

ASSOCIATION DES BANQUES CENTRALES AFRICAINES



ASSOCIATION OF AFRICAN CENTRAL BANKS

**ASSOCIATION OF AFRICAN CENTRAL BANKS
(AACB)**

**FIRST CONTINENTAL SEMINAR FOR THE YEAR 2021 ON THE THEME:
« REMITTANCES, FLUCTUATIONS OF EXCHANGE RATES AND MANAGEMENT OF
FOREIGN RESERVES: FINANCING OPPORTUNITIES FOR AFRICA AND
IMPLICATIONS FOR AFRICAN CENTRAL BANKS »**

Organised by: *National Bank of Rwanda*

(31st May – 2nd June 2021)

Terms of reference

INTRODUCTION

In accordance with Article 3 of its Statutes, the Association of African Central Banks (AACB) organises each year a Continental Seminar as part of the achievement of its objectives. The Continental Seminar provides a forum for discussion between central banks, international and continental institutions, as well as resource persons, to promote exchanges of ideas and experiences related to monetary, banking and financial issues and cooperation in Africa.

Diasporas play a vital role in developing their countries of origin by promoting foreign investment, trade, innovation, access to technology and financial inclusion. Returning migrants, in addition to bringing back experience and knowledge gained abroad, often contribute to their home societies as entrepreneurs and by creating jobs.

According to recent data from the World Bank, remittance flows to low- and middle-income countries reached a record level of USD 548 billion in 2019¹. They outweigh foreign direct investment (FDI) flows estimated at USD 534 billion and development assistance worth approximately USD 166 billion.

However, the Covid-19 pandemic with its adverse effects in terms of job destruction, exposure and contamination, coupled with measures that restrict travel by air, sea and land, should reverse the upward trend observed in recent years. Based on the trajectory of economic activities in many major migrant-receiving countries, particularly the United States, European countries and the countries of the Golf Cooperation Council², migrant remittances are expected to decline by 7.2% to USD 508 billion in 2020, followed by a further decline of 7.5% to USD 470 billion in 2021 (World Bank, 2020).

This underperformance's main factors are weak economic growth and employment uncertainties in migrant-receiving countries, low oil prices and an unfavourable exchange rate against the US dollar. It should be stressed that although remittance flows declined in 2020, their relative importance as a source of external finance is expected to increase.

Many countries, particularly developing countries, are increasingly seeking to benefit from their transnational population by developing innovative financial instruments and financing mechanisms such as "diaspora bonds", diaspora pension schemes and securitisation of remittance flows. Moreover, in conflict-affected countries, remittances are often a life-buoy, helping individuals and households in precarious situations cope with economic insecurity.

In this regard, the 43rd ordinary meeting of the Assembly of Governors, held in Kigali in Rwanda on 1st August 2019, selected the theme on "Remittances, Fluctuations of Exchange Rates and Management of Foreign Reserves: Financing Opportunities for Africa and Implications for African Central Banks", for one of the two continental Seminars for the year 2020. However, this Seminar has been postponed to 2021 due to the Covid-19 pandemic, which did not allow its organisation in 2020.

¹Dilip Ratha, Supriyo De, Eung Ju Kim, Sonia Plaza, Ganesh Seshan, and Nadege Desiree Yameogo. 2020. "Migration and Development Brief 33: Phase II: COVID-19 Crisis through a Migration Lens." KNOMAD-World Bank, Washington, D.C.

²The Golf Cooperation Council, created on the 25th of May 1981, is composed of Qatar, Kuwait, Sultanate of Oman, Saudi Arabia, Bahrain and the United Arab Emirates.

The present terms of reference specify the context and objectives of the Seminar, the main topics to be discussed and the organisational framework.

I. CONTEXT AND OBJECTIVES OF THE SEMINAR

Migrant remittances are private transfers of goods or financial assets made by workers considered resident in their host country to beneficiaries in their home country. For the International Monetary Fund (IMF)³, they are essentially remittances and non-cash items sent or given by individuals who have emigrated to a new economy in which they have become residents.

The United Nations Department of Economic and Social Affairs (UNDESA)⁴ report indicates that in 2020, of the 281 million international migrants worldwide, 63 million, or 23% of the total, were born in Europe. Central and South Asia is the second-largest birthplace of international migrants (51 million), followed by Latin America and the Caribbean (43 million), East and South-East Asia (38 million), North Africa and West Asia (38 million) and Sub-Saharan Africa (28 million).

Migration has a significant impact on people and their places of origin and destination. When supported by appropriate policies, migration can contribute to inclusive and sustainable development in countries of origin and destination while benefiting migrants and their families. The links between migration and development, including the opportunities and challenges it brings, are well established and duly recognised in a series of milestone agreements adopted by the UN Member States, including the Agenda 2030 for Sustainable Development and, more recently, the Global Compact for Safe, Orderly and Regular Migration⁵.

The rise in international migration in recent decades has led to an unprecedented increase in the flow of financial transfers to migrants' countries of origin. For many economies, remittances are more stable than other external finance sources, namely official development assistance, foreign private borrowing and foreign direct investment financial flows. This financial windfall provides an additional development finance source by alleviating liquidity constraints in least developed countries.

The World Bank report ranks the main countries receiving remittances and indicates that India (USD 76 billion) comes first, followed by China, Mexico and the Philippines with 60, 41 and USD 33 billion, respectively. Egypt (USD 24 billion), Pakistan (USD 24 billion), Nigeria (USD 21 billion), Bangladesh (USD 20 billion), Vietnam (USD 16 billion) and Ukraine (USD 14 billion) are also countries that receive significant amounts of remittances.

In Sub-Saharan Africa, Nigeria remains the largest recipient of remittances in the region and the seventh-largest recipient among developing countries. Ghana, Kenya and Senegal are ranked second, third and fourth in the region, with an estimated 3.2 billion, 2.9 billion and

³International Monetary Fund (IMF) Balance of payments and international investment position manual. Sixth Edition (BPM6) - Washington, D.C. 2009.

⁴United Nations Department of Economic and Social Affairs (UNDESA), Population Division (2020). International Migration 2020 Highlights (ST/ESA/SER.A/452).

⁵United Nations General Assembly: Intergovernmental Conference to Adopt the Global Compact for Safe, Orderly and Regular Migration » Marrakech, Morocco, 10 and 11 December 2018.

USD 2.3 billion received, respectively. They are followed by the Democratic Republic of Congo (USD 1.9 billion), Zimbabwe (USD 1.7 billion), Uganda (USD 1.4 billion), South Sudan (USD 1.2 billion), Mali (USD 1.0 billion) and South Africa (USD 0.8 billion). Besides, these resources represent a significant share of gross domestic product in many countries. Indeed, they are 35.4% of GDP in South Sudan, ranking first in this indicator, followed by Lesotho (20.6% of GDP), The Gambia (14.9% of GDP), Cape Verde (12.0% of GDP), Comoros (10.8% of GDP), Liberia (9.8% of GDP), Guinea Bissau (9.5% of GDP), Senegal (9.4% of GDP) and Togo (7.7% of GDP).

However, the Covid-19 pandemic has impacted all forms of human mobility, including international migration. Around the world, the closure of national borders and severe disruptions to international land, air and sea transport forced hundreds of thousands of people to cancel or delay their plans to travel abroad. Under these circumstances, remittances to sub-Saharan Africa are expected to decline by nearly 8.3% between 2019 and 2020, from 48 billion to USD 44 billion (World Bank, 2020) due to the Covid-19 pandemic, as a result of movement restrictions and their devastating effects on the global economy.

Generally, migrants use formal channels (money transfer companies, postal networks, commercial banks, exchange offices, etc.) to send remittances. The costs inherent in sending remittances are relatively high, as they depend on the amount, the exchange rate and the country of destination. Depending on the situation of the migrant, the obligation to identify the sender and the desire to benefit from competitive costs, informal channels are increasingly used. However, the characteristics of informal remittance systems, including anonymity and lack of official controls, make them susceptible to be diverted for other purposes, including money laundering and terrorist financing.

As in other developing countries, the funds received would be used mainly on the African continent to finance household consumption expenditure, education and health care. They mitigate income volatility and inflationary pressure in the receiving countries, thus contributing to the fight against poverty. They would also have a counter-cyclical character and play a stabilising role in the face of shocks affecting recipient countries. For many countries, migrant remittances are essential to mitigate the current account deficit in the balance of payments. Indeed, in the presence of insufficient savings to finance investment, remittances constitute foreign exchange inflows that help to alleviate the external current account deficit and contribute to the consolidation of foreign exchange reserves.

However, they can lead to a deterioration in macroeconomic conditions when beneficiaries consume imported goods to the detriment of local production, favouring the appreciation of the real exchange rate "Dutch disease". This can negatively affect the competitiveness of the domestic economy and lead to a deterioration of the current account and an erosion of reserve assets' stock. Furthermore, these unrequited financial flows can significantly reduce recipient households' work effort and create moral hazard.

Innovations in financial technologies (Fintech), including digital transfer platforms, mobile money transfer services, which have a significant impact on developing countries, are opportunities in the money transfer industry and contribute to people's financial inclusion in rural areas with less presence of banking networks. However, transactions operated by the Fintechs could generate challenges for African central banks in terms of supervision of their

activity, the fight against fraud, cybercrime and the protection of consumers against systemic risks.

Amplifying the positive effects of migrant remittances on African economies requires from the authorities to pursue policies to support remittance transfer infrastructures by adopting incentives to encourage transfers through digital channels. They should also alleviate the factors that prevent clients or providers of digital remittance services from accessing banking services.

In this respect, the following main objectives are assigned to this Continental Seminar:

- contribute to highlighting the contribution of migrant workers' remittances to the economies of African countries and the impact of the Covid-19 pandemic on flows;
- assess and identify the financing opportunities offered by these financial flows for households, small and medium enterprises and the promotion of financial inclusion through access to community-based financial services for millions of beneficiaries in urban and rural areas;
- contribute to a better understanding of the impacts, challenges and risks related to Fintech in the remittance industry, to further diversify remittance service providers;
- highlight issues associated with the supervision of remittances through digital channels, regulation and the fight against money laundering and terrorist financing for regulatory authorities;
- analyse the impacts of remittances on exchange rate dynamics, foreign currency reserves in relation to the structure of economies, export competitiveness of recipient countries, among others.

II. ARTICULATION OF THE SEMINAR

The Seminar could be organised around the following lines:

- presentations on the state of play of migrant remittances to their countries of origin, their contribution to the financing of African countries, challenges and risks they may present for the stability of the financial system and the implications for African central banks;
- presentations on the factors that affect migrant remittances, the channels of transfer, their typologies, costs and use of financial resources for recipient countries;
- presentations on the impact of the Covid-19 pandemic on migrant remittances, the measures taken by authorities (governments, central banks) to mitigate the adverse effects on households and the banking sector;

- reflections on the actions undertaken by central banks in the field of promotion of financial technologies in the remittance industry in Africa to reduce the costs of transfers, with a view to drawing lessons learned;
- recommendations aimed at encouraging the emergence of new money transfer service providers, particularly the Fintechs, in relation to the adaptation of the regulatory framework and supervision while limiting the various risks that could affect the financial system's stability.

III. ORGANIZATIONAL FRAMEWORK

3.1. Participants

The participation of resource persons from the following institutions are expected:

- AACB member Central Banks;
- European Central Bank (ECB);
- African Union Commission (AUC);
- African Institute for Remittances (AIR);
- United Nations Economic Commission for Africa (UNECA);
- Common Market for Eastern and Southern Africa (COMESA);
- Southern African Development Community (SADC);
- Central Africa Economic and Monetary Community (CAEMC);
- Economic Community of Central African States (ECCAS);
- Economic Community of West African States (ECOWAS);
- Maghreb Arab Union (MAU);
- West African Economic and Monetary Union (WAMU);
- Eastern African Community (EAC);
- West African Monetary Agency (WAMA);
- West African Monetary Institute (WAMI);
- International Monetary Fund (IMF);
- World Bank;
- African Development Bank (AfDB);
- Federal Reserve Bank of New York (FRBNY);
- Make Finance Work for Africa (MFW4A);
- GIZ.

3.2. Seminar program

3.2.1 Organisation of the Seminar in person

According to the schedule below, the Seminar could be organized over three (3) days, in plenary sessions and workshop discussions.

First day - morning

The morning of the first day will be devoted to communications on the following three (3) sub-themes:

- *"Contribution of remittances in enhancing development finance in Africa". This sub-theme would analyse the dynamics of remittances from African diasporas and their impact on recipient economies' financing, notably the fight against poverty. The impact of Covid-19 on migrant workers' remittances could be highlighted;*
- *"Leveraging FinTech to ensure efficiency and compliance in the remittance market". This sub-topic would make it possible to evoke the emergence of financial technologies in the migrant remittance industry, the entry of new players favouring increased competition, by shaking up the existing ecosystem made up of traditional actors (banks, post office, fast transfer companies, etc.);*
- *"Exchange rate fluctuations and consolidation of foreign reserves in Africa". This sub-theme would analyse the relationship between migrants' remittances and the exchange rate dynamics of recipient countries and their contribution to the constitution of foreign exchange reserves.*

First day – afternoon

The afternoon will be devoted to presentations related to experiences of the AACB sub-regions' Central Banks concerning the central theme of the Seminar:

- North Africa (Banque d'Algérie, Bank Al Maghrib)
- West Africa (Bank of Ghana, BCEAO)
- East Africa (National Bank of Rwanda, Bank of Uganda)
- Central Africa (Banque Centrale du Congo, BEAC)
- Southern Africa (South African Reserve Bank, Bank of Zambia)

Second day - morning

The morning of the second day will be reserved for break-out sessions. Participants will be divided into three (3) groups to discuss specific sub-themes and make recommendations:

- Session Group 1: the proposed sub-theme is: "Migrant workers' remittances: financing African economies and the impact of Covid-19";
- Session Group 2: the proposed sub-theme is: "*Fintech and the migrant remittance market*";
- Session Group 3: the proposed sub-theme is: "Migrant workers' remittances, current account structure and the consolidation of foreign exchange reserves".

Second day – afternoon and third day

The afternoon of the second day and the third day will be devoted to the restitution of the break-out sessions work, as well as to the elaboration and adoption of the conclusions and recommendations of the Seminar.

3.2.2 Organisation of the Seminar in virtual mode

If the Seminar is organised virtually, the three (3) days could be retained, with some modifications in the programme to consider the difference in time zones.

First day - morning

The morning of the first day will be devoted to communications on the following three (3) sub-themes:

- *"Contribution of remittances in enhancing development finance in Africa". This sub-theme would analyse the dynamics of remittances from African diasporas and their impact on recipient economies' financing, notably the fight against poverty. The impact of Covid-19 on migrant workers' remittances could be highlighted;*
- *"Leveraging FinTech to ensure efficiency and compliance in the remittance market". This sub-topic would make it possible to evoke the emergence of financial technologies in the migrant remittance industry, the entry of new players favouring increased competition, by shaking up the existing ecosystem made up of traditional actors (banks, post office, fast transfer companies, etc.);*
- *"Exchange rate fluctuations and consolidation of foreign reserves in Africa". This sub-theme would analyse the relationship between migrants' remittances and the exchange rate dynamics of recipient countries and their contribution to the constitution of foreign exchange reserves.*

First day – afternoon

In the afternoon, instead of two (2) presentations per sub-region, one experience per sub-region could be presented. Thus, the following Central Banks could present their experience:

- North Africa (Banque d'Algérie)
- West Africa (BCEAO)
- East Africa (National Bank of Rwanda)
- Central Africa (Banque Centrale du Congo)
- Southern Africa (South African Reserve Bank)

Second day - morning

Three (3) group sessions will be held back to back in the plenary session, instead of having separately three (3) break-out sessions.

3.3. Date and place of the Seminar

At the end of its second virtual meeting, held on the 26th of November 2020, the AACB Bureau confirmed the organisation, between March and July 2021, of the 2021 Continental Seminar to be held in Kigali, Rwanda. However, if the Covid-19 pandemic does not allow for this in-person meeting, the Bureau approved the option of organising virtually.

IV. COST OF THE SEMINAR

Following the budget of the Association for the year 2021 approved by the AACB Bureau at its virtual meeting on the 26th of November 2020, the cost of the Seminar, except for transport fares and travel expenses of the AACB Secretariat, shall be covered by the host institution (if the meeting is held in person). Accommodation and subsistence costs for delegations would be borne by the central banks and the invited institutions.

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