Synthesis Study

A part of the report on Informal Remittance Systems in Africa, Caribbean and Pacific (ACP) countries (Ref: RO2CS008)

Commissioning institutions:
Department of International Development (DFID) UK
European Community’s Poverty Reduction Effectiveness Programme (EC-PREP)
Deloitte & Touche

Frank N. Pieke
Nicholas Van Hear
Anna Lindley
University of Oxford

15 January 2005

ESRC Centre on Migration, Policy and Society (COMPAS)
University of Oxford, 58 Banbury Road, Oxford OX2 6QS, UK
T - +44/0 1865 274711, F - +44/0 1865 274718, I – www.compas.ox.ac.uk
Contact: alicen.pomroy@compas.ox.ac.uk

This research project is one of 23 projects funded by EC-PREP, a programme of research sponsored by the UK Department for International Development. All EC-PREP research studies relate to one or more of the six focal areas of EC’s development policy in the context of their link to poverty eradication. EC-PREP produces findings and policy recommendations which aim to contribute to improving the effectiveness of the EC’s development assistance. For more information about EC-PREP and any of the other research studies produced under the programme, please visit the website www.ec-prep.org.
Table of Contents

Summary .................................................................................................................................................. 3

1. Introduction ........................................................................................................................................ 6

   Scope and sources ............................................................................................................................... 6

   Objective and aims ............................................................................................................................... 7

2. African-Caribbean-Pacific migration and remittances ................................................................. 9

   Migration ................................................................................................................................................ 9

   Remittances: data and estimates ....................................................................................................... 11

3. Formal and informal remittance systems ....................................................................................... 14

4. Principles of value transfer and hawala ......................................................................................... 18

5. A typology of informal remittances systems ................................................................................ 20

   Hand delivery ....................................................................................................................................... 20

   Remittance transfer in the context of other businesses ................................................................. 21

   Dedicated money transmitters .......................................................................................................... 22

   Microfinance institutions and migrant associations ....................................................................... 23
6. Why choose informal remittance systems?.................................................25

   Accessibility.............................................................................................25

   Cost and speed.........................................................................................25

   Trust...........................................................................................................27

7. Regulation..................................................................................................28

8. Informal remittance systems and development......................................30

   Access to financial services ..................................................................31

   Informal remittance systems, liberalization and the informal economy ....32

   Informal remittance systems and the generation of resources for
development.................................................................................................34

Conclusions and recommendations..............................................................36

Bibliography..................................................................................................39
Summary

It has become a commonplace observation that remittances – financial transfers by migrants to their country of origin – between the developed and the developing world are larger than aid transfers. It is also often noted that the sums remitted through formal channels represent only a fraction of total remittances: a large although unknown amount of funds finds its way to families in migrants’ areas of origin through informal channels. This study offers a synthesis of what is known about informal remittances to African, Caribbean and Pacific countries, and their influence on development in those countries.

The study’s remit is limited to the developmental potential of informal remittance systems. It will not address the much wider issue, on which there already is a substantial literature, of the positive or negative developmental impact of migrant remittances, both formal and informal.

In assessing the impact of informal remittance systems we have used a broad understanding of development as formulated in the United Nations’ Millennium Development Goals. This understanding of development is not limited to (sustained) economic growth, but includes goals ranging from the basic relief of poverty and hunger to social development goals such as universal primary education, environmental sustainability and gender equality.

The concept of “informal remittance system” is often simply a residual category: everything that is not, on the basis of one or the other criterion, formal. Such a concept of informal remittance system is problematic on at least three counts.

First, the multiplicity of criteria employed. Specific remittance systems can be informal on the basis of a number of criteria, such as the extent to which they are subject to financial regulation, registration, licensing or supervision, law enforcement, or requirements to keep records, report transactions, or to conform to certain accounting conventions. Furthermore, because of changes in the regulatory environment, the boundary between formality and informality changes over time.

Second, remittance systems evolve. Informal systems are not leftovers of a traditional, even pre-capitalist past. Informal remittance systems are modern, adaptive responses to the constraints and opportunities presented by specific migration orders.

Third, even in the context of individual transactions the boundary between formal and informal systems is routinely crossed, and quite often more than once. Informal remittance transfers consist of complex sequences of transactions between individual companies or traders, some of which involve bank transactions or the use of the services of formal remittances companies, while
others may consist of, for instance, hawala transactions, trade swaps or the couriering of cash.

Several types of informal remittance systems are common in ACP countries. In each national and local context, there is a different range of options available, as is discussed in detail in our country case studies. The main types of non-bank system that emerge from our case studies are (1) hand delivery/couriering, (2) money transfer as part of other businesses, (3) money transfer enterprises and (4) migrant association and micro-finance institution-based transfers.

Migrants are among the groups that have most trouble accessing financial services, for reasons of language, culture and socio-economic position and legal status. Informal remittance systems provide a vitally important function to these migrants and their areas of origin. Banking and financial infrastructure are often weak in rural and remote areas. The “last mile” of formal remittance systems can involve the recipient incurring considerable travel and other costs that can be a great deal less when using more regionally specialized informal systems.

In some areas devastated by war or famine there simply is no choice between formal and informal methods: if the often desperately needed money is to reach these areas at all, informal systems are the only option. Even international NGOs in countries like Somalia and Afghanistan use the services of informal remittance companies.

There is no evidence that informal remittances have a developmental impact that is systematically different from that of formal transfers. In other words, the intended use of the money does not seem to determine how that money is transferred. The only exceptions seem to be that larger sums of money, which are usually intended for business purposes rather than direct consumption, or sums raised for charitable purposes by churches and other associations, are usually remitted through formal channels.

The difference between official and black market exchange rates in the countries of origin is another critical factor in the flourishing of informal remittance systems. Conversely, more liberal foreign exchange regimes reduce the incentives to operate and remit through informal channels. In sum, the more regulations are in force to restrict the free movement of money, the wider the use of informal remittance systems that circumvent these restrictions.

Remittances systems are often closely linked in with trading activities. In particular, informal remittance systems are part of the often-large informal sectors of the economy of ACP countries, thus enabling economic activity largely outside the view of the official economic performance indicators. Thanks to highly developed informal remittance systems, Somalia’s economy, for instance, is in a much better state than official figures would one lead to believe. Similar effects of informal remittances, albeit on a more modest scale, also obtain in our other
case-study countries. In Surinam or Fiji, for instance, gifts or remittances in kind often enter the informal economy. Informal remittances can thus lubricate trade and circulation, as well as having direct effects on recipients in terms of welfare and development.

A key objective in harnessing remittances for development is to lower the costs and increase the ease and accessibility of money transfer. However, there is no evidence that the best way to do this is to attract remittance flows into formal channels. Quite the contrary, informal systems usually provide faster, cheaper, more versatile and sometimes even more reliable services. Their curtailment would cause considerable hardship to migrants, their dependants and their areas of origin.

Informal remittance systems are adaptive responses to the constraints and opportunities presented by specific migration orders, serving very specific needs of migrants that are not met by conventional financial institutions. It is a mistake to think that formal systems are somehow superior simply because the state has a better view of them. The legitimate desire of states to regulate and monitor remittance systems should not lead one to conclude that informal systems have to be curtailed and formal ones encouraged. Rather, we should seek ways for informal systems to satisfy the security and law-enforcement concerns of states without, however, restricting their ability to provide the services for which there is such an urgent and widespread need.

As a means to such ends, there is scope for combining the best practices of mainstream financial institutions, of grassroots-oriented institutions like credit unions and of informal money transfer businesses, with the overall objective of generating finance for the purposes of development and poverty reduction.
1. Introduction

Scope and sources

This document reports on the main findings of the study on informal remittance systems commissioned by the European Community’s Poverty Reduction Effectiveness Programme (EC-PREP) (Ref: RO2CS008). The report consists of eight country studies and a synthesis study covering African, Caribbean and Pacific (ACP) countries. While no selection of countries can ever fully represent the 79 ACP countries, our eight country case studies of the Democratic Republic of Congo (formerly Zaire) and the Republic of Congo, Fiji, Ghana, Nigeria, Senegal, Somalia, Sudan and Surinam cover a broad range of informal remittance systems, migration orders, development issues and conflict and post-conflict societies across the ACP countries. The emphasis in the country cases and synthesis is on migratory and remittance flows between Europe and the ACP countries. We refer, where appropriate, to some of the more important studies on flows between North America and ACP countries, but we do not explore these as systematically as their European counterparts.

The synthesis paper is intended to draw out the main conceptual issues, conclusions and policy recommendations. Systematic primary research on informal remittance systems remains thin on the ground, particularly outside Asia and the Middle East (Al Ghurair 2002; Ballard 2003a, 2033b; Buencamino and Gorbunov 2002; El Qorchi, Wilson and Maimbo 2002; FinCEN 2003; Jost and Sandhu 2000; Miller 1999; Nawaz, McKinnon and Webb 2002; Passas 2000; ) or the US-Latin America nexus (Meyers 1998; Orozco 2001; Solimano 2003). The ACP countries are probably the most poorly researched in this respect. This synthesis paper is based both on the findings of the individual country case studies and on an extensive background study on informal remittance systems conducted by Anna Lindley. Sources of information for the background study included regulatory information, academic articles and papers, policy reports and papers, submissions to government hearings in the US and UK, and industry and law enforcement conferences. We supplemented this information with conversations and interviews with regulators (such as the UK’s Customs and

---

1 EC-PREP is a programme of research administered by Deloitte & Touche with the aim to enhance collaboration between the European Commission and the UK Department for International Development (DFID).

2 The African-Caribbean-Pacific (ACP) states are a group of 79 states, initially brought together in the context of the Lomé Convention with the European Union on international trade and aid (1975-2000). So far 76 ACP states have ratified the replacement for the Lomé Convention, the Cotonou Agreement, which entered into force in 2003, providing a framework for the next 20 years of development aid to ACP countries. The Cotonou Agreement is funded mainly by the European Development Fund, through DG Development. Source: http://europa.eu.int/comm/dgs/development/organisation/mission_en.htm

3 There was insufficient research for a separate country study for Nigeria, although data obtained have informed this synthesis study.
Excise department), migrant remitters and money transmitters (such as MoneyGram).\(^4\)

Both the background study and the country case studies were principally desk-based, drawing on existing data and literature, and on consultations with other specialist researchers. However, almost all the authors of the country studies found the existing information insufficient to address our research questions adequately. Where necessary and possible, individual authors have also either drawn on their own, unpublished primary research materials, or else they conducted additional interviews with migrants, migrant associations or community leaders. It is fair to say that without this original research, a successful completion of this study would not have been possible.

**Objective and aims**

It has become a commonplace observation that remittances from international migration between the developed and the developing world constitute a larger total amount than aid transfers. For instance, in June 2004 the G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty stated that

\[\text{“[T]he flow of remittances across international borders, mostly a few hundred dollars at a time, is growing rapidly and now totals nearly US$ 100 billion per year. This money is the fruit of the work of immigrants and plays an increasing role in the financing of development in the workers’ home countries.”}^{5}\]

The sums remitted through formal channels are estimated to be only a fraction of total remittances: it is believed that most funds find their way to the families and areas of origin through informal channels. Particularly after September 11th, many governments view such informal remittance systems with suspicion as they can also be used as channels for money laundering and financing of terrorism. To quote again from the G-8 Action Plan:

\[\text{“Attracting remittance flows into formal channels can strengthen financial systems in developing countries and reduce the risk that remittances will be diverted for illicit purposes. G8 countries will work with the World Bank, IMF, and other bodies to improve data on remittance flows and to develop standards for data collection in both sending and receiving countries. G8 countries will also lead an international effort to help reduce the cost of sending remittances. The developmental impact of these flows may be fostered by increasing financial options for the recipients of these flows”}\]

\(^4\) For this study, we interviewed Barry Pannell and Matthew Gibbon of MoneyGram and Alison Sommerville, Linda Davies and Vicky Moore of Her Majesty’s Customs and Excise.

\(^5\) 30th G8 Summit at Sea Island, Georgia, USA on 8-10 June 2004. Available at [http://www.g8usa.gov/d_061004m.htm](http://www.g8usa.gov/d_061004m.htm), accessed 16 October 2004.
Clearly, a key objective in harnessing remittances for development is to lower the costs and increase the ease and accessibility of money transfer. However, there is not necessarily sufficient evidence that the best way to do this is to attract remittance flows into formal channels, however such channels are defined. In this study our objective is to shed more light on the question of the developmental desirability of either fostering formal remittance channels or, alternatively, encouraging informal channels while at the same time regulating them more. We will also review evidence, if and where available, on the law enforcement (terrorism and crime) issues connected to informal remittance systems, but these are not the primary focus of our study.

With particular regard to Europe and APC migrant countries of origin, this general objective translates into the following specific aims:

- To suggest how to reduce the costs and increase the reliability and efficiency of remittances through informal channels
- To provide examples and recommendations concerning the ways that informal remittance systems can be used productively for development
- To identify the main knowledge gaps regarding informal remittance systems, and to prioritize these from a policymaking point of view
- To explore the validity of the distinction between formal and informal remittance systems
- To create a typology of the diversity of informal remittance systems
- To analyse the social and cultural context of informal remittance systems
- To review the economic efficiency (cost, reliability, access, speed) of informal remittance systems compared with formal systems
- To assess the nature and reliability of estimates of volume of remittances flows using informal systems
- To identify the specific development goals that can and cannot be support by informal remittance systems
- To identify the policy instruments and key actors that can support positive aspects and reduce negative aspects of informal remittance systems

The study’s remit is limited to the developmental potential of informal remittance systems. It will not address the much wider issue of the positive or negative
developmental impact of migrant remittances, both formal and informal, since there already is a substantial literature on this.

In assessing the impact of informal remittance systems we have used a broad understanding of development as formulated in the United Nations' Millennium Development Goals. This understanding of development is not limited to (sustained) economic growth, but includes goals ranging from the basic relief of poverty and hunger to social development goals such as universal primary education, environmental sustainability and gender equality.6

More specifically, we wish to avoid the long-standing and rather worn debate on “productive” versus consumptive or “non-productive” uses of remittances. In most of the country case studies (in particular Sudan, Somalia, and the Democratic Republic of Congo), informal remittances bring desperately needed relief from acute or chronic disaster. Such remittances thus complement international relief aid, making a vital contribution to development that is prior to – and every bit as important as – more structural economic changes needed for sustained economic growth.

2. African-Caribbean-Pacific migration and remittances

Migration

In 2000, there were an estimated 650 million people living in the 79 African, Caribbean and Pacific (ACP) countries. Almost half of the people living in the ACP countries live on less than US$ 1 a day.7 The African countries included are mostly Sub-Saharan and low-income countries. Pacific countries in the grouping are the island states, rather than the richer Pacific coast states. The Caribbean countries are island states, with the exception of Belize, Guyana and Surinam. Movement between and beyond ACP countries presents an immensely complex picture with a great range of migration and remittance patterns.

First, there is migration between the ACP countries themselves, although there is little migration between Africa, the Caribbean and the Pacific areas (Frederiksen 2002; UNHCR 2000). Second, there is migration beyond the ACP region. This is particularly common in the Caribbean, where proximity, combined with well-established communities of overseas nationals, and channels of employment make it relatively easy to go and work to the east coast of the United States. In a similar fashion, Pacific islanders migrate to Australia and New Zealand. Backed by continued links after decolonization, there are similarly established migration patterns between ACP and European countries, for instance between Anglophone Caribbean and West African states and the UK, between Francophone African countries and France, and between Surinam and The Netherlands. Northern Africa is a common destination or transit area for African

6 http://www.developmentgoals.org/
   http://europa.eu.int/comm/development
labour migrants. Ethiopia, Eritrea and Somalia traditionally send many migrants to the Middle East. Much migration from Africa to the West is of skilled people. For example, since economic problems at the end of the 1980s, skilled Nigerians have emigrated in significant numbers: reportedly at least 20,000 Nigerian doctors are practising in North America (IOM 2003). There has been a similar exodus of skilled people from Ghana.

ACP migrants are significant in Europe. It is hard to get comparable data across EU countries on population born in ACP countries, given the variety of immigration policies and statuses conferred on individuals, the variety of indicators and methods used in recording migrant populations and the presence of irregular migrants who are not counted. However, as illustrated in Table 1 below, in the most populous countries in the EU, ACP nationalities are well-represented (OECD 2002). While ACP countries are not the largest sources of migrants for most EU countries, for ACP countries, regional and international migration is an important phenomenon with significant effects, including the effects of remittance transfer.
Table 1. Stock of ACP migrants in selected countries of Europe

<table>
<thead>
<tr>
<th>Host Country</th>
<th>Population (millions)</th>
<th>Year</th>
<th>ACP Sending Countries</th>
<th>Stocks of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>82.5</td>
<td>2000</td>
<td>DR Congo</td>
<td>16,090</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ethiopia</td>
<td>16,470</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ghana</td>
<td>22,602</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nigeria</td>
<td>15,351</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Togo</td>
<td>11,513</td>
</tr>
<tr>
<td>France</td>
<td>59.6</td>
<td>1990</td>
<td>Cameroon</td>
<td>18,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Congo</td>
<td>12,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ivory Coast</td>
<td>16,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mali</td>
<td>37,700</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mauritius</td>
<td>13,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Senegal</td>
<td>43,700</td>
</tr>
<tr>
<td>UK</td>
<td>59.3</td>
<td>2001</td>
<td>DR Congo</td>
<td>10,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ghana</td>
<td>33,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Kenya</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nigeria</td>
<td>45,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>South Africa</td>
<td>57,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Jamaica</td>
<td>58,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Somalia</td>
<td>54,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Uganda</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Zimbabwe</td>
<td>21,000</td>
</tr>
<tr>
<td>Italy</td>
<td>57.3</td>
<td>2000</td>
<td>Ghana</td>
<td>21,807</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Nigeria</td>
<td>17,340</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Senegal</td>
<td>35,188</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Somalia</td>
<td>12,174</td>
</tr>
<tr>
<td>Spain</td>
<td>40.7</td>
<td>2000</td>
<td>Dominican Republic</td>
<td>26,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Senegal</td>
<td>11,051</td>
</tr>
</tbody>
</table>


Remittances: data and estimates

The literature abounds with estimates and guesses about the size of unrecorded remittance flows relative to formal flows. Although no one really knows, some estimates are given below, which if nothing else demonstrate the great variation in such guesswork.

Globally, some suggest “parallel transfers” might be between two and ten times greater than officially reported flows (O’Neill 2001). Elsewhere, “informal remittances” are estimated at 1.5 times the value of formal remittances (Sander 2003). Roughly two-thirds of remittances from the EU to non-EU countries goes through banks and large money transmitters, and the remainder through other channels (ECFIN 2004). France reported to the EC that 70 per cent of remittances to Mali and Senegal move in informal channels, and the majority of remittances to the Comoros (ECFIN 2004). Total remittance outflows from the UK are estimated at £ 1.4 billion per year, of which an estimated £ 0.5 billion is transferred through informal mechanisms (Blackwell and Seddon 2004). An
estimated 20 per cent of officially recorded remittances was additionally brought into Jamaica through the black market (Grosse 1994). Germany reported to the EC that the amount of money transferred to non-EU countries banks through banks is almost three times higher than through registered non-bank money transmitters (ECFIN 2004)

National data on formal migrant remittances is captured in different ways depending on the country concerned. Generally, banks collect data on various categories of international payments that are given to national data compilers, usually a Central Bank or a National Statistics Office. In some European countries, non-bank financial services also collect data on international payments and these are included in estimates of remittances (ECFIN 2004). The data is used in national balance of payments statistics.

Data is fairly thin in ACP countries. For example, remittance figures are only available for one-third of the sub-Saharan countries in 2001 (Sander 2003). In Guyana, a country with substantial emigration, no remittance inflows are recorded (Orozco 2003). Where remittances are not reported, proxies are used (Sander and Maimbo 2003).

The feasibility of the Central Bank collecting top-down data on international payments depends on the financial and regulatory infrastructure of the country concerned. For instance, many immigrants make direct deposits into their own accounts in home countries, which central banks may not register as remittances (Orozco 2003: 311).

A recent EU internal survey of 15 Member States regarding available information on remittances and methods of compiling information at the national level revealed several deficiencies in available national data, leading to the conclusion that a “detailed geographical breakdown of remittance flows to third countries, including developing countries, is only available for a minority of Member States”. Moreover, in “most countries a minimum threshold for remittances exists – typically at €12,500 – below which individual transactions are not recorded. In some countries, estimates are entered in [balance of payments] statistics to cover transfers below the threshold. In other countries flows below the threshold tend to be ignored” (ECFIN 2004: 5).

Governments often do not collect information on significant informal flows. The information that they do collect on remittances may be distributed over several categories shared with other financial flows (Blackwell and Seddon 2004; Sander 2003). For example, since the UK lifted exchange controls in 1979, the Bank of England has not kept relevant data on any remittance outflows, although the Office of National Statistics attempts to measure remittance outflows as part of its balance of payments reporting responsibilities (Blackwell and Seddon 2004).
National data is collated in the IMF *Balance of Payments Statistics Yearbook*, the major global source of information on remittances flows. Data on remittances is captured in the categories “unrequited transfers”, “migrant transfers” and “compensation of employees”; unfortunately, some of these categories overlap for some countries (Kapur 2003; Kapur and McHale 2003). The IMF is well aware of the limitations of the data it collects, and has initiated activities to improve the quality of data, in part through the Inter-Agency Remittances Task Force (Blackwell and Seddon 2004). The World Bank has presented refined estimates of remittance flows in its Global Finance Report (Ratha 2003, see Table 2 below).

The recording of remittance volumes is also affected by the policy context. Sometimes growth in recorded remittances seems to be a statistical artefact, as remittances move into formal channels as a result of policy changes (Kapur and McHale 2003).

There are various ways to improve data on total remittance flows. One approach to combating data deficiencies on remittances outflow is to approach major transfer operators and banks – at the very least they know their own company’s intermediation volume. This is an alternative top-down approach. However, in a competitive market this information can be sensitive. Another alternative is to construct a “bottom-up estimate” on the basis of numbers of migrants from a country of origin in a particular host country and average annual remittance transfers for this migrant group. Official recorded flows from the host country are then subtracted from this bottom-up estimate of total flows to give an estimate of unrecorded remittance inflows. The same method may be used to calculate remittance outflows (Blackwell and Seddon 2004). There are obvious limitations to such an approach, not least difficulties in estimating the numbers of migrants and averaging the remittances that they send.

Analysis of available national data suggests that roughly € 17 billion left 15 EU Member States for non-EU countries in 2003, but ECFIN describes this as a “lower boundary estimate” (ECFIN 2004). The Global Finance Development Report 2004 presents the following data on recorded remittances to some ACP countries.

---

### Table 2. Worker’s remittances received by selected ACP countries 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>Remittances (US $ billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominican Republic</td>
<td>2.2</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.2</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1.3</td>
</tr>
<tr>
<td>Senegal</td>
<td>0.2</td>
</tr>
<tr>
<td>Sudan</td>
<td>1.0</td>
</tr>
</tbody>
</table>


Drawing on the original data-set used for the GDF report, Sander (Sander 2003) points out that whereas recorded remittances to developing countries have more than doubled over the last decade, remittances to Africa have grown little and declined in relative market share. In the period 1990–2001, of the countries for which remittance data exists, Nigeria is the giant, with an annualised cumulative average of US$ 8 billion; Sudan and Lesotho follow with just over US$ 4 billion, and Senegal and Mauritius with a little under US$ 2 billion (Sander 2003). ACP African host countries that were the source of the largest amounts of remittances to other African countries were South Africa, Ivory Coast, Angola and Botswana (Sander and Maimbo 2003). Other host countries that were the source of the largest amount of remittances to Africa were the USA, Saudi Arabia, Germany, Belgium, Switzerland and France (Sander and Maimbo 2003).

**Top-down data on remittances, both officially recorded flows and other flows remain incomplete, while well-researched bottom-up estimates are only available for a few countries. Better data on remittances obviously should be a priority. We fully concur with the Report of the UK International Development Committee’s hearings on Migration and Development in 2003-2004:”[i]n the absence of such information, evidence-based policy on remittances and on migration will remain an aspiration”.

### 3. Formal and informal remittance systems

International migrants send money home – migrant remittances – for a variety of purposes. Money is most commonly sent to a family member to support consumption or investment – a person-to-person transfer. Remittances are also made in kind, and our country studies provide considerable evidence of their importance to migrants and the economies of their country of origin, despite the fact that such remittances are even harder to quantify than money transfers.

Remittances are enabled by a range of *remittance systems* that encompass the actors, institutions and procedures that transfer money from migrants to their families. The term “system” is often used to denote a particular transfer model or
business that may either be general or alternatively limited to one specific migrant group in one particular locality, e.g. Western Union’s global operations, Hawala connections with Somalia, or the local corner-shop owner’s arrangements with a counterpart in Jamaica. It is important to remember that a single transfer from the migrant to the recipient may involve a combination of processes and services that link particular systems into often highly complex networks of actors and transactions. Moreover, remittance systems often play a variety of other commercial and social roles apart from remittance transfer.

Remittances in general have come under increasing scrutiny in the last five years. First, changing situations and policies in countries of origin and host countries affect the increasing movement of people – potential remitters – across international borders. Second, the changing regulation of international financial systems affects the movement of money across borders. Third, governments of poor countries, donor countries and international development agencies are increasingly interested in remittance inflows to poor countries and in the potential to leverage these flows for a variety of ends.9

In formal remittance systems have drawn attention on two counts, positive and negative. On the positive side, informal financial systems are usually more accessible to poor people, and those living in rural areas, than banks. Hawala-type systems and credit unions have been noted for their extensive outreach in some poor countries in comparison with banks.10 In the host country, migrants often find it easier to use informal systems to transfer small amounts, particularly in the early stages of a migratory career when access to bank systems can be difficult. In terms of accessibility, speed and reliability, and cost (at least on smaller transactions) informal remittance systems frequently prove superior to banking alternatives. Some commentators suggest that remittance transfer to poor people once recognized as a market opportunity by financial services companies may catalyse or feed off the development of better financial services in general to the poor (e.g. Pearce, Wilmaladharma and Stanton 2004). On the negative side, the potential use of informal remittance systems for criminal or terrorist ends has been highlighted by initiatives to combat money laundering during the 1990s and by the investigations of the funding of the September 11th terrorist attack in the USA in 2001.

However, the concept of “informal remittance system” in these discussions is highly problematic on at least three counts.11

---

9 Many governments in ACP countries have long been aware of remittance inflows in their country, particularly where these inflows have been large, and have been operating policies for many years in this regard. However, in other ACP countries recent donor interest and international financial regulation has raised or sharpened awareness.

10 In Fiji, for instance, 45 per cent of the population reportedly has no bank account; see Fiji Times, 1 September 2004, p. 22.

11 There are various alternative terms to describe a more or less similarly broad concept. For example, the term “alternative remittance systems” presents such systems
First, the multiplicity of criteria employed. We may consider specific remittance systems informal on the basis of a number of criteria that only partially overlap, such as the extent to which they are subject to financial regulation, registration, licensing or and supervision, law enforcement, or requirements to keep records, report transactions, or conform to certain accounting conventions. Furthermore, because of changes in the regulatory environment, the boundary between formality and informality is by no means written in stone. For instance, changes in legislation, registration practices, or requirements of record keeping may “formalize” informal systems, at least to a certain degree and on the basis of certain criteria. Conversely, such changes may also render certain systems illegal and therefore push them further in the realm of the informal.

Second, remittance systems themselves evolve over time. Our country case studies show that the first cohorts of migrants in a particular country tend to use formal methods to remit money back home, usually because there is no other alternative. As the number of migrants grows, so does demand for more specialized, cheaper and more efficient systems. Alternatively, as with the Sudanese in Britain, more restrictive regulation of formal transfers forces migrants to turn to informal systems. In many countries informal systems initially emerge on the back of personal relations or existing trade networks, becoming more specialized and efficient over time as demand for remittance services grows. Lastly, as in the Democratic Republic of Congo and Somalia, the collapse of the state also led to the breakdown of postal and bank services, leaving migrants no other option than to create alternatives of their own.

Over time, highly sophisticated operations evolve that in turn tend to cross the formal-informal dividing line, but this time in the opposite direction: informal remitters become registered companies, while the largest may even aspire to be multi-functional financial institutions. The Somalia case study in particular also reveals that many informal remittance companies are highly complex operations that operate in full view of regulatory authorities. In fact, the largest of such companies have taken on many of the roles of commercial banks in Somalia where the financial services sector otherwise is almost non-existent.

as alternative to conventional formal bank transfers or money transmitters. This term is problematic as it implies that “alternative” systems are not the first choice of most migrants, whereas in fact many “alternative remittances systems” have been operational for longer than conventional banking transfer systems and manage a greater volume and number of transactions than “mainstream” providers. A second problem is that in some countries, the alternative system is the only real option to remit money, as for instance in Somalia and Afghanistan. “Underground” or “ethnic banking” are other common terms (see Passas 2000), as are “informal value transfer systems”, “informal funds transfer systems” or “informal money transfer systems” are other often-used terms.
Informal systems are therefore not leftovers of a traditional, even pre-capitalist past. All informal remittance systems that we have documented in our studies (arguably with the exception of carrying funds in person) are modern adaptive responses to the constraints and opportunities presented by specific migration orders, serving very specific needs of migrants that are not met by conventional financial institutions. It is a mistake to think that formal systems are somehow superior simply because the state has a better view of them. The legitimate desire of states to regulate and monitor remittance systems should not lead one to conclude that informal systems have to be curtailed and formal ones encouraged. Rather, we should seek ways for informal systems to satisfy the security and law enforcement concerns of states without, however, restricting their ability to provide the services for which there is such an urgent and widespread need.

Third, even in the context of individual transactions the boundary between formal and informal systems is routinely crossed, and quite often more than once (APG 2003: 24; Blackwell and Seddon 2004: 12). Our country case studies provide rich evidence that informal remittances transfers in practice consist of complex sequences of transactions between individual companies or traders, some of which involve bank transactions or the use of the services of formal remittances companies, while others may consist of, for instance, hawala transactions, trade swaps or the couriering of cash.

There is much inconsistency in the literature as to what constitutes an “informal remittance system”. Consequently, the concept of “informal remittance system” is quite often simply a residual category: everything that is not, on the basis of one or the other criterion, formal. However, we have to accept that “informal remittance systems” has now become a commonly used and, more importantly, politically charged term that can no longer be dismissed simply on the basis of its analytical fuzziness.

Below, we will review the main elements in common definitions in order to gain a clearer view of the various phenomena caught under this umbrella term.

Regulation
Nearly all states regulate financial services, but regulations specifically of international money transfers may be non-existent or light. Where there are regulations concerning non-bank money transfers, institutions and actors may be more or less supervised, and in the case of non-compliance, there may be sanctions of varying types and stages and the regulator may be more or less tolerant. The ACP countries include some of the poorest in the world with large

---

12 The Asia-Pacific Group on money laundering even distinguishes between “underground banking” and “alternative remittance systems” on the basis that the former does not involve any remittance of money via the regulated financial sector to transfer payments internationally, whereas the latter use the regulated financial system in the process of funds transfer (APG 2003).
informal economies. Their governments often have little capacity or interest in enforcing regulations that exist only on paper.

**Law**
This merges with the distinction above. In some jurisdictions, certain remittance systems have been made illegal, while in other states the same transfer model is perfectly legal. For instance, hawala/hundi is illegal in India while in Afghanistan it is used by both the government and major NGOs (Maimbo 2003, quoting Mohan 2002; Swaminomics 2003). In many European countries it is illegal not to register a remittance business, or to run one without a valid licence.\(^{13}\) A further important distinction should be made between legal and illegal uses of otherwise legal remittance systems.\(^{14}\) The fact that certain remittance systems are abused for criminal purposes should not be an argument to outlaw these systems themselves, but rather should be cause for stepping-up regulation and law enforcement in these systems.

**Reporting and recording of remittances**
In some countries, data on the volume of remittance flows through the banking system is captured by the Central Bank or via other mechanisms. Some of the literature uses “unrecorded” and “informal” interchangeably to describe remittance transfers that, for whatever reason, remain invisible to the financial authorities. Another common term describing the same phenomenon is “unofficial” flow.

As a point of departure in our background and country studies, we used Blackwell and Seddon’s (2004) operational definition of informal transfers as transactions “initiated outside the formal banking systems and outside the mainline money transfer businesses” (Blackwell and Seddon 2004: 5).

This does not help to clarify the conceptual issues around “informality” highlighted above, but as an inclusive – albeit residual – definition of informality it enabled us to capture a broad range of remittance systems. The main reason for casting the net as widely as possible is that given the wide variety of remittance systems and institutional and regulatory contexts across ACP and host countries, what is regulated/supervised/recorded/legal in one country may not be so in another.

4. Principles of value transfer and hawala

---

\(^{13}\) In compliance with FATF Special Recommendation 6 on Alternative Remittance, Section 4.

\(^{14}\) In the case of hawala, a distinction is often made between “white hawala transactions” – basically migrant remittances or legitimate trade transfers – and “black hawala transactions” – “associated with some serious offence (e.g. narcotics trafficking, fraud)” (Jost and Sandhu 2000: 12)
Many informal remittance systems are based on forms of value transfer without actually transferring money. Before discussing the different types of informal remittance systems found in the ACP countries, and in particular in our case study countries, we discuss these value transfer based systems in some detail.

In value transfer systems, the customer gives money to an agent in the host country, who communicates to a corresponding agent in the country of origin the instruction to pay out a certain amount, and to whom. Usually the sender pays the agent a fee for the service. The model relies on trust and telecommunications (phone, fax, Internet or dedicated electronic systems). This is different from other systems, where the distributing agent often needs to receive the money (often in the form of a bank account transfer) prior to pay-out (FinCEN 2003). Hence, some analysts distinguish between money transfer and value transfer (Passas 2000). There is a high level of trust between agents, who later will settle the debt between them in a variety of often trade-based methods. For example, the first agent may courier cash across borders to the second agent at a later date, pay the money from his own local account in the country where the other agent is located, or pay into the other agent’s foreign bank account in the transaction’s country of origin. Alternatively, he may export commodities, sell them and from the proceeds pay the second agent; he may also pay for goods to be traded by the second agent. This may involve invoice manipulation by both agents, e.g. over-charging or under-charging for goods and services in the context of an ongoing business relationship.

Value transfer is thus an institutionalized system that can lead to streamlined pay-out. For example, the largest channel for remittances to Uganda involves migrants paying their remittances to a foreign company. They are given a confidential code that they communicate to the intended recipient. The foreign company banks the money in the foreign account of one of the 79 licensed foreign exchange bureaux in Uganda. The bureau then pays out to the recipient upon production of the confidential code. The actors make their profit on the exchange-rate spread and generally do not charge commission. The system is illegal because the bureaux are not supposed to hold foreign currency with the intent to provide the equivalent in Ugandan shillings (Ofwono 2004). At a later date settlement is achieved via a relatively cheap bulk transfer between the foreign account and the national account of the Ugandan bureau.

Several names are common in the literature on informal remittance systems. For example, **hawala** is the name for the system of money transfer that operates in the Horn of Africa, the Middle East, Afghanistan and Pakistan. Other names for traditional systems that still operate to transfer remittances to home countries are **hundi** (India and Bangladesh); **phoe kuan** (Thailand); **black market peso exchange** (Colombia); **padola** (Philippines); and **hui kuan** (Hong Kong) (Blackwell and Seddon 2004; El Qorchi, Wilson et al. 2002; FinCEN 2003; Jost and Sandhu 2000; Gilligan 2001). The histories of this and other systems have been documented elsewhere (see Ballard 2003a, 2003b; Passas 2000).
Few of the commonly cited names above are used in ACP countries, with the exception of hawala in Somalia. In South Africa, which attracts many migrants from other southern African countries, researchers are not aware of any widespread use of hawala-type systems – perhaps because of the lack of commodity trading networks that could be linked to such systems (Genesis 2004). The Somali example aside (see country study), we have been unable to locate any account of value transfer systems in ACP countries that show them to be as deeply institutionalized, extensively networked and historically embedded as in those networks emanating from Asian and Middle Eastern countries. However, remittance systems operating on the same principles operate in most of country cases with varying degrees of institutionalization.

5. A typology of informal remittances systems

Several types of informal remittance system are common in ACP countries. In each national and local context, there is a different range of options available, as is discussed in detail in our country case studies. Because of the specifics of each country, the typologies developed in the case studies differ in certain details. However, the overall picture of options available that emerges from them is remarkably consistent. The main types are hand delivery/couriering, money transfer as part of other businesses, dedicated money transmitters, and transfers through micro-finance institutions and migrant associations.

Hand delivery

Hand delivery of cash remittances by the migrants themselves on a return visit is common: in this scenario, the cost of the transfer is that of the migrant’s transport and the cost of exchanging the money into local currency. Customs restrictions, sanctions for non-compliance, customs corruption, or crime in home countries may be factors in limiting the total amount of cash that migrants carry on return visits (World Bank 2004). Certain categories of migrants are less likely to return on visits, especially refugees’ and irregular migrants who may not want to risk potential re-entry problems on return to the host country.

The migrant may trust a relative, friend or prominent person to deliver the money to recipients. Alternatively, among certain migrant groups (northern Sudan and the two Congos among our case studies) it is quite routine simply to go to the airport on the day of a home-bound flight and ask a person from the check-in queue to take an envelope with cash along. Remarkably, this is considered a relatively safe option (or at least just as risky as asking a friend or relative), despite the apparent risks involved in trusting a stranger with a large amount of cash.

Migrants may also use money delivery services offered by transport companies. Taxi drivers are sometimes used to send money home across borders in Southern Africa. Genesis (2004) gives the example of a migrant worker in South
Africans who send up to 600 rand per month to her children in Zimbabwe: she often pays taxi drivers 120 rand to do so. The money is taken directly to the recipients. Anecdotal evidence suggests that taxis generally charge about 20 per cent of the total transfer value to transport remittances from South Africa to neighbouring countries (Genesis 2004; Maphosa 2004). Taxi drivers might be also asked to transport food to Zimbabwe, for which they charge around four rand per kilogram; Maphosa’s small-scale study in a district of Matebeland, Zimbabwe, found that the bulk of the value transmitted is in kind – maize-meal, sugar, salt, cooking oil, consumer goods, agricultural inputs, and building materials (Genesis 2004; Maphosa 2004). Similarly, in East Africa, many bus, coach or courier companies offer money transfer or transport services for domestic or intra-regional transfers (Sander 2003).

Hand carrying of goods as gifts during return visits is common among all migrant groups. Bringing gifts is culturally significant as it is considered a duty to friends and relatives and a sign of migratory success. In the Fiji and especially the Surinam case studies we found that goods as gifts are preferred to cash because of the state of the economy back home. In Surinam, a preference for goods was particularly pronounced during economic crisis and especially during hyperinflation in the 1980s and 1990s. More recently, the economy improved, leading to shift back to cash.

Hand carrying and couriering of cash as remittance methods are poorly researched in general, although there is rich anecdotal evidence. As a consequence, the amounts involved are difficult to quantify (World Bank 2004). This lack of information is particularly remarkable considering the significance given to this channel by many writers. A survey of return migrants in Ghana and Ivory Coast found that significant sums are transmitted simply as cash, although regular remittances are more likely to go through formal channels, such as banks, post offices and money transfer operators like Western Union. Less-skilled workers were also more likely to go through formal channels. The researchers suggest that this may in part be because they had fewer opportunities to return home with money (Black, Tiemoko and Waddington 2003). In Samoa, an estimated 27 per cent of remittances are hand-carried by migrants (Passas 2000). Blackwell and Seddon (2004: 14) suggest tentatively that hand carrying in cash and kind to home countries could be as much as 25 per cent of all informal remittances leaving the UK. Many claim that hand carrying is particularly common in Africa in comparison with the rest of the world (Orozco 2003).

**Remittance transfer in the context of other businesses**

Cash-intensive business, particularly outlets with good international communications facilities, often offer remittance transfer services as a sideline. Such businesses include foreign exchange outlets, unregulated financial houses, import, export and shipping companies, grocery businesses, brokers, gold and
jewellery shops, gold dealers, textile and clothes shops, guest houses, restaurants, travel agents, phone card, phone booth and international fax shops, bus companies and taxi firms (APG 2003; Ballard 2003a; Blackwell and Seddon 2004; Buencamino and Gorbunov 2002; Passas 2000; El Qorchi, Wilson and Stanton 2002; FinCEN 2003;). Informal transfer services may be offered from private residences and market stalls as well (APG 2003). Some such outlets conform to host-country and country-of-origin financial regulations, some do not (Blackwell and Seddon 2004).

The agents involved make money on the exchange rate spread and often also from fees charged to the customer (Jost and Sandhu 2000). However, in our Sudan, Congo and Senegal case studies we also found that some businessmen sometimes also offer these services to assist friends, relatives, or simply co-ethnics apparently without being motivated by profit.

Rigid foreign-exchange regulations in many countries mean that money can be made from exchanging remittances at black-market exchange rates or simply from exchange rate speculation (Al Ghurair 2002). Where there are strong exchange controls, there is high demand from importers for foreign exchange. Where there are strong tax regimes on imports, some importers are keen to under-invoice imports (Al Ghurair 2002). These factors all encourage informal money-transfer activity. Indeed, businesses may also become customers of informal transfer services (Ballard 2003a: 11).

Dedicated money transmitters

While the remittance systems above may be highly institutionalized, they occur within the context of another business. In contrast, there are also dedicated money transmitters offering services from Europe and North America to ACP countries. These may be divided into independent operators and ethnic or national niche operators (Blackwell and Seddon 2004). Independent operators are businesses with wide geographic coverage, but smaller than the dominant Western Union and MoneyGram: they include companies such as Checkpoint, Travelex and First Remit. In contrast, ethnic or national niche operators serve particular groups, e.g. Leppe for Senegal, WatuWetu for East Africa, and Al-Amal, Dalsan, Dahabshiil and Towfiq for Somalia. Many of these dedicated

---

15 See also Ballard’s analysis of Pakistani hawala operating out of the UK, which distinguishes between retail, wholesale and corporate hawala on the basis of the roles carried out by different levels of agents, the management of funds within the network and the purposes of the transactions. Wholesale money transmitters are larger operators moving amounts of millions of pounds in and out of the UK, directly or via an intermediary. Retail money transmitters constitute a large number of smaller operators moving relatively small amounts on behalf of individuals, often using one of the wholesale operators (Ballard 2003: 24).

16 According to a 20 per cent sample survey (179 of a total of 960) of registered independent (i.e. sole proprietor and maximally two premises) money transfer
sophisticated money transmitters have established websites or advertise in telephone directories, ethnic and local press and on the radio (APG 2003). The Somali businesses are among the most widespread of these niche operators: their features are elaborated in the Somali case study. As dedicated money transmitters develop in response to demand in the emigrant markets, some also offer in-kind services; for example, WatuWetu offers vouchers that can be redeemed in stores in Kenya and Leppe offers delivery of staple goods, bills payment and organization of religious ceremonies, linking migrants in the USA and France with Senegal. Leppe allows migrants to order goats for Tabaski, a major Islamic festival. Since these dedicated money transmitters are subject to degrees of regulation, it is a moot point as to whether they should be considered “informal”, highlighting once again the problems of the “formal–informal” distinction.

**Microfinance institutions and migrant associations**

While in many developed countries access to financial services for poor people has greatly improved in recent years, immigrants often still have problems; in many developing countries bank services are still there only for a privileged minority (Grace 2004). In recent years, some credit unions in areas of significant emigration and immigration have begun to offer remittance transfer services. Credit unions are financial co-operatives that provide credit and savings services, operating in response to the failure of the banking sector to offer services accessible to the poor. There are now over 40,000 credit unions in 85 countries (Grace 2004).

In 1999, the World Council of Credit Unions (WOCCU) launched a remittance transfer service “with the goal of using remittances to attract new members to credit unions”, both immigrants and recipients (Grace 2004: 35). The remittance transfer service, IRnet, is offered in partnership with Vigo Remittance Corporation, the third-largest money transfer operator in the world, which provides the back-end services for the credit unions (BSM - Finanzwesen 2004). IRnet is the largest example of a credit union network that facilitates remittances. By September 2003, IRnet was being used by 190 credit unions in the USA, sending money to 42 countries. Most recipients of remittances via IRnet are in Spanish-speaking Central and South America, but some ACP countries are also covered – Dominican Republic and Jamaica - and WOCCU is working on other schemes in Kenya and other parts of Africa. Again, these institutions can hardly be regarded as “informal”, but are perhaps better seen as intermediate level businesses in the UK, the ACP countries Nigeria (18 per cent) and Zimbabwe (16 per cent) are surprisingly well represented, coming just after the traditional hawala countries Pakistan (26 per cent) and India (25 per cent).

---

17 [http://www.watuwetu.com](http://www.watuwetu.com)
18 [http://www.leppe.com](http://www.leppe.com)
19 [http://www.woccu.org](http://www.woccu.org)
institutions which incorporate some of the features of informal remittance systems – notably accessibility and low cost.

Studies conducted by Sanders and others suggest that domestic and international remittances may represent in some contexts a significant opportunity to commercialize microfinance services (Barro et al. 2003; Kabbucho, Sander and Mukwana 2003; Sander 2003; Sander, Mukwana and Millinga 2001). An example of a microfinance institution that offers international remittance services is Haiti’s Fonkoze. With 18 branches and 180 employees in Haiti, Fonkoze describes itself as Haiti’s Alternative Bank for the Organized Poor (80 per cent of its clients are women), and is in the process of spinning-off its financial services into a commercial microfinance bank. Fonkoze offers savings accounts, micro-loans to street vendors, currency exchange as financial services and business development and educational services. Fonkoze also offers money transfer services to two types of remitters – individual workers remitting to their families, and churches and charities sending money for community development projects. Initially, Fonkoze found it hard to find a US-based bank as a collaborator. A contact with a Haitian-American CEO provided the breakthrough and City National Bank of New Jersey (CNB) became the partner. In 2002, Fonkoze received around US$ 2.5 million in remittances. Churches, charities and associations find the service very attractive, but individual Haitian migrants are more suspicious, partly because there is no physical office and they fear a scam. Fonkoze plans an awareness and financial literacy campaign in the USA and aims to encourage Haitian migrants to form Home Town Associations (similar to those of Mexican migrants in the USA).

Innovative financial services are also emerging that can circumvent the need to transfer money either formally or informally. Among the Ghanaian diaspora, for example, an innovative scheme for medical insurance is under development under which migrants can finance both their own health care and that of relatives back home through contributions to a single scheme. Such schemes could be promoted elsewhere and extended to other areas such as education or pensions. Advantages include avoiding the risk and cost of money transfer (whether formal or informal), ensuring that the resources are used for the purposes intended and supporting the development of reliable health and other services in developing countries.

From our country case studies it is clear that migrant associations, churches and other religious organizations also often play a role in fundraising or funds transfer to the place of origin. Usually this is linked to community projects, but a modest role in transferring individual remittances is sometimes also reported (for instance in Sudan). Among Surinamese in The Netherlands and Congolese in France, non-governmental organizations raise money and transport humanitarian aid to the home areas. Other examples are Christian churches and Hindu temples among Fijian migrants in Australia that have been active in raising funds for

Sander 2003 and http://www.fonkoze.org
churches and other charitable projects in Fiji and transnational Senegalese Islamic brotherhoods. Churches are also significant in the context of Ghanaian transfers. The actual methods of fund transfer vary considerably. Senegalese brotherhoods rely heavily on cash transport, Fijian churches and temples tend to use formal methods, while Congolese and Surinamese NGOs themselves organize shipment of humanitarian aid goods.

6. Why choose informal remittance systems?

Accessibility

Not all groups of migrants from a particular country have equal access to remittance services. As already pointed out, irregular and forced migrants often do not have the option of returning home to deliver money in person, anticipating problems re-entering the host country or persecution in the country of origin. The use of the formal banking system is restricted to those migrants who have a bank account, which in many cases excludes irregular migrants or migrants without a fixed address.

In many countries of origin, using formal banking or money transfer companies simply is not a viable option due to the lack of access to banks, agencies, or post offices, or because of foreign exchange restrictions. In Senegal, for instance, banks and post offices have expanded in rural areas, but continue to be hamstrung by the 1990 banking law that puts a cap of US$ 284 on each foreign-exchange transaction.\(^{21}\) This point will be discussed further in section 8 below. In addition to these legal and infrastructural issues, informal remitters often simply offer a superior service.

In our country case studies we also encountered examples of differential access to remittance methods along ethnic lines. For instance, among indigenous Fijian migrants in Australia, arranging for container shipment of remittances in kind is usually done by several households cooperating in hiring a container, or else by churches or other community organizations. Among Indo-Fijians, by contrast, several businesses arrange for such shipments on a commercial basis. Conversely, Surinamese migrants in The Netherlands regardless of their ethnic background are most likely to use the remittance services offered by businesses run by Indian Surinamese (“Hindustani”). Lastly, southern and northern Sudanese patterns of money transfer are entirely separate. Amongst many northern Sudanese, informal commercial systems are common. Southerners, by contrast, rely on friends and relatives and the services of Somali or formal remittance companies.

Cost and speed

\(^{21}\) See the Senegal country case study.
It is hard to say anything meaningful about the cost and speed across remittance systems in the 79 ACP countries and the countries hosting their migrants. Studies of the costs of remitting to ACP countries from common host countries are limited and the evidence remains extremely patchy. The received wisdom is that informal systems cost less and that they are in some cases faster. This is confirmed by our country case studies, where such information was available. Depending on the reason for remitting, and the position of the migrant, cost and speed may be more or less important factor in the remitter’s decision over how to send the remittance.

While banks may offer cheaper services to account holders than small money transmitters, the latter have a more demand-oriented approach, particularly for low-value transactions. Sander (2003) claims that, globally, small money transmitters tend to charge a percentage commission of around 5 per cent or higher, whereas larger money transmitters tend to charge a flat fee. Orozco writes that it cost 11.9 per cent to send US$ 200 from the USA to Zimbabwe via a major money transmitter and 7.5 per cent to send the same amount from the USA to Ghana via an ethnic store/exchange house (Orozco 2003). In contrast, informal services sometimes charge no fee (making their profit on the exchange rate spread), or charge 3–5 per cent or sometimes higher (Sander 2003). Taxi drivers charge 20 per cent for transporting remittances from South Africa to Zimbabwe (Genesis 2004; Maphosa 2004). Asking family or friends, or even strangers at the airport to hand deliver cash is usually free of charge, but may entail a certain level of risk because of theft, loss or corruption.

Informal systems tend to be more efficient, reliable, cheaper and accessible than formal transfers. Although some banks offer express services, these tend to be much more expensive, while normal bank transfers can take a long time. By contrast, many dedicated transmitters use value transfer methods, and the money is often paid out within 24 hours.

Class-action law suits in the USA have drawn attention to high hidden fees of Western Union and MoneyGram and a lack of transparency regarding commission, fees and exchange rate (van Doorn, no date). However, in certain corridors such large formal money transmitters compete significantly. They charge more competitive rates in high volume markets such as London, offering lower rates for transfers to high volume destinations such as Ghana and Nigeria (Sander 2003).

Cost is a key factor in choosing a remittance system, yet the remittance market is highly segmented and opaque, and systematic information on the availability and costs of the different options is not easy to come by. In the words of Dr Banjoko of Africa Recruit in the UK:

“The remittance market is a dark, uninformed market, in other words if I want to send money home I do not have a lot of information, I am not well-
informed, it is all by word of mouth. Make it more transparent and then competition becomes much healthier, people will be forced to drive their cost down because there are some cheap ones, but they cannot compete on the same scale as the large organisations” (House of Commons Select Committee on International Development 2004).22

However, other factors often come before cost in choosing how to send money home. Genesis (2004) found that factors leading migrants in South Africa to favour informal systems were illiteracy or financial illiteracy, distrust of formal institutions, privacy concerns particularly among irregular migrants, lack of product knowledge and consumer inertia.

One other key factor is the disinterest of many banks in remittance transfer as a business opportunity. Remittances are more often low-value transactions and are not seen as profitable. Banks instead prefer to limit transactions across the counter and to focus on their core products.23 In contrast, both formal and informal money transmitters actually want this business. Money transmitters have points of sale in convenient locations for migrants.

“Many of the MTOs and also the informal services are successful because they work with a market segment of migrants who are located in ‘micro-markets’ – often certain cities and neighbourhoods within them. Thus, for instance, Kenya Post Office Savings Bank, the main Western Union agent in Kenya, organizes regular marketing events with Kenyan migrants in locations such as Minneapolis, Minnesota, and Columbus, Ohio. They mentioned that the loss of a point of sale in a key area has noticeably reduced the number of transactions” (Sander 2003: 8).

Money transmitters also tend to have more convenient opening hours than banks, with ethnic and national niche operators often open unsociable hours so that people can go after work, undertaking usually much faster transactions, regardless of the financial status and whether or not there is an ongoing relationship with the customer.

Trust

Trust is an important factor motivating the use of informal systems. It is often pointed out that remittance behaviour and informal systems are inextricably linked with existing systems of solidarity and reciprocity. Trust is certainly important in informal remittance systems, but should not simply be treated as a

22 DFID’s Financial Sector Team is currently undertaking a Remittance Products Survey, to compare the cost and other aspects of remittance transfer services available in high-street banks, major money transmitters, and national group-specific remittance services from the UK to developing countries. This will be disseminated among migrant groups and among financial services firms operating in the UK.

23 Interview MoneyGram, 14 September 2004.
given attribute originating in “ethnic solidarity” or similarly obfuscating concepts. Our case studies provide rich evidence of the fact that trust has to be earned and maintained: the longer-term business success of financial entrepreneurs, big or small, hinges on their reputation among customers, competitors and business partners, particularly in a fiercely competitive market such as remittance transfer.

In fact, attributes such as reliability, honour, and a good business reputation are also key in the formal banking sector. In some places, a justifiable lack of trust in poor formal banking systems has promoted the use of non-bank systems. It is ironic that in India

“The RBI [Reserve Bank of India] allows only institutions governed by its rules to function, supposedly in the interests of consumers. Yet banking scandals are commonplace, and banks licensed by the RBI have been guilty of a multitude of crimes and sins. Hawala has never defrauded customers on anything like the scale that legal banks have” (Swaminomics 2003).

In certain ACP countries too

“there are alarming levels of corruption and a lack of security in many areas of both the public and private sectors in general, and the finance sector in particular … [I]f the choice is between on the one hand, banking in conventional banks, the majority of which may be controlled by organised criminal groups or subject to corrupt political influence, and on the other hand, utilising underground banking systems in which there are well-established networks of trust and dependence, then the latter may be a more sensible and attractive choice, with the affiliated tax avoidance benefits as an added bonus” (Gilligan 2001: 107).

Informal transfer systems, like other informal economic institutions, grow during times of political change and instability (Buencamino 2002) – as witnessed since the collapse of the state in Somalia – when the institutionalized guarantees of trust of the state and the legal system no longer exist, and hard-earned reputation remains the only reason to trust anyone. Since trust is now regarded as a key to sustainable development, the development of trust and other forms of social capital in the context of informal transfer systems arguably makes them phenomena to be welcomed rather than derided and regarded as threats.

7. Regulation

Informal remittance systems have come under scrutiny as regulations are changed, particularly in wealthy countries, to meet new Financial Action Task Force (FATF) recommendations aimed at preventing the use of financial systems for money laundering or by terrorists after the terrorist attacks of September 11th. This has implications for many remittance systems that had previously operated
under less government scrutiny. The FATF Special Recommendations on Terrorist Financing No. 6 “Alternative Remittance” states:

“Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.”

European countries have implemented this requirement for stricter regulation in a variety of ways. One approach is the outright outlawing of informal remittance companies and the creation of exchange companies usually regulated by the central bank. Another approach is merely to register Hawaladars. The differences in approach are predicated on dissimilar perceptions of informal remittance companies. Harder approaches tend to criminalize informal remittance companies. The softer approach recognizes the important services that such companies provide for migrants, particularly the most vulnerable groups among them, and distinguishes between the remittance companies and their potential criminal abuse. Furthermore, restrictive regulation of money transmitters risks pushing them underground, making it even harder to monitor and regulate their operations.

In Germany a licensing system is been put in place with high entry barriers in terms of fees and qualifications. For instance, at least two managers must be professionally qualified with managerial experience to run the business and deemed trustworthy. Norway continues to forbid non-bank money transfer systems (e.g. Hawala and non-bank foreign exchange offices) (Grundekjøn 2003). Sweden’s act on currency exchange and money remittance of 1996:1006 requires the notification of authorities of transactions and other anti-money laundering requirements. In 2002, Britain introduced mandatory registration of money transfer businesses, and began an assurance programme to check compliance with anti-money laundering legislation, but refrained from setting-up a more restrictive licensing system. Businesses pay a modest one-off registration fee for each premise. In addition, all businesses are supposed to adhere to the Money Laundering Regulations of 1993.

24 http://www.oecd.org/fatf
25 All examples of specific country regulations have been taken from the Conference of the Somali Remittance Sector CD-Rom 2003, unless otherwise indicated.
26 However, in interview officials of Her Majesty’s Customs and Excise expressed the opinion that they have insufficient instruments to enforce these regulations (Interview HMCE 1 October 2004).
This is a policy area that still is very much in flux. In particular, the European Commission is considering a new legal framework for EU payment services that is designed to increase the choice of services, make remittance transactions more secure and enhance transparency. EU legal instruments deriving from this are likely to have an important impact that cannot yet be assessed.

8. Informal remittance systems and development

The influence of remittances on development has long been the subject of debate. Among the issues highlighted in that debate is the extent to which remittances are used productively for development purposes, or are “squandered” on consumption or on other purposes deemed non-developmental. This debate raises questions as to what constitutes productive use and about the notion of development itself. For example, investments in health care, education and improvements in housing – all uses to which remittances are commonly put – arguably accomplish advances in wellbeing which could be as easily be labelled “consumption” as “developmental”. Such arguments apply to the use of remittances whether they are transferred by formal or informal means.

Given the diversity of migration contexts in ACP countries, as in other parts of the world, it is difficult to generalize about how remittances affect processes of development. Key issues pointing to the positive and negative impacts of remittances on development include:

- Remittances and sustainable livelihoods, including education and health care
- Remittances and investment and small enterprise development
- Remittances as social security or disaster relief for recipients
- Remittances and conspicuous consumption
- Remittances as disincetive to entrepreneurship and development
- The multiplier effects of remittances in local communities and countries
- Remittances and the growth of the informal economy
- Reverse remittances and capital flight from countries of origin
- Remittances and inequality
- Remittances, political stability, security and democratization

Our country case studies contain observations on all of these issues. However, in our research, we have not found any evidence that informal remittances...

---

27 There is a substantial literature on the issue of remittances and development, which is in itself a subset of the literature on migration and development: the earliest scholarly piece of work that we know of dates from the 1930s (Chen 1939). Recently, several of the main governmental and international organizations involved in international development commissioned overviews of the literature, including De Haan 2000 (DFID, UK), Ellerman 2003 (World Bank), Lucas 2004 (Ministry of Foreign Affairs, Sweden), Martin 2004 (ILO) and Van Hear and Sørensen 2003 (DANIDA, Denmark).
have impacts on development that are systematically different from remittances sent through formal channels. In other words, the intended use of the money does not seem to determine how that money is transferred. The only exception is that in a few country case studies mention is made of larger sums of money (which are usually intended for business purposes rather than direct consumption), or money raised for charitable purposes by churches and other associations, being remitted through formal channels.

This section will therefore confine itself to exploring how remittance systems both affect and are affected by the structure of the economies of the migrants' countries of origin, although again it is hard to generalize across the 79 ACP countries, quite apart from the fact that the impact specifically on development remains a relatively underexplored area in the literature.

The following section considers how informal remittance systems can facilitate poor people’s access to financial services, and thereby be a means of alleviating poverty and potentially means of development. The next section looks at the links between informal remittances, liberalization and the informal economy. The concluding section considers how informal remittance systems may help to nurture trust in fragile societies as a prerequisite for development, and indicates means of generating resources for development from the range of remittance systems.

Access to financial services

In some cases, the ready availability of formal remittance transfer services and access to these may steer migrants away from the use of informal services. In some places, migrants have reasonably good access to useful banking services: for example, “South Africa is a good example of a high volume market where a dedicated financial institution, Teba Bank, is closely linked with the mine workers and provides money transfer services to many migrant miners, both in South Africa and across the borders [to Mozambique and Swaziland]” (Sander 2003).

However, in general, migrants are among the groups that have most trouble accessing financial services, for linguistic, cultural, socio-economic and legal status reasons (Grace 2004), and informal remittance systems provide a vitally important function both to these migrants and their areas of origin.

The migrant is usually thought to be the one who makes the decision about how to send the money, but the situation of the recipient also plays a role. Formal banking and financial infrastructure in general is weak in rural and remote areas. People may have to travel significant distances to pay-out points of large-scale international money remitters, who tend to use post offices and banks branches to distribute remittances. The “last mile” of a formal remittance system can
involve the recipient incurring considerable travel and other costs (Frisch 2004) that can be a great deal less when using the more regionally specialized informal systems. In some areas devastated by war or famine there simply is no choice between formal and informal methods: if often desperately needed money is to reach these areas at all, informal systems are the only option. The very fact that people often use money transfer services within for instance Kenya, Tanzania and Uganda illustrates the narrow access to banking services for the majority of the population (Kabbucho 2003; Sander 2001). International NGOs in countries such as Somalia and Afghanistan also use the services of remittance companies.

In certain countries (in particular Somalia among our case study countries) the importance of informal remittance systems is even greater. Remittance companies provide a range of financial services without which the economy of what already is a poor country would grind to a halt.

If there are different options, the choice of channel depends on the amount of money to be transferred. According to a survey in 1997, for transfers between France and Senegal and Mali, migrants favour banks for larger transactions and postal services for smaller amounts. However, while banks channelled 19 per cent of the total transfers of those surveyed and postal services accounted for 15 per cent, around 56 per cent of the total was transferred using other intermediaries (Blion 1998).

The regulation of money transfers has a significant impact on the access of low income groups to financial services. The introduction of international standards (see section 5 on regulation), together with increased consumer protection, increase transaction costs for banks, costs that are passed on in fees to the client, affecting especially the access of poor individuals to banking services (FitzGerald 2003). Such interventions may jeopardize the opportunities for poverty reduction and development that informal remittance systems may offer, through access to finance otherwise unavailable

**Informal remittance systems, liberalization and the informal economy**

Crucial to the success of informal remittance entrepreneurs is their reputation. However, when reputation, trust and business success do not depend on the state’s sanction, enforcing the state’s requirements (registration, record keeping, upholding the law) is also much less straightforward. It is therefore not altogether surprising that another factor favouring the development of informal remittance systems is the fact that remittances through these channels avoid the currency reporting controls imposed by financial institutions. Particularly in migrants’ countries of origin, informal channels are attractive to customers wishing to circumvent any reporting to government and avoid paying taxes (FinCEN 2003).

In other words, the use of informal channels is not simply a matter of migrants wishing to avoid the gaze of the state of the host society. The
difference between official and black-market exchange rates in the countries of origin is another a critical factor in the flourishing of informal remittance systems.

In many countries, there are “laws that prohibit speculation in the local currency, prohibit foreign exchange transactions at anything other than the official rate of exchange, and impose strict licensing requirements on money remitters and foreign exchange dealers. In addition, there are regulations governing inbound and outbound remittances” (Jost and Sandhu 2000: 11).

What is legal foreign exchange speculation in one jurisdiction may be illegal black-market currency dealing in another. Money transmitters and business people are able to use remittance transfer to exploit naturally occurring fluctuations in demand for different currencies (Jost and Sandhu 2000: 328). In a study of six major exporting countries in North Africa and Europe, researchers found that an increase in the premium in the black market for foreign exchange of 10 per cent resulted in a decline in official remittances of 3 per cent (Elbadawi and Rocha 1992). Similarly, Higgins et al (2002) found that high levels of exchange rate uncertainty have significant impact in reducing on level of recorded remittances.

Much of the demand for informal remittance services comes from businesspeople and traders.

“Precisely because of the strictness with which foreign exchange transactions are regulated by the state in many parts of the non-European world, let alone exceedingly high levels of taxation and excise duty, severe controls on what may or may not be manufactured, exported and imported, all of which are further underlined by the non-convertibility of domestic currencies, businessmen and manufacturers who find themselves subject to such restrictions have increasingly turned to hawala as a means of facilitating their transactions with trading partners overseas” (Ballard 2003a: 11).

Conversely, more liberal foreign exchange regimes reduce the incentives to operate and remit through informal channels. In sum, the more regulations are in force to restrict the free movement of money, the wider the use of informal remittance systems that circumvent these restrictions (Buencamino 2002: 5).

Somalia is perhaps the best example of the connection between informal remittances, active foreign trade and the informal economy. Informal remittance systems frequently use parallel trade transactions to pay for the remittances disbursed to the recipients, thus facilitating the import of foreign goods to Somalia. At the same time, the remitted funds also generate the demand for these imported goods. At least partially thanks to the highly developed informal remittance systems, Somalia’s economy is in a much better state than official
figures would one lead to believe. Similar effects of informal remittances, albeit on a more modest scale, also obtain in our other case-study countries. In Surinam or Fiji, for instance, gifts or remittances in kind often enter the informal economy. Informal remittance systems can thus help to lubricate trade and circulation, as well as having direct effects on recipients in terms of welfare and development.

*Informal remittance systems and the generation of resources for development*

The view that informal remittance systems typically depend on trust to operate is borne out in the ACP countries reviewed for this study. In wider development circles, it has become a conventional view that trust and related forms of social capital are essential components underlying successful development. Such trust is often in short supply and takes much effort to develop – particularly in countries where social relations have been corroded, where confidence in official institutions is very low, or where such bodies are largely non-existent in the wake of war, as in some of the ACP countries featured in this study. In such circumstances it is ill-advised to undermine institutions such as informal money transfer businesses that do operate on the basis of trust, especially where relations of trust are fragile and need nurturing as a prerequisite for development.

Even so, one of the drawbacks for development purposes of informal money transfer institutions compared with banks and other formal institutions is that they do not tend to be major players in productive investment or in providing finance. An exception is in Somalia, where several large money transfer operators are big investors and have diversified into areas – notably in other forms of communication like telecommunications and aviation – that can be construed as “development”. Arguably, this is another indicator of the formalization of such institutions. Such businesses also offer a range of financial services, including some banking functions and the provision of credit.

*Other institutions have successfully managed to marry the features of informal operators – notably trust, reasonable cost and accessibility – with credit and other formal financial services for low-income people. Among these are credit unions and related micro-finance institutions. There is scope for bringing migrant associations, whether nationally, regionally, ethnically or home town based, into the fold here. The potential for greater involvement by credit unions, other micro-finance institutions and migrant associations in leveraging remittances for development could be built upon.*

Where “formalization” of the remittance sector is pursued, it should seek to complement rather than to suppress informal operators, and aim to incorporate their better practices – trust, low cost, speed, accessibility and reliability. Banks should develop means of transfer for low-income users, such as debit cards that can be replenished by migrants and drawn on by their counterparts at home and the use of ATMs where technological advances allow this. Special accounts for
health, education, housing and other purposes could be developed for low-income users with links between the migrant hosting and migrant sending countries. Fees and taxes on foreign currency accounts should be minimized. To these and other ends, alliances among mainstream, formal sector financial institutions, intermediate level institutions like credit unions, and informal money transfer operators should be developed to combine the best practices of the various remittance transfer systems with the objective of generating finance for development and poverty reduction purposes.
Conclusions and recommendations

1. The “formal/informal” distinction

While the terms are a convenient shorthand, the distinction between “formal” and “informal” means of transferring remittances is of limited usefulness in the development policy arena. There are a number of reasons for this. First, there is conceptual confusion over the distinction “formal-informal”, since it is more precise to talk about legal/illega, regulated/unregulated, or recorded/unrecorded remittance systems. Second, all of these distinctions are not simply binary, but are a matter of degree. Third, in practice, remittances and remittance systems routinely shift from more formal to less informal means of transfer, often in the course of a single transaction, which may involve hand couriers, banks, dedicated remittance businesses and many other means of moving money or value, as this study shows. Four, as regulations change, so too does the blurred boundary between formality and informality.

*Policies aiming to get the best out of remittances for development purposes need to take account of the uncertain and shifting boundaries between formal and informal transfers.*

2. Lower cost, speedy transfer and better accessibility of informal remittances

The now commonplace view that informal remittance systems often offer concrete advantages to recipients with low incomes and without access to banking services is borne out by this study. In particular, informal systems seem better placed in many cases to handle the “last mile” of transfer to poor people in rural areas who really need the resources remittances can provide, and whom banking or other state-regulated money transfer systems often fail to serve. Furthermore, informal systems are particularly adapted to operate in situations where conventional infrastructure is defective or compromised by disaster or conflict. Informal remittances can therefore complement humanitarian aid as well as developmental aid.

*Unless and until viable formal means of transfer are developed that gain the trust of the poor, it is counterproductive, both from a humanitarian and a poverty reduction and development point of view, to undermine the informal systems which currently work efficiently and reliably, particularly for small transfers and in remote, underdeveloped or conflict-ridden areas.*

3. A firm but light touch in regulating money transfer

Governments and the public in both developed and developing countries have legitimate concerns over crime and security in relation to international money transfer. Thus, stricter requirements are being imposed on money transfer businesses. However, some of these requirements (e.g. eligibility requirements
and financial requirements for licences) effectively either exclude smaller national and ethnic niche money transfer operators from the legal money transfer market, or else drive them into illegality and beyond oversight. Yet these operators are often provide valuable and trusted services to migrant communities inadequately served by other providers. Many such operators beat other options in terms of key service characteristics: cost of transfer, efficiency, speed, own language customer services and/or geographically proximity to sender and recipient.

*Developed countries regulating money transfer from their shores should adopt a light-touch approach, also in their dealings with developing countries, particularly by taking care not to exclude small businesses that often operate in an ethnic or national niche, that are often the main if not sole remittance operators available to specific migrant groups.*

4. No systematic difference in development impact between “formal” and “informal” transfers

ACP countries do not show significant difference between formal and informal transfers in terms of the uses to which remittances are put, and hence their influence on development. Larger transfers that may be used for charitable purposes, investment or explicitly for development projects may tend to move along formal channels. But smaller transfers moving through formal and informal means are larger in aggregate and possibly more significant in terms of development and poverty reduction, and its especially these that are often served by more informal remittance systems. Similarly, the concerns about the advantages and disadvantages of remittances in general – that is, whether or not these transfers are put to “productive” use – apply equally to those that are transferred by formal and informal means.

*For policies relating to the use of remittances for development purposes, the means of transfer is not of great significance.*

5. Intermediate level institutions in money transfer and development

Poor people are often unable to access adequate deposit, credit, savings, investment and insurance services. Given that credit unions, micro-finance institutions and less-formal money transfer operators often have better outreach to poor people in developing countries, and are trusted and good-value financial and transfer services, there is potential for positive partnerships between the two. There also is scope for bringing migrant associations, whether nationally, regionally, ethnically or hometown based, into the fold here.

*The potential for greater involvement by credit unions, other micro-finance institutions and migrant associations in leveraging remittances for development should be explored and built upon.*
6. Transfer in kind and of services

The study revealed the importance of in-kind transfers in many areas, not only in providing for migrant dependants in times of economic or political crisis, but also as an important modality of trade. A related area with potential for development is the transfer of services. In Ghana and among the Ghanaian diaspora for example, an innovative scheme for medical insurance is under development under which migrants can finance both their own healthcare in Ghana and that of relatives back home through contributions to a single scheme. Such schemes could be promoted elsewhere and extended to other areas such as education or pensions. Advantages include avoiding the risk and cost of money transfer (whether formal or informal), ensuring that the resources are used for the purposes intended, and supporting the development of reliable health and other services in developing countries.

Policies for development should explore the contribution of in-kind transfers and transfers of services as well as transfers of money.

7. Complementarity between different remittance systems

Where “formalization” of the remittance sector is pursued, it should seek to complement rather than suppress informal operators, and aim to incorporate their better practices – low cost, speed, accessibility and reliability. Banks should develop means of transfer for low-income users, such as debit cards that can be replenished by migrants and drawn on by their counterparts at home and the use of ATMs where technology allows this. Special accounts for health, education, housing and other purposes could be developed for low-income users with links between the migrant hosting and migrant sending countries. Fees and taxes on foreign currency accounts should be minimized. To these and other ends, alliances among mainstream, formal-sector financial institutions, and different types of remittance systems should be encouraged to combine the best practices, and advantages for migrants and their families, of the various services.

Alliances among mainstream, formal-sector financial institutions, intermediate level institutions like credit unions, and informal money transfer operators should be developed to combine the best practices of the various remittance transfer systems with the objective of generating finance for development and poverty reduction purposes.

8. Further primary research

It is common for studies like this to end with the need for more research. We do not mean to reproduce such a conclusion, but the fact is that primary research on informal remittances in many ACP countries (as elsewhere, with the exception of the Middle East, parts of South Asia and to a lesser extent the Horn of Africa) is lacking. There are now plenty of syntheses of existing knowledge, but these tend
to recycle the same uncertain figures and conclusions. Better quality primary data, including but not limited to statistical data, is needed on which to base sound policies.

*Primary research on informal remittances and systems of international money transfer in ACP countries and countries hosting ACP migrants is still needed to inform policies that aim to enhance the positive impact of remittances for the poor and the general development of the countries of origin.*

**Bibliography**


