



**Oromia Bank**<sup>®</sup>

**Baankii Oromiyaa ኦሮሚያ ባንክ**

# *Remittance*

**Issue: 0020**  
**Finfinne**

# Remittance

## Meaning and Essence of Remittance

As revealed in some works remittance is the transfer of funds between parties in the form of a bill, invoice or gift. More broadly remittance denotes to the found migrants send to their relatives in their home country while working and living abroad. It is also some times referred to workers or migrants transfer simply. According to International Monetary Fund remittances made by migrants to support their families at home, whether in the form of money or commodities, are referred to as workers or migrants remittances. In recent years, they are expanded quickly and now the main source of foreign income for many emerging economies. Thus, like other banking activities it has its own phases of transaction. The three steps in a typical remittance transaction are:



Remittance

- First the migrant sender sends a debit instruction via email, phone, or the Internet about the cash, check, money order, credit or debit card
- Secondly the sending agency tells its representative to deliver the money in the beneficiary's nation
- Finally the paying agent makes the payment to the beneficiary.

## Remittance in Ethiopia

As depicted in some sources, Remittance is an extremely important source of foreign exchange for Ethiopia. Perhaps it is larger than the export earning of the country in its foreign exchange generation capacity. Ethiopian Diaspora Agency stated that in the Ethiopian fiscal year 2021-2022, which ended on July 7th, remittances from Ethiopians living abroad generated a total 4.2 billion dollars. Diaspora bank accounts have been playing a constructive role in facilitation of the foreign exchange significant moment and a strong desire among the government to enhance the Diaspora's engagement in international trade.

## Role of Remittance in Ethiopian Economic Growth

Cross border remittances are important to the Ethiopian economy and population. Given the persistently high rates of poverty in the country, remittances play a vital role in the alleviation of the country's economy as they directly flow into the hands of consumers. The Diaspora maintains close ties to the country and sends large amounts of remittances every year, though much of it informally. The World Bank estimates that 5% of Ethiopia's Gross Domestic Product (GDP) emanates from remittances.

## The Impact of Informal Remittance Channel in Ethiopia

For various sources there are approximately 3 million Ethiopians living outside of the country and many of them send money back to the country to help their families. However, according to the International Organization on Migration (IOM), as much as 78% of the money sent to the country as remittances, is sent through informal channels. Commonly, the informal facilitators collect money from the Ethiopian Diasporas who want to send money to Ethiopia to support their families or to start businesses. The informal facilitators often pay the beneficiaries back home in Ethiopian Currency and with exchange rates that are even higher than the black market prices. This attracts a lot of demand among the Ethiopian Diaspora to use their services.

**Consequently, Ethiopia loses access to a significant source of foreign cash that it could have obtained from its Diaspora because of the informal remittance systems. In another expression alternative remittances are one method of smuggling resources out of Ethiopia, which are seriously harming the country's economy.**

### **Role of Legal Remittance Channel in Ethiopian Economic Growth**

**For some works, legal remittance channels have significant contributions in Ethiopian Economic growth. Among the roles few of them are:**

- **Legal Remittance channel boosts domestic investment rate and physical capital investment**
- **Remittances improve the macroeconomic stability of the home economy, which tends to reduce the risk premium required by businesses to make investments, making domestic investment more appealing**
- **Remittances significantly and indirectly influence private investment and total consumption, both of which have a beneficial effect on economic growth**
- **Remittance affects economic growth through labor force participation.**

### **Challenges in Smooth Flow of Remittance Across the Globe**

**At the micro level, the challenges of remittance emanated from its being fostering dependence among recipients and senders. This might Put pressure on the sender and worsen their living conditions in the sending country. Similarly, the amounts that a sender can remit can be affected by currency devaluations and economic downturn in the sending country. In nutshell, the major challenges facing remittance across the globe are:**

- **In adequate infrastructure in receiving remittances in the refugees and asylum seekers nations**
- **The speed at which remittances move**
- **Some other conveniences.**

### **International Trade Service of Oromia Bank**

**International Trade service of Oromia Bank for the past seven months of 2023/24 fiscal year shows tremendous success as the data from the Directorate reveals. This success can be shortly summarized:**

- **International Trade Service Directorate (ITSD) has achieved 78% of income target for the past seven months of 2023/24 fiscal year However, income growth declined by 14% compared to last year similar period**
- **The Directorate has accomplished 76% For eign Currency (FCY) generation for the last seven months of 2023/24 fiscal year. In addition, the Directorate has attained 2% Foreign Currency generation growth compared to last year similar period**



*International Trade Service*

- *Open position of the bank has been efficiently managed and maintained within allowable limit at all the time.*



***Oromia Bank***  
***People's Bank!***