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# **Developmental Issues in the Remittance Sector of Ghana**

**Presentation by  
GRACE AKROFI  
Research Department  
Bank of Ghana, Accra**



# **Developmental Issues in The Remittance Sector of Ghana**

## **Outline of Presentation**

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- Introduction
- Size and Direction of Remittance Flows
- Access to Financial Services in Ghana
- Costs of Remittance Services in Ghana
- Financial Literacy
- Conclusion

# Introduction

- Remittances are **defined** as monetary or cash transfers into a country .
- Remittances have become a very important source of foreign exchange inflow into the Ghanaian economy
- Remittances have in recent years, tended to exceed official development assistance as well as foreign direct investments in Ghana

# Introduction

- Remittances and other transfers come into the Ghanaian economy in various forms:
  - Official Transfers (Grants)
  - Private Unrequited Transfers – Migrant workers' remittances to their families and communities
  - Other private remittances in the form of transfers to NGOs, religious organizations and communities to support developmental projects.

# Introduction

- Presentation will focus on the report of Private Unrequited Transfers, (PUT), reported by the Banking Supervision Department of the Bank of Ghana, and which is recorded in the Balance of Payments as Private Transfers.
- The data on PUTs as reported in this presentation does not include remittances sent through hand carriage into the country.

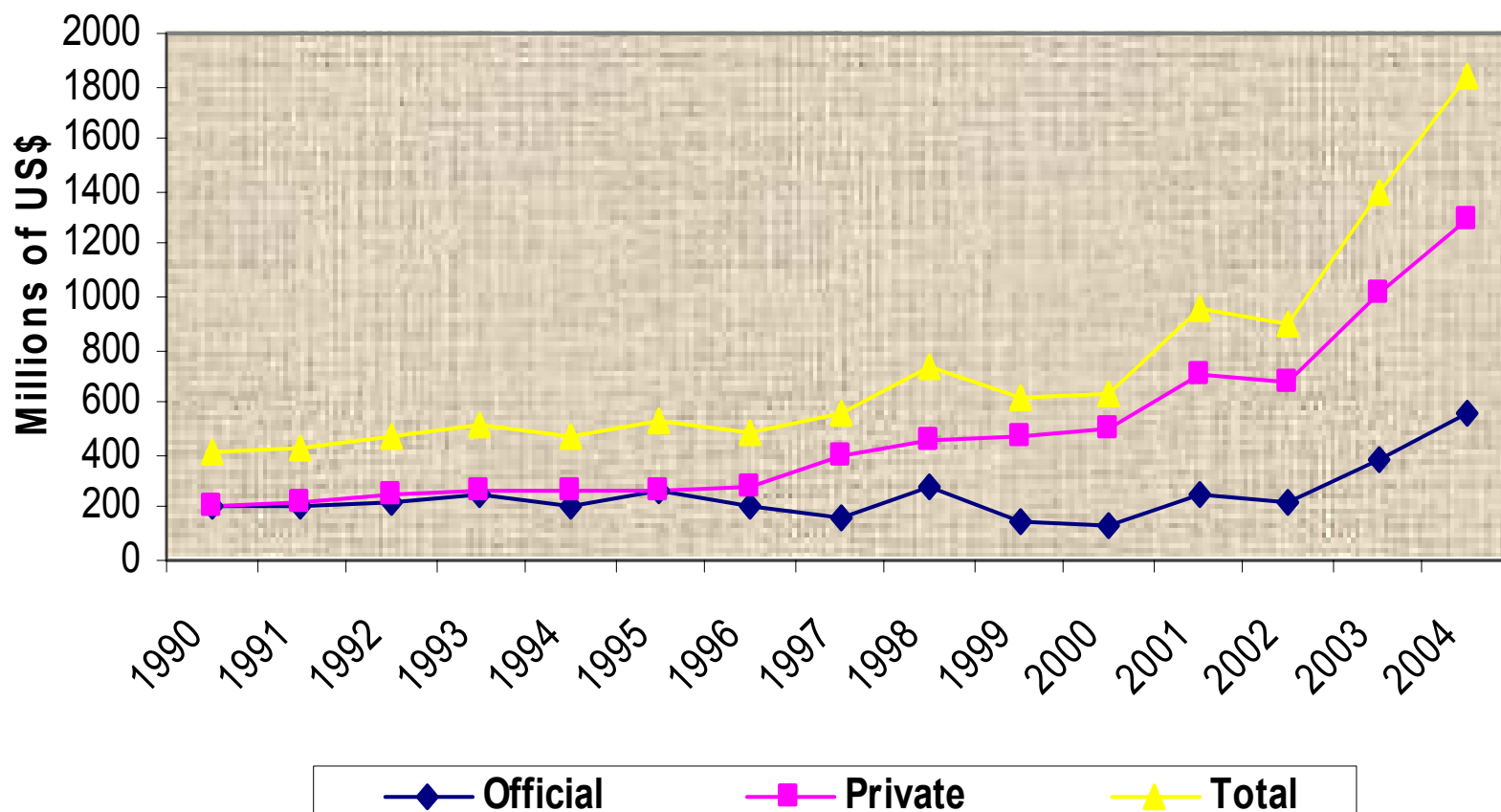
# Size and Direction of Remittance Flows

## – Official, Private and Total Unrequited Transfers (Ghana, 1990 – 2004)

Year	Official	Private	Total
1990	208.6	201.9	410.5
1991	202.4	219.5	421.9
1992	215.3	254.9	470.2
1993	256.2	261.2	517.4
1994	200.8	271.0	471.8
1995	260.0	263.2	523.2
1996	205.6	276.1	481.7
1997	159.7	400.4	560.1
1998	280.1	453.8	733.9
1999	148.1	472.0	620.1
2000	131.9	499.0	630.9
2001	249.3	709.7	959.1
2002	220.2	680.0	900.2
2003	382.0	1,017.2	1,399.2
2004	555.6	1,287.0	1,842.6

- Estimates of Private Unrequited Transfers (PUTs), grew from US\$ 202.0 million in 1990, and more than doubled by year 2000, to about US\$0.5 billion.
- For the first time, PUT estimates hit the one billion dollar mark, doubling again from the year 2000 level to hit US\$1.017 billion in 2003.
- Estimates of PUTs in 2004 stood at US\$1.287 billion.

# Size and Direction of Remittance Flows Official, Private and Total Unrequited Transfers (Ghana, 1990 – 2004)





# Size and Direction of Remittance Flows

- Official Transfers (OTs) and Private Unrequited Transfers (PUTs) were almost the same from 1990 – 1996.
- From 1997 to 2004, although both official and private transfers increased, PUTs grew more rapidly and value of flows more than doubled within the period
- Size of the flows is said to be an indication of:
  - The growing number of Ghanaians living abroad – Brain drain
  - Growing confidence in the banking system that has encouraged more Ghanaians living abroad to use the formal channels of transmitting monies home
  - Growing confidence in the economy of the country
  - Liberalized dealing in foreign exchange at banks and Forex Bureaux

# Size and Direction of Remittance Flows

Some Macroeconomic Indicators - Ghana

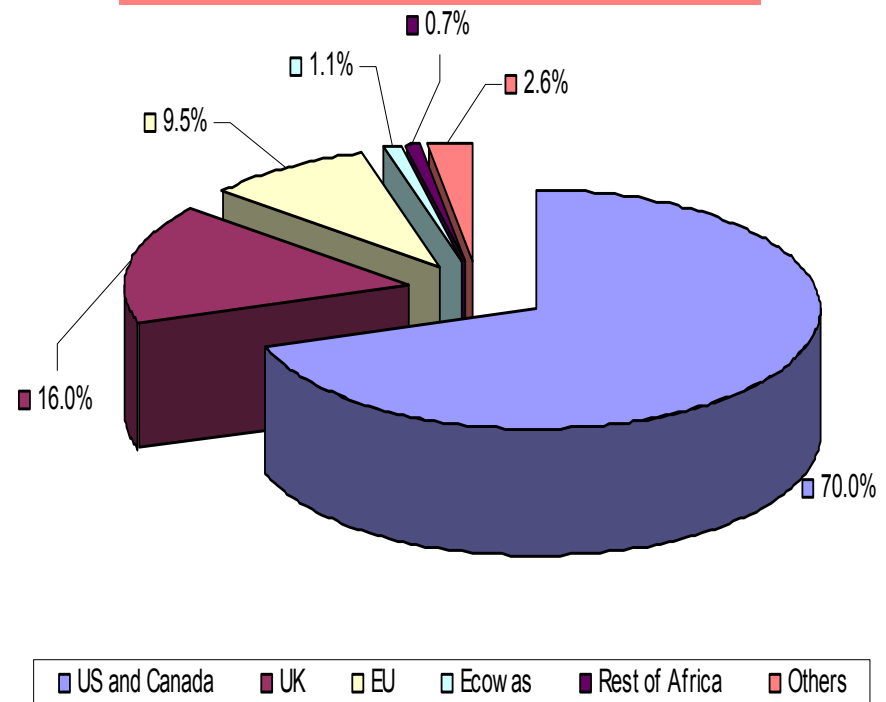
Averages	PUT/GDP	PUT/Exp	PUT/Imp
1990 - 1999	4.72	22.49	16.04
2000 - 2004	12.37	36.69	25.70

- Some Macroeconomic indicators show that:
  - PUT/GDP averaged just below 5% from 1990- 1999 but averaged about 12.5% from 2000 – 2004
  - PUT/Exports grew from an average of 22.5% for 1990 – 1999 to 37.0% from 2000 – 2004
  - PUT/Imports also grew from an average of 16.0% for 1990 – 1999 to about 28.0% from 2000 - 2004

# Size and Direction of Remittance Flows

- Remittance flows are from different regions of the world
- These flows are a reflection of migration patterns of Ghanaians. - Major English-speaking countries account for over 80% of flows
  - US and Canada were most important source of remittance flows – 70%
  - UK follows with 16%
  - Europe and the rest of the world account for remaining 14%

Sources of Inward Remittances (Ghana, 2004)



# Improving Access to Financial Services

- Migrants have traditionally used various means of remitting to their families back home.
- Migrants' choice of any of these transfer systems have depended on the risks and costs associated with each system. Means used include:
  - Banks
  - Small Money Transfers Operators usually referred to as Non-Bank Financial Institutions (NBFIs)
  - Large Money Transfer Companies such as Western Union, Money Gram and Vigo
  - Hand Delivery by remitter or through third parties

# Improving Access to Financial Services

- Hand delivery used to be the dominant means of money transfer especially in the times when there existed the controlled foreign exchange regime in the country.
- The number of Banks and MTCs have however increased since the liberation of the Ghanaian economy, following the introduction of the Economic Recovery Program (ERP), and the Structural Adjustment Program (SAP) in the late 1980s to the early 1990s.

# Improving Access to Financial Services

- As the number of banks and non-bank financial institutions involved in the money transfer businesses continue to grow, various schemes have been introduced to attract customers. These include:
  - Option to receive funds in either local or foreign currency as offered by some banks in Ghana. Examples are Barclays Bank, Agricultural Development Bank and the Standard Chartered Bank
  - Some deposit-taking institutions give recipients the option to open either local or foreign accounts with the received funds

# Improving Access to Financial Services

Although most banks charge commissions for receiving funds over the counter in foreign currency, for those customers who open foreign exchange accounts with the received funds, all charges are waived, as long as any foreign exchange drawn on those accounts are exchanged at the same institution.

Also customers are able to apply for credit and are offered other investment opportunities when they open local currency accounts with the received funds.

- Majority of receiving institutions however pay out remitted funds in only the local currency, as in the case of most institutions using the Western Union and Money Gram.

# Improving Access to Financial Services

- **Use of Post Offices**

- The Agricultural Development Bank, the first bank to be registered under the Western Union, has licensed various Post Offices in major towns and communities all around the country, especially where they do not have branches, to remit funds to customers in communities where access to their branch banking services are not readily available.
- Such Post Offices have been linked by internet access to the Bank.



# Improving Access to Financial Services

- **Use of Courier System**

- Where banking facilities are not available, the Agricultural Development Bank has a courier system in place to deliver funds to recipients in very remote communities

- **Use of Branch Network**

- The Ghana Commercial Bank, which has the largest network of branches nationwide (131 branches), has online access to about a sixth of those branches, and therefore enables customers based in communities outside the major urban centers to receive funds. Branches that are not online have telegraphic transfers used for remittance services in those branches

# Improving Access to Financial Services

- **Use of Services of Rural Banks**
  - The Merchant Bank of Ghana also uses the services of some designated rural banks in major farming communities in the country to remit funds to recipients in those areas.
- **Opening of Outlets to offer banking services outside normal working hours**
  - Example of Global Access Financial Service. These outlets using the Western Union Money Transfer Systems are even open to the public during the weekends. Most of these are however situated in the Urban areas.

# Improving Access to Financial Services

- **Telephone Banking Services**
  - Use of mobile phones to check account balances for those customers who choose to open either foreign exchange or local currency accounts with funds received.

# Cost of Remittance Services in Ghana

- Basic Transaction fees and costs of remittances passing through the banks and non-bank financial institutions are usually borne by remitters.
- These fees and costs have declined as remittance flows into Ghana increased
- It is however noted that fees charged by major money transfer companies like Western Union are higher than those charged by smaller money transfer companies. Eg. In the UK, while Western Union charges about £6.00 for every £100.00, smaller companies operating charge between £1.00 and £4.00 for same transfer amount.
- During festive occasions like Christmas, Easter and Ghanaian cultural festivals, small money transfer operators offer discount rates to attract more customers.

# Cost of Remittance Services in Ghana

- Ghanaian institutions receiving funds on behalf to customers
  - Do not charge for remittances received in the local currency. The exchange rate used for the transaction is however based on either the inter-bank exchange rate, or negotiated rates where the transferred amounts are big.
  - For remittances paid out in foreign currency, institutions charge fees, ad valorem. For one of the banks, foreign payments of remittances attract fees from 2½ to 3.0 % respectively, for account holders and non-account holders.

# Expanding Financial Literacy

- Although competition has not been that high where remittance services are concerned, banks and non-bank financial institutions in the country have resorted to various schemes to educate both remitters outside the country and recipients on the kind of services they offer.
- There however exists some significant level of ignorance on the costs associated with remittance services both on the part of remitters and receivers of funds

# Expanding Financial Literacy

- **Media Promotion and Advertisements**
- **Sponsorship of popular TV Programs**
  - The SG-SSB Ltd Ghana (Operators of Money Gram Money Transfer) sponsor a very popular TV program that addresses Female issues both in Ghana and abroad. Money Gram Transfer services are advertised and both studio and TV audience are informed about agents of the Transfer Services at the location of the Program. Programs are usually telecast from Ghanaian communities and churches abroad as well as at celebrations of Ghanaian festivals abroad

# Expanding Financial Literacy

- **Sponsorship of popular TV Programs**

- The Agricultural Development Bank of Ghana also sponsors another popular cultural TV program which is telecast from various communities in the country. The Western Union Money Transfer Services is advertised to the participating communities and these communities are also informed of places in their communities where the Western Union Services are available.

- **Non-Price Competition**

- Raffle Draws and other promotional drives are also used.



# Expanding Financial Literacy

- **Events sponsorships.**
  - Institutions sponsor social and educational activities and give to charity

# Conclusion

- As the flow of remittances into the Ghanaian economy increases, its developmental potential needs to be explored by the Ghanaian authorities.
- More and more financial institutions are getting involved in the money transfer systems and it is expected that cost associated with money transfer into Ghana will continue to decrease, and thereby encourage more migrants to remit to their families

# Conclusion

- Most remitters have lost significant amounts through low exchange rates applied to funds remitted because they are unable to negotiate better rates with the small size of remittances sent. There is the need to have in place a realistic market-determined exchange rate to encourage remitters and receivers of these funds.
- There is also the need to undertake initiatives to encourage remitters to channel the bulk of these transfers into appropriate savings services and into other productive uses in their various communities as has been done in various Latin American countries