



# **The Impact of Regulations Governing Money Transfers to Africa on Competition and Development**

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This report presents an overview of the ways in which regulations affect the market for remittance services in Africa and offers policy recommendations that seek to increase competition, extend the network of remittance service providers, and ultimately lower the costs of sending remittances for migrants and their families. Despite remittance's increasingly important role in supporting African households, the regulatory climate for international remittances diminishes their impact. In African nations, regulations on who may pay out remittances, how remittances may be transferred, and who may maintain foreign currency accounts raises the costs of remittances and restricts access to them, especially by poor and rural Africans.

## ***1. Regulations can ensure transparency and access to consumers***

National regulations on international money transfers guarantee the movement of funds across borders and through licensed agencies. When regulations are well-written and supportive of market needs, they represent an integral part of a well-functioning payment system for worker remittances. Poorly formed regulations can inhibit market growth, raise prices for migrants sending remittances, and increase access costs for remittance-receiving families. There are six regulatory issues that pertain to cross-border payments and financial access: (1) which institutions are authorized to pay out international remittances, (2) the limits and requirements on amounts transferred, (3) anti-money laundering measures, (4) recipients' access to foreign currency accounts, (5) transparency and disclosure, and (6) the role of microfinance institutions (MFIs) in the remittance marketplace. The ways these regulations can shape the market and affect migrants and their families is explored below.

Regulations on foreign currency transmissions restrict, limit, and authorize institutions performing inbound or outbound foreign currency transactions. Inbound foreign currency or remittance transfers refer to the inflow of money coming into a particular country, such as a Nigerian citizen receiving a remittance from his relative living in England. Outbound foreign currency transfers apply to money sent from the country of origination to a destination in another country. A Moroccan immigrant living in Spain, for example, sends an outbound transfer to her relatives in Morocco. Banks are one prominent example of an institution which regulations may authorize to undertake foreign currency transfers, while other examples include money transfer operators (MTOs) such as Western Union, the post office, and microfinance institutions.

Regulations on money transfer institutions can normalize the entrance and exit of foreign currency into an economy. By creating guidelines and limitations on obtaining authorization to manage international money transfers, countries seek to ensure that their citizens send remittances through lawfully compliant agencies. Regulations can also facilitate central banks' efforts to track international remittance flows through regulated transfer agencies, improving their ability to manage the economy. Limits and requirements on the amount of money transferred are can protect against capital outflow and capital flight.

Another important aim of international money transfer regulations is to halt or inhibit illegal activities, such as fraud, money laundering, arms trafficking, smuggling and the funding of terrorism. Legislation intended to inhibit criminal uses of foreign currency transfers place limits on amounts sent (usually US\$5,000) and require the identification of the sender and recipient of money transfers. Countries in the industrialized world have generally been more proactive at controlling cross-border transfers against criminal activities, particularly after September 11, 2001. Increasingly, though, developing countries are stepping up efforts to pass legislation, train regulators, and pay attention to

mechanisms to stop criminal activity through money transfers. The private sector, in particular money transfer operators, has become a key ally by developing stringent anti-money laundering mechanisms with the aim of preventing financial crimes. They have established sophisticated tools to detect fraud and other crimes and trained businesses in Africa to comply and scrutinize money transfers. In many cases, the expertise and experience of MTOs and partners in Africa in preventing financial crimes is stronger than that of governments.

Regulations on international money transfers serve key purposes in protecting consumers and helping to regulate a country's economy, but they can also increase costs and reduce financial access. When regulations limit the management of international money transfers to a particular type of institution, it can have adverse implications on financial access for senders and recipients of remittances. For example, if regulations limit (inbound or outbound) foreign currency payments to banks, but those banks are predominantly located in cities, a minority of the people in rural African nations will be able to access payments or other financial services. Migrants and their families would face long, costly trips to banks or rely on informal networks and/or expensive transactions to send money home. If regulations have strict, cumbersome requirements and paperwork, it can often complicate the possibility of investing in the home country. Similarly, restrictions on who can hold foreign currency accounts may demotivate people from saving and investing, affecting a country's development prospects. As international migration brings greater international fund transfers to Africa, well-framed regulations will be key to ensuring those funds can best contribute to development.

## ***II. African regulations of remittance transfers leave room for improvement***

Unfortunately, the African regulatory regime for international financial flows suffers greatly from the defects described above. The prevailing regulatory environment for money transfers in Africa operates predominantly under the authorization of banking institutions or foreign exchange houses. Limited access is given to non-banking financial institutions such as credit unions or MFIs to pay remittances. Because Africa is mostly rural, the restrictions on non-banking financial institutions or MFIs can significantly diminish the development impact that foreign currency transfers can have. The laws governing transfers and compliance with international rules on money laundering are relatively new, the earliest having passed in 1998. Trends across countries regarding the ownership of foreign currency accounts are mixed— some do not allow it at all, whereas others do without restrictions. The rest of this article addresses these limitations in the African regulatory framework, and implications for migrants and their families, before offering policy recommendations to improve the regulatory environment for remittances.

### **A. Regulations on authorized payers restrict access and reduce competition**

Although the regulatory environment varies across African countries, banks are the predominant service providers for remittances payouts in most African nations. African countries do not have homogenous regulations on which institutions may pay out remittances, and variously authorize banks, foreign exchange houses, microfinance institutions, or all of the above to pay money transfers. In a few cases the payment market is open. In a 2009 survey of the regulatory environment in 50 African nations, eight countries gave authorization exclusively to banks to pay remittances, and 32 countries authorized banks and foreign exchange houses. In practice, however, the participation of the foreign exchange houses is insignificant in all 32 countries, such that those countries may be considered to exclusively authorize banks to pay remittances. Six African countries allowed microfinance or savings and credit cooperatives (MFIs) to pay out directly, in addition to banks. However, despite authorization to provide money transfer services, few MFIs participate in the market as there is little technical

capacity to do so.<sup>1</sup> As a result, in countries where MFIs are authorized to pay out remittances, banks once again dominate the market.

The restrictions on remittance transfer services to banks reduce financial access by failing to create incentives for remittance service providers to expand the number of payment points for remittances. Restricting money transfer services to banks also seems to reduce the number of payment points available to consumers, even in cases when the dependence on remittances is as high as in more open countries. The total number of payout locations in Africa is the size of Mexico's remittance payment network, and half that of 14 Latin American countries (excluding Brazil, Argentina, or Venezuela), where MFIs represent 10% of the payout market.

The prevalence of exclusivity agreements in many African nations further reduces competition by preventing other MTOs from entering the market and negotiating with banks. Exclusivity agreements are clauses in contracts that prevent a convening party from partnering with other service providers in the same line of business. These agreements can contribute to the formation of monopolistic control in certain markets, as in the case of money transfers. Table 3 shows that in countries where only banks are authorized to pay, 50% of all banks are agents of Western Union. Unless otherwise regulated (as in the case of Nigeria), exclusivity agreements will reduce competition in the money transfer market. Thus, the combination of exclusivity agreements and restrictive regulation leads to the concentration of payments among a few MTOs, and no real transfer market to speak of.

**Table 2: Authorized Payers, Banks and Remittance Transfers in 50 African Countries**

<b>Authorized Payers:</b>	<b>Percent of Countries:</b>	<b>Average Payment Points per Paying institution:</b>	<b>Paying Institutions with Exclusivity Agreements:</b>
Banks only	16%	2.6	50%
Banks and foreign exchange institutions	65%	.69	37%
Banks, foreign exchange institutions, and non-bank financial institutions	12%	11.3	42%
Open	6%	8.1	64%

Source: Author's calculations based on survey results.

In addition to regulations that restrict who may pay out remittances, some countries have begun to implement identification requirements for remittance recipients. For example, in Nigeria each remittance recipient must have a bank account at the paying institution in order to receive his or her remittance. The account requirement is intended to act as a form of identification; in the event the recipient does not have an account at the bank, he or she must obtain a referee: someone who does own a bank account at the paying institution who can confirm the identity of the recipient.<sup>2</sup> It is possible that the regulation will increase the use of bank accounts among Nigerian remittance

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<sup>1</sup> See companion article on competition in African remittances.

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[http://nigeria.westernunion.com/WUCOMWEB/staticMid.do?method=load&countryCode=NG&languageCode=en&pagename=promo\\_NGNote&pid=NG\\_NigeriaNote\\_0910](http://nigeria.westernunion.com/WUCOMWEB/staticMid.do?method=load&countryCode=NG&languageCode=en&pagename=promo_NGNote&pid=NG_NigeriaNote_0910)

recipients, possibly increasing financial access more widely. However, the regulation could create additional hardship for the remittance recipient. This would be especially true if bank accounts included monthly fees, which would reduce the overall value of the recipient. It is also possible that many people in rural Nigeria may not have access to the required official documents to open a bank account; the time and money it would take to open an account could be particularly complicated on the poor.

The concentration of payout services among banks may give rise to increased use of informal channels to send remittances, especially in areas where bank presence is low. In countries with few banks, access to remittances and other financial services will be more restricted, which in turn results in a greater possibility of informality.<sup>3</sup> Currently 80% of banks in 39 African countries pay remittances, but in countries where only banks are allowed to pay, the percentage jumps to 90%. In places where dependence on remittance flows is high and few money transfer operators control the available bank agents paying remittances, financial access can be very limited. As a result, households may rely on informal means to receive remittances and build assets.

### **Country Profile: Rwanda**

Like most of Africa, restrictive regulations and dominating market players has limited competition in the money transfer market in Rwanda. Three MTOs—Western Union, MoneyGram, and MoneyTrans—dominate the market from migrant destinations in Europe and the United States. There are some 76 bank branches or sites that pay remittances in the country, and Western Union controls about 60 of them.

On the remittance payout side, there is significant participation of commercial banks, usually with poor presence in rural areas, and a very small presence of non-banking institutions. This reflects the regulatory environment in the country, because until recently only banks were allowed to pay in Rwanda. There are six commercial banks operating in Rwanda, namely Banque Populaire (with 12 physical branches across the country), Bank of Kigali (with 11 branches), Banque Commerciale (with ten branches), Ecobank (with 12 branches), FINA Bank (with six branches), and Banque de l'Habitat (with one main branch in Kigali). The banks are concentrated primarily in the capital (with the exception of Banque Populaire, which used to be a cooperative of a rural bank and became a commercial bank in January 2009). Until recently, all of Rwanda's banks had exclusivity agreements with Western Union. However, a 2010 Central Bank regulatory change prohibited the use of exclusivity agreements by banks or other paying institutions. It's likely that the new regulation will begin to reshape the uncompetitive market.

The new regulations also established a license for non-bank financial institutions which would allow them to participate in the money transfer market. Rwandan MFIs like Vision Finance Company, Urwego Opportunity Bank, and Duterimbere have yet to enter the remittance market. Unlike the commercial banks, these MFIs have a larger presence in rural areas, and can thus serve as the "missing link" in providing financial services to people outside the capital. However, although a pathway now

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<sup>3</sup> Orozco, Manuel. "West African Financial Flows and Opportunities for People and Small Businesses." Report prepared for the United States Agency for International Development, March 2006.

exists for MFIs to enter the remittance marketplace, the licensing requirements may be too onerous for the nascent institutions to undertake.

## B. African countries regulate outbound transfers more than inbound transfers

States may implement monetary policies that limit the amount of money a person (physical or juridical) can bring in or take out in order to protect against dramatic shifts in inflows or outflows of capital from the country. In the African countries studied, most countries had liberal requirements for inbound transfers, but outbound transfers were generally more restricted (see Table 3). Four countries require inbound transfers under US\$10,000 or its equivalent to be reported to government authorities through customs or banking channels. In Burundi, Tunisia, Comoros, and South Africa (as well as most other countries studied) an unlimited amount of currency may be transferred in (with the necessary reporting to customs). Additionally, only a handful of countries require proof of beneficiary for any amount of money transferred into the country.<sup>4</sup>

The trend for outbound transfers is mixed. While about half of the countries have the same limits and requirements for both inbound and outbound transfers, 23 countries require outbound amounts less than \$10,000 to be reported to the Central Bank. In more than half of the African countries, a proof of beneficiary is required to make an outbound transfer. While this often takes the form of a bill or invoice, in some cases like that of South Africa and Zimbabwe, money may only be transferred out to relatives whose need has been proven to the Central Bank. In South Africa, permission to make such transfers is reviewed on an annual basis.

In general, countries with more restrictions on outbound payments belong to monetary unions, such as the Central African Monetary Union (UMAC) and the West African Monetary and Economic Union (UEMOA) or have older legislation, dated before 1998. In the case of the UEMOA the situation is slightly more complex because inbound and outbound transfers within the Zone Franc are liberalized, but transfers between UEMOA countries and those outside the Union are subject to greater scrutiny.

**Table 3: Limits and Requirements on Foreign Currency Transfers**

	Inbound Transfers			Outbound Transfers		
	Limit Transfer Amount	Report Amounts of US\$10,000 or Less	Require Proof of Beneficiary	Limit Transfer Amount	Report Amounts of US\$10,000 or Less	Require Proof of Beneficiary
Countries with Limits	2%	10%	12%	14%	47%	43%

Source: Author's calculations based on survey results.

## C. Anti-money laundering efforts may reduce participation by small financial institutions

Anti-money laundering efforts often raise the cost of doing business for financial institutions and pose a challenge for opening the remittance marketplace to payers outside the traditional banking sector. Implementing cross-border transaction regulations may require more staff and/or more training

<sup>4</sup> These countries are Burundi, Botswana, Ghana, Lesotho, Rwanda, and Tanzania.

for employees; in other words, it takes increased institutional capacity that small, non-bank financial institutions may not possess.

While legislation against corruption, racketeering, and some other forms of money laundering for organized crime syndicates was passed before 2000, new and comprehensive anti-money laundering (AML) legislation was introduced in African countries starting in 2002, likely in response to a global climate of increased pressure to cut off terrorist financing. In the 33 countries with AML legislation on the books, a specialized anti-money laundering unit or task force has been established within the Central Bank, Ministry of Finance, or other government agency to oversee financial institutions and monitor suspicious transactions and other activities. While legislation in most countries reflects efforts to comply with the Financial Action Taskforce (FATF)'s 40 recommendations and nine special recommendations on money laundering, accountability and compliance remain two central issues that are difficult to assess based on current regulations.<sup>5</sup> While accountability and compliance may be difficult to determine based solely on legislation, the presence of state entities suggests a greater probability that financial activities can be effectively monitored for money laundering. The difficulty of implementing AML laws in an equitable and effective manner remains an issue, yet progress has been made.<sup>6</sup>

Cape Verde is one country that has not established an AML unit or task force in its AML law. However, its legislation is somewhat unique in that it requires financial institutions themselves to form such a group that will ensure compliance with regulations and take on the responsibility of reporting all necessary information to the Central Bank.

#### **Country Profile: Somalia<sup>7</sup>**

AML laws and formal and informal money transfers become particularly complicated in countries such as Somalia, where a functioning state has not been present for a number of years. Despite a weak security environment, Somali migrants still manage to send money home to their families, relying on just a few money transfer networks. The Somali money transfer market is concentrated among just a few MTOs which often exhibit a strong central hierarchy and a large, widespread network of agents in Somali communities. While only a few MTOs tend to have the political capital to survive in Somalia, they tend to rely on the knowledge and tribal ties of local agents in order to increase trust within the community they serve. Since much of the country lacks the infrastructure for electronic money transfers, inbound remittances are usually received electronically in a major city, where a cash payout is made and entrusted to an agent, who transports it to the remittance recipient in another region of the country. In this way, remittances in Somalia are something of a blend of formal and informal transfer.

The diffuse and often changing governmental structure in different regions of Somalia means that MTOs must frequently renegotiate with new powerholders regarding how they do business. MTOs seek an open environment in which to do their business and to avoid that the warring factions assault and

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<sup>5</sup> At the time of this study, eight countries had not yet passed comprehensive AML legislation, with two –Eritrea and Somaliland- having no legislation at all.

<sup>6</sup> CGAP, "Africa Microfinance Analysis and Benchmarking Report 2008." Washington, D.C.: CGAP 2008.

<sup>7</sup> The Somalia country profile is sourced from: Lindley, Anna. 2009. "Between 'Dirty Money' and 'Development Capital': Somali Money Transfer Infrastructure Under Global Scrutiny." *African Affairs* 108(433): 519 -539.



rob agents transporting large sums of money to remittance recipients. In order to gain protection, MTOs may pay “taxes” to the controlling force in a region, money which effectively goes to paying the salaries of the warlords’ soldiers, etc. In such an environment, the question of whether transfers are formal or informal, and how transfers may fulfill AML legal requirements, is uncertain. Despite the high risks to remitters and MTOs themselves, though, remittances in Somalia continue to support families with no other economic source to rely on.

#### **D. Foreign currency accounts are not widely available to migrants or their families**

Foreign currency account ownership allows remittance recipients to maintain savings remitted by their relatives in a foreign currency that is ostensibly more stable than the domestic currency. In some cases, migrants themselves can open such accounts. Nearly all countries studied have legislation pertaining to the maintenance of foreign currency accounts by residents and nonresidents. Generally, foreign currency accounts are easiest to obtain if one is a nonresident opening a business account. Residents seeking personal foreign currency accounts face numerous obstacles. In addition, debits from foreign currency accounts are more restricted than credits to such accounts.

Just under half of the countries studied allow residents to open personal or business foreign currency accounts without restriction or permission from the Central Bank, while another nine countries require residents to seek permission first.<sup>8</sup> In South Africa, permission is required for residents to open a personal account but not for a business account. The other countries do not allow residents to maintain such accounts for personal or business ends.

Nonresidents are allowed to open foreign currency accounts in all countries studied, but require Central Bank approval in Zone Franc countries, UMAC countries, South Africa, Sudan, and nine other countries to do so for personal ends.<sup>9</sup> In Cameroon, Chad, and the rest of their sister UMAC countries, a nonresident seeking to open a foreign currency account for business purposes may do so without requesting permission from the Bank. The same goes for UEMOA countries. In much the same way that outbound money transfers are generally more restricted than inbound transfers, debits from foreign currency accounts are more restricted than credits to such accounts, ranging from minor restrictions on transfer destinations to proof of local payment if debited in local currency. Generally, accounts may be credited with almost any form of payment as long as it done in a fully convertible currency. In selected economies like South Africa and Zimbabwe, foreign currency accounts may be maintained but are only available in USD, EUR, or another of a selected group of currencies.

#### **Country Profile: Senegal**

According to regulation in the Union Economique et Monétaire Ouest Africaine (UEMOA), the Senegalese institutions authorized to conduct cross-border financial transactions as agents of remittance service providers include banks, the Post Office, and approved foreign exchange bureaus.<sup>1</sup> The Ministry of Finance of Senegal is responsible for maintaining a list of authorized payers. Contractual obligations such as exclusivity agreements which can lead to oligopolistic or monopolistic controls are unregulated.

<sup>8</sup> Comoros, Djibouti, Guinea, Liberia, Sierra Leone, Namibia, Cape Verde, South Africa, and Sudan.

<sup>9</sup> These other countries are Comoros, Djibouti, Liberia, Sierra Leone, Eritrea, Libya, Lesotho, Namibia, and Cape Verde.

Because of the regulatory environment, banks have been the preferred agent by governments as well as remittance service providers to pay remittances. As a result, banks have expanded their footprint in Senegal's growing money transfer business. Moreover, they have incorporated microfinance institutions as well as some insurance companies and retailers as their sub-agents. On their own, these nonbank institutions are not allowed to be direct agents of money transfer operators, but many have eagerly become sub-agents of banks in order to tap into the market. This sub-agent model has helped to expand the number of remittance payment points in Senegal, allowing recipients to pick up their cash at a growing number of locations, bringing added convenience in an expanded payment map.

Both inbound and outbound transfers are subject to anti-money laundering regulation in Senegal.<sup>1</sup> This regulation outlines measures financial institutions must undertake, such as Know Your Customer protocols, retention of documents and correspondence between banks, the enactment of an alert system to report suspicious transactions, on-going training for staff, and the establishment of external oversight bodies. The regulation stipulates that businesses conducting electronic transfers must have the capability of monitoring and reporting suspicious transactions. While most banks have anti-money laundering compliance systems in place, their sub-agents often do not. The larger microfinance institutions interviewed for this study explained that they only do some anti-money laundering compliance, while the smaller MFIs do not have any systems in place. The lack of technical capacity to implement such systems and resources to maintain them is a serious concern. According to Gregory Thys, regional director for Africa at ratings firm MicroRate, many international investors in Senegal's microfinance sector believe these MFIs, despite their considerable expansion into the remittances payout market, are ill-prepared for the risks inherent in the money transfer business. According to interviews with senior bankers in Senegal, the BCEAO is currently working on revamping its anti-money laundering rules to tighten controls.

Non-residents may open foreign currency accounts, but only with the approval of the BCEAO.<sup>1</sup> Credits to these accounts are unrestricted if they originate abroad or are made by transfer from a non-resident account in local currency. Debits to accounts may be done without permission from the bank if they are transfers to the same individual's other accounts or when being used to make local payments and the transaction can be justified to the financial institution by the account-holder.

Another area of regulation that affects the remittances marketplace in Senegal are limits on foreign currency flows. The West African Economic and Monetary Union (UEMOA) doesn't regulate inbound transfers, but it does regulate outbound cross-border payments, in part to prevent a large outflow of capital from the country.<sup>1</sup> In the monetary union's "Zone Franc," these restrictions are more liberalized than transfers outside the free trade zone. Within the Zone Franc, senders may send any amount, but amounts above US\$10,000 must be reported to the Central Bank. Outside the free trade zone, transfers under CFA 300,000 (US\$ 651) are unrestricted, but above that amount senders must provide a proof of their beneficiary. La Poste is restricted from executing any transfers above CFA 1,000,000 (US\$2,170).

## **E. Transparency and Disclosure**

When banks are required to maintain transparent records for clients on the costs of financial services, including the cost of sending remittances, the marketplace for remittances is more open. Increased transparency allows remittance senders and receivers to determine which product is most cost-effective and responsive to their needs. Clients can also plan their budgets better, knowing what

the cost of a remittance transaction is. Competing MTOs will have better knowledge of their competitors' pricing, and will be incentivized to reduce the cost of sending a remittance in order to attract more clients. In general, transparency and disclosure regulations in Africa are weak, such that MTOs are not compelled to make their pricing clear to clients or competitors. Additional research on transparency and disclosure regulations on money transfers in Africa is necessary to quantify the impact of the closed environment on pricing, competition, and remittance senders' willingness to use formal versus informal money transfer mechanisms.

## **F. Regulatory instruments limit the role for MFIs**

While there are eight banks on average in each African country, there are more than 15 MFIs, half of which are regulated and among which at least three or four could compete as payers. Allowing MFIs to enter the remittance market would double the number of payout locations in Africa. The regulations covering microfinance activities vary widely across Africa. In some cases, the only MFIs that are clearly regulated under the law are cooperatives or credit unions, and in almost half of the countries, no specific legislation for MFIs exists. Legislation that is specific to microfinance is very new, with none appearing before 1997. And even while several countries allow MFIs to carry out money transfer services, these organizations meet with legal and institutional challenges.

In the Democratic Republic of the Congo, Ghana, Kenya, and Rwanda, MFIs are allowed to carry out international money transfers as a part of their scope of services, as defined in these countries' corresponding MFI legislation. In Uganda, MFIs are not allowed to engage in electronic commerce of any kind [Micro-Finance Deposit Taking Institutions Act 2003]. In most other countries that prohibit MFIs from making money transfers, they are restricted on the basis of foreign exchange transactions; activities reserved predominantly for banks and foreign exchange bureaus.

Over half of all countries allow microfinance institutions to carry out domestic money transfers between their locations and other banking and non-banking financial institutions. It is also notable that in 24 countries, MFIs are banned from international money transfers. Both the UEMOA and UMAC allow MFIs to pay out as subagents of banks and other agreed-upon intermediaries. Across cases, when banks can perform transfers and MFIs perform as subagents, both institutions see barriers or no incentives to be in the market. For example, as subagents, MFIs are limited in their revenue by the subcontracting agreements, leaving them with less than 65% of revenue per transaction. Banks may also choose to limit their presence when MFIs act as sub-agents, preferring to allow MFIs to do outreach. This may be especially true in rural areas where bank branch presence is weak already.

Even in regulatory environments that are relatively supportive of MFIs, such as in Ghana and Kenya, the regulations for establishing an agency as a money transfer payout site can effectively exclude many small financial institutions from the market. Microfinance agencies that are located in rural areas, with limited staff and regulatory know-how may be incapable of fulfilling the requirements. As a result, clients who prefer to use the MFI for convenience or cost may fail to receive the additional service of remittance payments.

Despite the regulatory obstacles for microfinance institutions in Africa, progress has been made. Within ten years of the first legislation appearing in 2007, MFIs in all regions of the African continent were able to reach operational self-sufficiency—no small feat as African MFIs face high operational

costs.<sup>10</sup> Furthermore, with increasing numbers of governments making strides toward instituting more precise microfinance regulations, there is hope the positive trends may continue.

### ***III. Policy Recommendations for Remittance Regulation***

African banks are the predominant body authorized to make remittance payments in almost every country reviewed. MFIs and other non-bank financial institutions play little or no role in money transfers, despite their potential to expand payout networks. As a result, competition in the remittance market is low, with over half of the remittance paying banks working exclusively with either Western Union or Moneygram, and rural areas remain underserved. Regulatory reform that lowers the barriers to MFIs to participate in the remittance market, along with capacity-building efforts and a broader policy debate on the role of remittances in African communities would respond to these concerns.

#### **A. Regulatory reform**

Exploring and motivating sound and responsible regulatory reform are key steps toward leveraging remittances. Restrictions preventing MFIs from performing foreign currency payments need to be addressed with practical solutions. A number of businesses have the operational and financial capacity to conduct transfers but are hindered by their limited participation in the money transfer market. By liberalizing rules to allow MFIs to perform money transfers, countries can expand the playing field to reach beyond banks and foreign exchange houses, thus creating spaces for greater competition among remittance service providers.

In order to offer solutions that would allow MFIs equal access to the market, it is important to provide basic benchmarks that can facilitate their safe entrance. These benchmarks should include considerations about their capacity to comply with the standard regulations on financial crime prevention, cash flow and liquidity to cover payments, technological innovation, trained staff, market presence and financial service cross-sale. Governments can set guidelines—some of which are already in place—to address these issues.

Another important consideration regarding regulatory reform applies to the role of exclusivity agreements. As contracts that prevent agents from forming partnerships with other providers, exclusivity agreements lock out other competitors from entering the market. Given that 60% of payers in Africa are banks, and that 80% of those banks are already paying remittances, the opportunities for remittance service providers to enter the African marketplace are very restricted.<sup>11</sup> While it is often the case that some MTOs make agreements ‘under the table’ with banks in order to circumvent exclusivity, that is clearly not a practical solution. Reviewing exclusivity does not imply ‘going after’ the MTOs that require it, but instead offers a reconsideration of the system and provides a space in which better options aimed at mitigating adverse impacts on market competition can be presented, reviewed, and implemented.

Another factor that would motivate banks and MFIs to insert themselves more actively in the money transfer market is training them in money transfer service provision. Technical training should focus on at least five components: a) trends and patterns in migration and remittances; b) regulatory environment and compliance; c) market participation and engagement with RSPs; d) financial service

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<sup>10</sup> CGAP, “Africa Microfinance Analysis and Benchmarking Report 2008.” Washington, D.C.: CGAP 2008.

<sup>11</sup> Exclusive agreements are contracts that contain clauses which prevent a convening party from partnering with other service providers in the same line of business. These agreements can have effects on the formation of monopolistic control in certain markets, as is the case of money transfers.

cross-sale; and e) technology innovation adaptable for money transfers. Engaging and informative training sessions give skills and supporting materials to participating parties. There are important experiences in that regard, among them the European Union's Euromed II training programs for Middle East and North African government officials. The content of the training includes knowledge and facts, practical solutions and tips, and identification of potential risks (Table 4).

**Table 4: Training Content and Structure**

Topics	Knowledge and Facts	Tips and Solutions	Potential Risks
Trends and patterns in migration and remittances	Migration levels and flows; key facts about remittance recipients	Financial intermediation for remittance recipients and migrants	Decline in flows
Regulatory norms	Laws on foreign currency payments	Adapting modern mechanisms to strict rules	Government and private sector rejection of MFIs
Market competition	Participating RSPs and payers by corridor	Establish partnerships with various RSPs	Low money transfer volume
Financial services	Links between remittance and finance	Product design; financial literacy partnerships with migrant associations	Poor performance on the demand side
Technology innovation	Current IT-based money transfer models	Introduction of point-of-sale systems (POSs) and card-based transfers	Lack of network payout presence

## **B. Engage remittances through a policy debate informed with policy research**

The policy debate about remittances to Africa, or about its diaspora, is often restricted to secondary information and unconfirmed assumptions. This situation is indicative of the need for a more structured conversation, one that includes a policy agenda supported by informed knowledge about the intersection between migration and development. Governments, the private sector, and the donor community can participate in meetings that provide knowledge, training, and input to the remittance policy community, with an agenda that focuses on key issues. This is a much-needed exercise, and becomes a plausible scenario when resources and energy are properly channeled. As part of this project, the study reviewed research, conducted since 2004, on remittances to Africa. Only 14% of 267 total publications reviewed focus directly on Africa. The majority of these studies (56%) exhibited limited research, focusing on one specific country. Another 20% of studies focused on a few countries or a sub-region (West Africa, etc.). The remainder relied heavily on secondary sources.

Experts and analysts can work together with the migration and development policy community to shape a constructive agenda while improving and disseminating knowledge and information about these issues. One particular mechanism has been that of task force commissions on remittances and development, whereby participants share and discuss knowledge and identify strategic options for leveraging flows. Another approach consists of setting goals and benchmarks based on substantive data that support their feasibility.

## Appendix A: Regulations and Competition in Africa: Country Tables

**Table A1: Regulations on Authorized payers in Africa (50 selected countries)**

Countries	Name of instrument	Year	Auth. Payers
Ethiopia	Monetary and Banking Proclamation No. 83/1994, Directive No. FXD/30/2006, 1.10, 2.1.1, 2.1.2, 2.1.3	2006	Banks Only
Gambia	Financial Institutions Act 2003 - enabling the prescription of the 'Prudential Guidelines on Foreign Currency Deposits and Related Transactions' by the Central Bank	2003	
Guinea	Instruction de la Banque de Guinée n°112/DGAEM/RCH/00 Mars 2000	2000	
Lesotho	Money Lenders Order, 1989; Money Lenders (Amendment) Act, 1993	1993	
Libya	Banking Law 2005	2005	
Somaliland	Constitutive Law of Bank, Article 3	1994	
South Africa	Exchange Control Regulations enacted under Section 9 of the Currency and Exchanges Act (Act No. 9 of 1933)	1961	
Zimbabwe	Banking Act 2004, Article 7, Exchange Controls Act 1996, Article 3, Exchange Control Order 2001	2004	
Algeria	Loi Bancaire - Ordonnance No. 3-11 du 26 aout 2003, Article 72, 77; Règlement de la Banque d'Algérie n°07-01, Article 3	2003	Banks and Foreign
Angola	Foreign Exchange Law, 1997	1997	Exchange
Benin	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	Bureaus
Botswana	Bank of Botswana (Amendment) Act, 1999, Section 29A(1)	1999	
Burkina Faso	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Burundi	Banking Law: Loi n°1/017 du 23 octobre 2003, Article 8; Réglementation des Changes - December 2006, Articles 17-30	2006	
Cameroon	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Central African Republic	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Chad	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Congo	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Cote d'Ivoire	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Egypt	Law No. 88 of The Year 2003, Amended by Law No. 162 of the Year 2004 and Law No. 93 of the Year 2005, Article 113, 115	2005	
Equatorial Guinea	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Eritrea	Legal Notice 101/2005 - "Regulations Regarding Opening foreign Currency Deposit Accounts, Settlement of Domestic Transactions, Currency Remittance and Exchange, Travelers Into and Out of Eritrea and Importers"	2005	
Gabon	Règlement n°02/00/CEMAC/UMAC/CM, Article 17	2000	
Guinea-Bissau	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Liberia	Foreign Exchange Sale Auction Rules and Regulations		

Countries	Name of instrument	Year	Auth.
Malawi	Reserve Bank of Malawi Act 1989; Banking Act 1989; Exchange Control Regulation, 1994	1994	
Mali	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Madagascar	LOI N° 2006-008 du 02 Aout 2006	2006	
Mozambique	Foreign Exchange Control Law, "New Forex Law", Law No. 11, 2009, replaces Foreign Exchange Law No. 3, 1996; Rules on the Establishment and Activities of Credit and Financial Institutions and Societies - Law No. 15, 1999.	2009	
Namibia	Exchange Control Regulations, 1961; Bank of Namibia Act, 1997; General Notice No.251 of 2007 Notification of Appointment of Authorized Dealer	2007	
Niger	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Nigeria	Banks and Other Financial Institutions Decree of 1991, amended in 1999; Foreign Exchange (Monitoring and Miscellaneous Provisions) Act, 1995	1999	
Senegal	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Sudan	Regulation Governing the Business of Foreign Exchange Bureaus (April 28, 2002), Article 4, 14	2002	
Swaziland	Central Bank of Swaziland Circular No. 1, 2009. Authorized Dealers with Limited Authority; King's Order-in-Council No. 40 of 1974 (The Exchange Control Order); Exchange Control Regulations, 1975	2009	
Tanzania	Foreign Exchange Regulations, 2008, The Bank of Tanzania act 1995 as amended in 2003, The Banking and Financial Institutions Act, 1991	2008	
Togo	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 2	1998	
Tunisia	Portant Code des Changes	1994	
Uganda	Financial Institutions Act 2004, Foreign Exchange Act 2004, Article 9, Foreign Exchange Regulations 2005, Articles 14, 15	2005	
Zambia	Chapter 387 of the laws of Zambia, Section 81 of the Banking and Financial Services Act of 1994	1994	
Cape Verde	Decreto-Lei n.º 25/98, de 29 de Junho, Articles 11, 17, 19	1998	Banks, Forex and MFIs/Credit Unions/NBFIs
Comoros	Statuts de La Banque Centrale des Comores annexés à l'accord de coopération monétaire du 23 novembre 1979, modifiés par l'avenant du 29 avril 1987, Articles 9 - 10; Decret n87-005/PR du 16 Janvier 1987, portant reglementation des relations financieres entre la Republique Federale Islamique des Comores et l'Etranger, Article 2	1987	
Ghana	Exchange Control Act 1961 (Act 71) amended and L.I. 133 as amended, Banking Act 2004 (Act 673), Financial Institutions (Non-Bank) Law 1989 (PNDCL 328)	2004	
Morocco	Banking Law 1993, Dahir Act No. 1-93-147 moharrem 15 of 1414 (July 6 1993)	1993	
Rwanda	1/1/2007 Foreign Exchange Regulation, Article 15	2001	
Sao Tome	Decreto/Lei No. 32/99: Das Operacoes Cambia	1999	
DRC	Réglementation de la Banque Centrale du 22 février 2001, Article 54	2001	
Kenya	Central Bank of Kenya Act (Cap 491) 1966, Article 33, Foreign Exchange Business Regulation 2007 (Section 5c)	2007	Open to Banks, all of the above and any other' entities.
Sierra Leone	Guidelines Governing Bank of Sierra Leone Foreign Exchange Auction System		

**Table A2: Limits and Requirements on Foreign Currency Transfers**

		Inbound Transfers			Outbound Transfers		
COUNTRY	LAW	Limit	Report Amounts Less than US\$10,000	Proof of Beneficiary	Limit	Report Amounts Less than US\$10,000	Proof of Beneficiary
Angola	Foreign Exchange Law, 1997				Export of domestic currency prohibited		X
Algeria	Règlement de la Banque d'Algérie n°07-01 (Foreign Currency Law), Article 75-87						
Benin	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Botswana	Bank of Botswana (Amendment) Act, 1999		X	X		X	X
Burkina Faso	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Burundi	Banking Law: Loi n°1/017 du 23 octobre 2003, Title V and VI		X	X			
Cameroon	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X
Cape Verde	Decreto-Lei n.º 25/98, de 29 de Junho						
Central African Republic	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X
Chad	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X
Comoros	CBC Directive II of December 16, 1991, on the exchange regulation, implementing Decree 87-005/PR; Budget Law				KMF 500,000 (US \$1,430)	X	
Congo	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X
Cote d'Ivoire	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Djibouti	<i>Text Unavailable</i>						
DRC	Réglementation de la Banque Centrale du 22 février 2001				US\$10,000		
Egypt	Law No. 88 of The Year 2003, Amended by Law No. 162 of the Year 2004, Law No. 93 of the Year 2005, Article 116, 117						
Equatorial Guinea	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X



		Inbound Transfers			Outbound Transfers		
Eritrea	Legal Notice 101/2005 - "Regulations Regarding Opening foreign Currency Deposit Accounts, Settlement of Domestic Transactions, Currency Remittance and Exchange, Travelers Into and Out of Eritrea and Importers".						
Ethiopia	Foreign Exchange Control Regulation 1977 Articles 64 - 87, as amended by Notice No. 15/1995, Directive FXD/09/1998, FXD/17/2001, FXD/03/1996						
Gabon	Règlement n°02/00/CEMAC/UMAC/CM Articles 2- 5					X	X
Gambia							
Ghana	Exchange Control Act 1961 (Act 71) as amended			X			X
Guinea	Instruction de la Banque de Guinée n°112/DGAEM/RCH/00 Mars 2000		X			X	
Guinea Bissau	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Kenya	Central Bank (Amendment) Act of 1996						
Lesotho	Money Lenders Order, 1989			X			
Liberia	Regulation Concerning Transfer of Foreign Currency, 2001						
Libya	Law No (5) of 1997 on Foreign Capital Investments, amended by Law No (7) of 2003						
Madagascar	Décret n°72-446 du 25 Novembre 1972- règlementant les relations financières avec l'étranger, modified by Circulaire n°004 and Circulaire n°005 du 30 juin 1994					X	
Malawi	Exchange Control Regulation, 1994						
Mali	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Morocco	Circulaire 1566, 1606, 1611, 1650, 1704, 1717		X			X	X
Mozambique	Foreign Exchange Control Law, "New Forex Law", Law No. 11, 2009						
Namibia	Exchange Control Regulations, 1961					X	
Niger	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Nigeria	Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree No. 17, 1995						
Rwanda	1/1/2007 Foreign Exchange Regulation, Article 10, 42			X		X	X
Sao Tome	Decreto/Lei No. 32/99: Das Operacoes Cambias, 1999						
Senegal	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X

		Inbound Transfers			Outbound Transfers		
Sierra Leone	<i>Text Unavailable</i>						
Somaliland		N/A	N/A	N/A	N/A	N/A	N/A
South Africa	Exchange Control Regulation, section F 4.5				Variable <sup>12</sup>	X	X
Sudan	Central Bank of the New Sudan Act 2003, Financial Institutions Act						
Swaziland	Central Bank of Swaziland Circular No. 1, 2009; King's Order-in-Council No. 40 of 1974	E 5,000 (US \$600)			E 5,000 (US \$600)		
Tanzania	Foreign Exchange Regulations, 2008, Pt 3, 19			X			
Togo	Regulation No. R09, 20 December 1998 Council of Ministers of the UEMOA, Article 4					X	X
Tunisia			X		Variable		
Uganda	Foreign Exchange Act 2004, Pt II, Section 8						
Zambia	Statutory Instrument No. 44 of 1994						
Zimbabwe	Exchange Controls Act 1996, Article 9				\$5,000USD	X	X

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<sup>12</sup> The limit of the transfer depends on the type of payment and its intended recipient

**Table A3: Scoring on regulations**

Countries	Total	Openness Raw Value	Authorized payers	Limits & req.	AML efforts	Foreign currency Accounts	MFI role
DRC	40	21	6	8	5	14	7
Kenya	38	23	6	10	1	14	7
Zambia	37	18	4	10	5	14	4
Ghana	36	18	5	8	5	13	5
Uganda	35.5	20.5	4.5	10	1	14	6
Tanzania	35	18	4	10	5	12	4
Mozambique	34	16	4	10	4	14	2
Egypt	34	15	4	10	5	14	1
Nigeria	34	16	4	10	4	14	2
Madagascar	33	16	4	8	4	13	4
Algeria	33	15	4	10	5	13	1
Gambia	32.5	13.5	3.5	8	5	14	2
Malawi	32	15	4	10	5	12	1
Cameroon	31.5	17.5	4.5	8	5	9	5
Central African Republic	31.5	17.5	4.5	8	5	9	5
Chad	31.5	17.5	4.5	8	5	9	5
Congo	31.5	17.5	4.5	8	5	9	5
Equatorial Guinea	31.5	17.5	4.5	8	5	9	5
Gabon	31.5	17.5	4.5	8	5	9	5
Cape Verde	31	19	5	10	4	8	4
Rwanda	31	15	5	5	5	11	5
Botswana	29	11	4	6	4	14	1
Lesotho	28.5	13.5	3.5	9	3	12	1
Benin	28.5	17.5	4.5	8	5	6	5
Burkina Faso	28.5	17.5	4.5	8	5	6	5
Cote d'Ivoire	28.5	17.5	4.5	8	5	6	5
Guinea Bissau	28.5	17.5	4.5	8	5	6	5
Mali	28.5	17.5	4.5	8	5	6	5
Niger	28.5	17.5	4.5	8	5	6	5
Senegal	28.5	17.5	4.5	8	5	6	5
Togo	28.5	17.5	4.5	8	5	6	5
Burundi	28	14	4	8	1	13	2
Tunisia	27	12	4	8	4	11	0
Angola	27	11	4	6	2	14	1
Namibia	27	14	4	9	5	8	1
Sudan	27	17	4	10	3	7	3
Sierra Leone	26	16	5	8	5	5	3
Sao Tome	26	14	4	9	3	9	1
Swaziland	26	9	4	4	5	12	1
Ethiopia	25.5	16.5	2.5	10	1	8	4
Comoros	25	15	4	7	5	5	4
Morocco	24	12	5	4	5	7	3
South Africa	23	10	3	6	5	8	1
Zimbabwe	21.5	10.5	3.5	6	3	8	1

## Scoring regulations

The table above measures the performance of all countries in addressing regulatory issues related to remittances. The legislation was evaluated using a metric of the following categories and point values.

- Authorized Payers – 6 Points Possible
- Limits and Requirements for Transferring Money – 10 Points Possible
- Anti-Money Laundering Efforts – 5 Points Possible
- Foreign Currency Accounts – 14 Points Possible
- The Role of MFIs – 7 Points Possible

A country's "Overall" score was determined by adding their performance in each category. An "Openness" score was determined by finding how countries scored in three specific areas: Authorized Payers, Limits and Requirements for Transferring Money, and the Role of MFIs.

TOTAL: Out of 42 possible points.

OPENNESS: Out of 23 possible points. Uses authorized payers, limits and requirements and MFIs.

### Section 1: Authorized Payers

**a. Regulatory Instrument** - Higher scores given to comprehensive legislation; while circulars or decrees are also binding, using multiple texts is more complicated and can make understanding the law more difficult. Therefore a 2 is assigned two countries with a law, a 1 is assigned to countries that use a series of circulars or decrees without a comprehensive text, and a 0 is given to countries without regulations governing authorized payers.

**a. Text** - The name of the document and the pertinent articles, if applicable

**a. Year** - The year the regulation was passed, may show connections with other political/economic factors

**b.1 Payers** - Determined by language of law; 1 is given to countries where only banks may pay out, 2 is given to where banks, financial institutions, and foreign exchange bureaus may pay out 3 is given to where the previous and credit unions/savings cooperatives and/or MFIs can pay out 4 is given to where all the above and "other" entities may pay out. Subagents- 0 or 1. Subagent column was added to specify what kind pays out (forex, MFIs, Cooperatives, "other")

### Section 2: Limits and Requirements of Money Transfers

**a. Regulatory Instrument** - Higher scores given to comprehensive legislation; while circulars or decrees are also binding, using multiple texts is more complicated and can make understanding the law more difficult. Therefore a 2 is assigned two countries with a law, a 1 is assigned to countries that use a series of circulars or decrees without a comprehensive text, and a 0 is given to countries without regulations governing the limits and/or requirements of money transfers.

**a. Text** - The name of the document and the pertinent articles, if applicable

**a. Year** - The year the regulation was passed, may show connections with other political/economic factors

**b. Inbound Transfers** - The most open countries will have no limit on inbound transfers, but in compliance with Anti Money Laundering legislation often require the declaration of

\$10,000 USD if imported in hard currency or to report it to the Bank if it is an electronic transfer. Limits of \$10,000 imply more currency control and thus less openness. Therefore, a 4 is given to countries with no limit on inbound transfers but a reporting requirement for amounts of \$10,000 or more, a 3 is given to countries with no limit on inbound transfers who require reporting on sums less than \$10,000, a 2 is given to countries with an inbound limit of \$10,000 or more and a 1 to countries with an inbound limit of less than \$10,000USD.

**c. Outbound Transfers** - Often more restricted than inbound transfers as a part of exchange control. The most open countries will have no limit on outbound transfers, but in compliance with Anti Money Laundering legislation often require the declaration of \$10,000 USD if exported in hard currency or to report it to the Bank if it is an electronic transfer. Limits of \$10,000 imply more currency control and thus less openness. Therefore, a 4 is given to countries with no limit on outbound transfers but a reporting requirement for amounts of \$10,000 or more, a 3 is given to countries with no limit on outbound transfers who require reporting on sums less than \$10,000, a 2 is given to countries with an outbound limit of \$10,000 or more and a 1 to countries with an outbound limit of less than \$10,000USD.

**b and c. Proof of Beneficiary** - More often found as a requirement of outbound transfer than inbound but sometimes required for either; assures that currency entering or leaving the country is directed toward a justifiable source. Often coupled with an amount limit. This requirement that extends beyond Anti Money Laundering measures implies less openness. Therefore, a 0 is assigned to countries with such requirements and a 0 to countries without.

### Section 3: Anti-Money Laundering Measures

**a. Regulatory Instrument** - Higher scores given to comprehensive legislation, then to circulars or decrees and finally ratification of conventions or treaties. While treaties or conventions do become law when signed by certain countries, country-specific implementation is crucial. Therefore, a 3 is given to countries with a comprehensive country-level law, a 2 to countries that use a series of decrees or circulars to control anti-money laundering, a 1 to countries that have signed an international or regional treaty or convention on money laundering OR have legislation pending.

**a. Text** - The name of the document and the pertinent articles, if applicable

**a. Year** - The year the regulation was passed, may show connections with other political/economic factors

**b. Supervisory body** - While a government agency being assigned to oversee AML operations is important, having a designated office or task force that is mandated via legislation is even more so, showing more sustainability and the potential for increased accountability. Therefore, a 2 is given to countries with a dedicated body or taskforce and a 1 is given to countries that do not.

### Section 4: Foreign Currency Accounts

**a. Regulatory Instrument** - Higher scores given to comprehensive legislation; while circulars or decrees are also binding, using multiple texts is more complicated and can make understanding the law more difficult. Therefore a 2 is assigned to countries with a law, a 1 is assigned to countries that use a series of circulars or decrees without a comprehensive text, and a 0 is given to countries without regulations governing foreign currency accounts.

**a. Text** - The name of the document and the pertinent articles, if applicable

**a. Year** - The year the regulation was passed, may show connections with other political/economic factors

**b.1 Resident Personal Accounts** - A 2 is assigned to countries where an individual resident may open one or more foreign currency accounts without permission from the Central Bank, a 1 is assigned to countries where an individual resident may open said accounts, but only with bank approval, and a 0 is given to countries where individual residents are not allowed to operate foreign currency accounts.

**b.2 Resident Business Accounts** - A 2 is assigned to countries where resident businesses are allowed to operate one more foreign currency account at an authorized bank without Central Bank permission, a 1 is given to those countries where resident businesses may only do so with Bank authorization, and a 0 to countries where resident businesses may not open or operate foreign currency accounts.

**c.1 Non-Resident Personal Accounts** - A 2 is assigned to countries where an individual non-resident may open one or more foreign currency accounts without permission from the Central Bank, a 1 is assigned to countries where an individual non-resident may open said accounts, but only with bank approval, and a 0 is given to countries where individual non-residents are not allowed to operate foreign currency accounts.

**c.2 Non-Resident Business Accounts** - A 2 is assigned to countries where non-resident businesses are allowed to operate one more foreign currency account at an authorized bank without Central Bank permission, a 1 is given to those countries where non-resident businesses may only do so with Bank authorization, and a 0 to countries where non-resident businesses may not open or operate foreign currency accounts.

**d.1 Account Credit Restrictions** - Because the restrictions on credits (deposits and transfers) can vary widely from country to country, a 2 is given to countries where accounts may be credited with most or all means of payment, with some exceptions for requirements that payments be made in foreign currency, a 1 is given to countries where those accounts can only be credited from a more limited number of sources, for example, only via transfers from abroad or transfers from in country foreign currency accounts, and a 0 is assigned to countries where credits are very restricted, and are only allowed from one or two specific sources and/or where each transaction must be recorded or justified.

**d.2 Account Debit Restrictions** - Because the restrictions on debits (withdrawals and transfers) can vary widely from country to country, a 2 is given to countries where debits can be made via transfer or withdrawals in local or foreign currency, a 1 is assigned to countries where debits can only be made under specific circumstances, and a 0 is given to countries where all debits must be recorded, debits can only be made via transfer or debits can only be made in local currency for local payments.

## **Section 5: MFIs and Their Role in the Marketplace**

**a. Regulatory Instrument** - Higher scores given to comprehensive legislation; while circulars or decrees are also binding, using multiple texts is more complicated and can make understanding the law more difficult. Therefore a 3 is assigned to countries with a law, a 2 is assigned to countries that use a series of circulars or decrees without a comprehensive text, a 1 is given to countries that do not have a specific MFI law and govern their activities under other financial directives, and a 0 is given to countries without regulations governing microfinance activities.

**a. Text** - The name of the document and the pertinent articles, if applicable

**a. Year** - The year the regulation was passed, may show connections with other political/economic factors

**b. International Transfers** - As MFIs' status as a payer is covered in the first section, this question looks to see if MFIs may perform international money transfers in addition to paying

out for those transfers. A 3 is given to those countries where MFIs are allowed to carry out international transfers as a part of their scope of services, a 2 is given to those where they are not explicitly excluded and/or may apply for permission to the Central Bank to do so, a 1 is given to those where they may do so only explicitly as bank subagents, and a 0 is given to those where they are not allowed to carry out international transfers.

**c. Domestic Transfers** - As MFIs' status as a payer is covered in the first section, this question looks to see if MFIs may perform domestic money transfers in addition to paying out for those transfers. A 1 is given to those countries where MFIs are allowed to carry out domestic transfers and a 0 is given to those where they are not.

## ***Appendix B: Methodologies on Data Collection***

### ***a) Methodology on regulatory environments governing remittances***

This report investigated the legislative environment surrounding money transfers and remittances in Africa in two main parts. The first part involved researching the current legislation in a given country, while the second transformed the information gained in the first part into a set of evaluative metrics.

#### **Regulation Research Methodology**

The first element of the regulations research focused on various forms of regulations that affect money transfers. For this section, Central Bank websites were used as the main point of departure. In almost all cases, these websites contained versions of the current legislation on banking law, foreign currency law, and other related documents available online. Occasionally, the legal texts were more difficult to find, in which case other primary and secondary documents relating to financial access, remittances and microfinance, particularly the World Bank Doing Business Law Library, were used.<sup>13</sup>

When reading the legal texts, English versions were used, when available. However, some texts were only available in French, in which case they were read in their entirety and the necessary sections were translated into English. In cases where legal wording seemed unclear, where laws seemed to conflict, or the most updated version was not available online, direct exchanges were made with the respective Central Banks through phone calls and emails to ensure the validity of the data.

#### **Evaluating Regulations**

This research was converted into a metric by separating the legislation into broader topics. The following section discusses each topic and how the metric that was developed for this report judges the restrictiveness of the respective regulations on the money transfer environment.

#### **Section 1: Authorized Payers**

The section on authorized payers evaluated regulations on foreign exchange and conducting money transfers with respect to their comprehensive, clear and permissive nature. Three main types of documents were used by governments: laws, decrees and circulars. When scoring countries based on these regulatory instruments, a higher score was given to countries with a comprehensive law instead of a long or complicated list of decrees or circulars.

Additionally, countries were given higher scores for allowing more types of payers. For example, if legislation allowed only banks to perform money transfers or to pay out remittances, a country was given a low score in that category. However, if a country allowed foreign exchange bureaus, microfinance institutions and other non-banking financial institutions, the country was given a higher score.

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<sup>13</sup> Interestingly, more liberalized economies were more difficult to research for certain aspects of the project as the texts did not discuss specific restrictions as they had been liberalized. As a result, web resources such as Leatherline.com's Africa platform and other official foreign trade and investment websites were used.



## **Section 2: Limits and Requirements of Money Transfers**

This section dealt with regulations limiting inbound and outbound money transfers. Countries with restrictions on the level of money that can be exchanged received lower scores. In addition, countries that required special permissions from the Central Bank to send money or proof of beneficiaries abroad were given lower scores as sending and receiving remittances in these countries is more cumbersome. Countries that had unlimited transfer amounts, but included notification requirements for transfers of \$10,000USD or more, were scored higher than more restrictive countries.

## **Section 3: Anti-Money Laundering Measures**

Here we attempted to see how comprehensive a country's anti-money laundering legislation was. The legislation was evaluated to see if it complied with international best practices on preventing money laundering and terrorist financing. Another aspect considered when scoring countries was the agency or unit responsible for tracking and reporting suspicious activity, and whether or not measures were in place to ensure compliance. The lowest scores were given to countries that did not have any legislation or monitoring task force in place.

## **Section 4: Foreign Currency Accounts**

For this section, two main issues were examined: who can open foreign currency accounts and what activities are allowed to be conducted with those accounts. The metrics gave higher scores to countries that allowed both residents and non-residents to open foreign currency accounts for both business and personal reasons. In addition, countries that were less restrictive in how account holders were able to credit and debit their accounts received higher scores.

## **Section 5: MFIs and Their Role in the Marketplace**

This section examined the extent to which regulations directly dealt with microfinance institutions. The ability of microfinance institutions to pay out remittances has been shown to affect financial access, particularly in rural areas. If a country had passed specific microfinance legislation, they received a higher score than a country that did not. In many cases, this specific legislation outlined permissions for carrying out domestic and/or international money transfers. If a country allowed MFIs to carry out such transfers, it was scored higher than those that did not allow MFIs to do so.