

An update on Nigeria's remittances landscape

July 2023



About Stears

Stears provides data, research and insights that enables global decision makers answer questions about the African markets and economies

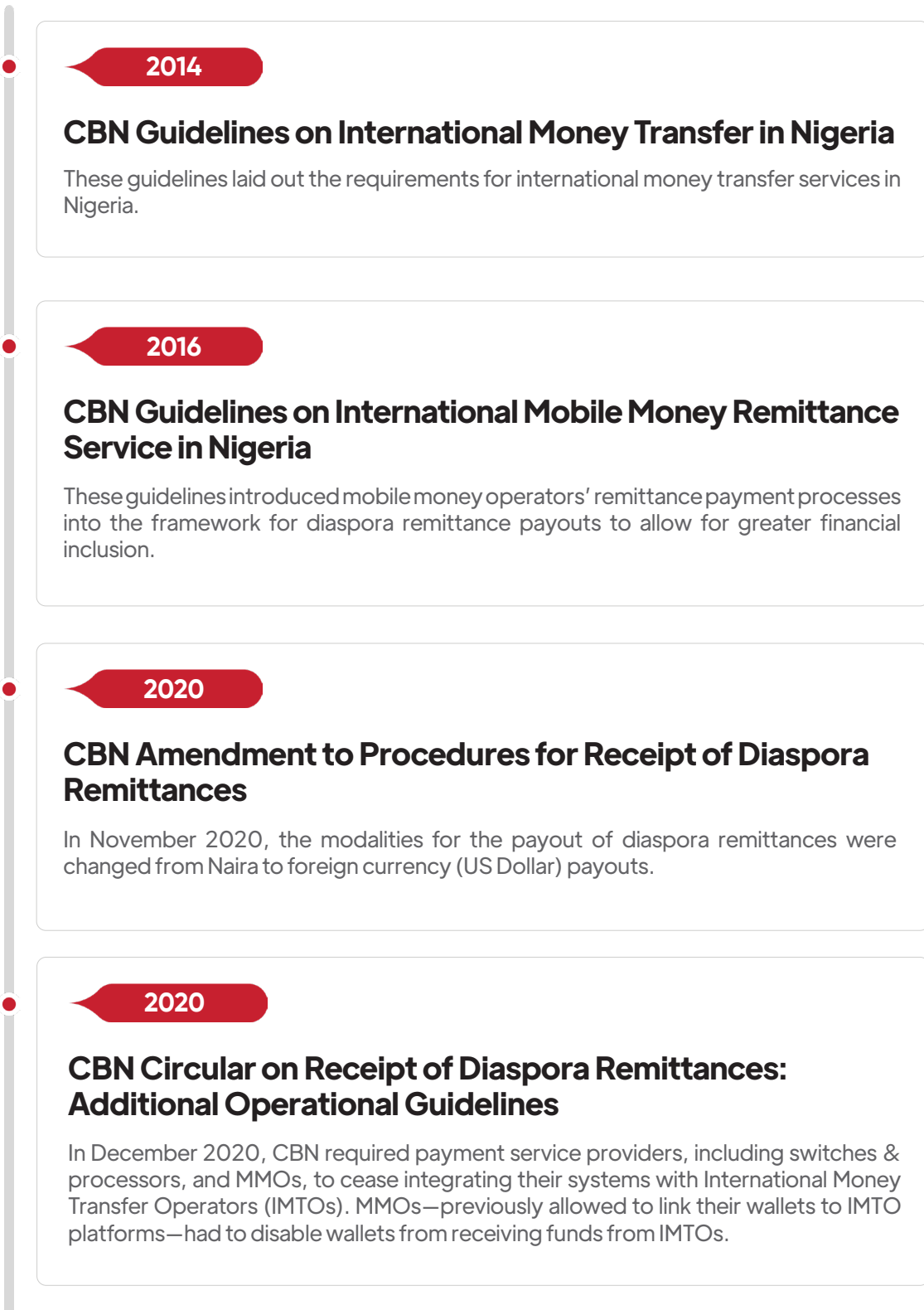
Our clients include



Nigeria remains the largest recipient of inbound remittances in Sub-Saharan Africa—accounting for almost \$20 billion out of the \$50 billion received in the region in 2021.

Since 2014, the Central Bank of Nigeria (CBN) has released several guidelines and policies to improve the flow of remittances into the country (see chart below). However, in November 2020, the CBN announced that remittances would only be paid out in dollars, temporarily ending the regime of naira payouts.

Nigeria's formal remittance landscape is largely governed by the CBN



2021

CBN Circular on Modalities for Payout of Diaspora Remittances

In January 2021, CBN clarified that IMTOs were explicitly prohibited from disbursing remittance payments in Naira.

2021

CBN Circular on Introduction of the CBN's "Naira 4 Dollar Scheme" for Diaspora Remittances

In March 2021, CBN introduced the "Naira 4 Dollar Scheme". This scheme entitled recipients of remittances to receive an additional ₦5 for every \$1 received, in addition to the USD collected.

2023

CBN Circular on the Operational Framework for eNaira Payment Option to Recipients of Diaspora Remittances

On June 15, 2023, the CBN introduced the eNaira as a mode of disbursement for diaspora remittances. IMTOs would be able to disburse via their eNaira Merchant wallets, once the USD equivalent had been paid into a CBN account.

2023

CBN Circular on the Payout Option in Naira for Receipt of Proceeds of Diaspora Remittances

On July 10, 2023, the CBN announced the Naira as a payout option for the receipt of remittances, allowing IMTOs to payout remittances in Naira, USD and eNaira.

The 2020 policies were implemented to improve the CBN's visibility of remittance flows. By compelling payouts in dollars, these policies ensured that formal remittances were steered through official channels like authorised banks. Other motivations included forcing International Money Transfer Operators (IMTOs) to bring foreign exchange directly into the country, and improving FX liquidity in the parallel market.

Stears' survey of remittances stakeholders revealed diverse impacts of the dollar payout policy. While stakeholders in authorised banks noted minimal changes, they frequently faced scarcity of dollars to disburse to remittance recipients. Traditional IMTOs also saw limited disruption to their business as they relied on their credibility, large agent

networks, and relationships with banks to ensure payouts. Surveyed fintechs and digital IMTOs were less fortunate. For some, the 2020 directive meant higher costs as they had to partner with multiple banks to ensure dollar payouts to their customers—a shift in business models. For others, specifically mobile money operators, the policy meant complete exclusion from the market as their wallets could not payout in dollars.

Overall, consumers faced more difficulties receiving remittances after the policy was announced. This opened the door for consumers to favour informal channels, which came with risks but offered more favourable exchange rates.

Stears worked with stakeholders to recommend new policies to address these pain points.

Earlier this month, the new government recognised these challenges and restored the flexibility for consumers to determine how they receive remittance payouts, i.e. through naira or dollars.

So, what are the implications of reintroducing naira payouts?

- Crucially, this policy comes against the backdrop of the CBN's move to unify the parallel and official exchange rates. This reduces the incentives and profitability of IMTOs who were alleged to have benefitted from arbitrage opportunities.
- The unification of the exchange rates should motivate more consumers to avoid the fraud risks associated with informal remittance channels in favour of formal routes. This should increase the volumes flowing through IMTOs and banks.
- The inclusion of licenced IMTOs in the Investor & Exporter (I&E) window should improve FX liquidity and transparency for the CBN. This should motivate the apex bank to ease restrictive policies on the IMTOs over which it now has better oversight.
- The return to naira payouts should reduce costs for IMTOs who may no longer need to partner with multiple Nigerian banks.
- Mobile money operators and other fintechs who previously exited the sector are expected to return. This will depend on their ability to obtain an IMTO licence or partner with licensed IMTOs. We expect that foreign players that left will watch the market closely for the next few months before making a decision.
- Altogether, the policy is a positive step for both businesses and consumers. A combination of higher competition, more favourable exchange rates, and naira payout should lower the cost for consumers and increase the prospects of higher remittances to Nigeria in the medium term.

About Stears

Stears is a fast-growing, intelligence startup dedicated to solving the information & data gap in Africa.

We specialise in designing knowledge and data solutions to help companies drive growth. We are focused on giving our clients perspectives and guidance on the digital economy & innovation ecosystem, as well as emerging trends on the future of industries, economies, and societies.

Ugonna Iheme
Divisional Lead, Stears Advisory
ugonna.iheme@stears.co

Tokunbo Afikuyomi
Economist, Stears
tokunbo@stears.co