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DIASPORA REMITTANCES IN NIGERIA: EXAMINING THE NEW CBN POLICY



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Over the past few weeks, the Central Bank of Nigeria (“CBN”) has issued circulars amending and clarifying the procedure for receipt of diaspora remittances (“the Circulars”).[1]

According to the CBN, the Circulars were issued in an effort to liberalise, simplify and improve the receipt and administration of diaspora remittances into Nigeria. It was also stated that the clarifications and amendments are aimed at stabilising and deepening the foreign exchange market, providing more liquidity, and creating transparency, especially in the administration of diaspora remittances into Nigeria.

The initial circular issued on 30 November 2020 (“the 1st Circular”) to all authorised dealers and the public states that[2]:

- Beneficiaries of diaspora remittances through International Money Transfer Operators (“IMTOs”) shall receive such inflows in foreign currency (US Dollars) through designated banks of their choice.
- The beneficiaries/recipients will have the option of receiving the funds in foreign currency cash or by direct transfer/credit in their ordinary domiciliary accounts

- The beneficiaries will also have unfettered access and utilisation to such foreign currency proceeds, either in cash and/or in their domiciliary account [3]

This point was further clarified by the TED/FEM/FPC/GEN/01/010 circular issued by the CBN on the same day (the 2nd Circular).[4] In this circular, it was stated that where ordinary domiciliary accounts are funded by electronic/ wire transfer, account holders would be allowed unrestricted use of the funds for eligible transactions. However, were funded by cash lodgments, existing regulation will continue to apply. Export Proceeds Domiciliary Accounts will also continue to be operated based on existing regulations (i.e., use of funds in the account for business operations only).



[1] The initial circular-Ref. No. TED/FEM/FPC/GEN/01/011, amending the procedure for diaspora remittances was issued by the CBN on 30 November 2020. A further circular with Ref no: TED/FEM/FPC/GEN/01/012 was issued on 02 December 2020. Also, a circular to IMTOs and Payment Service Providers (Ref No: PSM/DIR/CON/CWO/16/119) on receipt of diaspora remittances was issued on 16 December 2020
[2] Amendment to Procedures for Receipt of Diaspora Remittances with Ref No: TED/FEM/FPC/GEN/01/011 available at file:///C:/Users/USER/Downloads/Amendment%20o%20Procedures%20for%20Receipt%20of%20Diaspora%20Remittances.pdf
[3] It was further stated that this will be done in accordance with the CBN Circular TED/FEM/FPC/GEN/01/010 of 30 November 2020.
[4] CBN Circular on Operations of Domiciliary Accounts, with Ref No: TED/FEM/FPC/GEN/01/010, available at file:///C:/Users/USER/Downloads/Circular%20Domiciliary%20Accounts%20Nov2020.pdf

The 1st Circular was received with mixed reactions by stakeholders and the public. The CBN, in an attempt to clarify its position on the subject, issued a further circular TED/FEM/FPC/GEN/01/012 on 02 December 2020 (“the 3rd Circular”)[5] stating that:

- IMTOs must ensure that all funds in favour of beneficiaries /recipients are deposited into the Agent Banks’ (Deposit Money Banks [“DMBs”]) correspondent account.
- The DMBs in Nigeria will be responsible for the final payment to beneficiaries/recipients either in USD cash or by transfer[6]
- The beneficiaries have the sole discretion of deciding the mode of payment to be adopted.

In furtherance of this, the CBN on the same day issued a directive to DMBs, insisting that they must close all Naira general ledgers through which the Naira remittances were hitherto being carried out.[7]

In clarification of this new CBN policy, the CBN Governor, Mr. Godwin Emefiele, at a press conference in Abuja on 03 December 2020[8] stated that the CBN had engaged with the DMBs and IMTOs to ensure that recipients of remittance inflows are able to receive their funds in the designated foreign currency of their choice, to enable smooth implementation of the new policy.

He highlighted some of the reasons for the adoption of this new policy as follows:[9]

- The significant drop in inflows of the country: One of the factors that contributed to the significant drop in inflows of the country is the fact that IMTOs have over time resorted to engaging in arbitrage arrangements on the Naira-dollar exchange rate, rather than competing on improving transaction volumes and creating more efficient ways for Nigerians in the diaspora to remit funds.
- The closure of the Naira general ledgers was necessary because they had encouraged the use of unsafe unofficial channels, which also supported the diversion of remittance flows meant for Nigeria, thereby undermining the foreign exchange management framework.

[5] Re: Amendment to Procedures For Receipt of Diaspora Remittances, available at file:///C:/Users/USER/Downloads/Diaspora%20Remittances%20Amendment.pdf

[6] The two modes were stated in the initial circular as either by foreign currency cash or direct credit transfer to the beneficiaries’ domiciliary account in Nigeria.

[7] Referenced in the remarks by the Governor, Central Bank of Nigeria (CBN), Mr. Godwin Emefiele, CON on Improving Remittance Inflows into Nigeria. Thursday, December 3, 2020, available at <https://www.cbn.gov.ng/Out/2020/CCD/Governor%20Remarks%20Diaspora%20Remittances.pdf>

[8] Remarks by the Governor, Central Bank of Nigeria (CBN), Mr. Godwin Emefiele, CON on Improving Remittance Inflows into Nigeria. Thursday, December 3, 2020, available at <https://www.cbn.gov.ng/Out/2020/CCD/Governor%20Remarks%20Diaspora%20Remittances.pdf> [9] Ibid

- Based on the data culled by the CBN, the size of remittance computed by the International Monetary Fund (“IMF”) shows that the IMF takes into consideration money that comes in directly as flows and the earnings of Nigerians in Diaspora in different parts of the world in computing remittances. Thus, the new policy will allow for proper accounting of the foreign exchange (forex) inflow in Nigeria

Additionally, the CBN issued a circular on 16 December 2020 (“the 4th Circular”) to IMTOs and Payment Service Providers (“PSPs”) titled “Receipt of Diaspora Remittances: Additional Operational Guidelines”[10]. This additional guideline was issued owing to the disregard for the regulatory directive by some operators who continued to pay remittances in local currency. In summary, it provides that:

- Switches and Processors should immediately cease all local currency transfers in respect of foreign remittances through IMTOs.
- All Mobile Money Operators (“MMOs”) are required to immediately disable wallets from receipt of funds from IMTOs.

- Going forward, PSPs are directed to cease integrating their systems with IMTOs and must prevent the comingling of remittances with other legitimate transactions.
- All IMTOs are required to immediately disclose to beneficiaries that they exercise discretion to receive transfers in foreign currency cash or directly into their domiciliary accounts.
- A central reporting portal for all foreign remittances to be managed by the Nigerian Interbank Settlement System (NIBSS) is currently under development to improve the visibility of foreign remittance flows.

IMPACT OF THE NEW CBN POLICY

- In addition to the above, the new CBN policy on diaspora remittances is aimed at increasing the inflow of foreign currency into Nigeria. This policy is said to have the effect of amongst others, stabilising the exchange rate of Dollar to Naira[11] as there would invariably be an increase in the supply of dollars within the country.

[10] Available at file:///C:/Users/USER/Downloads/RECEIPT%20OF%20DIASPORA%20REMITTANCES%20ADDITIONAL%20OPERATIONAL%20GUIDELINES.pdf

[11] Supra note 8

- Funds sent from outside the country will no longer be received as Naira. Recipients/beneficiaries will have the option of receiving the funds as cash in foreign currency or have their domiciliary account credited. They can however no longer receive it in an online Wallet as they used to.
- DMBs could hitherto hoard the foreign currency received, to be sold at a time when the Naira is devalued. This often led to scarcity, with negative effects on the exchange rate. The CBN aims to eradicate this, by mandating that funds received from outside Nigeria be remitted directly in foreign currency.
- CBN aims to centralise the system and cut off all unofficial channels through which diaspora remittances were hitherto made, as this facilitated the diversion of remittance flows meant for Nigeria. It is hoped that with effective monitoring, the management of foreign exchange in the country will become more transparent and effective.

- All forms of integration and collaborations between MMOs, Switches, PSPs, and IMTOS with regards to diaspora remittances are no longer possible. These stakeholders are now banned by the CBN from receiving diaspora remittances. It appears that only DMBs can pay beneficiaries of diaspora remittances.

Finally, according to the CBN, the current annual remittance inflow is about \$24 billion. This could help in improving the balance of payment position and the foreign exchange rate; reducing dependence on external borrowing and mitigating the impact of COVID-19 on foreign exchange inflows into the country.[12]

This amongst others, is the reason CBN sought to support improved remittance inflows into the country through official channels.

[8] "Anonymous company" Another name for a company with its liability limited by shares. Usually used in jurisdictions that operate civil law.

[9] Spotify Case Study: Structuring and Executing a Direct Listing Posted by Marc D. Jaffe, Greg Rodgers, and Horacio Gutierrez, Latham & Watkins LLP, on Thursday, July 5, 2018 on the Harvard Law School Forum on Corporate Governance.

[12] Supra note 8

CONCLUSION

The Nigerian economy has been bedevilled by several issues that require appropriate policy measures. Even though there are diverse views on the CBN policy by different stakeholders, it is worthy of note that parallel market has been calm and there has been a drop in the the Nigerian exchange rate since the issuance of the CBN circulars.. [13]

It is therefore hoped that the introduction of the policy will achieve the set objectives by the regulators and its effect on the economy would outweigh whatever inconveniences it may pose on stakeholders.



[13] Daily Parallel Market Exchange Rate, available at <https://nairametrics.com/2020/12/25/daily-parallel-market-exchange-rate/#:-:~:text=The%20exchange%20rate%20between%20the,%241%20in%20the%20parallel%20market.>



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