods such as cars and electronics, bringing the total credit to US\$2,772 million.

Current transfers for remittances, 2003–04

Current transfers (credit) US\$million	2003	2004
1. General government grants/subsidies, ODA, debt conversion, gifts, TA	—	—
2. Other sector		
a. Workers remittances	1,061.69	2,262.32
b. Other transfers—in kind	1,117.33	509.67
Total credit	2,179.02	2,771.99
Current transfers (debit) US\$ million		
1. General government		
a. Payments to international organizations (930%) public sector FX	81.05	60.19
2. Other sector		
a. Workers' remittances (private remittances, private FX allocation from Nigerian residents who send money abroad)	11.55	20.76
b. Other transfers	—	—
Total debit	92.60	80.95
Current transfers (net) US\$ million	2,086.41	2,691.04

Source: Central Bank of Nigeria 2006.

Figure 11. Remittance Flow Origination by MTOs, 2004 (%)

Source: Central Bank of Nigeria 2006.

Locations of Nigerians Abroad

The majority of the Nigerian migrants live in the United States (55 percent), and a significant number live in the United Kingdom (10 percent). These countries constitute the largest remittance-sending countries to Nigeria, originating approximately 65 percent of total remittance flows.⁶³ Since Nigerians speak English, it is practical for them to migrate to English-speaking countries such as Canada, the UK, and the United States. However, migrating to the UK or United States is difficult if one is unskilled or not a student. New destination countries that are not English speaking are becoming attractive, including Germany, Greece, Italy, Netherlands, and Spain. However, migration to Europe has become more difficult as border controls have become tougher. As a result, remittances from South Africa to Nigeria are increasing because of a growing Nigerian expatriate community and the shift of migration flows from Europe. One challenge of tracking Nigerians in the diaspora is that sometimes they are afraid to identify themselves to foreign missions because they have undocumented immigration status.

Most remittances to Nigeria originate in the United States, in which an estimated 5 million Nigerians live.⁶⁴ Transaction flows from the United States tend to follow population patterns. Therefore, the highest volumes of U.S. transactions to Nigeria likely come from the highest Nigerian-populated states: Texas, New York, New Jersey, Maryland, California, Georgia, and Illinois.⁶⁵ The United States issues approximately 6,000 green cards to Nigerians each year. Each of these green card holders tends to migrate with approximately three dependents. The UK issues approximately 26,000 visas annually to Nigerians.⁶⁶ Approximately 50 percent of

63. World Bank BRCA Team interviews with remittance recipients, MTOs, banks and authorities in Nigeria, May 2005.

64. Interviews with major MTO bank agent in Nigeria; data based on market survey March 2006.

65. Western Union.

66. Interviews with major MTO bank agent in Nigeria; data based on market survey March 2006.

Table 6. Breakdown of Home Remittances through MTOs by Country of Origin, 2002–04

Country	2002	%	2003	%	2004	%
USA	233,354,957.20	52.96	331,383,532.53	54.15	461,515,784.26	54.76
UK	28,998,747.77	6.58	45,123,337.80	7.37	83,210,793.70	9.87
Germany	16,817,182.00	3.82	25,317,588.29	4.14	32,162,655.36	3.82
Canada	14,402,918.68	3.27	18,075,869.29	2.95	25,775,576.51	3.06
Others	147,088,793.29	33.38	192,019,919.87	31.38	240,068,580.33	28.49
Total	440,662,598.94	100.00	611,920,247.78	100.00	842,733,390.16	100.00

Source: Central Bank of Nigeria 2006.

these Nigerians in the United States and UK do not return to Nigeria.⁶⁷ Of the Nigerians in the UK, approximately 500,000 have dual citizenship.⁶⁸

Remittance Beneficiaries

The main destination of remittances to Nigeria is Lagos, which receives approximately 60 percent of the flows, followed by Abuja, which receives 15 percent. However, these cities are not necessarily the final destinations of the funds. It is common for beneficiaries from smaller towns to come to large cities to collect remittances because of the more favorable exchange rates.⁶⁹ Typically, remittance recipients in Nigeria have a relative(s) or friends in the diaspora who are able to send money home frequently, or infrequently, as in the case of Ekundayo (Box 13).⁷⁰

Recipients of remittances in Nigeria are located predominantly in the southeast and southwest regions. There seems to be a link between regions and ethnic groups with senders in sending countries. For example, the Ibo from the southeast and the Yoruba from the southwest constitute the ethnic groups that migrated heavily to the UK. The Cities that receive significant amounts of remittances in Nigeria are Benin City, Ikeja, Enugu, Ibadan, Owerri, Warri, Port Harcourt, Kanu, Kaduna, and Abuja.

Some senders' initial remittances are loan repayments to beneficiaries. It is expensive for some people to migrate so relatives often pool money to fund migrants' travel and initial living expenses. After settling in the new country, the migrant repays the money to his/her relatives. The interviews with recipients revealed that for many Nigerians in the

67. World Bank interviews with major MTO bank agent in Nigeria, data based on market survey March 2006.

68. They tend to remit approximately £5,000 two or three times per year.

69. BRCA Team interview with Specifiq Resources Ltd, Licensed BDC and CBN authorities, Abuja, May 2005.

70. Families who do not have relatives abroad would not directly benefit from remittances, unless it is for a social project, such as building a school, church, hospital, or any other project for community use.

Box 13: Making Ends Meet for Ekundayo and His Siblings

Ekundaya Akim is a fourth-year student/senior at the University of Lagos. His major is accounting. He receives 150–250 British Pounds each month from his sister, who resides in the UK. Their parents are dead, and he and his sister need to look after his other five siblings, also in university.

His sister moved to the UK 2 years ago. He has no idea where she lives or what she does for a living. She sends this money through travelers or Western Union. She also sends clothes through travelers whenever possible. Each month when the money arrives, his siblings come from other towns outside of Lagos, and he distributes the money among the six of them. They use this money for clothes, textbooks, and other miscellaneous expenses.

Ekundaya is looking forward to graduation, so that he can begin working as an accountant and relieve his sister of some of the financial burden of taking care of his siblings.

Source: World Bank field interviews, University of Lagos, Akoka Lagos, Nigeria, 2005.

diaspora, remittances are a means of paying back the family members who supported their travel abroad in cash and kind. After settling in the new country, some migrant workers become economically successful and use remittances to extend their success to their families at home (Box 14).

Box 14: Common Uses of Remittances in Nigeria

Family upkeep and social security. Money is sent back to Nigeria to cover subsistence expenses such as food, clothing, and medicine. Money is also sent to help elderly and disabled persons. There is no national welfare system so seniors, disabled persons, and orphans must depend on the generosity of relatives, communities, or charities.

Financing education. Research indicates that school fees are closely associated with remittances. Many people interviewed in both the UK and Nigeria specified school fees for secondary school and university education as major uses of remittances.

Return on family investments. Many Nigerians living abroad are obligated to send remittances when they come of age and begin earning money. Research indicates that as many as 5–20 individuals or family members, and sometimes a community, pool their money to sponsor a selected individual to travel abroad. The individual is selected based on academic or entrepreneurial ability. The people who provide the funding for the individual to travel view it as an investment and the remittances as a form of pay-back or return on investment.

Special occasions. Since some occasions require a large money outflow, they are often associated with remittances. In particular, money is sent to Nigeria to pay for funerals, weddings, and holidays (Christmas and Hajj). Funerals are very important, elaborate events to Nigerians. Furthermore, if a person dies overseas it is often requested that s/he be buried in Nigeria, which increases the funeral costs.

Business development and sustainability. Remittances are also finance new business ventures, or sustain existing businesses. Examples of small businesses financed with remittances include sole proprietorships such as MTN kiosks, which sell phone cards and, in some instances, allow customers to purchase airtime and place a call in the kiosk. Other small businesses developed and sustained by remittances include farms, animal husbandry, fisheries, motorcycle transportation, trading in textiles and second-hand clothing, and video stores for local films.

Source: World Bank BRCA Team interviews in Abuja and Lagos, May 2005.

Using Remittances for Housing

The demand for additional housing units to provide shelter to Nigerians is estimated at 16 million.⁷¹ The main mechanisms available for raising money to build a house or shelter in rural areas rely on family ties and community-based Rotating Savings and Credit Association (ROSCAs).⁷² Sometimes, young men build shelters for the community and receive meals as payment for their service. In the cities, some people borrow money from a cooperative or bank where their salary is paid.

Although government housing financing arrangements exist, mortgage financing remains an underdeveloped sector.⁷³ At the present, individuals do approximately 90–95 percent of real estate development or housing finance. Land acquisition is a major problem for prospective landowners, especially low-income people, and the legal regulatory framework for land acquisition is cumbersome. For many Nigerians, the mortgage financing experience is problematic and requires a certificate of land occupancy. Land sometimes belongs to a community and does not have a single certified owner. It is difficult for low-income people to become homeowners (Daramola and Aina 2004). The regulatory framework for land hinders mortgage financing. Because land is principal, and sometimes the only asset accepted by banks as collateral, this situation may also inhibit small enterprises and mortgage financing in general.

Migrants who wish to return home in the future invest in real estate projects. Some in the United States have initiated substantial housing investments in their communities of origin in southeastern Nigeria. The home family occupies approximately half of houses that make up migrants' residential housing investments in home villages. However, 30 percent of residences in communities of origin are vacant (Osili 2001). It seems that in southeast Nigeria remittances are mostly for the purpose of housing development.

Current housing finance requires a relationship based on trust and integrity between the remittance sender and the person that manages the process. Typically, the sender sends money to a friend or relative, who hires a local contractor. The recipient uses the money to finance the construction and sends the sender pictures of milestones, that is, visual updates on the progress of the construction. Benin City has the largest concentration of property development approximately 15–20 percent in Nigeria through remittances that originate mainly in Italy.⁷⁴

Remittance Service Providers in Nigeria

Banks that are MTO agents and Bureau de Changes (BDCs) are the main players in Nigeria's formal remittance distribution market. Banks are the only remittance service provider

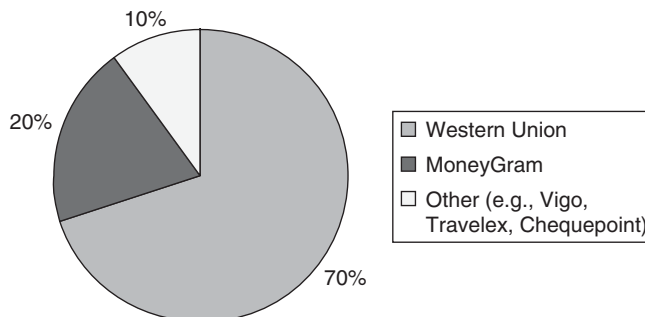
71. When looking into remittances and housing in the Nigerian context, it is necessary to distinguish between housing and shelter. Shelter is just a place to sleep, while housing is a privilege. It also is important to distinguish between housing as a process or as a product.

72. Rotating and Savings Credit associations.

73. Government policies aimed at providing affordable and comfortable housing for all Nigerians include credit policies, insurance companies, specialized institutions, state/municipal government financing, the Federal Mortgage Bank of Nigeria (FMBN), primary mortgage institutions (PMIs), The Federal Mortgage Finance Limited (FMFL), and the National Housing Fund (NHF). *Sources:* 1) Sanusi (2003) and 2) World Bank BRCA Team interviews with officials at the Federal Ministry of Housing and Urban Development.

74. World Bank interviews with commercial banks, Lagos, May, 2005.

Figure 12. Estimated MTO Market Share in the Origination of Remittance Transfers to Nigeria, 2005 (%)



Source: World Bank BRCA Team interviews with commercial banks and MTOs.

(RSPs) that have authorization from the CBN to distribute remittances. They can receive remittances directly via bank-to-bank transfer or as agents of international MTOs, such as Western Union. When people receive remittances through banks that have partnerships with MTOs, the tendency is for the recipients to take the money to BDCs to receive a favorable exchange rate since the bank would buy the currency from the recipients at a lower rate. The postal system has a wide distribution network and is designing new remittance products. Microfinance institutions (MFIs) are not yet active in this remittance market.

MTOs cannot provide remittance services independently in Nigeria without agreements with banks that have authorization to distribute remittances. Some MTOs require banks to be their exclusive agent while others allow multiple agreements with several MTOs (Box 15). Western Union has an exclusivity contract with First Bank of Nigeria.⁷⁵ Banks usually have a physical MTO window or section within their buildings to which walk-in customers can come to pick up their remittances. Western Union has the largest market share in Nigeria (Figure 12).

Banks must have a large distribution network with branches located throughout Nigeria's 36 states to be attractive to international MTOs.⁷⁶ In addition, the banks must have the ability to pay out remittances in both foreign and local currency. Most remittance recipients prefer to collect remittances in US dollars. If a bank cannot provide this service, information will travel via word of mouth throughout the remittances community that the particular bank is not a good agent for distributing remittances. This message would reflect negatively on the MTO partner.

A low level of confidence in bank services and a large informal economy are two factors that influence the use of informal transfer systems in Nigeria. The level of confidence in services of Nigerian banks is low, because of banks' long procedures, complicated forms,

75. The World Bank BRCA Team was not able to interview Western Union officials in Nigeria due to company policy.

76. World Bank BRCA Team interviews with MTO agents in Lagos.

Box 15: Exclusivity vs. Multiple Agreements Agent for One MTO

As of May 2005, United Bank for Africa (UBA) operated 265 branches and cash offices and agencies in Nigeria's major commercial centers, state capitals, and the Federal Capital Territory. In addition, UBA has offshore branches in New York and Grand Cayman Island. Since merging with Standard Trust Bank (STB) as part of efforts to meet the CBN capital base requirements, UBA has over 400 branches. UBA provides remittance services through bank-to-bank transfers and as an agent for MoneyGram.

Remittance business. UBA has a foreign domiciliary account base of US\$376 million, of which 20 percent is home remittances. UBA is the largest agent for MoneyGram worldwide, doing roughly 90 percent of MoneyGram transactions in Nigeria. The average remittance transaction is US\$500 a month. The majority of remittances come from US, Italy, UK, Germany, and South Africa. Remittances tend to peak during Christmas, Easter, and summer vacation periods.

Access to finance. Ninety-eight percent of UBA's business is individual savings accounts; the rest is corporate accounts. The bank cross-sells savings accounts to regular remittance recipients, who have the option to save in local or foreign currency. Remittances are a lucrative business; UBA gets 25 percent of MoneyGram's commission. UBA ensures that the foreign currency option for remittances is available even to clients in rural areas. UBA is involved in financial literacy outreach to schools, churches, traders, market women, and low-income people. UBA tries to encourage savings as much as possible.

Agent for Multiple MTOs

As of May 2005, Union Bank of Nigeria (UBN) operated 306 branches nationwide with locations in every state in Nigeria. It also has the largest spread of ATMs in major branches. UBN is an agent for four MTOs: Vigo, Travelex, Ria, and Money Transfer. UBN has been working with Vigo for 10 years and began working with the other companies a year ago.

Remittance business. The amount of transfers done on behalf of Vigo in the first 4 months of 2005 was approximately US\$1.8 million. In the same period, the total amount from the 4 MTOs was US\$2.8 million. The average remittance transaction amount is US\$200, and most payouts are in Lagos. For the first quarter of 2005, UBN had 6859 remittance transactions. The remittance business is definitely growing; however, it is difficult to estimate the total volume of remittances to Nigeria. UBN does not break out the remittance flows by country of origin because Vigo, UBN's largest MTO, has accounts in the US in which all remittances are credited before being paid in the respective country.

Access to finance. Money transfer is a relatively small part of UBN's business. UBN is the biggest agricultural credit finance institution in Nigeria and has a loan and mortgage subsidiary, Union Homes and Savings Ltd. Although its client base includes many in rural areas, thus far, there have been no incidences of denial of payouts based on CDD. CDD identification documents for collecting remittances include driver's license and international passport. In the absence of formal ID, UBN is flexible by allowing the identification of individuals by a recognized authority, such as a village chief. Savings is the bedrock of UBN's business, and the bank offers the lowest deposit amount for opening accounts: 2000 Naira. UBN actively encourages its clients to use the bank services. ATMs are used to facilitate savers' access to funds. Anyone can have an ATM card, including low-income people.

Source: World Bank BRCA Team interviews with UBN and officials, Lagos, May 2005, www.unionbankng.com/History.htm and www.nigeriabusinessinfo.com/lsetop20.htm

and history of financial distress. People complain that when they collect remittances at banks, the lines are long and service is slow. Banks typically do not lend to small businesses, and people prefer to take cash because of the history of distressed and collapsed banks. During the period of systemic banking problems in the 1980s, patrons fled. Informal lending is the only immediate available method of financing for small businesses and individuals. In part, the large informal economy thrives because the banks are not responding adequately to the borrowing needs of the average Nigerian.

Regular recipients of remittances usually are encouraged to open bank accounts, including foreign domiciliary accounts. Some banks open personal accounts for as little as ₦1,000–2,000, or US\$8–16. Fourteen percent of the Nigerian population has bank accounts, typically time deposit accounts or saving accounts that yield interest.⁷⁷ This estimate may be higher. For example, students in the University of Abuja and University of Lagos revealed that most of them have bank accounts that are primarily for depositing remittances from parents and relatives who are financing their education.

ATM and credit cards are not widely used in Nigeria; currently, there are approximately 100 ATMs.⁷⁸ ATMs are relatively new and must be located in a secure place. Some banks offer ATM cards to all customers, including low-income individuals. However, the cards are costly, and fees can be as high as 100 Naira for each withdrawal.

Bureau de Changes

Bureau de changes (BDCs) buy foreign currency from remittance recipients and sell it to Nigerians who want to travel abroad. The reason for establishing these institutions in 1989 was to broaden the foreign exchange market and improve accessibility to hard currency. The CBN supervises and issues operational guidelines for BDCs. In March 2006, Nigeria had 293 licensed BDCs.⁷⁹ They do not maintain correspondent relationships with other institutions abroad. Only banks and BDCs can deal in foreign exchange (FX). BDCs are active only on the demand side or sale of FX, whereas banks are active on the supply side. The capital base requirement for BDCs is ₦5 million.⁸⁰ The BDCs also have a national association that promotes best practices.⁸¹

BDCs usually are concentrated in the major cities of Lagos, Abuja, and Kano. Those that remit FA Francs are concentrated at the borders with francophone countries. BDCs became popular for buying and selling foreign currency because banks were exploiting remittance beneficiaries. The average BDC transaction ranges from US\$100–500. However, during peak periods (*Hajj* and Christmas), transactions range from US\$1,500–3,000.⁸²

77. Central Bank of Nigeria. Because Nigeria is a cash economy, most of the remittances are held in cash prior to being spent.

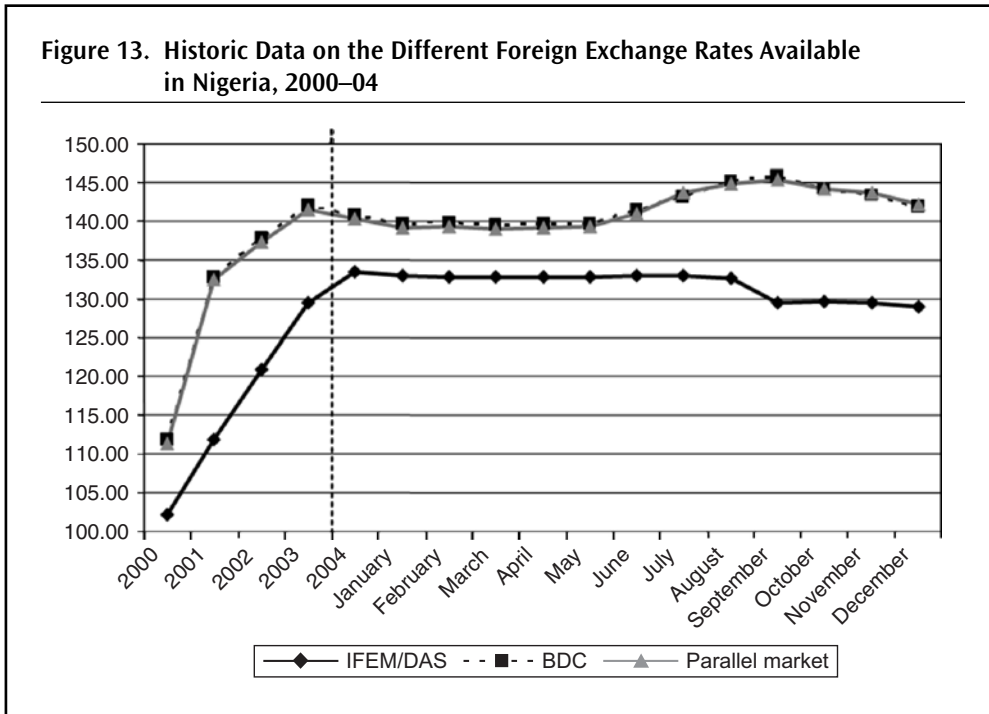
78. Central Bank of Nigeria. Based on study team interviews with Nigerian banks, many banks plan to expand their ATM networks in the near future.

79. These BDCs send monthly reports to Other Financial Institutions Department (OFID) and to the Trade and Exchange Department.

80. A little over US\$39,000.

81. BRCA Team interview with Specifiq Resources Ltd, Licensed BDC in Abuja, May 2005.

82. BRCA Team interview with Specifiq Resources Ltd, Licensed BDC in Abuja, May 2005.



Source: CBN, World Bank.

Exchange rates affect the remittance distribution process. Remittance recipients prefer to exchange money at the BDC instead of at banks because BDCs use the market rate, whereas banks use a rate fixed by the CBN. The CBN policy of allowing remittances payments in hard currency has encouraged more people to use formal institutions, such as MTO bank agents and BDCs, thereby reducing the incentive to use the black market. The CBN has observed that recorded FX inflows have increased since 2002 by 91.57 percent. The three FX rates available in Nigeria are the CBN, BDC, and the parallel market/black market rates (Figure 13).⁸³

The margin between the BDC and black market rate is very narrow, and in time, the CBN expects that the black market will cease to exist. Although the BDCs experience severe competition with the black market, fewer people are using the black market, as there is evidence to suggest the use of counterfeit currency.⁸⁴ During peak periods, such as Christmas, Easter, Hajj, and vacation periods, there can be a difference of 12–15 Naira between the CBN rate and the BDC exchange rate.

83. Informal and unregulated moneychangers.

84. BRCA Team interview with Specifiq Resources Ltd, Licensed BDC, and CBN authorities. Abuja, May 2005.

Box 16: Nigerian Postal Service

The Nigerian Postal Service (NIPOST) has an extensive network of 955 post offices, and over 3,000 postal agencies throughout the country. Paid postal agents are appointed in areas in which a post office is not available but established demand for postal services exists. Postal agents can sell stamps to the public and deliver mail on behalf of NIPOST but cannot pay remittances.

Postal agents have other businesses to perform in addition to the agency work. NIPOST also issues post office identity cards to NIPOST customers to identify them in their day-to-day transactions with the post office and thus avert impersonation and theft. Nigeria recently became the mail hub for the West African subregion. By this status, all international mail from UPU member countries for the region is routed through Nigeria. NIPOST also sells postal money orders, which are redeemable and can be purchased at all post offices, subpost offices, and postal agencies in Nigeria. They are not redeemable outside Nigeria. Compared to bank drafts, they are faster to obtain from any post office, easy to cash at any post office, and attract lower commissions.

Domestic Remittances

Presently, there are remittance flows between Nigeria's cities and rural areas. The economic activities in certain states determine the flows. The bulk of transfers occur during the holidays, such as Christmas. NIPOST also tends to have a high volume of receipts in states that have a large student population. Most receipts are concentrated in the southern part of Nigeria. Students use postal orders for school fees and miscellaneous expenses.

Source: www.nigpost.com/office.htm

Postal Service

NIPOST's extensive postal network within Nigeria has a limited role in the distribution of remittances due to its lack of adequate resources required to develop remittance payment infrastructure. After buying equipment, maintenance is an issue. Some challenges for NIPOST are external such as inadequate power supply, bad roads, and liquidity, which increase the costs of providing services.⁸⁵ The Nigerian Postal Service (NIPOST) received inflows from other countries until August 2005. At that time, counterfeiting caused members of the public to lose faith in money orders, causing NIPOST to lose the market share of the distribution of domestic remittance to the banks. The outflow of money orders internationally stopped 10 years ago, when the government changed the policy on the outflow of money. Several banks are interested in collaborating with the post office because of their extensive network, which gives them a competitive edge.

NIPOST is repackaging its money order and postal order products to make them more competitive in the domestic remittances market. NIPOST has engaged a consultant from "Cash for Africa" to make domestic transfers faster and efficient. Still in the developing stage, this partnership is expected to establish electronic transfer systems. Although only banks can pay out remittances, NIPOST has had a legal treaty since 1964 that empowers it

85. Each office has an authorized cash reserve to meet basic cash requirements. This requirement varies from area to area. Once NIPOST completes restructuring, it hopes to gain market share in the remittance market.

to deal in monetary instruments. NIPOST transferred this legal treaty of the money orders to electronic transfers. Therefore, there are no legal barriers preventing NIPOST from distributing international remittances electronically or via money order. The post office also is a cash office and can facilitate distribution for the banks.

Microfinance Institutions

MFIs are not involved in the remittance industry, because they do not have CBN authorization to conduct cross-border transfers. Approximately 90 percent of Nigeria's businesses are microenterprises, and most still access financial services from informal sources.⁸⁶ Semiformal and formal providers of microfinance are a small but rapidly growing part of the financial sector in Nigeria. A handful of large microcredit NGOs and locally owned community banks provide the bulk of services (Charitonenko 2005). The CBN is developing a new MFI policy framework that will require these institutions to convert to microbanks but will not impede their developing remittance distribution capacity. The formal microfinance industry is in its infancy and is not ready to engage in remittance transfers, because it has a low capital base and lacks the capacity to provide remittance services.

Informal Funds Transfer Operators

As mentioned, Nigeria's dual financial environment, in which formal and informal services and institutions thrive equally, affects the remittance market. Informal Funds Transfers (IFTs) are popular because they not only deliver cash but also give recipients first-hand information about their relatives living abroad. *Onitsha* market alone accounts for 47 percent of the container import and export trade to Nigeria,⁸⁷ and many of its merchants do not use banks. The typical Nigerian businessperson trades continuously and needs to have her or his cash readily available. Most traders and other small business owners prefer to take bags of money physically, even though they run the risk of attack by armed robbers when traveling. Some bus lines have begun providing cash courier services in response to the demand for this service (Box 17).

Although BDCs may not officially transfer remittances, they sometimes conduct remittance transfers. Informal brokers conduct money transfers informally wherever Nigerians live. A small number of BDCs distribute remittances informally and have offices or contacts abroad that collect cash and pay them out in Nigeria. The remittance can take place through a settlement of accounts in the UK and in Nigeria or in kind (cashless) transactions. For account settlements, between contacts, the sender approaches a BDC contact in the UK and pays the contact in British pounds. The contact then asks the BDC in Nigeria to pay the beneficiary in the local currency at the exchange rate agreed on in the UK. The two contacts settle their accounts in cash. However, this process is not transparent.

86. Microenterprises in Nigeria generally are very small, informally organized business activities undertaken by low-income people who employ fewer than 10 workers. Charitonenko 2005.

87. World Bank interviews with Nigerian authorities, May 2005.

Box 17: Bus Transport System and Money Transfer in Nigeria

Ekene Dili Chukwu is the largest interstate bus transport system in Nigeria. It transports students, traders, and civil servants within the country. Many passengers receive remittances in Lagos and transport them in person to other parts of Nigeria. The average travel cost from Lagos to Abuja and other northern states is 3,200 Naira, and to the south eastern states is 2,500 Naira.

Three years ago, in response to increasing demand for courier services, Speed Mark was established. Although the company deals with international courier requests, within Nigeria, in addition to freight, it also transports cash for 5 percent of the transferred amount. For small businesses, the average cash transferred is 50,000 Naira, and for students, between 5,000–20,000 Naira. Sometimes, money is also transferred electronically through an arrangement with First Atlantic Bank, which credits its account locally and makes it available to the recipient.

Source: World Bank BRCA Team interviews May 2005.

In the case of in-kind settlements, the BDC operator in Nigeria asks a contact or sender in the UK to buy an item, such as a car, and to ship it to Nigeria. When the BDC operator receives the shipment, s/he pays the beneficiary the equivalent of the car in Naira at a pre-agreed exchange rate, which also allows for a commission. The United States and the UK are the largest sources of in-kind payments, but the volume is unknown. Most of the money goes to Southwest and Southeast Nigeria, and very little goes to the North. It is unlikely that many BDCs engage extensively in remittances because they are small and do not have the capacity to handle large-volume transactions. Sending money informally in Nigeria has a downside since sometimes people misuse money entrusted to them and do not deliver it to the recipients (Box 18).

Legal and Regulatory Framework Affecting Delivery of Remittances

Regulations limit to banks the distribution of remittances and include some minimum standards on AML/CFT and consumer protection. Regulations limit to banks the distribution of remittances in Nigeria and call for the approval from CBN before they can enter into an agreement with a money transfer organization. The most significant change in the

Box 18: Jefri Couldn't Take His JAMB Exams

It was a Saturday morning in Topo, a small village 10 km from Badagri in Lagos state. All senior secondary school form III students were taking the Joint Admissions Matriculation Board JAMB examinations for a chance to attend a Nigerian University in the autumn. Jefri Benedict was hanging out in front of a tailor's shop in frustration. His uncle living abroad had sent him money twice for registration, and it never reached Jefri because it was misappropriated by the courier. Jefri will have to wait another year for an opportunity to register and take the examinations. He will have to wait another year after that for a chance to be admitted to a university in Nigeria.

Source: World Bank interviews, Lagos Nigeria. May 2005.

remittance market within the last three years⁸⁸ is that the CBN requires banks and MTOs to pay out remittances in the foreign currency unless the beneficiary opts for Naira.

Nigeria has foreign exchange controls. While neither the CBN FX Department nor the Nigerian Immigration Service restricts inflows of funds into the country, there are restrictions to outflows. Travelers leaving the country must declare amounts in excess of US\$5,000. The CBN does not prohibit foreign domiciliary accounts, and banks have an important role to play in monitoring STRs to protect the integrity of the financial system.

Banks ask remittance recipients for identification documents. These documents could be any official document bearing the names and photograph of the individual, a passport, a driver's license, proof of address such as utility bills within three months, or a letter from a village chief or other authority certifying the identity of the recipient.⁸⁹ The BDCs and banks are required to report STRs to the Economic and Financial Crimes Commission (EFCC). In the case of a suspicious transaction, the institution makes a STR to the Nigerian Financial Intelligence Unit (NFIU).

BDCs are under the regulation and supervision of the CBN, which issues operation guidelines.⁹⁰ Some BDCs, now formal institutions, originally were moneychangers. BDCs may deal with funds from the informal sector. However, they do not have authorization from the CBN to engage in international or cross-border financial activity and maintain correspondence relationships with other institutions abroad.⁹¹ BDCs are required to submit monthly reports to Other Financial Institutions Department (OFID) and to Trade and Exchange Department of the CBN. The CBN performs onsite and offsite supervision of banks, BDCs, mortgage institutions, and other nonbank financial institutions. The CBN is exploring ways to bring the BDCs further into the formal financial sector by allowing them to be retail outlets for travelers' checks. Currently, approximately seven BDCs are enrolled in a pilot program for travelers checks. The BDC regulations are under review by the CBN. The BDCs have a national association that promotes best practices. The BDC association members often rely on one another during periods of currency scarcity.⁹²

Most BDCs use a paper-based accounting system and send monthly transaction reports to the CBN. The monthly reports include information regarding sales, type of currency exchanged, and average exchange rate. BDCs are required to alert CBN immediately in the event of a very large suspicious transaction, for example, US\$20,000. To date, there have been no serious reporting violations (World Bank 2005). BDCs are required to report personal transactions above US\$2,500 and US\$5,000 to the Nigerian Drug Law Enforcement Agency.

Financial Market Integrity

Nigeria was delisted from the FATF NCCT list in July 2006 with the condition that the country implements a comprehensive AML/CFT regime (Box 19).⁹³ Nigeria has implemented

88. The CBN began collecting data on remittances in 2002.

89. BRCA Team interviews with BDCs, MTOs, and banks I Nigeria, May 2005.

90. Central Bank of Nigeria. To open a Bureau de Change, an application has to be submitted to CBN. The registration fee is 50,000 Naira. If approved, there is a required deposit of 1 million Naira. The deposit is refundable in the event of closure or liquidation.

91. Central Bank of Nigeria.

92. World Bank BRCA Team interviews with Specific Resources Ltd, Abuja Nigeria, May 2005.

93. The FATF list of Non-Cooperating Countries and Territories (NCCT) lists one country, Myanmar.

Box 19: Nigeria's Removal from NCCT List

After five years, the Financial Action Task Force (FATF) has decided to remove Nigeria from its list of countries and territories that are noncooperative in the international community's efforts to fight money laundering and financing of terrorism. Being present on this list constrained the ability of Nigeria's financial institutions to integrate into the international financial system, because of the associated reputation risks. FATF urges financial institutions to pay close attentions with persons, businesses, or banks that are associated with countries that it considers noncompliant in implementing AML/CFT standards. Therefore, as described in the text, it has been difficult for Nigerian commercial banks to form and maintain correspondent banking relationships with banks in other countries.

In the remittance industry, it is possible that this situation contributed to the relatively high costs of money transfers in this corridor, and the reluctance of banks to develop remittance products to facilitate transfers to Nigeria. The recent reforms in the financial sector; changes to legislation, particularly AML/CFT; and increases in accountability and transparency among government officials and public finances all have contributed to change the international perception of financial crime and corruption associate with Nigeria. Removal from the NCCT list and the reforms being implemented should go a long way to make Nigeria's financial sector attractive to investors, financial institutions, and RSPs.

Source: FATF June 2006.

some actions to comply with the international AML/CFT standards. To combat national problems with corruption and other economic and financial crime and to better comply with international AML/CFT standards, the Economic and Financial Crimes Commission (EFCC) was formally constituted in April 2003. The EFCC's primary mandate is to investigate and prosecute financial crimes.⁹⁴ In 2005 the Nigerian Financial Intelligence Unit (NFIU) was established. It is the central agency for the collection, analysis, and dissemination of information on money laundering and funds transfer. The Money Laundering (Prohibition), enacted in 2004, provides that all crimes constitute a predicate offense for money laundering.

Consumer Protection

Most financial crimes related to remittances in Nigeria are impersonations of beneficiaries in collusion with bank officials and banks' failure to pay beneficiaries after receiving the foreign transaction. Some cases involve impersonation or a bank withholding payment for a few days to gain some foreign exchange conversion benefit. A mechanism to address issues of fraud and customer protection has been established by the CBN and the Bankers' Association for customer complaints on banks' services, which include remittance payments. The Ethics and Professional Subcommittee of the Bankers' Committee, which includes all directors of banks and the CBN Director of Banking Supervision, meets at least once a month. Customers can make a complaint but are required to make a refundable

94. United States Department of State Bureau for International Narcotics and Law Enforcement Affairs.

deposit of ₦50,000.⁹⁵ When a claim is legitimate, the CBN authorizes the bank to refund the customer.

Nigerian Government Initiatives on Remittances and Economic Growth

Although there is no separate remittance policy, the government recognizes that remittances are a source of nonoil earnings, which affect the private sector and mentions remittances (Nigerian National Planning Commission 2004). Sources of generating nonoil revenues considered by the Nigerian government include payment of interest on delayed payments, recovery of looted and misappropriated funds, forming partnerships with the private sector, private sector investment in infrastructure, small and medium-size investment equity schemes, and workers' remittances.

NEEDS

The Nigerian government has embarked on economic reforms to achieve the Millennium Development Goals (MDGs).⁹⁶ The federal government revealed these reform strategies in 2004 in the National Economic Empowerment and Development Strategy (NEEDS) and the State Economic Empowerment Development Strategy (SEEDS). NEEDS and SEEDS are medium-term economic strategies for tackling Nigeria's economic and structural problems and reduce poverty. Some states have begun the process of implementing SEEDS. The NEEDS document states that "if appropriate incentives are in place, the brain drain of Nigerians could be turned into a brain gain—through increased remittances, technology transfer, and even return of capital flight (which could repatriate up to \$2–\$5 billion a year)" (Nigerian National Planning Commission 2004).

NIDOE

Lately, there is a trend to establishing national organizations as opposed to purely ethnic-oriented organizations, for example, Nigerians in the Diaspora Organization Europe. NIDOE focuses on mobilizing Nigerians to develop Nigeria. It is the Nigerian government's initiative to engage the diaspora in the task of nation building and to encourage them to play a role in developing Nigeria's economy and reducing poverty. NIDOE is the first attempt to bring together Nigerians abroad to link them to a registry to involve them in dialogue.⁹⁷ NIDOE estimated that as many as 15 million Nigerians live outside the country

95. Approximately \$390.

96. The eight Millennium Development Goals (MDGs) range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015. The MDGs form a blueprint for development agreed by all the world's countries and leading development institutions. They have galvanized unprecedented efforts to meet the needs of the world's poorest. www.un.org/millenniumgoals/

97. Interview with Charles Onwuagbu, Director of Planning, Research and Statistics, Federal Ministry of Foreign Affairs Nigeria, Abuja, May 2005.

(Booker and Minter). In addition to remittances, several Nigerians in diaspora are contributing to the development of the nation through sharing professional expertise and facilitating knowledge transfer.

Examples of Diaspora Activities

IT professionals in the diaspora on visits home bring equipment and volunteer their expertise. Digital Aid,⁹⁸ a U.S.-based, diaspora-led initiative, collaborates with the Africa Leadership Forum (ALF)⁹⁹ to facilitate technology transfer to Nigeria by collecting and transferring used personal computers to Nigerian schools. Other diaspora associations of professionals, for example, Nigerian physicians and health professionals, occasionally visit Nigeria collectively in a voluntary capacity to assist in implementing community health projects. As part of its mission, the Association of Nigerian Physicians in the Americas (ANPA) encourages the development of practical solutions to Nigerian health care problems through strategic initiative and field activities.¹⁰⁰

Key Findings in the Last Mile

The regulatory framework for the disbursement of remittances encourages formal transfers but hinders competition. The legal and regulatory framework on the distribution of remittances has encouraged patronage of formal systems. The recent step to allow foreign currency remittance receipts and conversion at the BDCs generally is believed to have eliminated an important incentive to informal transfers. However, competition and innovation in the provision of remittance services are unduly constrained by restricting distribution of formal remittances to banks with MTO agreements. Customer protection is available for individuals who send and receive money through formal institutions, and transparency is increasing because of new AML/CFT legislation.

Availability of Formal Financial Institutions Does Not Guarantee a Shift to Formal Systems. Nigeria has over 3,000 commercial bank branches with networks extending to all 36 states including the capital. However, a dual financial environment of formal and informal entities and institutions that compete for clients persists. Many Nigerians do not use financial services because of widespread lack of confidence in the system by potential clients, weaknesses in the transport and communications infrastructure outside the urban centers, and an inefficient payments system. Confidence in banking services is low because of long procedures, complicated forms, and past negative experiences with banks. In general, Nigerians prefer to carry cash, even for business transactions. Many feel that there is a need for financial

98. www.digitalaid.org/cta.htm

99. The Africa Leadership Forum (ALF) is Africa's premier civil society and nonfor profit organization. It grew out of the need to assist in improving the capacity and competency of African leaders to confront development challenges. H.E. Olusegun Obasanjo, Nigeria's current President, created the forum in 1988, motivated by widespread and palpable crises of leadership and management. [www.africaleadership.org/About percent20the percent20ALF.htm](http://www.africaleadership.org/About%20the%20ALF.htm)

100. www.anpa.org/index.html

sector reform to create incentives to encourage the average Nigerian to embrace formal institutions, such as faster service and diverse financial products.

Nigeria's past presence on the FATF NCCT list contributes to a negative perception of Nigerian banks by international financial institutions (IFIs). This perception makes it difficult to develop new remittance products and services in the UK, which could reduce the use of IFTs. In Nigeria, this affects the country's ability to form corresponding relationships, with some international banks, that would facilitate more remittance flows through banks.

Improving Recording of Remittances Flows by Adopting New Data Definitions. There is need for additional data and analysis on the income level and other attributes of remittance recipients and what impact remittances may be having on standards of living and levels of consumption, and investment. The role of the informal sector in remittance delivery and the use of remittance receipts are two other areas that require more study.

Conclusions and Policy Recommendations

Remittance transfer and distribution inefficiencies characterize the UK-Nigeria remittance corridor. The quality of services in Nigerian banks remains low (or is perceived to be low), and banks in the UK are reluctant to enter the market more aggressively due to the high levels of perceived reputational risks associated with fraud, to the detriment of migrants and Nigerian banks that would like to form correspondence bank relationships. The aim of this chapter is to categorize the findings into the priority problem areas for which additional solutions are required. This chapter looks at the underlying problems and recommends policy actions to address the shortcomings in the corridor.

Remittance flows between the UK and Nigeria have recorded an increase in the last five years. However, a large portion of these transfers is unrecorded because they occur outside the formal financial sector, predominantly through migrants carrying cash on behalf of others. In comparison to other nations in the Region, Nigeria has a relatively developed financial system with the potential to meet the demand of remittance senders and recipients, including those who use informal transfer methods.

Conclusions

The main findings of this report are summarized in Table 7. Policymakers in the UK and Nigeria could consider some lessons from other corridors, for example, the U.S.-Mexico corridor. These experiences of other countries and corridors could provide relevant and helpful perspective and guidance to policymakers.

Table 7. Main Findings

First Mile	<p>There is a need for remittance products that tailored to the needs of Nigerian diaspora.</p> <p>An enabling regulatory environment for RSPs (banks and MTOs) has not significantly increased participation in this remittance market.</p> <p>Governments' intervention beginning with a bilateral agreement between the UK and Nigeria is important to encourage formal transfers.</p>
Intermediary Stage	<p>Informal and formal transfer mechanisms coexist in this corridor because of the dual financial environment in Nigeria. There are limited remittances products beyond cash-to-cash transfers.</p> <p>There is a strong potential for new technologies to help facilitate remittances.</p>
Last Mile	<p>The regulatory framework for the disbursement of remittances has promoted the use of formal transfers and could be enhanced to promote higher competition.</p> <p>Availability of formal financial institutions does not guarantee a shift to formal transfer systems.</p> <p>Improving recording of remittances flows by adopting new definitions.</p>

This report has identified four priority areas within the corridor for policymakers to address for further action to ensure that transactions in the corridor become increasingly formal, and that the market becomes more efficient:

- Need for new transfer mechanisms tailored to meet the demands of the Nigerian diaspora.
- Importance of bilateral agreements between remittance sending and receiving remittance countries.
- Limited availability of remittance products are keeping transfer fees high.
- Improving recording of remittances flows by adopting new data criteria.

1. Need for New Transfer Mechanisms Tailored to Meet the Demands of the Nigerian Diaspora

Collective remittances are an important source of remittance flows for Nigeria. In effort, to enhance the development impact of these flows, the Nigerian government can consider matching the collective remittances from diaspora associations, which communities can use for scholarships, schools, roads, and other community development projects.¹⁰¹ In the United States, hometown associations are philanthropic organizations that raise money to fund community projects in Mexico to benefit their families and prepared their members

101. In the “3 × 1” program in Mexico, the government matches every dollar sent by the migrants with \$3 from the federal, state, and municipal governments to fund community projects.

for their retirement. They serve as a future investment vehicle and help migrants to take positions of leadership that might otherwise not be available to them (Alarcon 1995).

Remittances are a major source of informal housing finance for Nigerians. Several Nigerians abroad already finance housing construction and home improvements through remittances. Therefore, there is a demand for a more formal system of managing these flows. Because many Nigerians in the diaspora send money for building homes in Nigeria, linking these remittances to mortgage institutions will contribute to formalizing these flows. Box 20 illustrates how a Mexican government program helps migrants to link remittances to mortgage products. Developing the mortgage market in Nigeria could lead to opportunities for cross-selling mortgage products to remittance senders and recipients. A start could be to develop mortgage products that specifically target Nigerians abroad, such as like premium accounts with online access or combining mortgage products with real estate management services.

2. Importance of Bilateral Agreements Between Remittance-Sending and Remittance-Receiving Countries

The governments of the UK and Nigeria increasingly are recognizing the importance of remittance flows and are taking positive steps to encourage them. The UK government is initiating RCPs with major destination countries, including Nigeria, and the Nigerian government recognizes the importance of remittance flows in the NEEDS document. Furthermore, to encourage formal remittance transfers using MTOs and banks, the CBN requires these institutions to pay beneficiaries in foreign currency. The diaspora must be actively engaged in both national and community or grassroots development schemes.

3. Limited Availability of Remittance Products is Keeping Transfer Fees High

Competition and innovation in the provision of remittance services to Nigeria is constrained by restricting distribution to banks and by the presence of exclusivity arrangements between some banks and MTOs. Increased competition in the UK–Nigeria remittance markets will reduce costs, as in the other corridors. The regulatory environment should enable the entry of more competitors for the distribution of remittances, such as, BDCs, MFIs, the postal service, telecommunications providers, and by encouraging commercial banks to develop remittance retail products.

Exclusivity arrangements are limiting options for consumers. Banks in Nigeria have indicated interest in expanding their remittance product offerings, by engaging multiple partners, particularly, lower cost MTOs. However, they are restricted by exclusivity contracts with MTOs. In the UK, the fees for sending transfers of £100 and £500 range from £2.50 to £40. Sending money to Nigeria is on the high end, for example, it is cheaper to transfer GB£500 to Bangladesh, China, and India, from the UK. Figure 14 shows a comparison of the average cost for transferring money from the UK to six countries including Nigeria. Although there appears to be an overall decrease in the fees charged to the sender, this decrease in costs is not reflected in the UK–Nigeria remittances corridor as in other corridors.¹⁰²

102. World Bank BRCA Team interviews with senders in the UK and authorities in Nigeria.

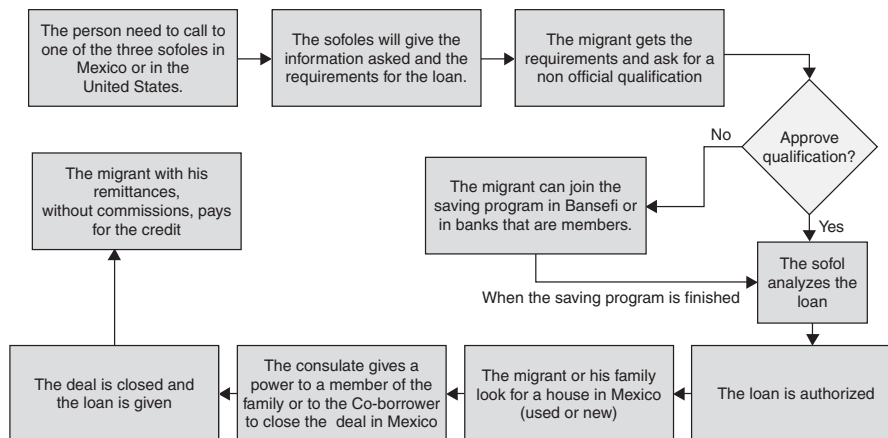
Box 20: Remittances + Housing = Market Opportunity The Mexican Experience

In 2002 *Sociedad Hipotecaria Federal* (SHF) was created with two main objectives: (1) to provide long term funding to financial intermediaries and hedges the inherent interest rate risk. SHF cannot lend directly to the public; and (2) to offer mortgage insurance, timely payment guarantees on bonds, and a cover against real minimum wage depreciation (to enable homeowners to have payments linked to changes in the minimum wage).

Due to the increasing flow in remittances, the Mexican government has created a mortgage program that helps to invest these resources so that the migrant can build a patrimony for his/her family. Different studies suggested that between 9 percent to 16 percent of the remittances are channeled to housing expenses. SHF estimates a potential volume of 9 percent or an investment in 185,000 mortgages.*

SHF developed a program for Mexicans migrants living and working in Canada and the United States who are interested in purchasing houses in Mexico. Payment transactions occur in Canada and the US; the migratory status of the loan recipient is irrelevant to their participation in the program. Main points of the program are:

1. It is oriented to the acquisition of a new house or a used one.
2. The participation of a Co-borrower is required.
3. The loan is up to \$1,700,000 pesos at a fixed interest rate in index-linked currency (known as UDIs in Mexico) or pesos.
4. The maximum period of the loan is 25 years.
5. The resources are lent by a financial intermediary with the support of SHF.

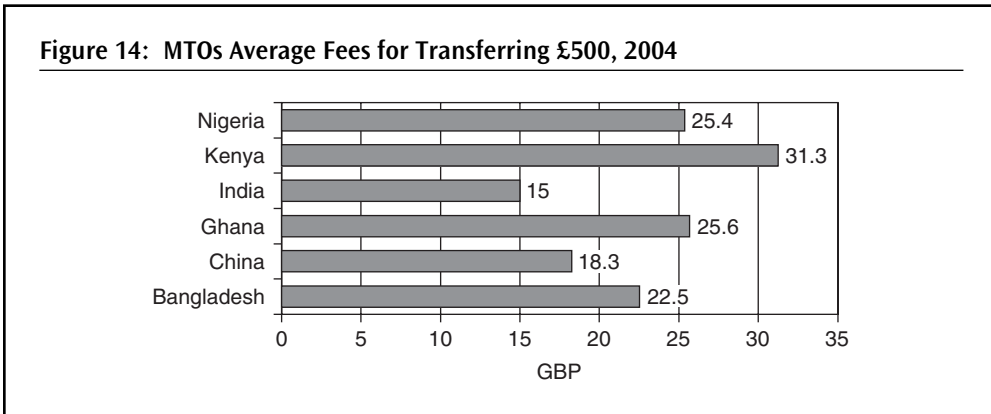


Source: Sociedad Hipotecaria Federal.

Note: * It was considered a credit in pesos with 20 years, with a payment factor of 13.64 to 1,000 and a value of \$650,000 pesos.

4. Improving Recording of Remittances Flows by Adopting New Data Definitions

Since 2004, the statistical community has agreed on several steps to improve concepts and compilations practices on data collection on remittances. A working group was



Source: World Bank and DFID Sending Money Home, 2004. www.sendingmoneyhome.org

Note: Fees may be lower for electronic transfer, where available. This table shows average transfer fees reported by MTOs only. Exchange rates and recipient costs are not included.

formed jointly by the Eurostat and the IMF Statistics Department to improve compilation guidance based on conceptual improvements, which were developed by the UN Technical Subgroup on the Movement of Natural Persons (TSG) and other stakeholders. It was approved by the INF Committee on Balance of Payments Statistics. In January 2005, there was agreement that the balance of payments statistics are the appropriate framework for collecting, reporting, and improving official statistics on remittances.¹⁰³ New concepts and definitions proposed and adopted by the UN TSG include:

- Resident households to or from other nonresident households will replace the “workers remittances” item in the balance of payment with a new component, “personal transfers,” which comprises all current transfers in cash or in kind made or received.
- A new aggregate, personal remittances should be reported in the balance of payments as a memorandum item. It comprises current transfers in cash or in kind, made or received by resident households to or from nonresident households, and “net” compensation of employees earned by persons working in economies in which they do not reside. This concept refers to “compensation of employees.”
- “Migrants transfers” will be removed from the capital account of the balance of payments.
- A new aggregate of total remittances should be introduced in the balance of payments as a memorandum item comprising of “net” compensation of employees and current transfers in cash or in kind payable by resident sectors to nonresident sectors or to nonresident households and nonprofit institutions serving households (NPISH), and receivable by resident households and NPISH from any nonresident sector.

103. In January 2005, a meeting to discuss the measurement of remittances was held in Washington, DC in response to requests from users, including G-8 Heads of State meeting at Sea Island in June 2004, to improve these data. www.imf.org/external/np/sta/bop/pdf/ao.pdf

Work continues on improving the reporting and compilation mechanisms which will provide guidance in the medium term.¹⁰⁴ Reporting of bilateral remittance flows is not required in the balance of payments, but the TSG's recommendation is that flows to and from major partner countries should be identified. A working group was formed to review methods and develop detailed guidance for compiling remittances data. These data include the use by compilers of bank reporting systems, modeled estimation based on household surveys and labor force data, and in some cases, counterpart data. However, there are obvious weaknesses in many of the methods due to, for instance, reporting thresholds of banks, outdated sources for estimating informal parameters, and difficulties in capturing informal flows.

Policy Recommendations

The following recommendations are proposed to increase the use of formal remittance systems and provide suggestions on how to promote international best practices for integrity and transparency in the market. The UK government has taken positive steps to promote formal transfer mechanisms, and reduce transaction costs and barriers to access for remittance senders and recipients. DfID is developing initiatives in partnership with recipient countries—among them, the Nigerian government—to reduce the cost of remittances and enhance the impact of these flows in the lives of the recipients. The proposed remittance country partnership (RCP) between the UK and Nigeria provides a basis for dialogue aimed at maximizing the economic impact of remittance flows on the recipients and their ability to engage the private sector.

The RCP between the UK and Nigeria is an ideal platform to facilitate the implementation of the policy recommendations. Through the RCP, both countries can work on product development, thereby increasing competition, improving transparency, influencing policy by addressing, legal and policy constraints to remittance flows between the UK and Nigeria, promoting the use of technology to develop innovative products, and building the capacity of remittance-receiving institutions in Nigeria. The success of these initiatives depends on the commitment of both governments to develop effective policies.

Given that remittances are private flows, any initiatives necessarily would involve the private sector. Incentives should facilitate the development of transfer mechanisms for remittances, and promote investments and new economic activities by the Nigerian diaspora.¹⁰⁵ The RCP might include actions toward three main objectives:

1. Building confidence in and the capacity of formal institutions
2. Increasing capacity in data collection and research
3. Enhancing the regulatory framework affecting remittances.

104. For example, a forum coordinated by the Center for Latin America Monetary Studies (CEMLA) project to improve central bank remittance reporting and procedures is supported by the Multilateral Investment Fund of the Inter-American Development Bank and receives technical advice from the IMF and World Bank.

105. An example of this type of bilateral agreement is the Partnership for Prosperity, signed by the United States and Mexico. www.state.gov/p/wha/rls/fs/8919.htm

Building Confidence in, and Capacity of, Formal Institutions

Actions are necessary to combat the widespread lack of confidence in the formal financial institutions. In particular, Nigerian banks need to be able to meet the financial needs of Nigerians. Expectations are that the recent bank consolidation in Nigeria will produce more robust banks. Both the public and private sectors should participate in initiatives that generate awareness of, and confidence in, basic banking services, including remittances services, in both the UK and Nigeria by sponsoring more financial literacy programs.

Building capacity among Nigerian banks to provide better services. It is important that Nigerian banks take action to provide the high-quality, reliable, and timely services that the average Nigerian expects from a bank. Consumer research by banks or an independent private sector research firm would help identify the knowledge gaps between customers' needs and expectations, and banks' perceptions of them. Banks need to be encouraged to go beyond the role of being agents of MTOs and to become more proactive by designing remittance products for the diaspora. Recommended actions for Nigerian banks are:

- Develop courteous and friendly staff, simpler forms, and clear communication of bank policy to clients. All of these will make a visit to the bank less intimidating.
- Ensure that they have enough cash on hand to meet the demands of their remittance disbursement locations and that beneficiaries receive their remittances without excessive delays.
- Recruit and hire staff who have integrity. Such staff will provide reliable service and reduce the incidences of impersonation and fraud in collusion with criminals.
- Increase the number of tellers. More tellers will speed up the disbursement of remittances, which will reduce the time customers wait in line for service.
- Design products that can link to other products, such as mortgages.

Increasing Capacity in Data Collection and Research

Even though both Nigeria and the UK have taken steps to collect and study remittance flows, they still need to enhance their capacities to collect and record data on the UK-Nigeria remittances corridor. Improved data collection would enhance the understanding of the characteristics and the potential of the various remittance corridors that end in Nigeria. In addition, improved collection of data would promote the development of the private sector and provide the government and policymakers with the knowledge necessary for action.

Many BDCs Must Improve their Record-Keeping Capacity by Introducing Automated Systems. Most BDCs interviewed in Nigeria keep manual records. Automation would increase transparency and achieve the record-keeping requirements to comply with new AML/CFT standards. With improvement in the BDCs' recording capacity, these institutions can become a secondary source of data that can be used to capture the amount of funds transferred informally.

The Federal Office of Statistics (FOS) could build capacity in providing timely and current data on remittances. Furthermore, the various data-collecting bodies including the CBN, and the Department of Planning, Research and Statistics, Federal Ministry of Foreign Affairs Nigeria, should increase and improve their coordination. According to the IMF's 2005 Article IV

Consultation report, private capital movements are under-recorded, and the trade data reported by FOS based on customs data and those reported by the CBN based on banking data differ sharply. To design remittance products for the beneficiaries and financial products for low-income people and to measure the impact of remittances for individuals, a household survey by the CBN, FOS, and other relevant institutions is required.

More Research is Necessary by the UK and Nigeria on the Available MTO and Bank Transfer Services. This information is important to understand their underlying cost structure to make the regulatory and policy changes that will increase the use of formal channels at a reasonable cost.

More research could explain: (1) why the senders are using informal intermediaries frequently, despite a relatively favorable regulatory environment in the UK for formal channels; (2) the characteristics of senders—mainly highly educated and professional; and (3) the availability of formal financial institutions.

Why a *highly-educated entrepreneurial* migrant population chooses to use informal means to transfer money is perplexing. Consumer research in the UK by banks, the government, or another interested party would provide illuminating information for both banks and policymakers to find out whether use of informal means is a reflection of the quality of the financial system; or is due to migrants' being undocumented, unaware of remittance products, or having limited access to financial services.

Enhancing the Regulatory Framework That Affects Remittances

Regulations affecting remittances should be transparent and consistent in both countries to give predictability and to ensure a level playing field for market competitors. While the regulatory system in the UK for money transfers is liberal, the regulatory framework in Nigeria hinders competition. Regulations on remittances should foster both competition and private sector expansion to stimulate better services, and an efficient formal transfer system. Regulations should prohibit exclusivity arrangements in partnerships between system operators and distributors to enable the entry and viability of new competitors in the remittance market.

Market Entry for Other Players. Bank agents of MTOs are the sole distributors of formal remittances in Nigeria. BDCs play a very important role; the postal service is not yet actively involved in the remittance market; and IFT systems are widely used.

Policymakers can stimulate competition in three ways, by making it possible for:

1. MTOs to operate in the market without engaging banks as agents.
2. BDCs to become formal distributors of remittances acting as agents.
3. The postal office network to build capacity in distributing remittances, particularly in remote areas that lack banks.

Some BDCs in Nigeria are already transferring remittances informally. Licensing and or regulating them as agents of MTOs would bring more formality to the system.

Although MFIs are not yet part of the distribution network for remittances, they have network potential because of their locations. Several also have the trust of the communities

whom they service. For an MFI to move into the remittance distribution business, it needs enabling regulatory structure, infrastructure, and the skills to run a remittance business. Another option is to formalize the *hawala*-type informal transfers in a way that engages MFIs that are trusted within the community as the distribution agents, while developing contacts abroad to initiate transactions.

The Nigerian postal service has remarkable potential for remittance distribution. In addition to an extensive network with a presence in every state, it also has the advantage of a treaty that enables it to handle monetary instruments. The government could encourage and enhance the capacity of the postal service to develop sustainable partnerships with MTOs located at the origination of remittance flows.

Banks' continued compliance with CBN regulations and the FATF recommendations on AML/CFT will strengthen the overall integrity of the financial sector, and encourage additional corresponding relationships with banks in other countries.

Creating an enabling environment that will leverage the current proliferation of telecommunication technologies in Nigeria to provide more innovative and accessible remittance products will encourage the shift from informal to formal funds transfer. In Nigeria, the mobile telecommunications industry players are overregulated and highly taxed. For an industry that is only four years old, this degree of regulation could restrict growth and market penetration. The NCC should develop an appropriate regulatory structure to ensure that providers are not subject to double taxation. Regulations that encourage mobile telecommunication providers to share cell power sites will reduce costs. Policy action regarding power supply is crucial. Frequent power loss means that telecommunication providers must run on generators 24 hours a day.

United Kingdom Regulatory Overview

Money remittance is not a *regulated activity* (as defined by the Financial Services and Markets Act 2000). Therefore, it is not subject to regulation by the Financial Services Authority or other designated professional bodies.¹⁰⁶ However, Money Service Business (MSB) activities (money remittances; bureau de change, or BDCs; and check-cashing services) have been subject to the Money Laundering Regulations since 1994. These regulations require MSBs to implement appropriate anti-money-laundering procedures. Since 2002, all MSBs, except firms regulated by the FSA that also provide MSB services, have been required to register with Customs, now Her Majesty's Revenue and Customs (HMRC).

HMRC Supervision

All firms undertaking MSB activities that are not regulated by the Financial Services Authority (FSA) must register with HMRC. HMRC is the supervisory body for dedicated MSBs, which include money transmitters, bureau de changes, and third-party check cashers. Under the Money Laundering Regulations, these businesses must apply for registration with HMRC. The only exceptions are businesses that already are regulated

106. Information drafted by DfID, HMRC, and FSA.

Box A1: EU Payments Directive: New Legal Framework for Payments in the Internal Market

The European Commission's key aim with the EU Payments Directive is to facilitate the creation of a Single European Payments Area (SEPA). With the introduction of the euro, the EC sees this as an important political priority.

However, the directive also will significantly impact money remitters by creating the possibility of a license for them to operate EU-wide. Such a license could substantially benefit larger companies. In many EU member states, it will reduce regulatory entry barriers from the current regime, which requires a banking license to offer remittance services. However, in the UK, money remitters are not subject to financial regulation, although they must comply with anti-money-laundering requirements. The directive therefore likely will mean a slightly higher level of regulation in the UK. The precise level will depend on the outcome of negotiations in the European Parliament and Council of Ministers, once the Commission has adopted a legislative proposal for the directive.

The UK government has sought to ensure that the regime introduced by the directive will be proportionate to the risks of providing payment services. These are not equivalent to the risks of deposit taking. The directive also is likely to contain a waiver that will give Member States the option to exempt small remitters from the requirement to seek a license. However, even if they are waived, small remitters still will have to comply with the requirements regarding the information given to customers, execution of payments, and liability.

The Directive is likely to come into force in 2008.

Source: HM Treasury.

by the FSA, such as banks, building societies, and other financial institutions. There are approximately 990 money transmitters on the register operating through approximately 19,000 premises. The businesses pay a registration fee of £60 per set of premises. HMRC aims to obtain voluntary compliance by providing these businesses with information and guidance in the form of guidance notices and a video on the application of the money laundering regulations. All registered businesses receive visits from HMRC staff (1) to confirm that they have the procedures in place to comply with the anti-money-laundering regulations and (2) to advise them at which points their systems need improvement. Failure to comply with the regulations may result in written warnings and ultimately in penalties for persistent noncompliance.

FSA Supervision

Firms authorized by the FSA for their *regulated activities*, such as accepting deposits, may also offer MSB services (retail and wholesale banks may do this). Typically, the MSB services are money remittances (a common service) and bureau de change services. (FSA is aware of at least 14 FSA-regulated firms that provide these services). FSA looks at the MSB activities of these firms as part of the general supervision of the wider money laundering systems and controls of the firm. The FSA risk assessments of firms consider MSB activities if they are “material,” that is, if they account for more than 10 percent of the firms’ business or have particular strategic importance or risk.

European Developments

The European Commission is developing a new legal framework for payment services. If implemented, the Payment Services Directive (PSD) will introduce an authorization/registration regime for payments service providers (Box A1). Under the directive, all payment service providers will be subject to business regulation, and payment service providers that are not credit institutions or e-money issuers will be subject to prudential regulation. Money transfers are expected to fall within the scope of the directive. Who will be made the Competent Authority for the PSD is not yet decided. The timetable suggests that the directive could be implemented in 2008–09.

The Third Money Laundering Directive (expected to be implemented by the end of 2007) will require Member States to have a licensing/registration system for MSBs that includes a fit and proper test for those who direct or beneficially own the business. At present, the registration system for MSBs operated by HMRC does not include such a test.

An EU Regulation is being developed by the EC that would require payers' information to accompany credit transfers and transfers sent by money remitters. The regulation will give effect to Special Recommendation VII (SR VII) from the Financial Action Task Force (FATF), the intergovernmental body that sets the international standards against money laundering and terrorist financing.

Nigeria Regulatory Overview

Regulatory Authority: Central Bank of Nigeria

In Nigeria, only banks may pay out remittances. Banks and other financial institutions are regulated by the Central Bank of Nigeria (CBN). As of April 2005, 89 banks and 293 *bureau de changes* were licensed to operate in Nigeria. However, this number is expected to decrease due to ongoing consolidation.

The CBN is responsible for general banking supervision and licensing banks to operate in Nigeria. The CBN supervises deposit-taking banks, discount houses, primary mortgage institutions, community banks, finance companies, bureau de changes (BDCs), and development finance institutions. Two CBN departments—the Banking Supervision (BSD) and Other Financial Institutions (OFID)—are responsible for carrying out supervision. BSD supervises banks and discount houses. OFID supervises community banks and other nonbank financial institutions, including BDCs. The supervisory process involves both on-site and off-site supervision.¹⁰⁷

To participate in the Nigerian remittance market, a money transfer operator must enter into an agreement with a Nigerian bank, and a Nigerian bank needs CBN approval before it can enter into an agreement with an MTO.

The CBN allows Nigerian residents to operate foreign domiciliary accounts, or home remittances. CBN started collecting information on *home remittances* in 2002. Banks and BDCs are required to submit monthly reports to the CBN. Since only banks can pay out remittances, their reports include information on home remittances.

107. Central Bank of Nigeria, 2006, www.cenbank.org/supervision/framework.asp

Microfinance

The importance of the fledging microfinance industry in Nigeria recently caught the attention of policymakers and international donor committees. These groups are making efforts to improve the policy, legal, and regulatory framework for microfinance.

Physical Transport of Cash

Depending on the type of outbound travel, the Nigerian government has two different restrictions. Individuals traveling under the business travel allowance (BTA) are eligible for a maximum of US\$2,500.00 per quarter or US\$10,000 a year in the foreign exchange market. Under the Personal Travel Allowance (PTA), beneficiaries above 12 years old are eligible for US\$2,000.00 twice a year. For travels to countries in the ECOWAS sub-region, BTA and PTA are issued in ECOWAS travelers' checks.¹⁰⁸

AML/CFT Status

Nigeria is 1 of the 2 countries on the FATF Non-Cooperative Countries or Territories (NCCT) list. According to the Annual Review of the NCCT list on July 2, 2004, Nigeria:

demonstrated an unwillingness or inability to co-operate with the FATF in the review of its system, and when placed on the NCCT list in June 2001, met criteria 5, 17, and 24. It partially met criteria 10 and 19, and had a broad number of inconclusive criteria as a result of its general failure to co-operate in this exercise. (FATF 2004a)

Since 2001, Nigeria has “substantially improved its co-operation with the FATF and its willingness to address its anti-money-laundering deficiencies” (FATF 2004a). Furthermore, Nigeria has enacted several pieces of legislation that strengthened its AML/CFT regime. For example, one enactment extended predicate offenses for ML to any crime or illegal act, certain AML obligations to include nonbank institutions, and customer identification requirements to include occasional transactions of US\$5,000 or more. Later enactments (1) improved licensing requirements for financial institutions; (2) broadened the interpretation of financial institutions and scope of supervision of regulatory authorities of money laundering activities; (3) improved customer identification requirements; and (4) improved suspicious transaction reporting (STR) provisions by removing a previous threshold. Box B1 gives an overview of the legislative efforts to combat money laundering and financing of terrorism in Nigeria.

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108. Central Bank of Nigeria 2006, www.cenbank.org/monetarypolicy/Reform.asp

Box B1: Legislation to Combat Money Laundering and Financing of Terrorism in Nigeria

Since 2001, Nigeria has “substantially improved its co-operation with the FATF and its willingness to address its anti-money laundering deficiencies.” Furthermore, Nigeria has enacted several pieces of legislation to improve its AML/CFT regime.

In December 2002, Nigeria was placed on the NCCT list and under threat of a FATF recommendation for countermeasures. At that point, the country enacted three pieces of legislation:

1. Amendment to the 1995 Money Laundering Act to extend the scope of the law the proceeds of all crimes
2. Amendment to the 1991 Banking and Other Financial Institutions (BOFI) Act expands coverage of the law to stock brokerage firms and foreign currency exchange facilities, gives the CBN greater power to deny bank licenses, and allows the CBN to freeze suspicious accounts
3. Economic and Financial Crimes Commission (Establishment) Act to establish the EFCC, which coordinates anti-money-laundering investigations and information sharing.

Nigeria enacted the Money Laundering (Prohibition) Act and the Economic and Financial Crimes Commission (EFCC) (Establishment) Act in 2004, respectively. These laws repealed the previous versions and addressed the main remaining legal deficiencies. In 2004 the FATF noted that Nigeria must “focus on comprehensively implementing these AML reforms, including fully establishing the EFCC to enable it to function as an effective FIU.”

In 2005 the EFCC established the Nigerian Financial Intelligence Unit (NFIU), which plays a pivotal role in receiving and analyzing STRs. The NFIU has access to records and databanks of all government and financial institutions and has memoranda of understanding (MOUs) on information sharing with several other financial intelligence centers. The establishment of the NFIU was part of Nigeria’s efforts toward removal from the list.

Sources: United States Department of State Bureau for International Narcotics and Law Enforcement Affairs 2006, Financial Action Task Force 2004a.

(3) improved customer identification requirements; and (4) improved suspicious transaction reporting (STR) provisions by removing a previous threshold.

International Cooperation

According to the U.S. State Department’s International Narcotics Control Strategy Report (INCSR 2005), “Nigeria is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN International Convention for the Suppression of the Financing of Terrorism.” In addition, Nigeria has signed the UN Convention against Corruption. Besides having entered into a Mutual Legal Assistance Treaty with the United States, Nigeria has signed MOUs with India, Iran, Pakistan, Russia Federation, and Uganda to facilitate cooperation in the fight against narcotics trafficking and money laundering. Nigeria has a broad network of bilateral agreements for exchange of information on money laundering with South Africa, the United Kingdom, and all ECOWAS countries. Last, Nigeria has been instrumental in the establishment of a permanent secretariat for the Intergovernmental Task Force against Money Laundering in West Africa (GIABA). GIABA is in the process of becoming an FATF-Style Regional Body (FSRB).

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Map of Formal Flows in the UK-Nigeria Corridor and Current and Potential Networks for Distribution in Nigeria

In 2004, 10 percent of the official recorded flows to Nigeria through MTOs originated in the UK, and more than 50 percent originated in the United States. The arrows on the map show the major remittance-receiving cities in Nigeria, namely, Lagos, Abuja, Benin City, Onitsha, Owerri, Enugu, and Port Harcourt.

Remittance flows in this corridor follow migration routes, as one can see the major receiving cities are in the Southwest, Southeast, and South-South geopolitical zones of Nigeria, which happen to be the source of the diaspora in the UK.

Banks are the only institutions authorized to pay remittances in Nigeria. However, the post office has an extensive network that is underutilized for distributing remittances. Flows to Abuja can be explained by the presence of Southwest, Southeast, and South-South indigenes who receive funds from relatives abroad.

Eco-Audit

Environmental Benefits Statement

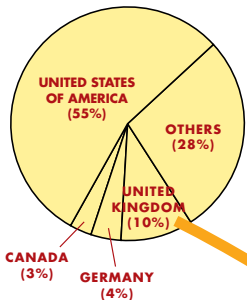
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203	9,544	73,944	17,498	141 mil.
<small>*40' in height and 6-8" in diameter</small>	Pounds	Gallons	Pounds Co ₂ Equivalent	BTUs

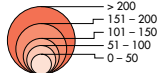


NIGERIA REMITTANCES TO NIGERIA NETWORKS FOR DISTRIBUTION (CURRENT AND POTENTIAL)

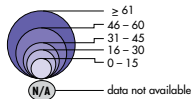


← MAIN DESTINATIONS FOR REMITTANCE FLOWS

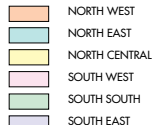
TOTAL OF BANK BRANCHES PER STATE (CURRENT):



TOTAL OF POSTAL OFFICES PER STATE (POTENTIAL):



GEOPOLITICAL ZONES:



- SELECTED CITIES AND TOWNS
- ⊙ STATE CAPITALS
- ⊛ NATIONAL CAPITAL
- STATE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

Sources: World Bank interviews in the U.K. and Nigeria, and the Central Bank of Nigeria (CBN).



This map was produced by the Map Design Unit of the World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of the World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.



The UK-Nigeria Remittance Corridor is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank's ongoing research and to stimulate public discussion.

This study is the first research work on remittances conducted in Nigeria and reveals the actual state of its remittance market. The report describes how United Kingdom residents of Nigerian origin transfer remittances home and how the funds are distributed to their beneficiaries in Nigeria. The review presents the remittance industry conditions existing in the UK-Nigeria remittance corridor at the origination and distribution stages of the transactions, and the intermediaries who facilitate the transfers. The report makes conclusions and compares these main findings with lessons from other corridors.

The UK-Nigeria remittance corridor has an equal dominance of formal and informal remittance intermediaries. Although several formal financial institutions for transferring money exist in the UK, many people choose to send money informally. More collaboration between the UK and Nigeria is necessary to develop the remittance market, to encourage the use of formal channels, and to enhance the development potential. Among its benefits, the remittance country partnership (RCP) between UK and Nigeria aims to reduce the cost of remittance transfers. The Nigerian government is engaging its diaspora to help spur economic growth. This report recommends that each government focus on improving data collection at its end of the corridor and do more research to provide its policymakers and its private sector with accurate information.

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