

# Informal Remittance Systems in Africa, Caribbean and Pacific (ACP) Countries

- **Organisation:**  
ESRC Centre on Migration,  
Policy and Society (COMPAS)
- **Contact:**  
Frank Pieke
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- **Value:**  
€39,650
- **Countries/ Regions Covered:**  
Africa: Nigeria, Ghana,  
Senegal, Somalia, Sudan;  
Caribbean: Surinam;  
Pacific: Fiji.

## Background and Objectives of the Commissioned Study

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 though 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 of the positive or negative developmental impact of migrant remittances.

The analysis in this article is based on research on informal remittance transfers to seven African countries (Sudan, Somalia, Senegal, Ghana, Nigeria, the Democratic Republic of Congo and the Republic of Congo), together with a synthesis study on informal remittances with a focus on transfers between Europe and the African, Caribbean and Pacific (ACP) group of countries. Sources for the study included academic literature, policy reports and papers, regulatory information, submissions to government hearings in the US and UK, and industry and law enforcement meetings. Where necessary and possible, the researchers have also either drawn on their own, unpublished primary research

materials or else conducted additional interviews with migrants, migrant associations or community leaders.

## Research Findings

- The concept of “informal remittance system” is often simply a residual category that 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

In cooperation with



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. 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.

- 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. 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. 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.

## Main Conclusions

- 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.
- 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. 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.

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For further information on this research project, please visit:

EC-PREP website: [www.ec-prep.org](http://www.ec-prep.org)

COMPAS website: [www.compas.ox.ac.uk](http://www.compas.ox.ac.uk)

Or contact us at the address below:

**Emerging Markets Group (EMG) Ltd.**

180 Strand

London WC2R 1BL

United Kingdom

Tel: +44 (0)20 7303 2206

Fax: +44 (0)20 7303 3125

[www.emergingmarketsgroup.com](http://www.emergingmarketsgroup.com)

EC-PREP is supported by the UK Department for International Development (DFID). In 2001, DFID, in collaboration with the European Commission, launched the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). The main objective of this research initiative is to produce findings and policy recommendations that support and contribute to improving the European Community's effectiveness in attaining poverty reduction targets via its external assistance programmes. The programme has funded 13 Research Projects and 10 Commissioned Studies, which relate to one or more of the six focal areas of EC's development policy. More information about the research funded by EC-PREP can be found on [www.ec-prep.org](http://www.ec-prep.org).