



## **African Institute for Remittances (AIR) Project**

### **Frequently Asked Questions (FAQ) (Revised Version)**

**September 2013  
Addis Ababa, Ethiopia**



IOM • OIM



# Foreword

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The African Institute for Remittances (AIR) is one of Africa's five Legacy<sup>1</sup> projects. It is to be established with the objective of harnessing migrant remittances<sup>2</sup> for social and economic development in the continent. In recent years, the volume and growth of these flows have received increasing attention from countries, donors and international organizations because of their potential leveraging for development in the region.

AIR was conceived within the framework of the Africa – European Union (EU) Partnership on Migration, Mobility and Employment (MME) in the Joint Africa EU Strategy (JAES) adopted in Lisbon in 2007.

The AIR Project is an initiative of the African Union Commission (AUC) in which the World Bank, the European Commission (EC), the African Development Bank (AfDB) and the International Organization for Migration (IOM) are collaborating as development partners to facilitate its creation.

A preparatory project towards the establishment of AIR was launched on June 8<sup>th</sup> 2010 with a grant<sup>3</sup> from the EC. The implementation of the project has been underway for more than three years. So far the project has accomplished different consultative and technical assistance activities.

The AU supreme policy organs have discussed the initiative in various sessions. The Executive Council, in its Decision (Dec.EX.CL/683 (XX)) in January 2012, acknowledged that the establishment of AIR would facilitate the leveraging of remittances for economic and social development; the 5<sup>th</sup> Joint AU-ECA Finance Ministerial Conference, in its Resolution 892 (XLV) of March 2012, recognized that remittances, if well harnessed, could contribute to growth and development in Africa. The Heads of State and Government Assembly, in its Decision (Assembly/AU/Dec.440 (XIX)) of July 2012, endorsed the establishment of AIR.

Despite the aforementioned steps and the Commission's endeavours to raise awareness on the importance of migrants, remittances and the AIR, some of the Member States and other stakeholders were not fully conversant with the on-going initiatives. Hence, the Commission, in collaboration with the World Bank, compiled the first version of Frequently Asked Questions (FAQ) published in May 2012 with a foreword by the former Commissioner, H.E. Advocate Bience P. Gawanas.

Given the imperative need to disseminate the required knowledge on African remittances and the progress made by the AIR project, the document has now been revised and updated. In this regard, I believe the revised FAQ document highlights the current key facts on African remittances and achievements of the AIR project. The document will continue to be revised periodically. I hope readers will find it useful. The Commission of the African Union welcomes comments, inputs or questions on this FAQ document.

Finally, I would like to thank our development partners: AfDB, EC, IOM and the World Bank for their indefatigable contributions to the implementation and success of the project.

**H.E. Dr. Mustapha S. Kaloko**  
**Commissioner for Social Affairs**  
**Department of Social Affairs**  
**African Union Commission**

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<sup>1</sup> Declaration of the Global African Diaspora Summit, Johannesburg, South Africa, 25 May 2012. The five AUC Legacy Projects are: a) Skills Database of African Professionals in the Diaspora, b) African Diaspora Volunteer Corps c) AIR, d) African Diaspora Investment fund, and e) Development marketplace for African Development as a framework for promoting entrepreneurship and innovation.

<sup>2</sup> Remittances sent by over 30 million African migrants reached an officially reported \$60 billion in 2012, supporting at least 120 million family members living back home.

<sup>3</sup> Grant Agreement signed in December 2009.

## **ACKNOWLEDGMENT**

This FAQ document was compiled, reviewed and updated by Hailu Kinfu Bune, Consultant to the AIR Project. Overall guidance and supervision was provided by Soheyla Mahmoudi, Senior Operations Officer and Task Team Leader to the AIR project, Finance and Private Sector Development Department, Africa Region, the World Bank and Ambassador Olawale Maiyegun, Director, Department of Social Affairs, AUC. Key assistance and peer review was provided by Kenneth Coates, Development Economist and Don Terry, Global Remittance Experts, AIR Project Consultants and Ron Hendrix, Program Manager, Migration, Mobility, Employment and Higher Education, European Union (EU) Delegation to the African Union (AU). Inputs and comments were received from Carlo Corazza, Senior Financial Sector Specialist, Isaku Endo, Financial Sector Specialist, Financial Infrastructure and Remittances Service Line; and Ricardo Valencia, AIR Project Consultants, World Bank; Philip Bob Jusu, Migration Officer, AUC; and Bruk Asmelash, Program Coordinator, Migration for Development in Africa (MIDA), and International Organization for Migration (IOM).

For the initial version of this document, inputs and comments were received from members of the Payment System Development Group, Financial and Private Sector Vice Presidency, World Bank: Kai Schmitz, Senior Financial Sector Specialist and Marco Nicoli, Financial Sector Specialist. Comments were also provided by Pedro de Vasconcelos, Director, Financing Facility for Remittances (FFR) program, International Fund for Agricultural Development (IFAD), Géza Strammer, Head of the Migration and Asylum Sector (DEVCO/D3), European Commission (EC), and Jeanette Mallet, Communications Specialist – consultant.

The AUC and the World Bank would also like to acknowledge and thank development partners: EC, the African Development Bank (AfDB), and IOM for their helpful contributions, insights, and comments.

## **ABBREVIATIONS AND ACRONYMS**

<b>AACB</b>	Association of African Central Banks
<b>AfDB</b>	African Development Bank
<b>AIR</b>	African Institute for Remittances
<b>AU</b>	African Union
<b>AUC</b>	African Union Commission
<b>AUSP</b>	African Union Support Program
<b>BETF</b>	Bank-Executed Trust Fund
<b>CEMLA</b>	Center for Latin American Monetary Studies
<b>CPSS</b>	Committee on Payment and Settlement Systems
<b>CSOs</b>	Civil Society Organizations
<b>DOs</b>	Diaspora Organizations
<b>DSA</b>	Department of Social Affairs
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>FAQ</b>	Frequently Asked Questions
<b>FDI</b>	Foreign Direct Investment
<b>FFR</b>	Financing Facility for Remittances
<b>IFAD</b>	International Fund for Agricultural Development
<b>IOM</b>	International Organization for Migration
<b>MDGs</b>	Millennium Development Goals
<b>MFI</b>	Micro-finance Institutions
<b>MFIC</b>	Micro-finance International Corporation
<b>MNOs</b>	Mobile Network Operators
<b>PAP</b>	Pan African Parliament
<b>PRC</b>	Permanent Representatives Committee
<b>PRI</b>	Pakistan Remittances Initiative
<b>PSDG</b>	Payment System Development Group
<b>RECs</b>	Regional Economic Communities
<b>RMCs</b>	Regional Member Countries
<b>RSPs</b>	Remittance Service Providers
<b>UPU</b>	Universal postal Union
<b>WB</b>	World Bank Group

# Frequently Asked Questions (FAQ)

## African Institute for Remittances

### ***I. Remittances:***

#### ***1. What are remittances and what are they not?***

- ✓ International remittances are defined as cross-border, person-to-person transfers of relatively low-value, generally associated with migrant workers. Domestic remittances refer to similar transactions within borders, although – unless otherwise specified in this document – the term remittances will apply to the cross-border variety (e.g. transfers from overseas or from one African country to another). While for the most part they consist of money, remittances can also be in-kind<sup>4</sup>, i.e. food, clothes, equipment, etc.
- ✓ Remittances are often said to be the most tangible and least controversial link between migration and development. For instance, for Africa as a whole, remittances far exceed official development assistance, and for many African countries they exceed foreign direct investment. Nevertheless, despite the significant direct impact of remittances on the economies of recipient countries, their full development potential has not yet been properly addressed.
- ✓ Remittances do not include payments for imports and exports of goods and services, government loans, Foreign Direct Investment (FDI), etc.

[http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New\\_Remittance\\_Report.pdf](http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New_Remittance_Report.pdf)

#### ***2. Facts about remittances to, from and within Africa.***

- a) Remittances sent by over 30 million African migrants reached an officially reported \$60 billion in 2012<sup>5</sup>, supporting at least 120 million family members living back home. For many African households, remittances constitute a significant share of their income. The data on African migration and remittance flows, however, are substantially understated due to the large scale of undocumented migration across the region, the general use of illegal/unregulated remittance channels, and the relatively weak data collection capacity of many countries. As a result, the true size of remittance flows to and within Africa, including unrecorded flows through formal and informal channels, is believed to be significantly larger than the official data, particularly for Sub-Saharan Africa. There are also nascent flows of remittances from Africa abroad (e.g. Angola to Brazil).
- b) Of the \$60 billion sent to Africa in 2012, almost half went to North-Africa with Egypt receiving the lion's share (\$21 billion). Of the remaining \$31 billion sent to Sub-Saharan Africa, Nigeria<sup>6</sup> received \$21 billion. The top 5 remittance receiving Sub-Saharan countries in 2012 were: Nigeria, Senegal, Kenya, Sudan, and South Africa.
- c) The 10 most expensive remittances corridors in the world (ranging from 19.3% to 26.6% of the value remitted) are all in Africa. Six of these expensive corridors are originated in South Africa to Malawi (26.6%), Botswana (23.1%), Mozambique (22.3%), Zambia (21%), Angola (20.1%) and Zimbabwe (19.3%). Others are from Tanzania to Rwanda, Uganda and Kenya. Remittances from Ghana to Nigeria are one of the most expensive corridors at 19.6%.

Source: Migration and Development Brief 20, April 19<sup>th</sup> 2013.

<http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationDevelopmentBrief20.pdf>

Send Money Africa remittances price database: <https://sendmoneyafrica.worldbank.org>

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<sup>4</sup> Remitters, instead of sending money, sometimes opt to buy and send equipment for their families.

<sup>5</sup> Remittances flows to Africa are expected to grow significantly in the coming years.

<sup>6</sup> Remittances plays an important role in Nigeria's economy, equivalent to over 9% of GDP.

Remittance Prices Worldwide: <http://remittanceprices.worldbank.org/>

- ✓ <http://www.worldbank.org/prospects/migrationandremittances>
- ✓ [http://www.ifad.org/remittances/pub/money\\_africa.pdf](http://www.ifad.org/remittances/pub/money_africa.pdf)

### 3. *Who are remitters?*

- ✓ Broadly speaking, a remitter is anybody who sends money periodically to another person in another country. For the most part, these are migrants (both documented and undocumented) sending money back home, as well as nationals living in their own country who send money to support a relative or friend living in another country.

### 4. *Channels for sending remittances*

- a) Remittances may be sent through formal (regulated) or informal (unregulated) channels. Formal channels include banks and non-bank financial institutions, money transfer operators (MTOs), microfinance institutions, post offices, mobile phones technologies and even individuals. Formal channels are regulated and the money is sent in different ways, e.g., from the sender's bank account to the beneficiary's bank account (a2a) or to be paid in cash (a2c); senders can use cash to be sent to the beneficiary's account (c2a) or to be disbursed (c2c).
- b) Remitters can also send money from their own account in one country to their own account in another country;
- c) Informal channels are not regulated, often illegal and mostly used to transfer money from one country to another either through a Hawala or by personally carrying money; and
- d) Although legal in certain countries (such as the United Arab Emirates), Hawala is usually considered an informal money transfer system based on the performance and honor code of a vast network of money brokers: a remitter gives cash to a money broker in a host country who will contact another money broker in the destination country, who will in turn pay out the equivalent sum to the recipient. The brokers will settle net balances periodically.

## II. *Remittance related studies:*

### 5. *What are the General Principles for International Remittance Services (GPs)?*

- a) The General Principles for International Remittance Services, published in 2007 by the Committee on Payment and Settlement Systems (CPSS) and the World Bank, have been endorsed by several international organizations. They consist of five Principles and offer guidance in the roles for service providers and public authorities.
- b) The General Principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

#### **Transparency and consumer protection**

General Principle 1: The market for remittance services should be transparent and have adequate consumer protection.

#### **Payment system infrastructure**

- ✓ General Principle 2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

#### **Legal and regulatory environment**

- ✓ General Principle 3: Remittance services should be supported by a sound, predictable, nondiscriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

#### **Market structure and competition**

- ✓ General Principle 4: Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

## **Governance and risk management**

- ✓ General Principle 5: Remittance services should be supported by appropriate governance and risk management practices.

## **Roles of remittance service providers and public authorities**

- a) Role of remittance service providers: remittance service providers (RSPs) should participate actively in the implementation of the General Principles.
  - b) Role of public authorities: public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.
- [http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New\\_Remittance\\_Report.pdf](http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/New_Remittance_Report.pdf)
  - [http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1360600536890/WB2012\\_CPSS.pdf](http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1360600536890/WB2012_CPSS.pdf)
  - [www.worldbank.org/grwg](http://www.worldbank.org/grwg)

## **6. What kinds of studies already exist?**

- ✓ High Remittance Costs in Africa: Is Building Regulatory Capacity for Microfinance Institutions the Answer? December 2012, AfDB.  
<http://www.mfw4a.org/documents-details/high-remittance-costs-in-africa-is-building-regulatory-capacity-for-microfinance-institutions-the-answer.html>
- ✓ Remittances in Africa. A Catalogue of Studies and Technical Assistance by the World Bank, Development Agencies and Government in Africa, March 2011. The updated 2012 version also published in July 2012. The catalogue is now under review and expected to be published in September 2013.  
<http://siteresources.worldbank.org/EXTDIASPORA/Resources/Remittances-in-africa.pdf>
- ✓ EU Remittances for Developing Countries, Remaining Barriers, Challenges and Recommendations – Final Report, July 30<sup>th</sup> 2012  
[http://ec.europa.eu/europeaid/what/migration-asylum/documents/eu\\_remittances\\_for\\_developing\\_countries\\_final\\_19-11-2012.pdf](http://ec.europa.eu/europeaid/what/migration-asylum/documents/eu_remittances_for_developing_countries_final_19-11-2012.pdf)
- ✓ Reducing the costs of migrants' remittances and optimizing their impact on development – Financial products and tools for North Africa and the franc zone – Full report, 2012, AfDB, France.  
[http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ESF\\_BAD\\_DGT\\_AFD\\_2011\\_Transferts\\_argent\\_migrants\\_rapport\\_fr.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ESF_BAD_DGT_AFD_2011_Transferts_argent_migrants_rapport_fr.pdf)
- ✓ The Role of the Diaspora in Nation Building: Lessons for Fragile and Post-Conflict Countries in Africa - 2011;
- ✓ AfDB's Approach to African Migrant Remittances-The Migration and Development Initiative – March 2009;  
<http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/migration-and-development-initiative/>
- ✓ Leveraging Migration for Africa. Remittances, Skills, and Investments, World Bank and AfDB, 2011  
<http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/AfricaStudyEntireBook.pdf>  
<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Leveraging%20Migration-P4-rev-3.31.2011.pdf>
- ✓ Remittances Markets in Africa, World Bank, 2011  
[http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/RMA\\_FullReport.pdf](http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/RMA_FullReport.pdf)
- ✓ Diaspora for Development in Africa, World Bank, 2011

[http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/DfD\\_FullReport.pdf](http://siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/DfD_FullReport.pdf)

- ✓ The FFR Brief. Five years of the Financing Facility for Remittances, IFAD, 2012  
<http://www.ifad.org/remittances/pub/fiveyears.pdf>
- ✓ Sending Money Home to Africa, IFAD, 2009  
[http://www.ifad.org/remittances/pub/money\\_africa.pdf](http://www.ifad.org/remittances/pub/money_africa.pdf)
- ✓ Several publications by IFAD on remittances:  
<http://www.ifad.org/pub/thematic/index.htm#remittances>

### 7. *Have similar institutions being set up elsewhere in the world?*

- I. There is no similar institution specifically set up for remittances; the AIR will be the first of its kind.
- II. Nevertheless, there are several global institutions working on remittances, for example:
  - a) **Center for Latin American Monetary Studies (CEMLA)** is the regional association of central banks in Latin America and the Caribbean. In addition to its core programs, CEMLA also undertakes multiyear projects in special topics including remittances. For more information see its website: <http://www.cemla.org/>
  - b) **Pakistan Remittances Initiative (PRI)** is a joint initiative of the State Bank of Pakistan, the Ministry of Overseas Pakistanis and the Ministry of Finance. This initiative has been taken to achieve the objective of facilitating, supporting, faster, cheaper, convenient and efficient flow of remittances. For more information see its website: <http://www.pri.gov.pk/>
  - c) **Financing Facility for Remittances (FFR)** program has been working since 2006 with the goal of increasing the development impact of remittances, enabling poor rural households to advance on the road to financial independence and increases economic opportunities for the rural poor through the support and development of innovative, cost-effective, and easily accessible international and/or domestic remittance services. FFR is a multi-donor facility program of IFAD. For more information see its website: <http://www.ifad.org/remittances/>, <http://www.remittancegateway.org/>

### III. *Background to African Institute for Remittances (AIR) Project:*

#### 8. *How did AUC get the mandate to work on the establishment of the AIR?*

- a) Bearing in mind the private nature of remittances, the Joint Africa-EU Declaration on Migration and Development of 2006 (Tripoli Declaration) recognized the benefits of migration for both Africa and the EU and emphasized the need to help set up mechanisms, services and effective financial products to facilitate the transfer of remittances, to reduce the costs of these transfers and to make them conducive to development.
- b) As a follow-up, the First Action Plan (2008-2010) for the implementation of the Africa-EU Strategic Partnership on Migration, Mobility and Employment highlighted the need to take further steps towards facilitating safer, faster and cheaper remittances (including for investment), to ensure that sufficient data, research and know-how is made available to governments, and to promote innovative solutions for transferring money.
- c) The establishment of AIR was conceived within the framework of the Migration, Mobility and Employment Partnership of Joint Africa-EU Strategy and was included in the Second Action Plan 2011-13. The Action Plan was endorsed by the AU Assembly by its Decision Assembly/AU/Dec.354 (XVI).

#### 9. *What is the AIR Project about?*

- a) The AIR Project is an initiative in which the World Bank (WB) and selected development partners, i.e., the EC, AfDB and IOM, are collaborating to facilitate the AUC and AU Member States in establishing the AIR. The preparatory phase project is implemented by the World Bank in collaboration with AUC, EC, IOM and the AfDB, and will end by April 30<sup>th</sup> 2014.

- b) The core objectives of the Project are to: (i) Facilitate the process leading to the creation of the Institute; and; (ii) Develop the capacity of the Member States of the AU, remittance senders and recipients, and other stakeholders to implement concrete strategies and operational instruments to use remittances as development tools for poverty reduction.

**10. How is the AIR project funded?**

- ✓ To facilitate the establishment of the AIR, a preparatory project was launched on June 8<sup>th</sup> 2010 with an EC grant for €1,676,271 (US \$2.4 million equivalent) and a US\$632,159 contribution from the World Bank through a Bank-Executed Trust Fund (BETF) Grant Agreement signed in December 2009. In addition, the EU has funded the preparatory phase of the establishment of the AIR through its African Union Support Program (AUSP) since 2010.

**11. Who are the stakeholders of the AIR project?**

- a) AU Member States;
- b) AUC;
- c) International development partners, i.e., AfDB, EC, IOM, World Bank, IFAD-FFR, UPU, etc.;
- d) Regional Economic Communities (RECs);
- e) Private Sector Organizations;
- f) Remittance Senders and Recipients; and
- g) Academic Institutions.

**12. What are the activities of the project?**

- a) Providing technical assistance to government institutions (Central Banks, Ministries, Financial and Non-Financial Institutions) on putting in place the required regulatory frameworks;
- b) Conducting training and capacity building programs for relevant institutions and organizations (e.g. National statistical service departments);
- c) Studying remittance flows within Africa;
- d) Conducting policy research, dialogue and information sharing on how remittances can contribute to the development of African countries;
- e) Developing content and technology platforms for country-based payment and settlement systems for remittances;
- f) Developing partnerships between African central banks and remittance service providers and non-bank correspondent agencies to improve financial access; and
- g) Disseminating data and research findings on good practices through annual reports, conferences and workshops for stakeholders as well as meetings with the region's policy makers.

**13. What has been accomplished so far?**

- ✓ The implementation of the project has been underway for almost three years. Specifically, the project facilitated the implementation of a series of activities including:
  - a) An information pamphlet detailing the objectives, activities of the AIR project and expected results has been developed. It will be updated periodically.
  - b) Presentation of the AIR Project and sensitization of the Diaspora at the African Diaspora Technical Expert Meeting, Pretoria, South Africa, February 21<sup>st</sup> – 22<sup>nd</sup> 2011;
  - c) In collaboration with the Global Practice on Financial Infrastructure of the World Bank:
    - i. The establishment of the African Remittance Price Database to provide transparency in the remittances market in 54 selected country corridors. The database covers 60% of total remittance flows to the continent. The data collection on remittance costs for Send Money Africa has already started and data can be found at: <http://sendmoneyafrica.worldbank.org> as of June 30<sup>th</sup> 2011. The database will continue to be updated with the possibility of expanding its scope from 50 to 80 corridors. In order to increase its visibility, the database was officially launched in Washington DC in March 2013 and in Brussels, Belgium in May 2013 and will be launched in East and West Africa soon.
    - ii. Assessment missions to Liberia, Malawi, Sierra Leone and Tanzania to evaluate the status of implementation of the General Principles for International Remittance Services (GPs) – legal

and regulatory frameworks and market structure. Assessment reports have been sent to the respective countries.

- iii. Risk assessment missions to provide guidance for postal operators on managing the risk of offering remittance services. Training programs have been carried out in Ethiopia, Gabon and Kenya. Follow-up training programs have been conducted in Ethiopia, Gabon and Mali (with postal operators from Gabon, Burkina Faso and Senegal). Future workshops and other technical assistance are planned for Gabon and Ethiopia. A regional training program was held in Senegal for Postal Operators from Benin, Mali, Mauritania, Burkina Faso, Niger and Senegal to improve operational capacity for remittance services.
- d) An online survey from May 31<sup>st</sup> to July 15<sup>th</sup> 2011 aimed at collecting feedback on remittances, especially in relation to how remittances are sent and used, their challenges, costs and alternatives.
- e) A Consultative and Experience Sharing Forum in Addis Ababa on July 7<sup>th</sup>-8<sup>th</sup> 2011, which discussed and shared experiences on policy and regulatory frameworks for the remittance sector and provided recommendations leading to a concrete action plan and road map for the establishment of the AIR. The forum was attended by more than 150 participants from 30 AU Member States.
- f) A draft report on the proposed Organizational Structure and Cost-benefit analysis of AIR, produced following extensive consultations with AUC and the project development partners. It also incorporated comments from AU Heads of State Summit of January 2012.
- g) A draft Business Plan following discussions among the project partners and other stakeholders.

#### **14. *What are the expected results of the AIR project?***

- a) AIR will be established;
- b) Selected remittance AU Member States will have facilitated the development impact of remittances through the application of appropriate policies;
- c) Remittance transaction costs in a selected number of countries/corridors will have declined; and
- d) The dissemination of data on remittance fees in major corridors will have improved.

#### **15. *Have discussions taken place with remittance senders and recipients and key stakeholders within the framework of the AIR project?***

- a) As mentioned above (13d), Mango Production, an Addis Ababa based media company, was hired to conduct an online survey aimed at collecting feedback on remittances with a specific focus on how they are sent and used, challenges, costs and alternatives.
- b) The consultations were launched on May 31<sup>st</sup> 2011 and were concluded by July 15<sup>th</sup> 2011. Over 3,000 visits were registered on the AIR website set up for this purpose and 235 responses were received. Respondents identified 30 different countries of origin, of which most mentioned were Nigeria, Ethiopia and Kenya. 90% of respondents were remittance senders based in the United States of America, Germany and the United Kingdom, in addition to other European countries and Arab states.
- c) Key findings from the survey showed that frequency of flows were largely on monthly basis. Remittances received were primarily used for living expenses, education and medical expenses. Remittances were sent through Money Transfer Organizations, Banks and via unofficial flows. Safety, speed and ease of use were identified as the most prominent factors in determining the method used. Respondents indicated that lower costs, safety and speed would encourage them to use official channels rather than unofficial methods. Some respondents indicated they were not aware of the costs of sending remittances. Others stated that they did not know the net total amount collected by recipients.
- d) An AIR project sensitization event was conducted on May 16<sup>th</sup> 2013 in Brussels. The event addressed francophone African countries, Diaspora organizations, civil society organizations, the private sector and think tanks. An identical event will be organized for anglophone African countries and Diaspora in London on September 26<sup>th</sup> 2013.

#### **16. *What was the July 2011 Consultative and Experience Sharing Forum?***

- I. The main objective of this forum was to convene high level representatives to discuss policy issues on remittances and provide recommendations leading to a concrete action plan for the establishment of the AIR, to share experiences and develop knowledge on policies and regulatory frameworks for the remittance sector.

- II. The Forum was attended by delegates from 27 AU Member States, AUC and several international organizations, including EC, ILO, IOM, Pan African Postal Union (PAPU), UNECA, Universal Postal Union (UPU), World Bank, and the Embassy of Mexico as well as private sector participants such as Commercial Bank of Ethiopia, Micro-finance International Corporation (MFIC), Money Express, United Bank of Africa (UBA) and Western Union.
- III. The Forum put forth the following observations and suggestions:
  - a) Proposed roles of AIR, such as research, technical assistance and advocacy.
  - b) AIR should be aligned as part of the AUC.
  - c) A final decision on the location should be referred to the AU to be determined in accordance with existing procedures for such cases.
  - d) AIR must be a public institution with African ownership, but the private sector should participate in at least an advisory capacity.
  - e) With regard to governance and organizational structure, more concrete suggestions were needed for further discussion.
  - f) Although the existing level of financial commitment by AU Member States is already high, AIR should be funded by AU Member States to ensure ownership.
  - g) Further discussion would benefit from a cost-benefit analysis.

**17. *What did the Executive Council's Decision at the January 2012 AU Summit (EX.CL/Dec.683 (XX) on the Establishment of an African Institute for Remittances determine?***

- a) The Decision on the establishment of an AIR acknowledges that the establishment of an AIR will facilitate remittances leverage for economic and social development. It calls upon AU Member States, Pan-African Parliament (PAP), RECs, private sector, civil society and all other stakeholders to actively participate in the implementation process of an AIR and also calls upon the AfDB, EC, World Bank, IOM and other relevant partners to continue to support the preparatory project and resources for the AIR.
- b) The Decision also requests the AUC to submit the final report on the implementation of the preparatory project and recommendations pertaining to the establishment of AIR to the AU Ministers of Finance.
- c) In addition, the Decision requests the Permanent Representatives' Committee (PRC) through its relevant Sub-Committees, including the Sub-Committee on Structural Reforms and the Sub-Committee on Administrative, Budgetary and Financial Matters to consider the implications of establishing AIR and take the necessary action.

**18. *What was discussed at the side-events on March 24<sup>th</sup> -25<sup>th</sup> 2012 during the 5<sup>th</sup> Joint AU-ECA Ministerial Conference?***

***Side-event on the Roles, Activities and Organizational Structure of AIR (March 24<sup>th</sup> 2012)***

The meeting raised the following issues:

- a) Africa is still the most expensive region for remittances;
- b) Support for the “ownership” of AIR by AU Member States would require a lean structure under AUC management and administration;
- c) The need for involvement of RECs, Diaspora, private sector and civil society;
- d) The functions and roles of the AIR, as well as measureable indicators of achievement, to be established prior to start-up of the institute;
- e) Incorporating the proposed functions of the AIR into existing institutions (eg. the Association of African Central Banks [AACB] and the AfDB), instead of creating a new institute; and
- f) Suggested priority areas for the AIR: the reduction of remittance costs, the impact of remittances on AU Member States' balance of payments, financial sector development (including the financing of rural development), continental advocacy, Diaspora involvement, Intra-African remittances, remittances in-kind, the legitimacy of attempting to influence what beneficiaries do with their money, existing best practices and infrastructure building.

### ***Leveraging Remittances for Social Development (March 25<sup>th</sup> 2012)***

- a) In order to reduce the remittance transfer costs to and within Africa, there is a need to improve the legal and regulatory environments, promote competition and innovative financial products, investigate incorporation of remittances into national economic strategies and respect international and national legislations.
- b) In addition, the meeting suggested that Member States should actively partner with remittance recipients in order to ensure that funds are not only being invested in consumer goods, but also utilized as tools for social developmental initiatives at both national and community level, once basic needs have been addressed. This should be established by building the capacity of senders and recipients, using available assisting technologies, sharing information broadly, and placing the issue on national agendas.

### ***19. What did the Resolution on the Establishment of an African Institute for Remittances of the 5<sup>th</sup> Joint AU-ECA Ministerial Conference determine?***

- a) The Resolution takes note of the decision of the Executive Council (EX.CL/Dec.683 (XX)) on the establishment of an AIR as a specialized technical office of the AUC and requests the AUC to submit the mandate of the Institute and its organizational structure - which should be lean and sustainable - to the AUPRC through its relevant subcommittees.
- b) The Resolution also welcomes the offer made by Mauritius to host the Institute as well as the interest of Djibouti, Egypt and Kenya in hosting it, and requests the AUC to examine the offer of Mauritius and the interest expressed by the other countries in line with the established criteria governing the hosting of organs of the African Union. Gabon expressed interest, albeit informally, to host the institute.

### ***IV. Decisions on the establishment of AIR:***

#### ***20. Formal Decisions regarding AIR***

- a) The Global African Diaspora Summit, Johannesburg, South Africa, May 25<sup>th</sup> 2012, in its declaration (Diaspora/Assembly/AU/ /Decl (I)) declared the African Institute for Remittances (AIR) as one of the five Legacy Projects of Africa;
- b) The 19<sup>th</sup> Ordinary Session of the AU Heads of State and Government Assembly, July 2012 in its Decision (Assembly/AU/Dec.440 (XIX)) took note of the report of the 5<sup>th</sup> Joint AU-ECA Conference of Ministers of Finance relating to the establishment of an AIR, recalling the Declaration of the Global Diaspora Summit of May 2012 in South Africa that adopted the African Institute for Remittances as one of the five legacy projects of the African Union, the Assembly endorsed the establishment of AIR and requested the AUC to work on the modalities for its structure and location, to be submitted to the relevant organs to facilitate its early entry into operation.
- c) The 21<sup>st</sup> Session of the AU Heads of State and Government Assembly in its Decision (Assembly/AU/Dec.478 (XXI)) in May 2013 welcomed the proposal by The Republic of South Africa for the establishment of a self-funding Technical Committee of Experts for the implementation of the Diaspora Legacy Projects, of which AIR is one. It was proposed that the Committee comprise Heads/Representatives of the following institutions: AUC, NEPAD, AfDB, UNDP, UNECA, RECs, Africa Capacity Building Institute, Private sector, Diaspora and Heads/Representatives of Implementing Agencies (to be identified by the committee).

### ***V. Institutional Framework of the future AIR:***

#### ***21. What will AIR be about and what not?***

##### **AIR will be:**

- a) The focal point for all stakeholders on African remittances.
- b) A center of excellence on African remittances as regards research, advocacy and private sector engagement; and
- c) The hub through which technical assistance and capacity building would be provided to AU Member States' organizations (central banks, ministries, financial institutions, banks, etc.).

**AIR would NOT be:**

- a) Involved in the individual remittance transactions;
- b) Involved in payment settlement issues; and
- c) A training institute in and of itself.

**22. *What would be AIR's mandate?***

- ✓ To ensure African remittances be used as development tools for poverty reduction, by making remittance transfers to and within Africa, cheaper, safer, faster and easier.

**23. *What would be the role of AIR?***

- ✓ The role of AIR would be categorized into four main activities:
  - i. Applied Research;
  - ii. Technical Assistance and Capacity Development;
  - iii. Addressing market inefficiencies by catalyzing private sector involvement; and
  - iv. Advocacy towards AU Member States' authorities.

**24. *What would be the activities of AIR?***

- ✓ The Activities of AIR would include:
  - i. Building the capacity of Central Banks to improve collection of data on remittance flows;
  - ii. Promoting an appropriate legal and regulatory framework for remittances and the use of technology;
  - iii. Building the capacity of Non-bank Financial Institutions, Microfinance Institutions, Cooperatives and Post Offices to offer remittance services;
  - iv. Organizing Private Sector Challenges on several topics (cost of remittances, remittances and financial inclusion, remittances in rural areas);
  - v. Fostering technology partnerships to lower costs and improve access to remittance and financial services;
  - vi. Ensuring that the General Principles for International Remittance Services (GPs) are implemented in Africa (AU member states); and
  - vii. Promoting the use of cashless payment instruments across the region.

**25. *What would be the organizational set-up of AIR?***

- a) Suggestions were made to house AIR within an AU Member State Central Bank, the AACB or the AfDB. The decision was to establish AIR as a Specialized Technical Institute of the AUC, housed within one of the AU Member States. This organizational structure would ensure the AIR's ability to draw on the strengths and network of the African Union and would help focus attention on the importance of remittances in the future development of the continent.
- b) AIR will be owned by the AU Member States and the AUC; its governance bodies shall be the Conference of AU Ministers Economy and Finance (CAMEF), the Governing Board (one member from each of the AU sub-regions, to be selected by CAMEF), the Consultative Forum (with representatives from Diaspora community, Development partners, Private sector organizations and others), and the AIR Secretariat as the administrative organ.

**26. *How will AIR, as a Specialized Technical Institute of the AUC, be financed?***

- ✓ All administrative costs, including salaries for the professional staff, approved in the structure would be covered by the AUC and AU Member States. Resources to finance specific projects and activities to help meet the goals and objectives of AIR will be sought from a combination of AU Member States, bilateral and multilateral donors, foundations, private sector companies, and other interested parties.

**27. What would be the expected outcomes/results of AIR in 3-5 years?**

- a) To improve the recording and reporting ability of AU Member States on remittance flows to and within Africa;
- b) To reduce remittance transfer costs by at least 5% from the current averages (more than 10% for remittances to Africa and up to 20% for remittances within Africa);
- c) To improve the legal and regulatory frameworks for remittances;
- d) To provide greater access to financial services and products for remittance senders and recipients;
- e) To increase the flow of actual number of remittance transactions by 20% or more.

**28. What would be the added value of AIR compared to existing Pan-African financial institutions?**

- ✓ AIR would be solely devoted to African remittances, while other Pan-African financial institutions such as the AACB and AfDB would focus on African Remittances as only one of their many tasks.

**29. What are the expected challenges in setting up AIR?**

- a) One of the challenges that the project might face is funding for the actual set up of the institute. The understanding is that AU Member States' contribution to the AUC declined over the past years, and that it would perhaps be difficult for AU Member States to undertake a commitment for setting up the institute.
- b) It is imperative to the sustainability of the Institute that good relations are maintained with Central Banks, as they will be a key counterpart to the future work of the Institute. Efforts must be made to ensure central bank buy-in of AIR.
- c) AUC's limited technical capacity specifically in the field of remittances has made the implementation of project activities challenging.
- d) It is also difficult to find expertise in the field of remittances. In order to overcome this, the project is creating a pipeline of consultants with expertise in the area of remittances for the future.

**30. Where will AIR be located and what are the criteria for hosting AIR?**

- ✓ The AIR Secretariat will be located in AU Member State, selected in accordance with AUC's minimum basic requirements for hosting an AU Organ (EX.CL/195(VII) Rev.1):
  - a) The host country shall provide, at its expense, a secure structure with furnished and equipped office premises for the seat of the organ on the basis of the objective requirements of office space;
  - b) The premises offered by the host country should be such that the organ shall be easily accessible;
  - c) The host country shall meet the requirements of conducive political atmosphere and adequate logistical facilities;
  - d) There should be appropriate and efficient modern infrastructure specially telecommunication facilities to enable the office to function efficiently;
  - e) There shall be available housing, hotel accommodation and health infrastructure to meet the functional needs of the organ;
  - f) Without prejudice to these criteria, nothing in these criteria shall be taken to preclude a Member State from offering more facilities. In this regard a Member State offering to host an organ of the Union is encouraged to provide, at its expense, where the Head of the Organ is required to be resident at the seat, an appropriate furnished and equipped official residence.
- ✓ In addition to these general criteria the following specific technical criteria should be considered:
  - a) accessibility of the candidate host country;
  - b) existence of substantial remittance flows to the candidate host country;
  - c) appropriate communication/transportation infrastructure; and
  - d) Commitment by the host country to contribute to the administrative budget of the Secretariat.

**VI. Location (Host Country) of AIR:**

**31. Location of AIR**

- a) Following the Assembly decision for the establishment of AIR, formal hosting offers were received from four AU Member States: Djibouti, Egypt, Kenya and Mauritius. The Republic of Mauritius submitted a written offer during the 5th Joint AU-ECA Conference of Ministers of Finance from 22 to 27 March 2012,

while the Arab Republic of Egypt submitted its bid on 14 May 2012. The Republic of Kenya submitted its written offer to host the Institute on 31 May 2012. Although, the Republic of Djibouti had expressed verbal interest in hosting the Institute during the 5<sup>th</sup> Joint AU-ECA Conference of Ministers of Finance in March 2012, the written offer dated 30 October 2012 was received on 8 November 2012.

- b) An independent Fact-finding mission – lead by AUC with participants from AfDB, EU Delegation to AU, IOM and consultants hired by the World Bank – was sent to three of the offering countries (Egypt, Kenya and Mauritius) to conduct an in-depth assessment of the offers, visiting the facilities offered by the countries. Djibouti was not visited by the mission as the written offer was submitted late.
- c) The Fact-finding mission submitted its technical report to the AU policy organs for their decision in selecting the host country.
- d) The AU Executive Council, in their Decision (EX.CL/Dec.736(XXII), January 2013 requested the offering Member States to hold consultations with a view to reaching a consensus on hosting of the AIR; so far no consensus has been reached.

### **32. *What are the next steps for the Operational Startup of AIR?***

- ✓ The following activities are required for the establishment of AIR:
  - The Organizational Structure and Staffing proposal and the Assessment Report on the candidate host countries must be acted on by the respective policy organs of the AU;
  - The AUC must sign a hosting agreement with the selected host country;
  - The institutional setup, recruitment and other logistical/administrative aspects must then proceed.
  - Funding for the startup period should be allocated by the AUC and the host country, while the Institute will also aim to mobilize program funds through other means.

### **33. *Who will be the AIR stakeholders?***

The following are the key stakeholders of the future AIR:

- a) AU Member States;
- b) AUC;
- c) International development partners, i.e., AfDB, EC, IOM, The World Bank, IFAD-FFR, UPU, etc.;
- d) Regional Economic Communities (RECs);
- e) Remittance Senders and Recipients;
- f) Academic Institutions;
- g) Civil Society Organizations (CSOs)
- h) Diaspora organizations; and
- i) Private sector: Money Transfer Organizations (MTOs), Mobile Network Operators (MNOs), Remittance Service Providers (RSPs), Micro-finance Institutions (MFIs), Post-offices, Banks, etc.;

### **34. *Why is it taking so long to establish AIR?***

There are basically three reasons that explain the delays in setting up AIR

- a) Given the important number of project stakeholders, the process of consultation and consensus among all parties involved can be protracted in time.
- b) The fact that the AU is a political organization with complex decision-making procedures that must be respected at each stage in order to ensure the legitimacy of the establishment of the Institute, has resulted in time-consuming efforts to obtain the necessary internal approvals from the appropriate governance bodies.
- c) The fact that four AU member states offered to host the Institute has given rise to a process of internal consultation that has yet to produce a decision on the issue of location.

## **VII. *Remittances for social development:***

### **35. *What can African countries learn from each other in leveraging remittances?***

- a) Africa can learn from the notable exceptions in recording and reporting of remittances, for example, Cape Verde, Ethiopia, Kenya and Nigeria collect and publish monthly data on remittances. Several North African countries, such as Egypt and Morocco, publish quarterly data

- b) Africa could learn from the notable experience of Algeria, Benin, Comoros, Gabon, and Senegal, where the postal systems are engaged in remittances. Algerians sending money home from France have adopted the use of post offices as one of their preferred methods.
- c) Africa can also learn from countries where non-bank financial institutions are allowed to enter the remittances market, MFIs play a much greater role in some of the African countries, such as the Central African Republic, Comoros, Senegal and Uganda (MFIs operate as sub-agents of banks).
- d) Most regulations in Africa permit only banks to pay remittances. In countries where MFIs are not blocked by regulations, they often remain unaware that it is possible to participate in this market, or do not have the capacity to do so.
- e) Mobile phone owners are likely to receive more remittances than those who do not own a mobile phone. This underlines the potential of mobile banking to reach out to remittance recipients in rural areas. Africa can learn from the Kenyan, branchless mobile banking, M-PESA, reaching out to several millions of people in rural areas.
- f) Ethiopia, to encourage use of formal channels and to improve flows of remittances, allows Ethiopian Diaspora members to open a foreign currency bank account in local banks. Ethiopia also issued small valued bonds to make them affordable for all economic groups of the Diaspora.

**36. *What can Africa learn from other continents in leveraging remittances?***

- a) In general, less is known about remittances to and within Africa than any other developing region of the world. Specifically, the rules and regulations that govern the inflow of remittances, the competitive environment within countries (particularly in rural areas), and the role of non-bank financial institutions as both potential market players and conduits for financial access, have received insufficient attention.
- b) Mexico is biggest receiver of remittances in Latin America (one third of remittances sent to Latin America go to Mexico). Globally, it is fourth after India, China and the Philippines. In 2012, Mexico received \$23 billion remittances from Mexicans abroad, benefiting from its Government's commitment to implementing and supporting low-cost services as well as to provide useful information to Mexican migrants about the methods and prices of sending remittances to their families.
- c) Pakistan is one of the top 10 remittance receiving countries in the world. The State Bank of Pakistan, Ministry of Overseas Pakistani's and Ministry of Finance jointly initiated and launched the Pakistan Remittance Initiative (PRI) for the purpose of facilitating faster, cheaper, more convenient and more efficient flows of worker's remittances into Pakistan.

**37. *How would the AIR contribute in leveraging remittances for social development?***

- a) Remittances can contribute significantly to poverty reduction and to other Millennium Development Goals (MDGs). Governments in destination and origin countries can facilitate remittance flows and enhance their development impacts through the application of appropriate policies. Remittances are associated with increased household investments in education, entrepreneurship, and health, all of which have a high social return in most circumstances. Hence, AIR will help AU Member States in reforming their policy frameworks related to remittances.
- b) The majority of remittances to Africa are used for daily sustenance. Yet a significant amount is available for savings or investment (around US\$5-10 billion). Some studies report that remittance recipients do save, but often do not use the formal channels. Bringing these funds into the formal financial system can dramatically increase the impact of remittances impact on social development. AIR will work on the involvement of non-bank financial institutions to improve the geographic coverage of the remittances distribution network.
- c) When remittances are deposited at a financial institution, they can benefit both the individual and the community. With better financial education and a broader range of financial services to choose from, remittance recipients are empowered to make the financial choices that can advance them towards financial independence.

**END**