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# REMITTANCES, COMPETITION AND FAIR FINANCIAL ACCESS OPPORTUNITIES IN NIGERIA

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.



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# ABSTRACT

This report presents the findings of a study on remittances to Nigeria and explores the policy and development implications for senders and recipients. The main problem identified in the findings is that the competitive environment for money transfers in Nigeria is highly constrained. This is due to a near-monopolistic hold on the market by one money transfer operator (MTO) and the fact that banks are the only entities legally authorized to perform international payments. These conditions actually encourage informal transfers of money. Other findings in this report show that there is willingness among most banks and other financial institutions to entertain alternative strategies, including partnerships with alternative MTOs or innovative technologies for money transfers.



# INTRODUCTION

Members of the Nigerian diaspora in the United States remain closely connected to their home country—a fact reflected in the widespread practice of remitting money to family still in Nigeria. However, little is known about the scope and efficiency of the remittance transfer companies available in the United States and their potential for contributing to financial development in Nigeria. Although official figures stress that remittances are the second largest source of foreign exchange receipts in Nigeria, following oil revenue, little is known about the impact of these flows on society or the market environment in which these transfers operate. How flows are transferred into Nigeria is not well understood, nor is it clear how much market competition there is—in both the United States and Nigeria—over inbound flows into the country.

This study is based on the analysis of data from two surveys of remittance senders and recipients, along with field research in Nigeria regarding the flows to the country, its competitive landscape, and alternative payment and financial solutions. Our research examines the volumes flowing to Nigeria and the landscape within the U.S.-Nigeria remittances corridor, paying attention to the factors affecting competition and exploring opportunities and obstacles to improving the formalization of domestic and international transfers.

The results of this study point to eight opportunities to leverage remittances to improve senders' and recipients' access to financial services. The recommendations offer concrete solutions and strategies for USAID's involvement in making it possible, or easier, to form relevant partnerships by giving technical assistance in areas where need exists.



# 1. MIGRATION AND REMITTANCES TO NIGERIA

Nigeria represents one of the more mobile societies in Africa. Populations moving to the East, West, and South of Africa, as well as Europe and North America, constitute a vibrant diaspora with strong ties across continents.<sup>1</sup> However, official statistics on Nigerian emigration are inaccurate and incomplete. For example, according to the United Nations, there are approximately 1.1 million Nigerians living outside their home country, representing 0.84 percent of the Nigerian population. But this figure plainly falls short of the reality. Just in West Africa, the trend of Nigerian migration is substantial—in Ghana alone there are at least half a million Nigerians (Orozco 2006). Likewise, the large—and growing—outflow of Nigerians to South Africa over the last 10 years makes it difficult to have confidence in the official figure of less than 20,000. In the United States, a single transfer company reports processing 125,000 transfers monthly to Nigeria, a figure that is nearly identical to the U.S. Census estimate (134,940) of Nigerians in the U.S., as well as the U.N. estimate. A World Bank report about the U.K.-Nigeria corridor claims from interviews with money transfer operators (MTOs) that there are five million Nigerians in the United States (Hernández-Cox and Bun 2007). Another report argues that there are half a million Nigerians in England and reports that one-third of West Africans are living outside their country (Black et al. 2004).

Data on numbers of migrants from countries with similar populations—in the range of 100–200 million people—show that on average, 3.9 percent of their nationals are living abroad.<sup>2</sup> Applying that percentage to the Nigerian population gives a figure of 5,701,806 Nigerians abroad. This estimate does not account for shifts in flows of Nigerian migrants from some countries—for example, out of Sudan and into South Africa. However, the figures help build a more realistic estimate of far more than one million Nigerians living abroad. Using the by official figures’ percentages for distribution of Nigerian migrant populations in destination regions, Table 1 shows estimates from the Global Migrant Origin Database of the number of Nigerians living in different parts of the world.

**TABLE 1: NIGERIANS ABROAD**

Region	3.90% of Nigerian Population
East Asia and Pacific	37,878.53
Europe and Central Asia	954,154.59
Latin America and Caribbean	10,950.85
Middle East and North Africa	145,703.47
North America	763,401.14
South Asia	61,776.72
Sub-Saharan Africa	3,197,540.02
Grand Total	5,171,405.32

Source: Estimated Nigerian migrant populations, from Global Migrant Origin Database. See appendix for details.

<sup>1</sup> For a discussion of West Africans’ migratory experience, see the studies by Aderanti Adepaju in the bibliography.

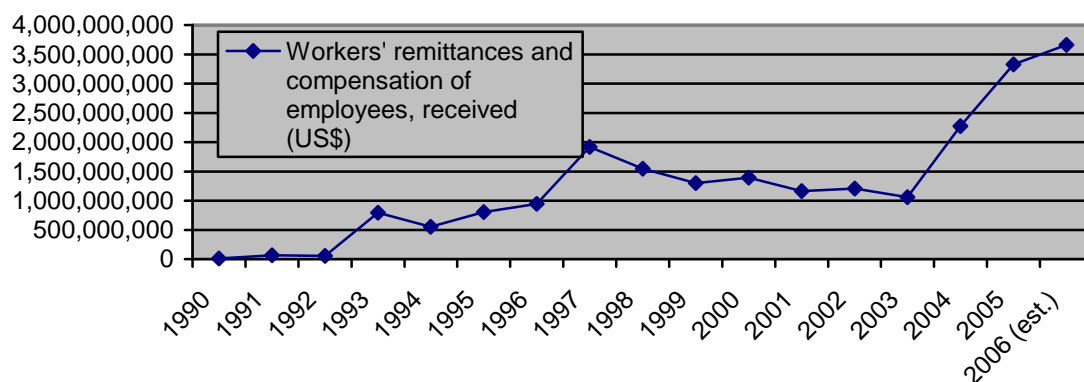
<sup>2</sup> The data on migrant population are from the University of Essex GMOD program. See appendix for more elaboration.

## REMITTANCE FLOWS: THE OFFICIAL STORY

In Nigeria, the inflows of officially reported remittances only partially reflect the migrant population residing abroad. Officials of the Central Bank of Nigeria are uncertain of the actual flow and have yet to implement improved methods of measuring informal payment networks or of individuals hand-carrying cash. Despite these limitations, records of remittances have improved somewhat in the past five years. Commercial bank executives report that in 2006 the recorded flows were estimated at US\$4.2 billion dollars, representing 700,000 transactions and a 30 percent increase from 2005. The overwhelming majority of those person-to-person flows are said to come from the United States, the United Kingdom, Italy, and other Western European countries. However, there is no official figure from the Central Bank.

The chart below shows the significant increase in flows over time as reported by Western Union and MoneyGram, and including the Central Bank's estimates of account-to-account transfers and hand-carried cash.<sup>3</sup>

**FIGURE 1: ESTIMATED REMITTANCE FLOWS TO NIGERIA FROM THE UNITED STATES AND WESTERN EUROPE**



Source: World Bank. *World Development Indicators 2006*.

These flows do not account for informal transfers or for flows coming from regions in West Africa, Southern Africa, or other parts of the world (see appendix for the estimate of migrants). Moreover, the figures still fall short of the true number of migrants living abroad. To estimate the total amount of money sent by migrants, therefore, we rely on data from a re-estimation of the total Nigerian migrant population abroad and from information on the propensity of migrants to remit and on the amount and frequency of their remittances (see appendix for explanation of data results). The results show US\$4–5 billion sent to Nigeria, an amount relatively comparable to the flow the Central Bank estimates for 2007. This estimate serves as a baseline and reference for what could be flowing into the country from different regions.

<sup>3</sup> The latest Central Bank figure is for 2005 for US\$3.3 billion and is from the World Bank.

**TABLE 2: ESTIMATING THE FLOWS TO NIGERIA (US\$)**

Region	Estimate At 80% Remitting	Estimate At 70% Remitting	Official WB Figure (2006)
East Asia and Pacific	39826569.83	34848248.6	
Europe and Central Asia	1,474,896,580.72	1,290,534,508.13	
Latin America and Caribbean	10,454,414.98	9,198,717.10	
Middle East and North Africa	139,875,328.62	122,390,912.54	
North America	1,465,730,197.24	1,282,513,922.59	
South Asia	59,305,651.81	51,892,445.33	
Sub-Saharan Africa	831,360,404.14	727,440,353.62	
Grand Total	5,134,599,201.65	4,497,749,688.27	4,200,000,000

Source: Based on migration estimates and existing data on sending remittances. See Appendix.

The regional differentiation of the flows is important for various reasons. First, it reflects the relative weight of each region in the total migrant flow. Second, it assists us in refining the estimates of the probable ratio of informal-sector to formal-sector transfers. For example, the figures from remittances from Sub-Saharan Africa, though high, probably understate the true value of remittances from there even more seriously than the figures from other regions do, given the large relative size of the informal sector in South Africa. The regulatory environment in South Africa prevents average Nigerians from sending money on a regular basis unless they provide substantial documentation, including proof of residency or the specific needs that the money will cover. Section Two of this report seeks to address these points.





# 2. CURRENT REMITTANCE TRENDS: UNDERSTANDING THE MARKETPLACE

Remittance flows occur within an existing regulatory environment and an intermediation marketplace for money transfers. This section describes the regulatory context governing international payments and market competition. It also explores the extent to which remittance senders and recipients are prepared to shift from existing mechanisms to alternative payment systems to improve competition and financial access.

## REGULATORY ENVIRONMENT

The regulations for money transfers in Nigeria are mostly based on the Foreign Exchange Act of 1995 and the Banks and Other Financial Institutions Decree of 1991, amended in 1999. The Act authorizes banks to perform foreign currency payments under its narrow definition of “authorized dealers” in foreign currency. Section 14 of the Foreign Exchange Act (Monitoring and Miscellaneous Provisions) regulates outbound payments under specific circumstances or conditions. By establishing a very low limit of N5,000 (US\$40 in August 2007) as the unrestricted allowance for outbound transfers, the Act implicitly restricts most transfers.

The Foreign Exchange Act also establishes an autonomous Foreign Exchange Market and provides for the monitoring and supervision of the transactions conducted in the market. In April 2006 the Central Bank of Nigeria issued a circular<sup>4</sup> allowing the exchange bureaus (bureaux de change, or BDCs) to sell foreign currency of up to US\$5,000 (or its equivalent) for specific purposes, such as mortgage payments, school and medical fees abroad, credit card payments, utility bills, and life insurance.

Through the Act, the Central Bank is the authority appointing authorized dealers in foreign currency,<sup>5</sup> narrowly defined as banks and buyers of foreign currency through any bank or non-banking corporate organization. The definition of authorized dealers has been the main source limiting international foreign currency payments to banks.

## COMPETITION AND PLAYERS IN THE U.S.-NIGERIA CORRIDOR

Competition for money transfers is twofold, taking place both on the inbound (Nigeria) and outbound (U.S.) sides of the corridor. Outbound, the competition is relatively diffuse and unclear, while inbound we find a market handled by 21 banks.

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<sup>4</sup> “Modalities for the Cash Sale of Foreign Exchange by CBN to Bureaux de Change (BDCs).”

<sup>5</sup> Defined as any bank licensed under the Banks and Other Financial Institutions Act, and such other specialized banks issued a license to deal in foreign exchange.

## INBOUND TRANSFERS

Banks are the main entities allowed to perform remittance transfers. Interviews with banks indicate that they seek to compete among themselves, using their competitive advantages in such features as services, location, and value-added products, in order to increase their volume and number of transfers. However, such competition is limited by their exclusive agreements with MTOs such as Western Union and MoneyGram (see Section 4).

Currently 21 out of 25 banks operating in Nigeria have agreements with MTOs. Fifteen banks work with Western Union, five with MoneyGram, and one with Coinstar and Vigo Corporation (Vigo is owned by Western Union). Thus, Western Union is the largest competitor, controlling approximately 80 percent of money transfers through banks.

As a result, out of a total 340,000 transactions a month conducted by banks, 270,000 are with Western Union, 60,000 with MoneyGram, and 5,000 to 10,000 with Vigo and Coinstar. The table below shows the banks performing remittance transfers, the MTO partner, and the estimated number of transactions. Western Union's dominance in the market is evident.

**TABLE 3: BANKS PAYING REMITTANCES BY PARTNER AND ESTIMATED TRANSACTIONS**

Banks in Nigeria	MTO	Transactions
Bank PHB (PlatinumHabib Bank Ltd)	MoneyGram	30,000 combined
Equitorial Trust Bank Limited	MoneyGram	
Spring Bank Nigeria Ltd.	MoneyGram	
Union Bank of Africa Plc.	MoneyGram, Vigo and Coinstar	
United Bank for Africa Plc. (UBA)	MoneyGram	25,000
Afribank Nigeria Plc	Coinstar	5,000
Access Bank Nigeria Limited	Western Union	5,000
Diamond Bank Plc	Western Union	8,000
EcoBank	Western Union	8,000
Fidelity Bank Plc	Western Union	10,000
First Bank Nigeria Plc	Western Union	125,000
Oceanic Bank International Nigeria Ltd	Western Union	32,000
Zenith Bank Plc	Western Union	5,000
First City Monumental Bank Plc	Western Union	70,000 combined
Guaranty Trust Bank Plc	Western Union	
IBTC—Chartered Bank Plc	Western Union	
Intercontinental Bank Plc	Western Union	
Skye Bank Nigeria Ltd.	Western Union	
Sterling Bank Nigeria Ltd.	Western Union	
Unity Bank Nigeria Ltd.	Western Union	
Wema Bank Plc	Western Union	
First Inland Bank Plc	N/A	
Nigeria International Bank Limited (Citigroup)	N/A	
Stanbic Bank Nigeria Ltd.	N/A	
Standard Chartered Bank Nigeria Ltd.	N/A	

Source: Authors' estimates based on interviews.

## THE OUTBOUND CONTEXT

Western Union's control of transfers out of Nigeria to both the United States and the U.K. is significant. On the U.S. side of the corridor, the number of MTOs sending to Nigeria is relatively small, constituting less than five companies, including Western Union and MoneyGram. Survey interviews with remittance senders showed that 78 percent of transfers were done through Western Union. According to interviews with Nigerian banks, Western Union transfers from the United States represent about 50 percent of all Western Union transfers to Nigeria.

**TABLE 4: REMITTERS' PREFERRED MONEY-TRANSFER CHANNELS**

	%
Western Union	78.26
MoneyGram	15.38
La Nacional	2.34
Cam	2.01
Citibank	0.67
Bank	0.33
Bank To Bank	0.33
Hand By Hand	0.33
Vigo	0.33
Total	100

Source: Survey of remittance senders

On the U.K. side of the corridor, competitors include Abbey, Cashmo, Chequepoint, Coinstar Money Transfer (formerly Travelex), Double Crown Enterprises, Money-Systems, MoneyGram, Smart Transfer, Western Union, and World Money Move. However, the majority of these companies do not hold contractual agreements and operate "under the table" in cooperation with some banks. In other words, these licensed U.K.-based MTOs transfer remittances through Nigerian banks without a formal agreement in order avoid violating any exclusive agreement that exists with Western Union or MoneyGram. No one in the banking industry in Nigeria knows the volume of these flows, but the informality is not negligible.

The \$US4 billion in remittances in 2006 accounted for nearly 600,000 private transactions. We can conclude that a little over 50 percent of these flows came from Western Union and MoneyGram, but the rest could have come from a combination of sources, including account-to-account and under-the-table MTO transfers. The following breakdown does not include informal transfers because they are outside of the scrutiny of the Central Bank.

**TABLE 5: REMITTANCES TO NIGERIA BY PAYERS (NUMBER OF TRANSACTIONS PER YEAR)**

MTOs in Nigeria	2006	(%)	2007	(%)
Central Bank	580,053.03		667,060.98	
Western Union	260,000	45	270,000.00	40
MoneyGram	40,000	7	60,000	9
Account-to-account	N/A		N/A	
Other MTOs (under the table)	N/A		N/A	

Source: Authors' estimates using available data from banking institutions and money transfer companies.

## THE SUPPLY SIDE: OPPORTUNITIES

Banking technology in Nigeria has recently undergone a gradual modernization, with more and more ATMs and point of sale (POS) terminals and the introduction of online and mobile banking methods. First Bank has emerged as the leader in placing ATMs across the country; it has set up some 8,000 machines, which, combined with other Nigerian banks' ATMs, brings the nationwide total to nearly 15,000. Each bank has introduced POS devices, though the number remains below 100,000 countrywide, and the devices mostly connect larger stores. The economy still relies significantly on cash transactions, however, and the cards are not always welcomed or understood by the average Nigerian.

On a positive note, banks are enthusiastic about a new product from Visa International that is similar to Visa Electron, called VPlus. Depending on the acceptance, reliability and performance of users, the card will have an international use as a prepaid or ATM card, with Nigerian banks as the issuing authorities.

Mobile banking is also gradually penetrating the higher-income markets, as evidenced by most banks' offering two types of mobile banking for domestic transfers. One is a Java-based platform that offers basic personal financial information about checking and savings accounts. In some banks, the device can also receive SMS (short message service) notification about transactions received or made by the client. The other is a Java application that includes account-to-account transfers and payments with some merchants. This application is relatively new but is gaining attention among middle-class users. Most banks are very interested in deepening their existing domestic transfer platforms to perform international transfers, and see a relationship with international companies as an opportunity to be seized.

Fidelity Bank, for example, offers SMS banking from any client's mobile phone, including basic banking services such as account balance, details of the last five transactions, account deposit or credit notifications, and confirmation of checks cleared. Diamond Bank offers mobile banking and transfer services to its clients to make operations within accounts or to third-party non-Fidelity accounts. This institution has an already existing transfer infrastructure that would need minimal changes to adapt to international foreign currency transfers. United Bank for Africa (UBA) offers similar features to those offered by Diamond, as well as some additional items. More importantly, UBA has set up an online platform for money transfers and banking exclusively dedicated to the Nigerian diaspora, called UBA Remit ([www.ubaremit.com](http://www.ubaremit.com)). A fully functional mechanism to perform

account-to-account transactions, this system provides banking benefits for senders and recipients at lower cost by making account transfers into a recipient's account through credit card or from a bank account.

New companies are also springing up to directly address the demand for alternative technologies. A relatively new company, eTranzact, has almost completed an eight-month pilot to test out a platform for card-based and mobile transfers within Nigeria, around West Africa, and from the U.K. There are already 20 member banks on the platform, which enables users to open up a bank account in their home country while living abroad, deposit into a bank account in person or by phone, send money directly to a mobile account, and top up mobile phone accounts for friends and family, in addition to any service currently provided by debit and prepaid cards.

A longer-term goal of this company, and others like it, is to provide better services outside of major metropolitan areas. To do this, eTranzact plans to approve shops in villages to serve as agents that can fulfill some targeted banking services, and they hope that their cards will eventually be compatible with all ATMs.

Such technology integration among payment transfers, merchants, and consumers is a critical component to promote development. However, operating and consumer costs are also non-negligible issues. A study of companies offering card-based transfers shows that overall, card-based transfers are 35 percent cheaper (Orozco 2007a). However, the different fees attached to the card used may represent a cumbersome and confusing practice. Therefore, considerations about pricing need more attention.

On the inbound side, costs also matter, particularly relative to start-up operations where hardware acquisition is important to ensure an operational payment network. A payment platform with a corresponding accessible network may lower transaction costs for consumers receiving remittances. These costs vary depending on the type of payment instrument adopted and the services it is bundled with.

**TABLE 6: COST COMPARISON TO SEND \$300 FROM THE U.S.**

	2005		2006	
	Prepaid Cards	Wire Transfers	Prepaid Cards	Wire Transfers
<b>(Average Cost to Send \$300)</b>				
Advertised cost per transfer	\$7.95	\$11.27	\$8.30	\$11.41
Actual cost of first transfer	\$21.35	\$14.85	\$19.02	\$14.05
Actual cost of subsequent transfers	\$9.39	\$14.85	\$9.30	\$14.05

Company	A	B	C	D	E	F	G
<b>Cost to use remittance cards to send \$300 from the U.S.</b>							
Advertised price per send	\$9.99	\$9.95	\$2.50	\$2.00	\$14.00	\$10.00	\$9.95
Price to purchase card	0	\$4.95	\$29.95	\$14.95	\$1.99	0	\$14.95
Shipping fee	0	0	0	0	\$9.99	0	\$1.00
Monthly fee	0	0	\$2.50	0	\$0.99	0	\$1.50
P.O.S. purchase fee	0	0	0	\$2.00	0	0	0
Balance inquiry	0	0	\$2.00	0	0	\$0.50	0
Dormant account	0	0	0	\$5.95/ mo.	0	\$2.00/ mo.	0
Total fee for first transfer	\$9.99	\$14.90	\$34.95	\$16.95	\$28.96	\$11.00	\$27.40
Rate per \$300 sent	0.03	0.045	0.1165	0.0565	0.0965	0.0367	0.091

Source: Orozco, Jacob, and Tescher. "Card-Based Remittances: A Closer Look at Supply and Demand." Chicago, IL: Center for Financial Services Innovation, February 2007.

# 3. SENDERS AND RECIPIENTS: A PROFILE

Two surveys—one of remittance senders in the United States and one of remittance receivers in Nigeria—were conducted to improve our understanding of trends and characteristics of Nigerian migrants and their families. The surveys cover demographic factors such as age, gender, relationship to sender or receiver, education and income levels, priorities for savings, and—in the case of U.S.-based senders—citizenship. A second category of information gathered establishes patterns and preferences of transfers through an examination of the amount remitted, frequency of sending, and mechanisms used. Interest in using alternative payment mechanisms—such as mobile, card-based, and internet transfers—is established through a series of questions on individuals’ familiarity with these and related technologies. Finally, as will be discussed in Section Four, respondents were asked about their use of financial products and services and their engagement in the formal financial system.

The project made the most use of limited resources by concentrating the sender and receiver surveys in urban areas and using cluster and intercept sampling techniques. Therefore, the results obtained represent the patterns and activities of urban and semi-urban populations only. This should be taken into particular consideration in interpreting findings related to financial access in the recipient population and to costs of sending, which differ from city to city in the United States.

To identify the sending population, we used U.S. Census data from the Public-Use Microdata Samples (PUMS) 2000, the most recent year for which these data are available. The PUMS reported 165,468 adult Nigerian-born immigrants living in the United States, of which 11.41 percent, or 18,889 individuals, were living in primarily urban areas of New York State. The chosen sample size of 300 subjects represents 1.58 percent of the New York State population with a confidence interval of 5.61 percent at a confidence level of 95 percent. An intercept technique was used to sample subjects in areas near remittance-sending locations identified by experts as popular with Nigerians.

In Nigeria, surveys of recipients were conducted in the urban areas of Lagos, Benin City, Ibadan, and Owerri. The first phase of the recipient survey included a total of 365 remittance-receiving households chosen at random from three clusters. The clusters were based on the stratification of dwelling density, corresponding to four social classes: A) low-density, exclusive neighborhoods with higher income; B) exclusive neighborhoods with higher income, but slightly higher density than A; C1) medium-density apartments and duplexes; and C2) apartments in medium-density areas and higher-income buildings in higher-density areas. The two remaining clusters not included in this survey are D) lower-class neighborhoods in a high-density area, and E) very high density areas with a population living at or below subsistence level. These final two clusters were not included in the sample, with the result that this survey reflects the behavior of higher-income recipients rather than recipients as a whole. Recipients were surveyed regardless of where their transfers originated, but more than 40 percent of recipients were receiving from the United States, with an additional 23 percent receiving from the U.K.

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**TABLE 7: INCOME LEVEL OF NIGERIAN SOCIAL CLASS CATEGORIES**

Social Class	US\$
AB	1,323.86
C1	1,177.29
C2	777.96

Due to some surprising findings in the proportion of recipients that were male and in the proportion of the population with bank accounts in the initial recipient survey (both were higher than would be expected), a validation survey of 100 additional units was conducted using an intercept technique to interview recipients at MoneyGram agent banks. This validation survey confirmed that the sampled population had a high degree of male recipients and a high incidence of recipients with bank accounts. These issues will be discussed in more detail in the following sections.

## DEMOGRAPHIC CHARACTERISTICS OF SENDERS AND RECIPIENTS

The average age of senders in the survey was 36, and just under two-thirds were male. The majority of recipients were slightly younger than the senders, ranging from 25 to 34 years old, and over 70 percent were male. There are several possible reasons for the high incidence of male recipients. One explanation suggests that there may be a higher rate of male migrants from rural to urban locations, who pick up remittances and then send them on to rural relatives. Another theory is that males may be chosen to go to the remittance pick-up locations for security reasons, even though they may not be the final recipient. However, these are anecdotal observations, and more research is needed to fully explain this finding.

Our survey respondents were highly educated, with more than 40 percent of senders having completed high school and 50 percent having at least some college education. Among recipients, more than 40 percent had completed some college. Personal income of senders averaged \$16,000 per year, with close to 50 percent of respondents indicating that they made between \$10,001 and \$15,000 annually. Household income, not counting the income of the respondent, averaged \$13,500 per year, although approximately 60 percent of senders stated that their households made less than \$10,000. Among recipients, the mean annual income of our population was N197,803.75, or US\$1,583.57—66 percent higher than the World Bank estimate of Nigerian gross domestic product (GDP) per capita (PPP) in 2006, which was US\$1,050 (World Bank 2007).<sup>6</sup>

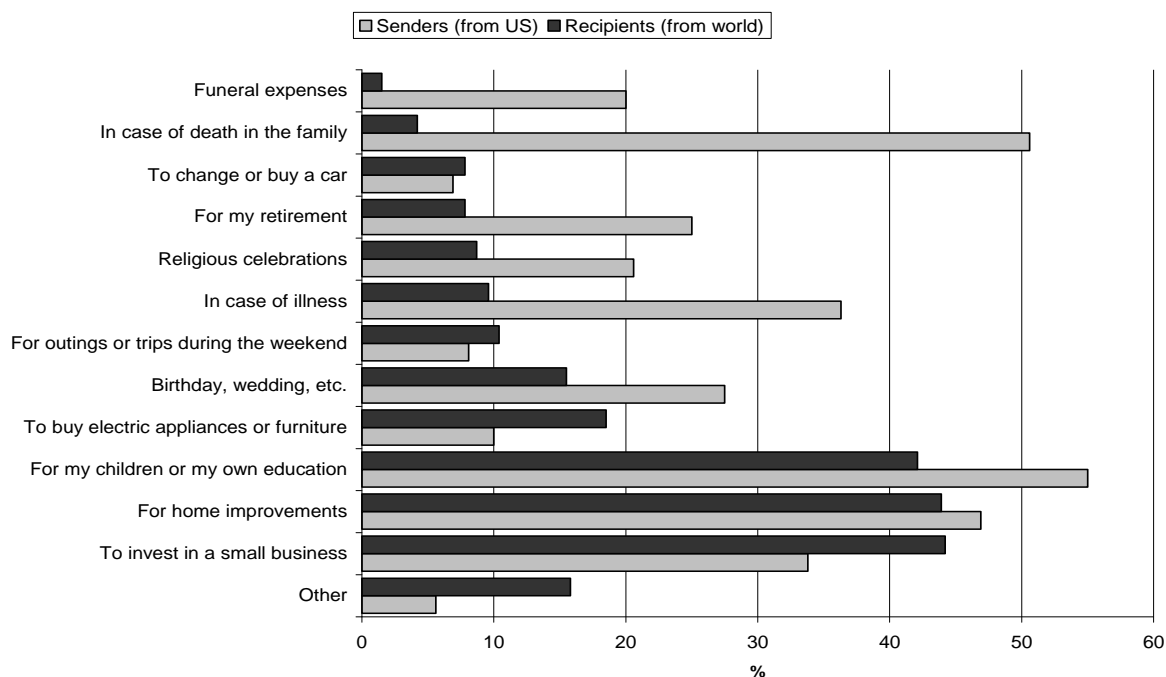
On average, Nigerian senders had lived in the United States for seven years, and 70 percent indicated that they were not American citizens. Among recipients, about 20 percent had been receiving remittances for less than one year, 45 percent for one to three years, and 20 percent for three to five years.

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<sup>6</sup> According to the World Bank's Atlas method for calculating Gross National Income (GNI) per capita, Nigeria's GNI in 2006 was US\$640. This estimation reduces the impact of exchange rate fluctuations in comparing national incomes.



**FIGURE 2: REASONS FOR SAVING AMONG NIGERIAN REMITTANCE SENDERS AND RECEIVERS**



Source: Surveys of remittance senders and receivers, authors' analysis.

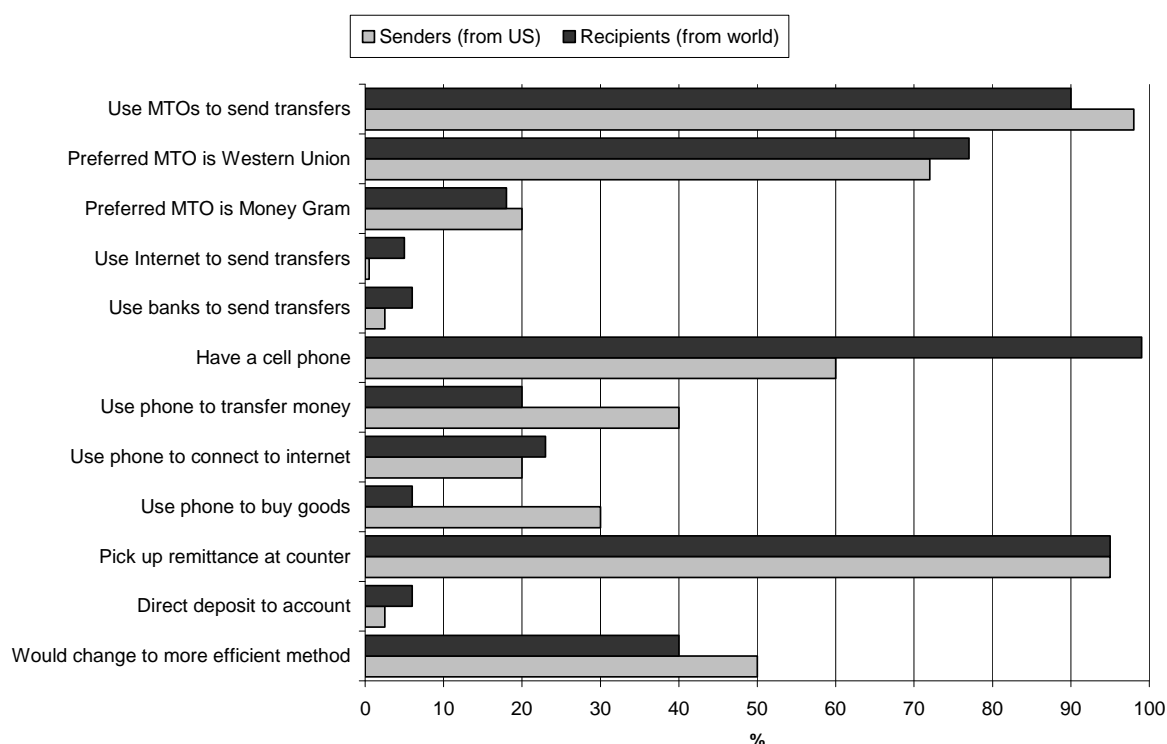
Both senders and recipients save, but their priorities for making use of savings differ somewhat. Both prioritize savings for education, although senders rank somewhat higher in that area, while recipients rank somewhat higher in saving for business investments. Home improvements were important areas of savings for both groups, but savings for funeral expenses were very important to senders due to the repatriation costs they would face.

## REMITTANCE TRANSFER CHARACTERISTICS

According to the sender survey, the average amount of money sent home was US\$189.26 per transfer, with an average of 13 transfers per year. One-fourth of respondents indicated they sent remittances to Lagos, while 16.4 percent sent them to the Federal Capital Territory, Abuja. Thirty-nine percent sent money to a spouse, and 38.1 percent, to parents; they stated that the average age of the recipient was 45 years old. Nineteen percent of senders had a debit card, and 9 percent had a remittance card.

Nearly all senders (98 percent) indicated that they used money transfer agencies to send money, and 71.9 percent said they preferred Western Union; most frequently this preference was related to a perception of efficiency. In fact, 87 percent of respondents said remittance transactions took less than 10 minutes, and 48 percent said that the recipient received the money in one to two hours. Ninety-four percent of respondents said that they had had no bad experiences sending money.

**FIGURE 3: REMITTANCE CHARACTERISTICS OF NIGERIAN SENDERS AND RECEIVERS**



Source: Surveys of remittance senders and receivers, authors' analysis.

The average cost of a transaction was US\$12.70, or close to 7 percent of the transfer. One-fourth of respondents indicated that Western Union pays the remittance in Nigeria, and 94.5 percent said that cash payments in Nigeria were picked up at the agency or the bank counter. Only 3.5 percent of respondents claimed that payments were made in other ways, such as through direct deposit to a bank account or with an ATM card. While 48 percent of respondents claimed that they did not want to change their method of sending remittances, 25 percent mentioned that they would like to use a remittance card. Only 2.5 percent were interested in using a mobile phone-based transfer.

Among the recipient population surveyed, the majority received money from relatives in the United States (40.5 percent) and U.K. (23.3 percent). Other countries of Western Europe accounted for the remainder of the countries identified.

The population surveyed split nearly evenly into quarters, when broken down according to the size of the transfers they received: \$1–100, \$101–200, \$201–500, and \$501 up. Just over half of recipients received between one and three transfers annually, while about 30 percent received money between four and six times each year. Nearly all recipients surveyed were relatively “new” in the sense that they had only been receiving remittances for a few years.

Remittance flows are overwhelmingly sent through money transfer agencies (89 percent), and of those, 77 percent of flows go through Western Union. Banks (account-to-account transfers) represent

just about 6 percent of flows, while the internet was used only in 4.9 percent of all cases. There was a great deal of satisfaction expressed with money transfer companies, with speed, dependability, and easy access as the preferred traits. The bulk of transfers took between 1 and 30 minutes, though nearly a quarter took between 31 and 61 minutes.

United Bank for Africa (UBA) dominates among paying institutions in Nigeria, with 18 percent of recipients using this bank, followed at a distance by Oceanic Bank with 10 percent. However, there are many different banks engaged in this service. These survey findings suggest that dominance of Western Union and UBA, a payer of MoneyGram, is due in part to the massive amount of brand awareness that these two companies enjoy in Nigeria.

Nearly all remittance recipients receive their money in cash at an agency or bank counter. Most view this method as satisfactory. However, due to the low percentage of respondents using an ATM or other method, the speed and efficacy of other methods remain largely untested among this population.

The bulk of remittance receivers do not use cards for phones, remittances, credit and debit, or any use other than their national ID cards. However, more than 99 percent do use cellular phones for calls and text messages. Approximately 65 percent of users say that they do not use their phones to buy goods or transfer money because they are not aware of that service. With regard to connecting to the internet, approximately 40 percent of respondents stated that their phone cannot be used for this purpose, while 27 percent have simply not tried it.

Close to 40 percent of receivers were not satisfied with the efficiency of their method of receipt, and were willing to change. Among those who identified a method that they might prefer, 24 percent chose direct deposit to a bank account, while only 2 to 6 percent identified remittances cards, mobile phone exchange, or the internet. However, the medium- to high-income recipient population surveyed is familiar with using these technologies for other purposes, with 70 percent of respondents using the internet through DSL or by cell phone.

## **DETERMINANTS OF REMITTANCES AMONG SENDERS AND RECIPIENTS**

The following section describes the determinants of the annual amount sent home by Nigerian migrants—viewed from the sender side in the United States, and from the recipient side in Nigeria, with remittances coming from major migration destination countries in Western Europe and the United States. The primary determinant for senders is the cost of the transfer as a percentage of the amount sent. On the receiver side, the length of time a migrant had been away had the most impact.

### **DETERMINING THE ANNUAL AMOUNT OF TRANSFERS MADE BY MIGRANTS**

An OLS (ordinary least squares) model was used to estimate the effect of a number of factors on the amount of remittances sent by Nigerians. Six variables were found to be statistically significant in explaining the annual amount of remittances, defined as the dollar amount sent each time times frequency of transfer each year:

- The cost of sending money as a percentage of the amount sent is of the highest importance for senders. A 1 percent increase in this factor is associated with a 13.5 percent decrease in the amount of money sent.

- Income is another important factor; an increase from one US\$5,000 income range to another is associated with an 11.6 percent rise in the amount sent by the migrant.
- A perception of inefficiency on the part of the financial institution used to send money is associated with a 7.7 percent decrease in the amount sent, suggesting that amounts are likely to rise as more efficient methods become available.
- The age of the recipient is significant; a one-year increase in age is associated with a 5.8 percent drop in the amount sent. In conjunction with senders' priorities toward education, this finding suggests that school fees may be a primary use of transferred funds.
- Among all the purposes for which savings can be used, only two are important determinants: savings for illnesses and funerals. If senders are saving money to be used for their medical care, they send 1.5 percent less money home. However, if they are saving money for funerals, the amount sent increases by 26 percent.

### **REMITTANCE DETERMINANTS AMONG RECIPIENTS**

We again used an OLS model to test the relationship between the amount of remittances sent and certain trends among remittance recipients. The dependent variable—total amount received—was regressed against different components related to the demographics of beneficiaries and families, the cycle of remitting, as well as to financial issues.

- Receipt of transfers via the internet is associated with a 0.9 percent decrease in the annual amount received (5 percent of the recipients indicate that this is how they receive their transfers).
- The longer a recipient has been receiving remittances—as measured in five-year increments—the larger the average remittance; there was an increase of 27 percent in moving from one five-year range to the next. This reflects larger amounts being sent by senders with higher incomes.
- If the sender is a spouse of the recipient, the amount sent is on average 2.2 percent higher than the amounts sent by other family members and friends, with wives sending slightly more home than husbands.
- Having a prepaid, remittance, or payroll card is associated with increases of 1.2 percent, 2 percent, and 2.08 percent, respectively, in the amount sent.
- Migrants in the U.K. and Germany send remittances that are 0.4 percent and 0.6 percent larger than those of migrants in other countries.

Other variables, such as the efficiency of the services, bank account ownership, or savings practices, were not statistically significant.

# 4. REMITTANCES AND FINANCIAL INTERMEDIATION: SUPPLY AND DEMAND ISSUES

Financial access is one of the critical links that ties remittances to development, and is an issue that involves competition and the supply of alternative financial products, not just remittance services. As this section will show, financial institutions are strategically placed to perform money transfers and provide other financial banking products in Nigeria, but the presence of exclusive agreements actually reduces financial access. The empirical relationship between remittances, access to finance, and asset building needs greater attention on the supply side—that is, banking and non-banking financial institutions (NBFIs).

## FINANCIAL INSTITUTIONS IN NIGERIA AND THE REMITTANCE MARKETPLACE

The consolidation of over 70 banks in Nigeria in 2005 and 2006 has created a space to further increase financial access for many. In the area of remittances, the consolidation implied the reconsideration of several agreements that force a new bank to choose between Western Union and MoneyGram. This issue is discussed in more detail in the following section.

A bank's revenue per transaction is close to 2 percent, or one-third of the cost of sending the principal amount. As Nigerian banks are currently paying 350,000 transactions monthly at US\$500 on average, monthly earnings add up to about US\$3 million. To most banks, remittance transfers are very important to their financial operations. Only one bank claimed that they are making little profit from the business.

Remittances are a stable and profitable source of income for banks partly because funds flow with a certain regularity and the low-maintenance service does not require much investment. Moreover, legal costs are minimized because the MTOs ensure legal compliance.

For example, for a bank such as First Bank, which has assets of over US\$3 billion and net income near US\$100 million, annual revenues from remittance transfers may be 5 percent of the institution's net income. For smaller banks, revenues from remittances may represent a lower share of the institution's earnings because they perform relatively few of these transactions.

**TABLE 8: REMITTANCE TRANSFERS AND REVENUE PER TRANSACTION AMONG NIGERIA'S BANKS**

Banks In Nigeria	Number of Monthly Transactions	Monthly RPT (1.75% Commission Off Principal Amount [U.S.\$500])	Annual Remittance Revenue (U.S.\$)
Bank PHB (PlatinumHabib Bank Ltd)	40,000 combined	350,000 combined	4,200,000 combined
Equitorial Trust Bank Limited			
Spring Bank Nigeria Ltd.			
Union Bank of Africa Plc.			
United Bank for Africa Plc. (UBA)	25,000	218,750	2,625,000
Afribank Nigeria Plc	5,000	43,750	525,000
Access Bank Nigeria Limited	5,000	43,750	525,000
Diamond Bank Plc	8,000	70,000	840,000
EcoBank	8,000	70,000	840,000
Fidelity Bank Plc	10,000	87,500	1,050,000
First Bank Nigeria Plc	135,000	1,181,250	14,175,000
Oceanic Bank International Nigeria Ltd	32,000	280,000	3,360,000
Zenith Bank Plc	5,000	43,750	525,000
First City Monumental Bank Plc	70,000 combined	612,500 combined	7,350,000 combined
Guaranty Trust Bank Plc			
IBTC Chartered Bank Plc			
Intercontinental Bank Plc			
Skye Bank Nigeria Ltd.			
Sterling Bank Nigeria Ltd.			
Unity Bank Nigeria Ltd.			
Wema Bank Plc			
All banks	343,000	3001250	36,015,000.00

Source: Authors' estimate based on interviews with banks.

## REMITTANCES AS A FINANCIAL ACCESS ISSUE: IMPLICATIONS OF BARRIERS TO COMPETITION

As noted earlier, the partnerships between banks and Western Union or MoneyGram are based on agreements containing exclusive partnership provisions. These provisions prohibit the agents (that is, the banks) from offering competing money transfer services during the term of the contract. The U.S. Department of Justice (DOJ) has investigated such exclusive agreements as an antitrust issue, and the DOJ has stressed that “Western Union’s higher share of exclusive outlets in certain foreign countries” was “a potential matter of concern.” The DOJ added that “contractual provisions such as lengthy ‘non-compete’ clauses and long termination periods could, under certain conditions, enhance the restrictive effects of exclusive contracts and raise barriers to entry.”<sup>7</sup>

<sup>7</sup> “Statement by Assistant Attorney General R. Hewitt Pate Regarding the Closing of the Western Union Money Transfer Investigation: Competition for Money Transfer Services Benefiting from Increased Market Size, Existence of New Products, and Entry by New Providers,” U.S. Department of Justice, March 16th, 2005.

In the U.S.-Nigeria corridor, exclusive agreements are cause for concern. Because of these agreements the licensed money transfer market is handled predominantly by Western Union, and to a lesser extent by MoneyGram. Western Union prevents these banks from forming partnerships with other providers, despite the expressed interests among most banks in doing business with other MTOs. As a result, Western Union has significant control of the market at monopoly levels: 80 percent of licensed MTO transfers are originated by Western Union.

The two anticompetitive factors—that banks operate as sole payers of remittances, and that they must sign exclusive agreement clauses with MTOs that lead to a monopolistic situation—constitute a direct incentive for consumers to use informal transfers. In addition, the geographic diffusion of bank branches, while very important, is not sufficient to ensure effective delivery across the country. For example, the authors estimate that nearly 35 percent of all bank branches are based in Lagos (29 percent) and Abuja (6 percent) alone. Therefore, people may be finding alternative ways for transferring remittances in order to address the lack of choices.

Another implication is that the costs of sending to Nigeria are relatively higher than to other regions in the world with a high volume of transfers. For countries receiving over US\$1 billion a year in remittances, costs are below 6 percent, whereas Western Union costs are 7 percent of the principal sent (note that this figure agrees with the amounts provided in the survey by remittance senders). The lack of competition is an explanation for higher costs. At least in the U.S.- and U.K.-to-Nigeria corridors, a large number of competitors exist that are prepared to participate in the market.

**TABLE 9: COST OF SENDING REMITTANCES TO NIGERIA**

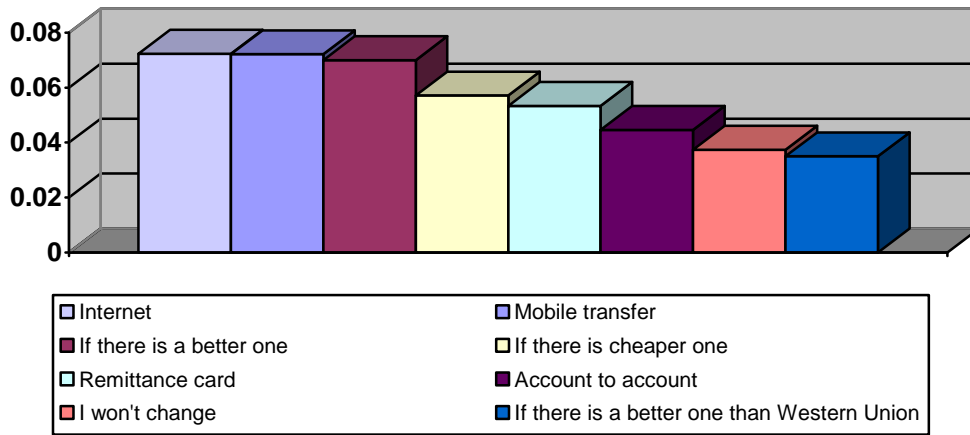
<b>Western Union: sending from New York</b>				
<b>Method of Transfer</b>	<b>100.01–500</b>	<b>500.01–1000</b>	<b>1000.01 and Over</b>	<b>Fx Commission</b>
In person	\$10.50	\$18.50	2.50%	3%
By phone	\$10.50	\$18.50	2.50%	3%
Online	\$10.50	\$18.50	2.50%	3%
Cost (%)	4% on 300	4% on 500	2.50%	3%
<b>Western Union: sending from other cities in the United States</b>				
<b>Method of transfer</b>	<b>100.01–200</b>	<b>200.01–300</b>	<b>300.01–400</b>	<b>400.01–500</b>
By phone	\$33	\$40	\$45	\$53
Online	\$22	\$29	\$34	\$43
<b>MoneyGram</b>				
<b>Method of transfer</b>	<b>.01–500</b>	<b>500.01–1,000</b>	<b>1,000.01 and over</b>	<b>FX commission</b>
In person	\$9.99	\$14.99	2% of principal	
Cost (%)	3%	3%		2.70%
<b>Costs of remittances worldwide</b>				
	Mexico	El Salvador	Tajikistan	Philippines
Cost (%)	4.50%	3.50%	3%	5%

Source: Interviews with MTOs, authors' calculations.

Consumers' willingness to consider changing their remittance method also responds to costs: the higher the fee people must pay to remit, the more they will express interest in switching methods.

**FIGURE 4: PREFERENCE TO CHANGE REMITTANCE METHODS**

Preference to change to a more efficient way and current cost of sending as a percentage of principal sent



## CHARACTERISTICS AND DETERMINANTS OF FINANCIAL PRACTICES OF SENDERS AND RECIPIENTS

### FINANCIAL CHARACTERISTICS OF SENDERS

The survey reflected strong patterns as regards senders' financial interests. Eighty percent of senders indicated that they saved or invested in some way. Of those, 55 percent said that they saved money by putting it aside and by working extra hours to earn more money. When asked what savings were used for, 55 percent indicated that they were saving for their children's or their own education, 51 percent indicated that their savings were in case of a death in the family, 47 percent said savings were for home improvements, and 13 percent said they were saving for retirement. Twenty-four percent said they were investing in a business in the United States. Few of those interviewed—11 percent—had any kind of personal loan outstanding.

Roughly half of the respondents, 51.5 percent, indicated that they had a bank account. The most popular banks were Citibank (36.3 percent), Washington Mutual (21.6 percent), and Bank of America (20.6 percent). Of those who did not have a bank account, 64.9 percent indicated that they didn't need one and 20.6 percent stated that they didn't trust banks.

Of those interviewed, 59.5 percent reported having some form of ID card, most frequently an employee or healthcare card. Sixty-seven percent of individuals responded that they have both a credit and debit card, while 30 percent indicated that they had only a debit card. Card-using individuals spend an average \$218.04 on their cards per month. Forty-three percent of respondents had chosen Citibank as the bank issuer of their card, 22 percent chose Washington Mutual, and 19 percent chose Bank of America. For credit card companies, 51 percent of respondents preferred Visa over MasterCard, Capital One, or Discover. The most popular retail store-issued credit card was Target's, at 33 percent, followed by the Sears card at 17 percent.

Twenty-two percent of respondents indicated that they had reward or discount cards from stores such as CVS or Costco, and 78 percent reported having a gift card for stores including Macy's and Target. Only 14 percent of respondents had electronic benefit cards, including electronic benefit transfer



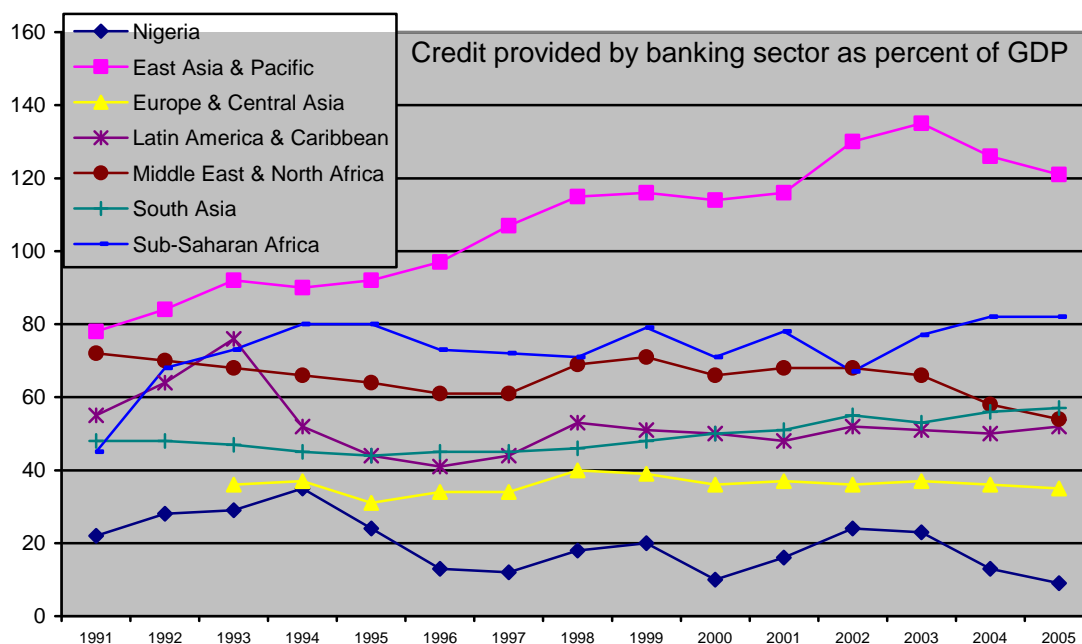
cards, food stamps, and WIC cards. Sixteen percent of respondents indicated using a remittance or money transfer card and of those, 91 percent were with Western Union. Further, 21 percent had a payroll card, 16.5 percent had a prepaid debit card, 7 percent had a charge card, and 4.5 percent had an affinity card.

Sixty percent of the respondents indicated that they had a cellular phone. Of those, 28 percent use the phone to pay bills, and 37 percent use it for transferring money. Seventy-two percent of respondents use a calling card to call relatives abroad. Of the 29 percent that use their home phone, Verizon was the most-used company, with 54 percent saying they used it. Cellular phones were also used for calling abroad by 27.5 percent of the respondents, with 38 percent of those using T-Mobile as their company. Of the respondents, 54 percent used the internet, 28 percent of those accessed the internet through their cellular phone company. Fifty-two percent of respondents noted that they use the internet daily.

### FINANCIAL CHARACTERISTICS OF RECIPIENTS

Financial access rates in Nigeria are among the lowest in the world. Despite advances and efforts by the Central Bank of Nigeria over the past 30 years to expand financial access by promoting different kinds of microfinance institutions (rural banks, savings and credit associations, and community banks, among others),<sup>8</sup> the number of institutions and the rate of lending is still low, and very few people have access to banking institutions or to financial services. Out of 170 countries, Nigeria ranks 12<sup>th</sup> from the bottom in this regard, with one of the world's lowest credit-to-GDP ratios.

**FIGURE 5: CREDIT AS A PERCENT OF GDP**



<sup>8</sup> Woodstock Institute. Access to Finance. [http://www.woodstockinst.org/program\\_areas/global/nigeria](http://www.woodstockinst.org/program_areas/global/nigeria).

Among remittance recipients, the level of access to some products and services is quite a bit higher than the average Nigerian's, while access to others, such as ATMs, is as low as the average. Ninety percent of respondents have a domiciliary bank account used to receive wires of foreign currency, while 55 percent have a savings account with a bank, mostly with UBA and First Bank. This relatively high proportion of bank accounts may be explained in part by the urban composition and relatively high income levels of our sample. More detailed information on financial access and integration of the Nigerian population at large will be gathered as part of the FinScope Nigeria program, underway in 2007—one in a series of Sub-Saharan Africa financial sector analyses led by the DFID-funded FinMark Trust.

Of the 10 percent of our sample that do not have a domiciliary bank account, lack of sufficient money to save (34.4 percent) and lack of need (31.4 percent) are the most common reasons cited. Bad experiences and complex procedures are also prevalent issues. The majority of respondents—96 percent—do not have credit cards, while 56 percent do not use ATM machines.

**TABLE 10: AVERAGE ANNUAL SAVING BY GENDER**

	US\$
Male	1,225.05
Female	678.13

Source: Receiver survey, authors' analysis.

Ninety-two percent of the sample population save or invest in some way: 45 percent save in the bank or in a post office account; 36 save whatever is left at the end of the month; and 30 percent take advantage of sales on goods; 33 percent invest in a business. Financial emergencies are commonly dealt with through assistance from a family member in the country (61.6 percent) or one working abroad (27.9 percent). Only 11.5 percent said they ask for a loan from a bank in such circumstances.

In nearly 60 percent of cases, family members overseas help with financial obligations above and beyond the remittances they send. The most common obligation, mentioned by 35 percent of respondents, is school fees, followed by maintenance of a business at 23 percent. Loan payments and fees for travel documents to migrate both take about 10 percent. Recipients are saving substantial amounts, averaging US\$1,000, but women are saving less than men. Class status does matter when it comes to savings: the lower the class category of the group, the lower the savings.

## **MARKET PREFERENCES AND OPPORTUNITIES FOR CHANGE**

The possibility of account-to-account transfers by migrants is an important consideration for the diaspora and their families. A significant number of transnational families have expressed their interest in shifting from traditional sending methods to alternative ones. The survey on Nigerian remitters showed that a little over 50 percent were interested in shifting from cash-to-cash transfers to other sending methods, such as stored-value cards or account-to-account transfers. The story among remittance recipients is similar: 40 percent of recipients expressed interest in using a more efficient way to receive their remittances.

**TABLE 11: INTEREST IN USING A MORE EFFICIENT WAY TO SEND MONEY**

	Sender	Recipient
Interested in changing	51	39
Specific method sender would consider:		
Remittance card	22	4
Direct deposit into a bank account	20	24
Internet	3	2
Mobile phone-based transfers	2	2
Other (no specific one)	4	7

Source: Sender survey, authors' analysis.

When it comes to handling their money, consumers are generally risk averse and thus are conservative about switching from one method to another, changing only slowly over time. These figures are no different from trends identified among other consumers. For example, in 1999 46 percent of Americans stated in surveys that they would switch into electronic banking. In 2003 this grew to 58 percent, for using what in the early 2000s was considered an emerging banking technology. Moreover, when looking at other emerging technologies at the time, such as debit cards, the figures are telling: in 1999 only 20 percent of U.S. households used debit cards, and by 2003 the figure had jumped to 50 percent. These statistics illustrate that shifting patterns take time but often start at lower thresholds than those reported on by this survey, providing support for the concept of exploring these instruments.

Open minds among senders and recipients open the door to exploring alternative methodologies. Moreover, they give banks an incentive to consider investing in or strengthening their already existing platforms for cards, direct account deposits, or mobile transfers. Banking institutions are eager to invest in and attract clients through alternative banking methods relying on innovative technologies.

Below we analyze some statistical determinants influencing the preference to switch to cards or direct account deposits.

## **REMITTANCE SENDERS AND THEIR WILLINGNESS TO SWITCH FROM THEIR CURRENT REMITTANCE TRANSFER METHOD**

### **Trends Among Senders**

We use logit models to identify the factors that influence a decision to switch from a current transfer method, and, more specifically, to switch to other methods, such as remittance cards, bank deposits, and stored-value cards. We find that willingness of senders to switch their method from whatever they are currently using (MTOs in most cases) is determined by a number of demographic and financial factors, which are summarized in the table below.

**TABLE 12: DETERMINANTS OF SWITCHING METHOD OF SENDING REMITTANCES**

	<b>% Change in Willingness to Switch</b>
Decrease in efficiency of financial institutions	+1%
Sender sends to siblings	+4.40%
Increased age of recipient	+0.05%
Increased age of sender	-0.08%
Increased income of sender	+0.41%
Sender has a loan	+1.50%
Sender is saving for retirement	+1.02%
Sender is saving for education (for self or children)	- 0.89%
Sender is saving for a business	- 0.63%

Source: Sender survey, authors' analysis.

Additional determinants of switching were as follows:

#### **Preferences Toward Remittance Cards**

Here, the preference is explained only by the cost of sending money as a percentage of the total amount sent during the year; an increase in cost is associated with an increase in preference toward remittance cards of 14.2 percent.

#### **Preferences Toward Bank Deposit**

According to the regression results, three variables—level of income, savings intended for spending on cars, and savings intended for spending on trips—are associated with changes in preference. The first variable is associated with a 0.6 percent increase in preference to change, the second with a 2.29 percent decrease, and the third with a 1.28 percent increase.

#### **Determinants of Financial Stored-Value Cards**

Finally, a regression model was created on stored-value cards with a financial component in order to learn what factors influence the current use of these payment instruments. The results show that owning a bank account, education, income, and having savings in the home country are positive regressors and statistically significant.

## **TRENDS AMONG RECIPIENTS**

#### **Preference Changes in Method of Sending**

Our regression analysis employed a logit model to test a dummy variable applied to the 40 percent of recipients who reported being prepared to change to a different method of sending, such as having the remittance deposited into a bank account or using a stored-value card such as a debit card. The results show that several factors are statistically significant, including time spent to complete the remittance transaction, being a spouse or sibling of the sender, the age of one's spouse and sibling, ownership of a reloadable card and phone card, access to the internet, and the amount sent.

The data indicate that a 10 percent increase in the amount sent is associated with a 2.5 percent increase in the preference toward change. An increase in time to complete a transaction by 10 percent

is associated with a 4.8 percent increase in preference toward change, indicating that both groups are interested in efficient business solutions.

An interesting finding is that people receiving money from spouses and siblings are 4.6 percent and 3.7 percent, respectively, less likely to change from the current method (this group represents nearly half of all recipients). Related data shows that the older the spouse or sibling sending, the greater the desire to change the method. The ownership of a reloadable and phone card is also associated with a higher preference to change. Conversely, users of the internet are less likely to change.

#### **Preferences Toward Bank Deposit**

Changes in preference toward directly depositing the remittance into an account were determined by the length of time the respondent has been receiving money and the time spent to complete the transaction. Other determinants include the relationship to the sender, specifically being a sibling and particularly an older one, which increases the chances of shifting preferences by 9 percent. This is significant, as 44 percent of recipients are siblings of senders.

The longer the recipient has received money, the less his/her desire to change to bank deposits. An increase in time spent to complete the transaction is associated with an 18 percent lower preference toward a bank deposit. Owners of a remittance card are 3.5 percent less likely to prefer to receive remittances as a direct deposit, and people using ATMs do not have a desire to change.

#### **DETERMINANTS OF SAVINGS ACCOUNTS**

In addition to looking at preferences to change to alternative methods, we looked at the determinants of having a savings account and the extent to which remittances increase the likelihood of improving savings. As mentioned above, over 50 percent of recipients have savings accounts, not only domiciliary accounts. A logit regression showed that the amount of remittances sent has a positive effect on the ownership of a bank account.

**TABLE 13: DETERMINANTS OF PREFERENCE TOWARD HAVING A BANK SAVINGS ACCOUNT**

	<b>% Change in Probability of Having a Savings Account in a Bank or Other Financial Institution</b>
Amount of remittances received	+0.70%
Time spent to complete remittance transaction	-1.00%
Savings used to invest into small business	-1.25%
Savings used in case of illness	-1.40%
Savings spent for religious celebrations	+2.96%

Source: Sender survey, authors' analysis.



# 5. POLICY OPPORTUNITIES TO ENHANCE MARKET AND FINANCIAL ACCESS THROUGH REMITTANCES

This research revealed significant constraints in the remittance transfer process in the U.S.- Nigeria corridor. Most of these challenges stem from the way competition works and from the regulatory environment operating in Nigeria. Here we identify some policy opportunities as solutions to some of these challenges.

## ENHANCING COMPETITION (I): PROBLEMATIZING EXCLUSIVE AGREEMENTS

Perhaps the most serious problem with remittance transfers to Nigeria is the fact that the regulated money transfer market is controlled almost entirely by Western Union. This problem is out of sync with the World Bank's *General Principles for International Remittance Services*, which stress that affordable and cost-effective systems are integral to payment transfers. Moreover, as the Principles state, government awareness of problems is important, because often "their own regulatory regime may itself lead to market distortions and impose unnecessary costs, thus causing imperfect competition" (*General Principles* 2007, 26). In Nigeria, the problem of exclusivity agreements is exacerbated by a lack of clear and effective regulation regarding this issue in particular, and competition law and policy more generally.

There are different ways to address this problem whereby both the United States and Nigerian governments and policy makers can contribute to improving competition, lowering transaction costs, and reducing informality. First, both governments need to increase their awareness about the existence of a monopoly in money transfers to Nigeria, and the adverse effects this has on the country and clients.

Second, it is important to raise the issue with the companies subscribing to those agreements with the agent banks. Workable solutions, such as allowing the agreements to remain in force until the contracts expire, can be devised while banks and MTOs reconfigure their relationships.

Third, as a matter of consumer protection, exclusive agreements need greater scrutiny in the U.S. outbound corridor. Nigeria is not the only country facing this problem. This situation has a particularly important effect in Africa, where banking institutions are the only entities paying and the larger transnational companies such as Western Union have cemented their presence through the agreements. In poorer African countries, exclusive agreements have perhaps been more damaging than elsewhere in the world.

Fourth, it is important to demonstrate to these companies that the absence of exclusive agreements in other countries does not adversely affect them, since they already possess strong name recognition. The governments of Russia and Ukraine do not endorse exclusive agreements, yet despite the presence of 16 competitors in Russia remitting to Central Asia and the Caucasus region, Western Union continues to dominate the market. In fact, although the cost of sending to that region is more expensive via Western Union than through other providers, consumers prefer to use Western Union (Orozco 2007b). In countries in Latin America and the Caribbean, a similar pattern is found: Western Union leads money transfer payments among dozens of competitors, despite the fact that it often waives the exclusive agreement clause with the agents.

## **ENHANCING COMPETITION (II): DEEPENING INCLUSION OF NBFIS**

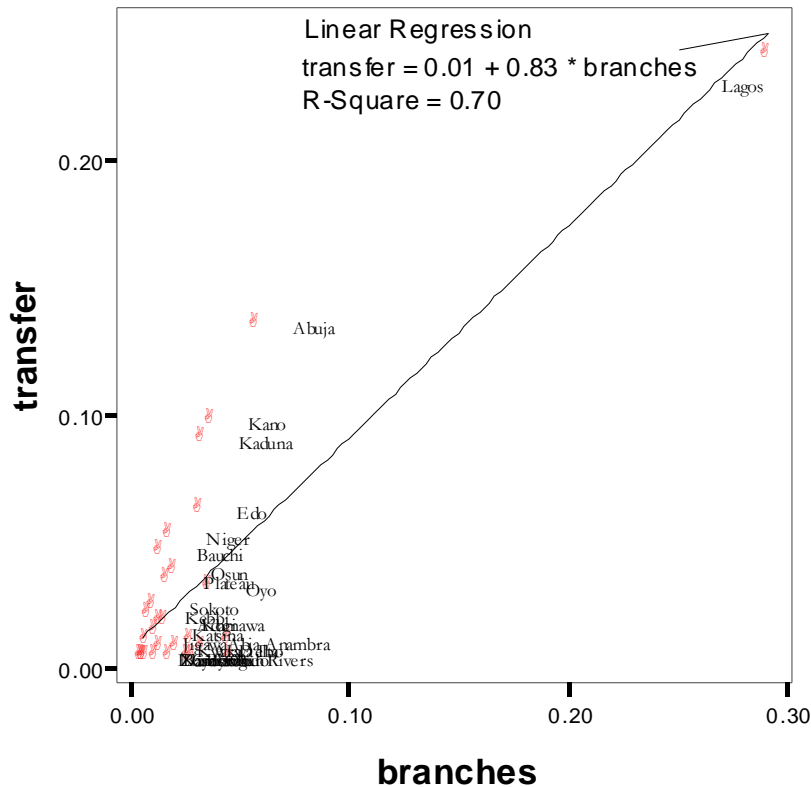
The Nigerian financial sector underwent a dramatic change in 2005, with a wholesale banking consolidation. The first phase of the Central Bank-led reform required banks to attain minimum shareholders' funds of N25 billion (US\$195.5 million in 2005 dollars) by December 2005, up from N1.9 billion (US\$15 million) in 2004. To attain this level of funding, banks merged, raised funds through public offerings, or closed due to insolvency, with the result that within one year the number of banks had decreased from 89 to 25.

Additional reforms include the new microfinance policy requirement that all community banks (CBs), of which there were 757 in 2005, convert to microfinance banks (MFBs) licensed to operate as unit banks by 2007. This change was stipulated by the Central Bank, which decreed that the Central Bank's existing minimum working capital—N5 million, or US\$40,000—was an insufficient base for effective banking functions. While N50 million, or US\$400,000, was determined to be the minimum amount needed, converting community banks were given a lower minimum of N20 million, or US\$161,000—to be met by the end of 2007—due to their constrained ability to obtain the higher amount. There is concern that many CBs, which play an enormously important role in providing credit to rural populations, will be unable to meet even this lower requirement and will lose their licenses. However, as of its 2006 Annual Report, the Central Bank had received 40 applications for MFB licenses from new investors, and 525 of 770 community banks were in process of submitting conversion plans.

While the banking sector was much strengthened by the consolidation, and a strengthened microfinance sector may grow out of these later phase reforms, the regulatory framework governing international money transfers in Nigeria simply inhibits competition. The fact remains that only commercial banks, of which there are now 25 in Nigeria, are permitted to make payments.



**FIGURE 6: MONEY TRANSFERS AND BANK BRANCHES IN NIGERIA**



Source: Receiver survey, authors' calculations

Banks make an important contribution in paying remittances; in fact, there exists a strong correlation between the location where migrants in New York City are sending remittances and the locations where bank branches are operating (see Figure 7). However, other financial institutions (OFIs)—such as microfinance banks, BDCs, and nongovernmental organizations' microfinance institutions—could participate in the market if they meet the basic criteria for paying transfers. Moreover, some of these institutions may play an important role in the intra-regional markets where substantial mobility of Nigerians exists, such as throughout West Africa and in South Africa.

Lessons learned from donor-funded experiences around the world indicate that in order to demonstrate a capacity to make payments of remittances, a financial institution needs to meet five conditions: a) comply with international regulatory norms on money transfers (anti-money laundering laws, Know Your Customer practices, among others); b) maintain a minimum cash flow equivalent to four daily remittance payments; c) have trained staff able to perform retail payments in foreign currency; and d) have the technological systems and hardware to adopt or adapt the payment platform.

One of the most critical issues is the cash flow component. Currently, an average bank (with 100 branches nationwide) is paying 10,000 transactions a month, which is an average of 100 transactions

per branch and five transactions daily.<sup>9</sup> An MFI or other non-banking financial institution would be required to have a near similar capacity, assuming they would be distributing 3,000 transactions at most. This means that the MFI should have the ability to pay four transfers a day, or handle a minimum of US\$2,000 daily.

Expanding competition lowers prices, improves service quality, reduces informality, and increases financial access. The experiences of countries in other regions, such as Latin America and the Caribbean, Central Asia, and South Caucasus, show that informality declines as soon as new competitors penetrate the market. In fact, the exponential growth of remittances registered in many countries worldwide has been a reflection of the increase in competition and the penetration of a larger market base, both on the originating and receiving sides. Many MTOs often choose to work in certain regions of a country corridor as a way to capitalize on their comparative advantage, and customers respond to that incentive by switching from a previously used method to the new and more convenient one. Moreover, people are able to use broader financial services provided by banks and also alternative financial institutions. This situation will be even more important for migrants in West Africa and South Africa. Nigerians in Ghana, Mali, or South Africa, for example, keep in regular contact with their relatives and quite often work as traders and merchants of goods imported from Nigeria. These persons require money transfers for personal and commercial purposes, yet in the absence of an accessible and efficient method must instead rely on informal networks to do the job.

The Central Bank should review the status of alternative financial institutions in order to explore options available to them in the international money transfer market. Current regulations in Nigeria stipulate that only banks can process remittances and that bank agreements must be approved by the CBN. Interestingly, the CBN requires payouts to be made in foreign currency unless the payee requests it in Naira (Hernández-Coss and Bun). This requirement hinders OFIs from serving as payers, as their access to a sufficient supply of foreign currency is limited or non-existent.

However, the benefits of allowing OFIs such as MFBs to serve as agents or sub-agents extend beyond the consumer and the institution itself, as it effectively deepens Nigerians' integration into the global economy by enabling real-time payments to and from anywhere in the world.

### **ENHANCING COMPETITION (III): ALTERNATIVE PARTNERSHIPS**

Two important and related trends were identified from the interviews with banks and the survey data. First, financial institutions show a strong and growing interest in reaching consumers through direct account transfers, payment cards, or mobile transfers. Second, 40 percent of consumers—senders and recipients alike—are interested in shifting from the current method of sending.

Partnerships between MTOs with alternative payments to conventional cash-to-cash transfers in the U.S. and Nigerian banks can therefore be promoted in this corridor. There are currently at least 10 MTOs in the U.S. employing mobile, account-to-account, online, and card-based transfers. Promoting partnerships among them and the banks would expand opportunities for consumers, deepen financial access, and increase competition. These initiatives would consist of promoting a liaison among these businesses by offering opportunities to add value by doing business together.

The benefit to MTOs in the United States is that they can move into the Nigerian market using alternative methods, in the process demonstrating to Nigerian banks that they are formidable competitors providing the same high-quality services as other larger companies. To banks, the benefit

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<sup>9</sup> Generally one or two branches capture one fifth of all the flow, thus reducing the average substantially.

comes from their ability to adapt their existing platforms or to design proprietary dedicated systems to cater to the Nigerian diaspora. This effort includes an exploratory process to identify partnerships, followed by a networking exercise aimed at considering the business opportunities and ending in the celebration of agreements to implement the transfer operation.

## **MOBILE TRANSFERS: INCREASING THE LINKAGES AND PILOTING WITH MG**

One step forward in linking money transfers to advanced technologies consists of jointly working on a cooperative agreement with MoneyGram and existing domestic mobile transfer providers to integrate their systems. MoneyGram has expressed support for the idea of piloting a project with an existing provider of card- and mobile phone-based transfers with many local branches. The pilot project would integrate the technology provider's interface into MoneyGram's money transfer platform to direct transfers to the customer accounts of those service providers. The end result would maximize the use of remittances by minimizing cash on hand and linking retailers, financial institutions, and MTOs in an existing payment network that can further expand remittance use.

## **FINANCIAL LITERACY AS A PILOT PROJECT WITH BANKS**

The United States Agency for International Development (USAID) can participate in public-private partnerships in collaboration with banking financial institutions in Nigeria on a financial literacy project aimed at furthering remittance recipients' financial education and financial access. The project would consist of developing financial literacy modules to accompany a financial literacy initiative. The initiative would involve dedicating bank staff and other appropriate resources, including a monitoring and evaluation system, to provide clients with basic skills in accessing and using financial services.

The pilot will seek to undertake three activities. First, bank staff will greet remittance recipient client at the depository location and invest 20 to 30 minutes in introducing the customer to basic and practical concepts and skills in financial management, using a financial literacy toolkit program established at the participating bank. Second, this person will instruct the clients on the various financial products the local bank offers to consumers and refer them to a liaison in the bank to discuss their specific financial needs. Third, the educator will invite them to establish a financial relationship with this bank or any other institution. This could include opening a bank account, obtaining credit, setting up a direct remittance deposit, requesting a debit card, or establishing another financial service.

The projected length of the pilot is up to 12 months, during which time it can reach 20,000 remittance recipients, some of whom will be return customers.<sup>10</sup> The project will monitor financial education and access by adopting an intake and evaluation form which will contain information about the profile of the client, measure the client's financial literacy skills, and measure the degree of, and reasons for, the client's interest in and willingness to establish a financial relationship with the institution.

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<sup>10</sup> We expect to establish 15 educators at 15 bank branches across the country, interacting with a minimum of 10 remittance recipient clients a day during a period of 120 days. The number of recipients retrieving remittances on a monthly basis is around 350,000. Therefore, total outreach would identify nearly 10 percent of all recipients.

At the end of the pilot, an evaluation report will be presented to identify the lessons learned, successes achieved, and future steps to be followed. We hope to demonstrate through this project that financial outreach efforts, as carried out in other countries such as Moldova, can be adapted and adopted internally by Nigerian financial institutions.

## **BANKING FINANCIAL INSTITUTIONS**

The pilot with banks should involve placing 10 educators in 10 branches of five banks. The banks are requested to a) dedicate a minimum bank staff to obtain training in educating clients in financial literacy, and providing that education; b) identify the bank branch locations where the maximum number of clients can benefit from the pilot; c) set aside physical space and furniture for the training effort; d) allow the trainers to use a computer once a day to enter their intake and evaluation forms, e) provide the trainers with bank information (brochures, marketing material, and so forth); and f) identify the branch bank officers to whom the educator will refer to the client for further banking consultation.

## **TECHNICAL ASSISTANCE TO DEEPEN FINANCIAL ACCESS**

With the transformation and consolidation of banks, there is a changing environment for financial access. Donor assistance can focus on deepening financial access by supporting MFIs to provide financial intermediation services to recipients and senders. There are different clusters among senders and recipients with different needs and preferences, and financial institutions can benefit from assistance in designing financial products that meet those needs. For example, less affluent recipients can receive specialized attention through financial advice, tailored financial products such as savings for education and health, body repatriation for senders, and remittance transfer insurance for catastrophic death or illness.

## **TRADE FAIR ON MONEY TRANSFERS AND INNOVATIVE PRODUCTS AND TECHNOLOGY**

An important way to support increased competition is to encourage a dialogue between financial institutions and alternative MTOs on the benefits of adopting technology-based transfers. Nigerian financial institutions are eager to engage with other MTOs, and particularly with those handling alternatives to cash-to-cash transactions.

A money transfer and technology fair is viable method to promote business engagement as well as a practical understanding of how current technical financial applications in the U.S. could be carried out in Nigeria. Experience with previous trade fairs in West Africa suggests that these types of activities can be extremely successful, and can provide lessons learned.

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# APPENDIX

## ESTIMATES OF MIGRATION AND REMITTANCES TO NIGERIA

Estimates of remittances to Nigeria are derived by factoring the migrant population, the number of migrants remitting, and the annual amount remitted. The UN population data analyzed by the Global Migrant Origin Dataset shows that migrants from countries with large populations are 3.9 percent of their total population (Table 1). Although this figure also underestimates migration from many of those countries (Indonesia is a striking example), we have applied the average for that population to Nigeria. The resulting number is 5.1 million.

**TABLE A1: MIGRANT POPULATIONS FROM HOME COUNTRIES WITH MORE THAN ONE HUNDRED MILLION PEOPLE**

Country	Number of Migrants	% of Migrants	Total Population	PC GDP (\$)	% Population That Is Rural
Indonesia	1,832,945.00	0.84%	217,587,504.00	906.19	53.3
Brazil	955,707.00	0.52%	183,912,544.00	3,563.52	16.37
Pakistan	3,426,337.00	2.25%	152,061,264.00	566.03	65.54
Russia	12,098,614.00	8.41%	143,849,568.00	2,285.78	26.71
Bangladesh	6,832,522.00	4.91%	139,214,528.00	402.07	75.37
Japan	884,189.00	0.69%	127,764,360.00	38,609.25	34.43
Mexico	10,140,846.00	9.77%	103,795,216.00	5,967.98	24.24
<b>Average</b>	<b>5,167,308.57</b>	<b>3.91%</b>	<b>152,597,854.86</b>	<b>7,471.55</b>	<b>42.28</b>

Source: Global Migrant Origin Database (GMOD), Development Research Centre on Migration, Globalisation and Poverty (Migration DRC). March 2007, Version IV. *World Bank Development Indicators, 2007*.

**TABLE A2: ESTIMATE OF MIGRANTS FROM NIGERIA LIVING IN DIFFERENT REGIONS**

Region	3.90% of Nigerian population
East Asia and Pacific	37,878.53
Europe and Central Asia	954,154.59
Latin America and Caribbean	10,950.85
Middle East and North Africa	145,703.47
North America	763,401.14
South Asia	61,776.72
Sub-Saharan Africa	3,197,540.02
<b>Total</b>	<b>5,171,405.32</b>

Source: Author's estimate, based on GMOD.

To this figure we apply available data on the percentage of Nigerian migrant populations that remit money back home, as well as on how often and how much money these migrants send from different regions where data exist. We obtained the data on amounts remitted from two surveys—one targeting Nigerians remitting from Western Europe and Africa, and one targeting money transfer companies that supplied data on average amounts remitted from the U.S. This gave us two estimates, the first showing 80 percent of migrants remitting money home, and the other showing 70 percent remitting.

Using the formula below allowed us to obtain an estimate of flows. This estimate serves as a reference and baseline. Table A3 below reports the estimates.

The factor estimate employed is the following:

$$\sum \text{Remittances}_{iN} = \text{Migrant}_{iN} * \text{Percent}_{iN} * \text{Average annual amount}_{iN}$$

Where  $i$ : migrant's destination country;

$N$ : migrant's country of origin;

$\text{Migrant}_{iN}$ : Number of migrants from Nigeria working in country  $i$ ;

$\text{Percent}_{iN}$ : Percent of migrants from Nigeria working in and remitting from country  $i$ ;

**TABLE A3: ESTIMATED SIZE OF REMITTANCES TO NIGERIA**

Region	Annual \$ Sent per Migrant	Migrant Population	Estimated Total Remittances at 80% Remitting	Estimated Total Remittances at 70% Remitting
East Asia and Pacific	1,314.29	37,878.53	39,826,569.83	34,848,248.6
Europe and Central Asia	1,932.20	954,154.59	1,474,896,580.72	1,290,534,508.13
Latin America and Caribbean	1,200.00	10,950.85	10,454,414.98	9,198,717.10
Middle East and North Africa	1,200.00	145,703.47	139,875,328.62	122,390,912.54
North America	2,400.00	763,401.14	1,465,730,197.24	1,282,513,922.59
South Asia	1,200.00	61,776.72	59,305,651.81	51,892,445.33
Sub-Saharan Africa	325.00	3,197,540.02	831,360,404.14	727,440,353.62
Total	9,571.49	5,171,405.32	4,021,505,089.99	3,518,816,953.74

Source: Estimated Nigerian population: Global Migrant Origin Database (GMOD), Development Research Centre on Migration, Globalisation and Poverty (Migration DRC). March 2007, Version IV. Annual amount sent: Manuel Orozco and Ann Casanova., *Survey of West African Migrants in Ghana*.



**TABLE A4: CHIEF DESTINATIONS OF NIGERIAN MIGRANTS**

Region	Migrants (GMOD)	Migrants (Authors' Estimate)	Share
Sudan	247,420	1,354,809	23.76%
United States	143,054	783,327	13.74%
Great Britain	89,580	490,517	8.60%
Cameroon	87,352	478,317	8.39%
Ghana	53,486	292,876	5.14%
Niger	41,379	226,581	3.97%
Germany	30,273	165,767	2.91%
Benin	29,911	163,785	2.87%
Burkina Faso	26,572	145,502	2.55%
Guinea	25,885	141,740	2.49%
Kenya	25,853	141,564	2.48%
Italy	22,972	125,789	2.21%
Togo	18,695	102,369	1.80%
Gabon	14,790	80,986	1.42%
Other	184,062	889,571	17.68%

Source: Global Migrant Origin Database, Development Research Centre on Migration, Globalisation and Poverty (Migration DRC). March 2007, Version IV.