ASSOCIATION DES BANQUES CENTRALES AFRICAINES ASSOCIATION OF AFRICAN CENTRAL BANKS

Annex 11

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

43rd ORDINARY MEETING

OF THE ASSEMBLY OF GOVERNORS

(Organized virtually by the Banque Centrale du Congo)

FIRST CONTINENTAL SEMINAR OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB) 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'

Organized by: National Bank of Rwanda

(May 31st – June 2nd, 2021)

CONCLUSIONS AND RECOMMENDATIONS

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1. INTRODUCTION

In line with the decision taken during the Extraordinary Bureau meeting held on November 26, 2020, the first 2021 Continental Seminar of the Association of African Central Banks (AACB) was held virtually from May 31st to June 2nd, 2021 on the theme '*Remittances, Fluctuations of Exchange Rates and Management of Foreign Reserves: Financing Opportunities for Africa and Implications for African Central Banks'*. The Seminar was hosted by the National Bank of Rwanda (NBR). Seventy-five (75) delegates from member Central Banks, and fifteen (15) delegates from eight (8) regional and international institutions attended the Seminar. The list of participants is in the appendix of this report.

2. OPENING CEREMONY

The opening ceremony was chaired by the Honourable Soraya Hakuziyaremye, Deputy Governor, National Bank of Rwanda.

In his introductory remarks, Dr. Djoulassi Kokou Oloufade, Executive Secretary of the AACB, expressed his deepest gratitude to Honourable John Rwangombwa, Governor of the National Bank of Rwanda (NBR) and Chairperson of the AACB, for accepting to host the first Continental Seminar and making such excellent technical arrangements to kick off the proceedings. He thanked the staff of the National Bank of Rwanda (NBR) and seized the opportunity to express his sincere gratitude for their constant availability, competence and professionalism and invaluable source of support to the AACB Secretariat to ensure the success of the first virtual Continental Seminar.

He also gave a special thanks to the experts for agreeing to share their knowledge on various topics of the Seminar. He saluted the presence of African and international Institutions and thanked them for their contributions to this event and for the excellent collaborative ties they maintained with the AACB. Moreover, the Executive Secretary finally saluted colleagues from AACB member Central Banks connected in numbers, indicating that they are remarkably determined to contribute decisively to tackling the challenge of monetary integration in our Continent.

He added that the Continental Seminar takes place in a context where African countries face severe economic impacts of the COVID-19 pandemic. According to the United Nations Economic Commission for Africa (UNECA), under the most optimistic scenario, the estimated continent's economic growth could contract by 1.4 percentage points in 2020, pushing nearly 5 million people into extreme poverty. Furthermore, remittance flows are expected to decline in Africa, wiping out six years of progress. For many African countries, migrant remittances are crucial to mitigate the current account balance of payments deficit.

Dr. Oloufade stressed that, given insufficient savings to finance investment, remittances constitute foreign exchange inflows that help alleviate the external current account deficit and contribute to the consolidation of foreign exchange reserves. Innovations in financial technologies (FinTech), including digital transfer platforms and mobile money transfer, are essential to promote the money transfer services and financial inclusion.

Likewise, transactions operated by FinTech could create challenges for African Central Banks regarding the supervision of these activities, the fight against fraud, money laundering, cybercrime and the protection of consumers against systemic risks. Therefore, amplifying the positive effects of remittances on African economies will depend on monetary authorities' abilities to pursue policies that support remittances' transfer infrastructure.

The Executive Secretary indicated that this first Continental Seminar is a timely response to these puzzles. Its main objectives are to better understand the impacts, challenges and risks related to FinTech in delivering remittances' services and how to further diversify competition amongst service providers. It also intends to highlight the contribution of migrant workers' remittances to the economies of African countries and the impact of the COVID-19 pandemic on inflows. Specifically, the Seminar aims at assessing and identifying the financing opportunities offered by these financial inflows for households, Small and Medium Enterprises (SMEs) and the promotion of financial inclusion through access to community-based financial services for millions of beneficiaries in urban and rural areas alike. Furthermore, it also aims to analyse the impacts of remittances on exchange rate dynamics, the stock of foreign currency reserves, export competitiveness of recipient countries among others; and to highlight issues associated with the supervision of remittances through digital channels, regulation and the fight against money laundering and terrorist financing for regulatory authorities.

To conclude his remarks, the Executive Secretary pointed out that, given the diverse and rich experiences of the experts and participants, he was convinced that fruitful discussions would allow formulating practical recommendations. He mentioned that these recommendations would help our leaders to make informed decisions when designing and implementing migrant remittances policies and strategies to enhance the resilience and performance of African economies.

In her opening speech, Honourable Soraya Hakuziyaremye, Deputy Governor of the National Bank of Rwanda, welcomed all participants to this first 2021 AACB Continental Seminar. She recalled that the National Bank of Rwanda and the Central Bank of Egypt were supposed to host respectively the first and the second Continental Seminars in 2020. However, they were postponed due to the COVID-19 pandemic. Therefore, she expressed her pleasure that technology made it possible to congregate and push forward the AACB agenda virtually.

She stated that the theme of this Seminar is an opportunity to focus the discussions on a wide range of issues, such as remittances, innovative financial instruments and financing mechanisms and exchange rate dynamics. Moreover, the Seminar will focus on the contribution of migrant workers' remittances to African economies and the impact of the COVID-19 pandemic on inflows. It will also identify the financing opportunities offered by these financial flows, challenges and risks related to FinTech in the remittance industry, regulation and the fight against money laundering and terrorist financing, etc.

The Deputy Governor noticed that the COVID-19 pandemic induced adverse effects on economies as thousands face unemployment, revenue losses from businesses and increased consumer prices that have pushed people under poverty lines. Thus, this Seminar comes when different economies devise mechanisms and policies to counteract the economic shocks (e.g. the Economic Recovery Fund in Rwanda).

She pointed out that the economic outlook remains uncertain despite the sound policies being put in place and the region's projected growth of 3.4 percent in 2021. The ongoing effects of the COVID-19 pandemic are enormous. These continue to pose challenges for all governments and policymakers across the globe, hence accentuating the importance of cooperation and collaboration at different levels of leadership to manage interconnected pressures from the crisis.

Providing some insight into the three main topics (remittances, exchange rate dynamics and financing mechanisms), Honourable Hakuziyaremye indicated that, globally, remittances have been growing in the past few years and they represent the largest source of foreign income for many developing economies. With the COVID-19 impact on wages and employment for migrant workers, remittance flows in low-and-middle-income countries declined only by 1.6 percent against a projection of 7.2 percent drop in 2020, mainly due to the migrants' desire to assist their families during the pandemic and fiscal stimulus that led to improved economic conditions in some host countries. In Sub-Saharan Africa, remittances declined by 12.5 percent in 2020. In contrast, remittance inflows to low-and-middle-income countries are projected to increase by 2.6 percent and 2.2 percent in 2021 and 2022, respectively, with the expected global economic recovery.

The Deputy Governor emphasized the main challenges to remittance inflows, notably the difficulties in estimating the actual size of the inflows, as many use unofficial channels that may represent at least 50.0 percent of the recorded inflows. She appended that another challenge to remittance inflows is their costs, which remain globally high and particularly expensive in Sub-Saharan Africa. Therefore, it is key to address these issues, given that remittances have proven to be more stable, countercyclical and the largest source of foreign income for many developing economies. Remittances account for nearly 4.0 percent of GDP compared to 1.5 percent of GDP for middle-income countries.

Regarding the exchange rate dynamics, she argued that this global pandemic induced a sizeable current account deficit, mostly reflecting supply chain disruptions, subdued global trade as well as low remittance inflows. This deficit, together with pre-existing insufficient international reserve buffers, led to high exchange rate pressures. The Deputy Governor indicated that central banks' interventions were required in most countries to smooth out the continent's excessive foreign exchange market volatilities. For example, in Rwanda, the franc depreciated by 5.4 percent in 2020 compared to 4.9 percent in 2019. These pressures should be subdued with the expected global economic recovery and projected increase in remittance flows in 2021 and 2022.

On financing mechanisms, she argued that Sub-Saharan economies continue to be challenged by currency depreciation which translates into increased uncertainty and low liquidity, adding to existing structural bottlenecks and limited financing options. Therefore, our economies need to tap into different financing approaches like blended finance, Public-Private Partnerships, Co-Financing with Development Banks, Capital Markets, among others, to help mobilize investment financing outside commercial banks. It is also key for central banks to recognize the value of these collective approaches while maintaining a stable and well-functioning financial system.

To conclude, Honourable Hakuziyaremye reiterated the AACB mission to promote cooperation in the monetary, banking and financial spheres, with the long-term goal of a single currency and a common central bank in Africa. In this regard, she made a call to double efforts as we work towards achieving our goals, as all our actions will continue to be tested in this pandemic given the uncertainty that lies ahead. Hence, it is in such an environment that central banks should strengthen their collaboration and ensure collective efforts from all stakeholders. Finally, after appreciating the efforts of the AACB Secretariat and Speakers for the tireless work done, she wished the participants productive deliberations to ensure the success of this Seminar.

3. STRUCTURE OF THE SEMINAR

The Seminar was structured as follows: resource persons presented three sub-themes. Representatives of central banks shared their experiences. Finally, three break-out sessions, divided into three groups, were organized to discuss specific topics and to reflect on the financing opportunities offered by remittances for Africa and its implications for African Central Banks and made recommendations to be presented to the Assembly of Governors for consideration.

3.1 Plenary Session 1: Presentation of the Sub-themes

The following three sub-themes were presented respectively by Mr. Amadou Cisse, Executive Director, African Institute for Remittances (AIR), Mr. Majyambere Tuyizere Fabrice, Manager, National Bank of Rwanda (NBR) and Dr. David Fowkes, Lead Specialist, South African Reserve Bank (SARB):

- Contribution of remittances in enhancing development finance in Africa;
- Leveraging FinTech to ensure efficiency and compliance in the remittance market;
- Exchange rate fluctuations and consolidation of foreign reserves in Africa.

The first presentation focused on the definition of remittances and development and pointed out success factors of resource mobilization strategy to tap into savings of remittance senders and beneficiaries.

According to the definition of remittances in the Balance of Payments Manual Sixth Edition (BPM6), remittances represent household income from foreign economies arising mainly from temporary or permanent migrants. Remittances include cash and non-cash items that flow through formal channels, such as electronic wire or through informal channels, such as money or goods carried across borders. They essentially consist of funds and non-cash items sent or given by individuals who have migrated to a new economy and become residents plus the net compensation of border, seasonal, or other short-term workers employed in an economy in which they are not resident.

Mr. Cisse indicated that migrants use remittances to support their family members back home since they constitute a source of household revenue. Technically, remittances are primarily personal transfers from employee's foreign accounts (secondary income account). They can also be assessed as compensation of employees (primary income account).

Generally, migrant remittances include several elements (financial and non-financial). When considering the aspect of financial flows, it would be useful to know how to mobilize these remittances to finance the development of African economies.

Furthermore, the term "development" is also multifaceted, including policy involvement and human capital development. It can be assessed through a series of quantitative indicators. Each of them constitutes part of the "unknown" combination code of the lock opening the door leading to the expected development of African countries. The socio-economic development of Africa could be achieved through two fundamental elements, namely infrastructure and investment. On the social level, remittances help beneficiaries slake their basic needs such as food, education, health, shelter, etc. Economically, remittances should help unlock that door through infrastructure and micro-investments. Thus, the fundamental question is to scrutinize how remittances could unlock development by financing infrastructure or Small and Medium Enterprises (SMEs).

According to Mr. Cisse, remittances could not contribute to the expected development because they are primary and secondary income accounts. None of these accounts could be considered as Foreign Direct Investment (FDI) for our countries. He argued that since remittances play the same role as salaries and constitute one component of household revenue to satisfy basic needs, the resources that could be tapped to finance development are diaspora investments that are different from remittances.

Data show that Africa's infrastructure financing needs are between USD 130.0 billion and USD 170.0 billion per year. Meanwhile, the financing gap is between USD 68.0 billion and USD 108.0 billion. In 2019, migrant remittances stood at between USD 70.0 billion and USD 80.0 billion, representing 60.0 percent to 110.0 percent of the infrastructure financing gap. This indicates that the funding potential is real. However, the question is how to leverage these remittances for development financing. In addition, it should be noted that migrant workers do not send all their savings. According to reports, they may send up to 35.0 percent of their savings, meaning that migrants who sent USD 80.0 billion in 2019 still have about USD 240.0 billion in savings in their countries of residence, exceeding Africa's infrastructure financing needs.

Therefore, African policymakers should set an appropriate resource mobilization strategy, consisting of leveraging remittance beneficiaries (their domestic savings) and remittance senders through savings in their country of residence (FDI).

To ensure this resource mobilization strategy enables to target savings of remittance senders and beneficiaries, Mr. Cisse emphasized three success factors:

- Policymakers' top priority (Government, Central Bank Governors, etc.) For sound resource mobilization strategies;
- Building trust with the diaspora, i.e. Trust in financial instruments, by setting up a sound investment environment and a compliant investment code, with a diaspora engagement through "Know Your Diaspora (KYD)"; and
- Financial inclusion promotion and money management skills to encourage remittance beneficiaries to save and invest.

Following this presentation, some participants commented mainly on governments' actions to improve the diaspora investment environment. In this regard, educating the population and investing in human capital and infrastructure development are key.

They also indicated that one of the fundamental pillars for African countries to attract migrant remittances is to narrow the gap between the official and unofficial exchange rates to reduce the losses incurred by beneficiaries as the funds received improve the living standards of these families.

Finally, they mentioned the negative impact of corruption at the governmental and institutional levels. Removing these constraints should improve the environment for migrant remittances.

The second sub-theme: "Leveraging FinTech to ensure efficiency and compliance in the remittance market", was presented by Mr. Majyambere Tuyizere Fabrice, Manager, National Bank of Rwanda. The presentation focused mainly on the role of FinTech in the development of the remittance market in Africa, remittances models, regulations and the challenges faced by remittances in Africa.

In his presentation, Mr. Majyambere indicated that the rapid increase in African migration has intensified remittance operations in Africa. The massive inflows of funds to the continent have profited beneficiaries, financial institutions and FinTech, particularly regarding the transfer fees charged. According to the World Bank, in 2019, the remittances to the Sub-Saharan region grew up to USD 48.0 billion. The major reason behind this upsurge was the steep increase in African migration, fuelling the growth of remittances in the continent.

In 2019, the preponderance of mobile money was noticeable in Sub-Saharan Africa (SSA) compared to the rest of the world. Before the Covid-19 pandemic, high remittance services were observed through mobile money in Sub-Saharan countries. According to Global Findex, the percentage of senders stood around 30.0 percent and the proportion of recipients above 25.0 percent.

Furthermore, the Sub-Saharan region dominated the usage of mobile money compared to the rest of the world. According to the IMF Financial Access Survey, the number of accounts per 1,000 adults represented approximately 250 in SSA, roughly 150 in Asia, 100 in Latin America and Europe and 50 in the Middle East and North Africa (MENA).

Concerning the number of mobile money outlets per 100,000 adults, transactions per 1,000 adults and transactions in terms of GDP, the same pattern was observed.

The Speaker highlighted that FinTech are present in mobile phone platforms, software and money transfer applications. They have been a game-changer for remittances in Africa by redefining the way people make cross-border money transfers. It should be noted that Africa has the highest cost for making a transaction, with an average of 9.0 percent for making a transaction of USD 200 in Africa while the world's average is 7.0 percent.

Leveraging cutting-edge technologies, FinTech made remittances in Africa cost-effective, secure, and swift. In addition, FinTech are playing an essential role in the competition of traditional remittance players. They enabled remittances to become affordable and accessible to the population (e.g. M-PESA in Kenya, a Safaricom initiative).

Concerning remittance models, the following three models that could be compatible in different jurisdictions were underlined by the Presenter:

a) Model I: Single provider. A single Remittance Service Provider (RSP) processes the entire remittance transactions internally across its proprietary system and sets its retail fees and foreign exchange rates (e.g. Western Union, various money transfer providers that work with some local banks and telecommunication companies to provide these services);

b) Model II: Bilateral arrangement. Two licensed or registered organizations enter into a direct commercial partnership. The sending RSP will typically pay an interparty fee to the receiving to cover remittance delivery costs, plus a margin. The receiving RSP and sending RSP also agree on foreign exchange as part of the settlement arrangement; and

c) Model III: Remittance Hub. The sending and receiving RSP have no direct commercial relationship, with each RSP commercially partnering with a hub. The hubs are charged transaction fees by receiving RSP, and these are passed along to sending RSP plus a margin. The foreign exchange arrangements agreed to determine the quoted retail foreign exchange rates as part of the settlement flow.

Regarding remittance regulations, the following points, related to the rules and regulations pertaining to international remittances in Africa, were raised:

- Authorized paying institutions (payment transactions by unauthorized structures);
- Significance of non-bank financial institutions (telecommunications companies);
- Requirements for money transfers (thresholds and limits on funds that can be transferred);
- Ownership of foreign currency accounts (central bank authorization required for holding foreign currency accounts); and
- Anti-money laundering (regulations on the fight against money laundering and terrorist financing).

Furthermore, it was noted that the challenges that hinder the remittance market in Africa vary among countries. However, the common observed challenges are:

- The uncertainty in regulatory framework (inadequate regulation);
- High cost due to many players in the value chain (multiplicity of actors);
- Lack of infrastructure to facilitate the access (lack of tracing systems, etc.); and
- Collaboration and partnership between different players are still at a low level (an insufficient collaboration between telecommunication companies, banks and Fintech, which may hinder the development of FinTech).

In conclusion, to improve the contribution of FinTech in the development of remittances in Africa, Mr. Majyambere highlighted the following measures:

- To establish regulations that meet regulatory requirements;
- To increase collaboration and partnerships among fintech, mobile operators, money transfer operators and banks; and
- Authorities and policymakers are called to encourage competition in the remittance market.

These measures will enhance the efficiency and effectiveness of the remittance market and improve infrastructure. The progress made in the digitization process will also foster financial inclusion and the payment of goods and services through digital channels, contributing, therefore, to the country's development.

Following this presentation, the participants highlighted the importance of transfers in SSA, noting that the adoption of mobile money in Africa is an alternative way to boost remittances. They indicated that there are shortcomings in the remittance market. Consequently, setting up a good and transparent regulatory framework to support the growth of FinTech is key to reducing uncertainties related to their operations.

Finally, the participants emphasized the need to promote competition and monitor the FinTech sector by strengthening close collaboration between all the actors in the remittance market in Africa. FinTech plays a crucial role in promoting financial inclusion, notably in the agricultural sector and remote areas.

The third sub-theme: "Exchange rate fluctuations and consolidation of foreign reserves in Africa", was presented by Dr. David Fowkes, Lead Specialist at the South African Reserve Bank (SARB). The presentation focused in particular on the experience of South Africa's non-intervention policy in the foreign exchange market and the reserve management policy.

Regarding the degree of exchange rate management, studies show that Advanced Economies (AEs) allow, on average, relatively greater exchange rate flexibility compared to Emerging Market and Developing Economies-EMDEs (Adler et *al.* 2021). Among AEs, small economies with large financial sectors such as Hong Kong, Iceland, Singapore, and Switzerland tend to display higher exchange rate management than other Advanced Economies.

Within EMDEs, some countries display flexible regimes comparable to the most flexible AEs while others adopt highly managed regimes (fixed exchange regimes). The strategy of non-intervention on the foreign exchange market, adopted by South Africa, allows the exchange rate to float and adjust in the markets according to the fundamentals of the economy.

The Presenter noted that South Africa's free-float policy was introduced following failed attempts, in 1998, to resist exchange rate depreciation. This was done by borrowing dollars in the forward market. However, the Rand kept weakening, which created a negative forward position and significant losses. The SARB then strived to reduce this negative net foreign currency position and abandoned interventions aimed at influencing the exchange rate.

The SARB has consistently avoided exchange rate interventions since. The Rand has experienced dramatic depreciations on four occasions, in 2001, 2009, 2016 and 2020. Policymakers have nonetheless responded only to the expected inflation consequences of these moves, using the conventional short-term interest rate tool (the repo rate). As inflation expectations have stabilized at the inflation target, with the exchange rate becoming less important in shaping these expectations, passthrough from currency depreciation has declined and the need for offsetting policy actions has also diminished. In 2001, for instance, the SARB raised interest rates to deal with inflation resulting from the exchange rate depreciation. In 2008, it delayed rate cuts because inflation stayed elevated for a period. In 2020, by contrast, it was possible to cut rates to record lows despite a simultaneous Rand sell-off.

South Africa official reserves are now about USD 53.8 billion, which is not exceptionally high compared to other Emerging Market Economies (EMEs) such as Russia, India or China. The IMF Assessment of reserves adequacy (ARA) shows that the country's current level of gross reserves has not yet reached a level that is deemed sufficient. The key motive behind the accumulation of reserves by the SARB has been for self-insurance purpose to reduce external vulnerability. However, there are costs associated with holding reserves. In South Africa, the marginal cost of holding reserves is estimated at approximately USD 35.0 million per USD 1.0 billion per year.

On the subject of reserve pooling, there are theoretical problems with such arrangements which can be summarized under the headings of moral hazard, shock correlation, resource limits and political economy problems. Reserve pooling can mitigate risk where moral hazard is minimal; where shocks do not hit all countries simultaneously but do tend to spread from one country to another, increasing incentives to block this spread; where some or many countries have abundant or excess reserves; and where it is politically acceptable to share reserves. Dr Fowkes suggested these conditions may not hold.

Empirically speaking, Dr. Fowkes discussed two reserve-pooling schemes:

- The Latin American Reserve Fund (FLAR) was established in 1978 by eight countries. It has a lending capacity of Special Drawing Rights (SDR) 3.5 billion. This fund provides financial assistance to members facing balance of payments difficulties. It has a strong credit rating. Its loan amounts have been relatively modest; and

- The Chiang Mai Multilateral Initiative was founded in 2000 and expanded in 2010. It is a multilateral swap arrangement between ten countries of the Association of Southeast Asian Nations (ASEAN), China, Japan and South Korea to address balance of payments and short-term liquidity problems. The lending capacity is SDR 240.0 billion. The Initiative has never made a loan.

In pursuing complements to foreign exchange reserves, the SARB has not focussed on reserve pooling but has instead emphasized a Global Financial Safety Net (GFSN) concept, including access to swap lines from other central banks as well as multilateral sources of financing.

In conclusion, Dr. Fowkes mentioned that South Africa has relied on a non-intervention exchange rate strategy, which has worked well and enhanced the central bank's credibility. Reserves remain a safety net in case of external shocks and emergencies, with swap lines and other components of the GFSN supporting resilience.

Following this presentation, some participants discussed South Africa's exchange rate flexibility that allows shocks to be absorbed. South Africa has adopted an inflation target to control inflationary pressures, and its economy is relatively diversified. In comparison, for countries with a fixed exchange rate (CEMAC zone), the evolution of foreign exchange reserves is correlated with fluctuations in commodity prices (oil).

Therefore, participants called for the compatibility between fiscal and monetary policies. They also indicated that credits to the economy lead to increased imports of goods and services. Therefore, in countries with a fixed exchange rate regime, one of the challenges is to achieve significant repatriation of export earnings and to pursue the structural transformation of the economies (industrialization). Otherwise, there may be a lack of reserves and a dependence on external aid.

3.2 Plenary session 2: Experiences of AACB central banks

Four AACB central banks shared their experiences with respect to the main theme of the Seminar.

3.2.1. Bank Al-Maghrib

The World Bank has launched the Greenback initiative in several countries, including Morocco in 2019, following G8 and G20 agreements to reduce the average costs of remittances in 2014.

The objective of this initiative is to improve the efficiency of the remittance market through:

- Implementation of financial education programs for remittance recipients;
- Promotion of transparency and competition in the market;
- Development of innovative and user-friendly services; and
- Reduction of costs.

To achieve these objectives, a qualitative survey was undertaken to:

- Analyze the financial behavior of Moroccan recipients of international remittances;
- Collect their real needs;
- Collect information on available remittance services and assess their transparency;
- Identify guidelines for financial education programs to be designed; and
- Share the results with policymakers and private actors to identify areas for improvement and action plan.

Methodology of the Greenback survey

The survey involved a sample of 149 people, both males and females, in two age groups (25-40 years, 45 years and above), in 16 focus groups from four geographical regions, urban, peri-urban and semi-rural areas.

It was divided into the following three phases:

- Phase 1: Conducting a qualitative survey to analyze the financial behavior of international remittance recipients and to collect their real needs;
- Phase 2: Collaboration with public and private sector stakeholders in the financial ecosystem to establish a common action plan for the development of the remittance market; and
- Phase 3: Implementation of measures and assessment of results.

Main results of the Greenback Survey

The survey yielded information on:

Choice of transfer method:

- The sender of funds chooses the remittance service provider;

- Bank transfers are rarely used, even though 62.0 percent of people have a bank account;
- Sending money via bank transfer is considered selective; and
- Participants indicate the simplicity and speed of receiving funds.

Knowledge and behavior relating to money transfer operations:

- Local remittances are used to repay loans, pay for goods to traders in other towns, or contribute to tontines; and
- At the national level, informal channels are used for remittances to support families because they are free, although participants are aware of the risks.

Perception of financial services:

- Lack of knowledge, information and confidence in financial institutions and services;
- Bank fees are considered excessive and non-transparent; and
- Participants would like more information on a bank account and credit card transfer options and how to protect themselves against fraud and theft.

Recommendations

- Development of financial education modules on remittances, available products, tariffs and their functionality;
- Improvement of the quality and availability of financial services (digital financial services, money transfers, etc.); and
- Transparency enhancement in the pricing of financial services (tariffs).

3.2.2. Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)

The BCEAO revised its remittance data compilation process starting in 2012 to consider some elements (purposes, data structure, channels used, etc.) that improve their quality.

The remittance dynamics indicated a steady increase from 2005 to 2019, except in 2009 with a drop of 6.6 percent, in line with the 2008 financial and economic crisis. Despite the COVID-19 pandemic, the West African Economic and Monetary Union (WAEMU) countries showed resilience in receiving remittance flows in 2020 (4.5 percent increase).

Concerning the remittance structure in the WAEMU, consumption purposes predominate (54.6%). The main remittance beneficiaries are professionals (31.8 percent) and the economically inactive (21.7 percent). The majority of resources come from Europe (66.1 percent) and African countries (20.9 percent). Overall, 17.3 percent of these flows pass through informal channels.

Furthermore, remittances are the Union's primary source of external financing, ahead of grants and FDI. Their contribution to improving the Union's current account deficit is on average 3.0 percent from 2005 to 2020, representing two months of imports to consolidate foreign exchange reserves.

A study by the BCEAO in 2015 on the macroeconomic impacts of remittances in the WAEMU countries shows that remittances play a stabilizing role because of their counter-cyclical nature regarding the volatility of the output gap. They positively affect real per capita production, private consumption, private investment, and credit to the economy.

Challenges

Given these results, the challenges are:

- Improving the contribution of remittances to the Union's external financing sources;
- High level of transaction costs; and
- Important informal channels used for remittances.

Proposed solutions

The financial sector should be encouraged to reduce transaction costs and optimize remittance reallocation towards productive investments.

3.2.3. Banque Centrale du Congo (BCC)

The World Bank data indicate that remittances sent to developing countries have grown to USD 554.0 billion in 2019, an increase of 4.3 percent. For the Democratic Republic of Congo (DRC), World Bank estimates remittances at USD 1.8 billion in 2019, representing 3.7 percent of the country's GDP. Data show an increasing trend since 2000, with a peak of USD 1,764.35 million in 2018, accounting for 2.75 percent of GDP.

Studies on the impacts of remittances on economic growth remain controversial. For the DRC, based on data collected at the Banque Centrale du Congo from 1980 to 2018, multiple regression models have shown that a 1.0 percent increase in remittances leads to a 0.55 percent increase in output. Although positive, the impact in the DRC is weak, reflecting a slight increase in consumption and investment by households receiving remittances.

The marginal contribution of remittances to the beneficiary countries growth could be explained by a large share of these resources allocated to current consumption rather than investment and by informal channels used.

Challenges

The following challenges were mentioned:

- Weakness in the compilation of remittance flows due to the importance of informal channels;
- High level of transaction costs; and
- Low impact of remittances on economic growth.

Proposed solutions

It is imperative to guarantee a developed financial system and a sound institutional environment to benefit fully from the positive effects of remittances on economic activity in the DRC and move towards greater formalization of remittances. In particular, regulators need to consider operationalizing international money transfers via cell phones to better capture the remittance flows to beneficiaries.

3.2.4. Central Bank of Eswatini

International remittances are essential for the livelihood of Eswatini. In the country, remittances are low as a percentage of GDP compared to other African countries. They were recorded at around 0.9 percent of GDP in 2020. South Africa is the main source of remittance inflows in the economy. Overall, there is a rising trend in remittance inflows over the past decade, and the country received about E600.0 million (yearly average) in remittances over the past few years. Eswatini remittance inflows were negatively affected by the COVID-19 economic shock, declining by 18.0 percent in 2020. This was mainly due to job losses by Eswatini in the main remitter market (South Africa) because of economic lockdowns and travel restrictions.

Exchange rate volatility was prevalent in 2020, and the local currency is pegged to the South African Rand (ZAR). This was due to the wild swings in ZAR mainly in response to COVID-19 induced global financial market conditions. Eswatini's gross foreign reserves were well anchored in 2020, and remittances are making a minimal impact on reserves.

Challenges

Eswatini has the following challenges:

- Low remittance inflows;
- Usage of informal channels for remittances; and
- Data gaps and high transaction costs.

Proposed Solutions

The following solutions were proposed:

- A need for diaspora engagements;
- Easing of restrictions and regulations;
- Lowering of transaction costs; and
- A need to undertake a national household survey to assess informal remittances.

4. BREAK-OUT SESSIONS

Delegates deliberated on three topics in the break-out sessions.

Break-out session I: ' Migrant workers' remittances: financing African economies and the impact of Covid-19 '

1. Introduction

Migrant remittances are transfers of money from residents of one country to residents' home country usually to families, friends and communities. Migrant remittances have been growing rapidly in the past few years and now represent the largest source of foreign exchange for many developing economies. Defying predictions, remittance flows globally have proved to be resilient during the COVID-19 crisis.

In 2020, officially recorded remittance flows to low- and middle-income countries reached USD 540.0 billion, only 1.6 percent below the USD 548.0 billion seen in 2019.

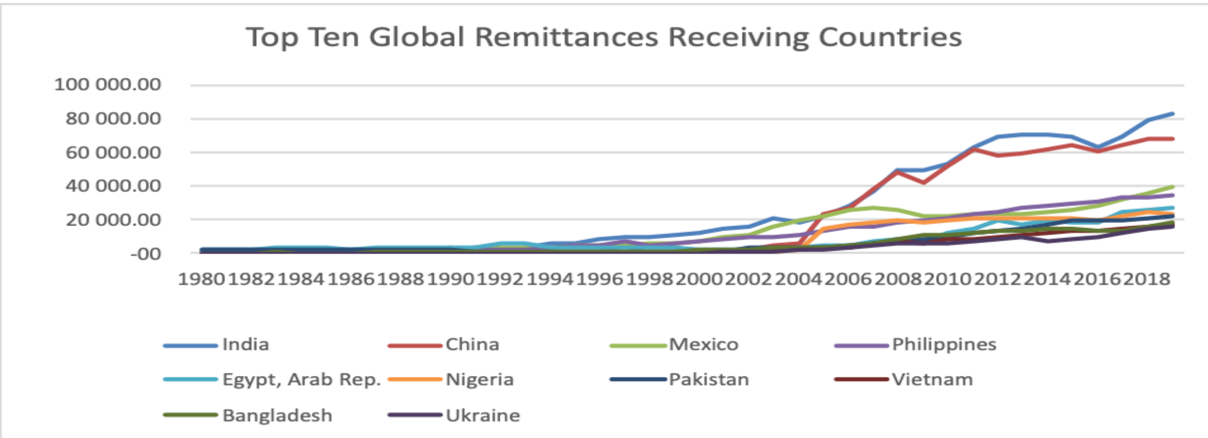
Remittances exceeded foreign direct investment flows by a wider margin in 2020; therefore, remittances have become an important consumption smoothing mechanism for the recipient households and, as such, they form an increasingly important (private) element of global social protection systems.

2. Global Migrant Space

Total global remittances stood at USD 35.81 billion in 1980 and had grown to USD 716.67 billion by 2019. The global growth of remittances into the Low-and-Middle Income Countries (LMIC) was faster than the rest of world.

A common feature of the LMIC that differs from the rest of the world during the period under review is that growth in young professional migrant from the LMIC at the onset of the millennium accelerated while that of the industrialized world remained flat. This could explain the switch in the trend of large collectors from the industrialized world time back, to the LMIC in recent time. Sub-Saharan Africa continued to have the highest remittance average cost, at 8.2 percent, while average costs were the lowest in South Asia, at 4.9 percent. Remittance costs across many African corridors remain above 10.0 percent, especially in the case of remittance services provided by commercial banks. Intraregional migrants in Sub-Saharan Africa comprise over two-thirds of all international migration from the region. Yet intraregional remittance costs are very high in the region due to the low volumes of formal flows, inadequate penetration of innovative technologies, and lack of a competitive market environment.

Figure 1:



In figure 1 above, the global growth is captured showing that growth of remittances into the Low-and-Middle Income Countries (LMIC) was faster than the rest of world. The graph shows that the entrance of the millennium witnessed an accelerated growth in the LMIC, with more aggressive countries like India, Mexico and Philippines displacing hitherto dominant industrialized countries like Spain, Italy and the UK. The comparative growth saw the LMIC's growth rising from 49.0 percent of the total in 1980, to 76.0 percent of the total in 2019.

Figure 2:

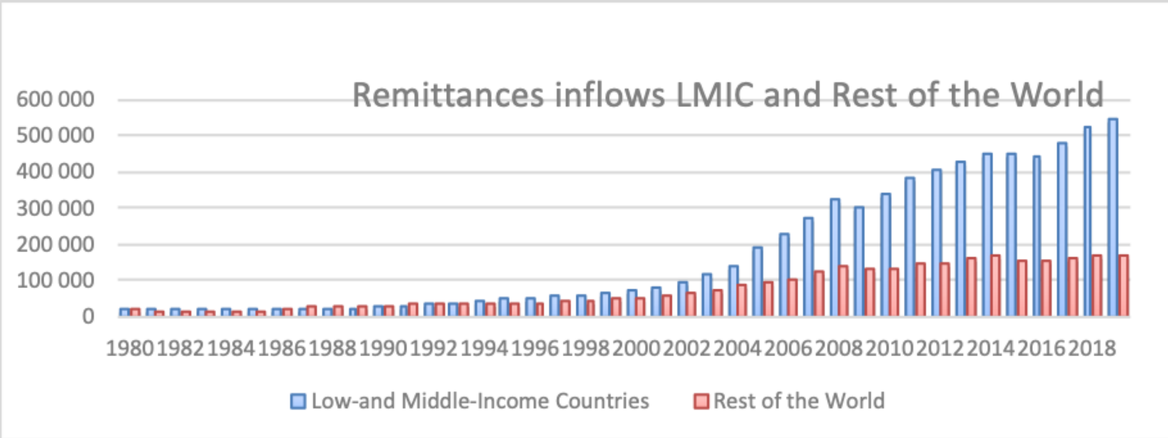


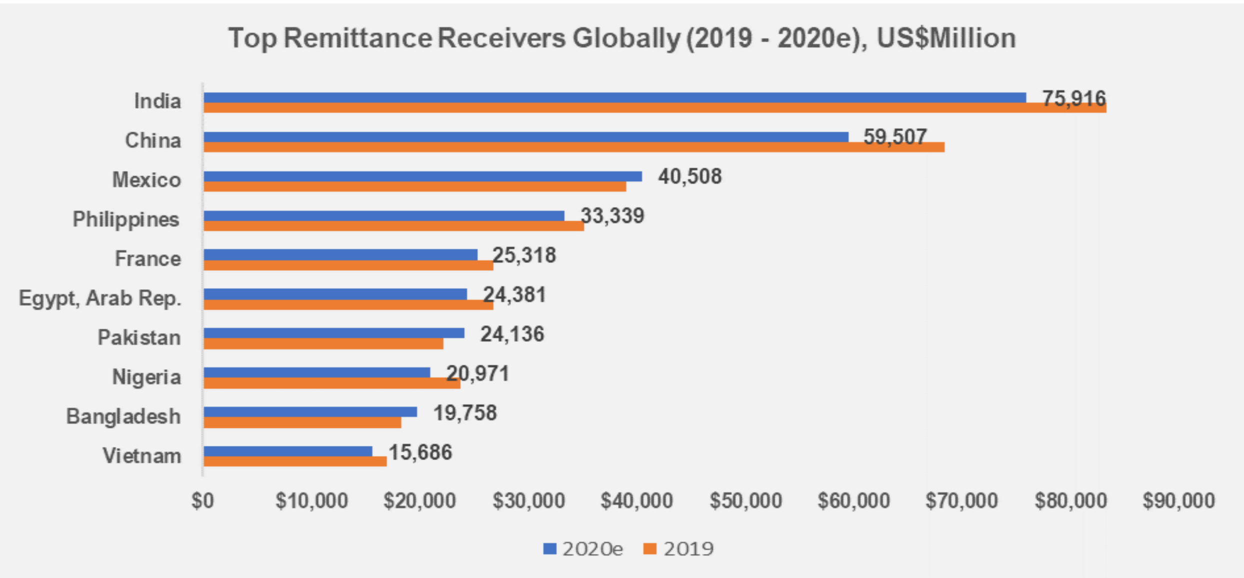
Figure 2 above captures the top ten countries in the market which incidentally are LMIC. India tops the list with a total inflow of USD 83.33 billion in 2019 rising from USD 2.7 billion in 1980. Figure 2 also shows that accelerated growth for all the successful ten LMIC is noticed from 1994 with a quantum leap in 2004 for the more aggressive countries like India, Philippines Mexico and Vietnam. Nigeria had its break in 1999 joining the billionaire collecting members from USD 448.55 million in 1998 to USD 1.3 billion in just a year.

Impact of COVID-19

Generally, the global remittance space was affected by the impact of the COVID-19 pandemic. However, in Sub-Saharan Africa (SSA), most countries recorded increase in remittance inflows except for Nigeria.

Therefore, each country and region are coming up with key strategies to rebound back.

Figure 3:



3. Key Issues

3.1 Cost

High transfer costs discourage some migrants from using formal channels of sending remittances to their families. Although governments and private actors have committed to reducing these costs globally, they have remained high and a limiting factor in remitting to Africa.

3.2 Technology

A significant number of remittance beneficiaries reside in rural areas with limited connectivity to formal banking institutions. This may mean increased difficulty to receive cash flows which are often essential for families in preparing for their various stages of lockdown or quarantine restrictions.

3.3 Fiscal and Monetary Coordination

3.4 The existence of multiple exchange rate regimes in some jurisdictions may impede or discourage migrants from remitting money to their home countries especially when such funds are required to exchange at official rate which is usually lower than the parallel market rate.

3.5 Demography of the migrant

Earning capacity of the migrant population to a large extent determines the volume and value of remittances to their countries.

3.7 Limited Strategy

Absence of clear policies to attract remittances in some jurisdictions.

4. Strategy

4.1 Cost: Reducing the cost of transfer is important in harnessing remittance inflows. The high cost charged by International Money Transfer Operators (IMTO) are serving as disincentives for remittances through formal channels.

4.2 Technology: Enhancement of infrastructure in facilitating financial inclusion particularly in the rural areas will improve remittances.

4.3 Macroeconomic stability: Authorities should maintain macroeconomic stability. They should also develop strategies to attract remittances such as financial instruments, tax incentives, stable exchange rates and other schemes to attract investments from the diaspora.

4.4 Demography of the migrant: Authorities should make an effort to identify migrant demographics to inform policy decisions on migrants.

5. Recommendations

Studies have shown that migrant remittances contribute immensely to the economic development of African countries. Efforts should be geared towards sustaining and increasing the value and volume of migrant remittances into the continent. In view of the importance of migrant remittances to financing the economies of Africa, the following are recommended:

A) African countries should do their best to reduce cost of migrant transfers which may include tax reduction, friendly regulatory framework and other enabling environments;

B) Technology to promote efficiencies in handling transfers should be a top priority of the authorities such as digital identity, financial infrastructure, FinTech and RegTech, internet connectivity;

C) Monetary and fiscal authorities are encouraged to enhance policies to attract remittances; and

D) Promotion of financial inclusion and education.

Break-out session II: ' FinTech and the Migrant Remittance Market '

Key Issues:

1. Promoting remittances with FinTech- Using FinTech for international transfers and to encourage remittances to rural areas;
2. Using FinTech to reduce cost;
3. FinTech to channel more remittances through formal channels;
4. Interventions in the remittance market – Short term / Long-term;
5. Continental / Regional / National initiatives;
6. Involve main stakeholders in the remittance market – Central banks, banks, telecommunication firms, FinTech groups, recipients of remittances, senders (or their associations);
7. Regulatory policies to cover also consumer protection; and
8. Promote investments in FinTech.

Observations

1. In some countries – About 75.0-80.0 percent of remittances are sent through mobile money;
2. Money sent through crypto-based money transfer platforms / Apps in some cases considered cheap and rapid especially international transfers;
3. Central banks should educate the population about the dangers of unregulated cryptocurrency;
4. In some countries including Kenya, Mauritius, Rwanda and Tanzania– I & M bank is using an app for regional transfers (Spenn). The app has been there for 3 years but is not popular, yet cheap and convenient. Mobile money is still the most popular. The low usage of this app could be associated with lack of trust, consumer protection and consumer education. Another challenge is that the app requires a smart phone which is beyond the reach of many people;

5. In some countries such as Zambia there is a shift from agents to partnership between FinTech, money transfer companies and banks. This is due to demand for faster instant payments;
6. The Bank of Zambia has a Working group in place – there are plans to extend to other stakeholders;
7. Mobile payments are advancing in the African Continent;
8. Though partnerships are reducing costs, there is need for research to confirm;
9. In some countries international transfers are done mainly through commercial banks while Mobile Money transfers are predominantly domestic It is also noted that some migrants bring in goods and cash;
10. In Kenya – M-PESA, Safaricom's mobile money transfer service / payment solution, has partnered with banks to transfer money between bank accounts and M-PESA and facilitate transfers. Regulatory policies are in place – National Payments System Act authorizes payment service providers; National Payment System Regulations stipulates regulations for mobile money transfers such as limits on mobile money transactions. The limit is amended by the Central Bank from time to time. During the pandemic there were more flows through mobile money; and
11. The role of Central Banks is key in improving mobile money transfers;

Recommended Interventions

1. Expedite Continental (African Continental Free Trade Area, AfCFTA) / Regional Interventions, such as:
2. African Union working with Afreximbank to roll out continental services including mobile money;
3. African Union working with AACB on an integrated continental payment system;
4. Continental Working Groups with representation from all the African regions (North Africa, South Africa, East Africa, West Africa and Central Africa);
5. Multi-stakeholder approach / forum at the national level for regulation and facilitation of FinTech and non-bank financial institutions involved in remittance transfers; national committees – bringing together National Payments System, Financial markets, Bank supervision, Financial inclusion, Govt;
6. Roll out consumer education;
7. Put in place consumer protection policies;
8. Encourage investments in FinTech; and
9. Research / surveys / data to confirm if partnerships between FinTech, money transfer companies and banks are reducing costs.

Break-out session III: ' Migrant workers' remittances, current account structure and the consolidation of foreign exchange reserves '

1. The experience from Tanzania, South Africa and Eswatini show that the size of migrants’ remittances is very minimal relative to the countries GDP. In Tanzania the

remittances are estimated at USD 500.0 million, South Africa has a net flow of around 15.0 billion ZAR (Migrants' remittances minus remittances from SA to other countries) and Eswatini's remittances are mostly through informal channels;

2. Eswatini is on the way of establishing one hub to formalize the remittance mechanism; most of them are expected to be received from South Africa. Formal data may start to be easily available in the future;
3. The biggest challenges to remittance recording are under reporting and misclassifications; remittances are for the most part recorded under foreign flows which at times would include transactions related to NGO receipts, churches and other social organizations;
4. COVID-19 came at a time when some countries were struggling with Eurobond repayments and expanded deficit in most economies; at a time, a stable flow of remittances helped to provide some cushion on the part of FX reserve;
5. From the eight countries that form BCEAO, remittances have been for quite sometimes a strong pillar of the economic performances. Remittances on average represent about 42.86 percent of the Current account deficit (Deficit without remittances stands at 7.0 percent of GDP and with remittance it stands at 4.0 percent (Average for the period from 2005 to 2020));
6. Further, it has quite a strong impact in the levels of the foreign exchange reserve; improving the levels of reserve by about an equivalent of 2 to 3 months of imports; which for most part represented at least 20.0 to 30.0 percent of the overall levels of reserve (Average for the period from 2005 to 2020); and
7. In South Sudan, during the conflicts, remittances were huge and provided key support for the families. However, the trend has almost shifted, following the independence and peace, migrants moved back into the country, as such the flows are now from South Sudan to abroad in support of extended families. Furthermore, foreign workers mostly in private sector (businesses, hotels, domestic workers, etc) also remit to families abroad.

Recommendations:

1. Africa should enhance data collection on remittances. Furthermore, there is need to improve on the quality of data for effective policy decision-making;
2. Africa should develop strategies to improve inflows of remittances. Furthermore, formulate policies that encourage many to remit money back home for investment purposes as opposed to just sending money for the purposes of supporting family members; and
3. Central banks should be proactive in tapping through these inflows through Interbank FX markets to enhance levels of reserves.

Done virtually on the 2nd of June 2021

Appendix

List of participants

N°	Names	Institutions
1.	Abdelbasset Raache	Banque d'Algérie
2.	Abdou Ceesay	Central Bank of The Gambia
3.	Abugo ABATE	
4.	Acho Théodore Yapo	AACB
5.	Adamu Momohsanni	Central Bank of Nigeria
6.	Albert Foday Boima	Bank of Sierra Leone
7.	Amadou CISSE	African Institute for Remittances
8.	Arthur Koffi	AACB
9.	Aswin Ramduny	Bank of Mauritius
10.	Bruno Fagbon Bilivogui	
11.	Carla Cruz	International Monetary Fund
12.	Chantal Kasangwa	National Bank of Rwanda
13.	Clarence Blay	Bank of Ghana
14.	David Fowkes	South African Reserve Bank
15.	Djafarou Tankari Ango	BCEAO
16.	Djoulassi Kokou Oloufade	AACB
17.	Dossina Yeo	African Union
18.	Dr Kanya Williams	Central Bank of Nigeria
19.	Dr. Naglaa Nozahie	Central Bank of Egypt
20.	Ehab Elaraby	Central Bank of Egypt
21.	Fanou Letsigo-Mebo	BEAC
22.	Francis Selialia	South African Reserve Bank
23.	Randriamianjaharison F. Jimmy	Banky Foiben'i Madakasikara
24.	Fred Matota	Banque Centrale du Congo
25.	Guy Roger Kouakou	AACB
26.	Hadeer Abdelhadi	Central Bank of Egypt
27.	Hailu K. AU/AIR	African Union
28.	Haruna Yole	Central Bank of Nigeria
29.	Hary Ralarosy	Banky Foiben'i Madagasikara
30.	Helga Peres	Banco Nacional de Angola
31.	Ibrahima Keita	Banque Centrale de la République de Guinee
32.	Ibtissam El Anzaoui	Bank Al-Maghrib
33.	Isiah Gowera	SADC
34.	Imily Dieng Mbaye	AACB
35.	Ismael Ahmed Saker	BEAC
36.	Ita Mannathoko	International Monetary Fund
37.	Jabulane C. Dlamini	Central Bank of Eswatini
38.	Jackson S. W Worlobah	Central Bank of Liberia
39.	Jean Marie Rugambwa	National Bank of Rwanda
40.	Jitendra Bissessur	Bank of Mauritius
41.	Jugoo Satishingh	Bank of Mauritius
42.	Kamanzi Callixte	
43.	Karafa Jobarteh	Central Bank of The Gambia
44.	Kaveeta Hurynag	Bank of Mauritius

45.	Kouakou Hyppolite Konan	UEMOA
46.	Luc Remy Magonza	BEAC
47.	Maimouna Gueye	World Bank
48.	Majozi Sithole	Central Bank of Eswatini
49.	Mamadou Seye	AACB
50.	Martin Kalihose	Bank of Tanzania
51.	Melvin Khomo	Central Bank of Eswatini
52.	Michael B. Ogun	Central Bank of Liberia
53.	Michael D. Titoe	Central Bank of Liberia
54.	Miriam Kamuhuza	Bank of Zambia
55.	Mmabatho Kgaladi	South African Reserve Bank
56.	Morlai Bangura	Bank of Sierra Leone
57.	Dr. Moses Kiptui	Central Bank of Kenya
58.	Mothetsi Sekoati	Central Bank of Lesotho
59.	Mshaa Ducor	BEAC
60.	Mustpaha Mahamat	BEAC
61.	Mutabazi Boniface	National Bank of Rwanda
62.	Nancy Mwilwa	Bank of Zambia
63.	Nathaniel Akwashiki	Central Bank of Nigeria
64.	Ndahiriwe Kasai	National Bank of Rwanda
65.	Ndinaye Charumbira	African Union
66.	Noel Mahombera	
67.	Nourhan Sedeek	Central Bank of Egypt
68.	Nouri Daou Moussitaba	BCEAO
69.	Obias Runesu	Reserve Bank of Zimbabwe
70.	Omar Shokry	Central Bank of Egypt
71.	Osama Abdelrahman	Central Bank of Egypt
72.	Patrick Hitayezu	National Bank of Rwanda
73.	Patrick Mugenzi	National Bank of Rwanda
74.	Patrick Mutimba	MEFMI
75.	Peter Nzalu	Central Bank of Kenya
76.	Rado Razafindrakoto	SADC
77.	Raju Singh	World Bank
78.	Regine Nyirakanani	National Bank of Rwanda
79.	Rumbidzai Treddah Manhando	African Union
80.	Said Khallouk	Bank Al-Maghrib
81.	Sehliselo Mpofu	MEFMI
82.	Tallys Olivier Talebuyi Tayey	WAMI
83.	Tanka Tlelima	Central Bank of Lesotho
84.	Thierno Mountaga Mbow	AACB
85.	Thomas Boima	Bank of Sierra Leone
86.	Thomas Bwire	
87.	Tuyizere Majyambere Fabrice	National Bank of Rwanda
88.	Veronica Finney	Bank of Sierra Leone
89.	Vumile Manzi	South African Reserve Bank
90.	Vusi Mabilisa	Central Bank of Eswatini