



Financial Flows

Remittances to Africa

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Remittances to Africa

Whereas aid is typically a transfer of public and private philanthropic money between countries, **remittance** consists of private money or goods that migrants send to families and friends in their countries of origin. Most aid and FDI go to government coffers and are often directed at large expenditure items. Over 50% of remittance is sent to households in rural areas, where 75% of the world's poor and food-insecure people live. Rural households rely on these flows for improving their livelihoods while also increasing their resilience. Globally, the accumulated remittance flows to rural areas are expected to reach US\$3 trillion by 2027.

Unlike aid and FDI, remittance flows do not directly affect government revenues as they generally consist of money sent home by migrants and serve to support the livelihoods of families in recipient countries. However, it may indirectly affect government revenue through value-added taxes (VAT) as remittances are spent mostly on household consumption and housing investment. About 75% of **remittances** are used to put food on the table and cover medical expenses, school fees or housing expenses, most of it going to rural areas.

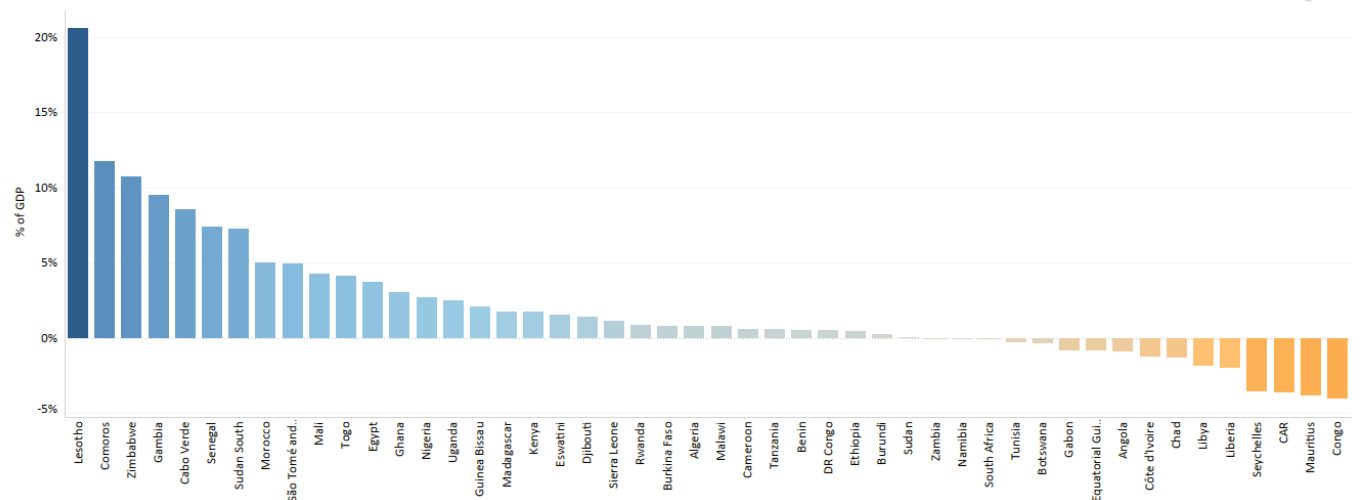
In times of crisis, migrant workers may send more money home to cover crop losses or for family emergencies. According to the International Fund for Agricultural Development (IFAD), more than 70 countries rely on remittance for at least 4% of their GDP. Within IFAs, 15 African countries, including Nigeria, get remittance inflows equivalent to 3% or more of GDP.

Capturing **data on remittance flows** is challenging, as they mostly occur through informal channels via diaspora networks and are driven by the size of the migrant population, for which data is often also unreliable. According to the United Nations, the size of the **African diaspora** worldwide is around 150 million people, with the majority residing in the Americas (North, Central, and South America and the Caribbean). Other significant diaspora populations are in Europe and Asia. However, while this large group is historically from Africa, the size of the community responsible for remittances is much smaller, coming from recent migrants. According to the **World Migration Report 2022**, in 2020 around 21 million Africans were living in another African country—a significant increase from around 18 million in 2015. The number of Africans living in different regions outside the continent also grew during the same period, from around 17 million in 2015 to over 19.5 million in 2020. In 2020, most African-born migrants living outside the region were residing in Europe (11 million), Asia (nearly 5 million) and Northern America (around 3 million).

According to the World Bank, the amount of remittance sent to Africa from the diaspora was US\$84 billion in 2020. This represents a decrease of about 2.6% from the previous year, likely due to the economic impact of the COVID-19 pandemic. The top countries receiving remittance in Africa include Nigeria, Egypt, Ghana and Kenya. Nigeria accounts for about 40% of remittance flows to sub-Saharan Africa.

Viewed as a percentage of GDP (Chart 13), the leading remittance recipient countries—all around 10% of GDP—are Lesotho, Comoros, Zimbabwe, The Gambia and Cabo Verde. Countries such as South Africa, Tunisia, Botswana, Gabon, Equatorial Guinea, Côte d'Ivoire, Libya, Seychelles and Mauritius are net remittance senders. Most of these countries are home to a significant number of African migrants. Due to its comparatively strong economy, Côte d'Ivoire, for instance, is home to many immigrants from neighbouring countries such as Burkina Faso, Mali and Guinea.

Chart 13: Net remittances received in 2019, as a % of GDP



Source: World Development Indicators data

Countries with large diaspora populations (such as Nigeria and Ethiopia) can tap into the funds within that community to invest locally by benefiting from a patriotic dividend but then need to maintain a strong and positive relationship with the diaspora community. Israel is often held as the global success story in this regard, having raised US\$46 billion since 1951. India has raised more than US\$11.3 billion through [diaspora bonds](#), mostly for infrastructure projects, which also helped the country avert a balance of payments crisis in 1998 following sanctions after it ran a series of surprise nuclear tests. Ethiopia crossed an important hurdle when, in 2011, it floated a [diaspora bond](#) to help fund the Grand Ethiopian Renaissance Dam. The Kenyan diaspora sent an estimated US\$3 billion in remittances back home in 2019 and, in 2020, [Kenya](#) followed up on its successful 2009 diaspora bond by introducing a licensed investment fund for citizens living overseas to invest in development projects. Nigeria issued its first successful [bond](#) in 2017.

Remittances can have important political economy side effects. Large inflows allow governments to be less responsive to the needs of society. The reasoning is that families that receive [remittances](#) are better insulated from economic shocks and are less motivated to demand change from their governments; the government in turn feels less obligated to be accountable to its citizens.

In addition to their contribution to poverty reduction and human development, remittances tend to be less volatile to economic downturns than FDI and portfolio investment. Hence, they may help reduce foreign exchange reserve shortages in some African countries. Remittance is a critical economic stabiliser and should thus be encouraged and facilitated. Remittance flows benefit from new technologies, which have lowered the costs of sending small amounts of money privately from one country to another, but the concerns about money flows to groups and individuals associated with terrorists have created numerous obstacles for Africans to send money home. It still costs more to remit money to sub-Saharan Africa than any other region globally, and moving money legally between neighbouring African countries is even more expensive.

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Dr Kouassi Yeboua is a senior researcher in African Futures and Innovation programme in Pretoria. He recently served as lead author on ISS studies on the long-term development prospects of the DR Congo, the Horn of Africa, Nigeria and Malawi. Kouassi has published on various issues relating to foreign direct investment in Africa and is interested in development economics, macroeconomics, international economics, and economic modelling. He has a PhD in Economics.

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria office of the Institute. His 2017 best-seller *Fate of the Nation* addresses South Africa's futures from political, economic and social perspectives. His three most recent books, *Africa First! Igniting a Growth Revolution* (March 2020), *The Future of Africa: Challenges and Opportunities* (April 2021), and *Africa Tomorrow: Pathways to Prosperity* (June 2022) take a rigorous look at the continent as a whole.

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