Migrant Remittances to Developing Countries

A Scoping Study: Overview and Introduction to Issues for Pro-Poor Financial Services

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# Table of Contents

GLOSSARY & DEFINITIONS 3

EXECUTIVE SUMMARY 4

WHAT DO WE KNOW? 6

Remittances Globally 6
Remittance Flows by Region 6
Domestic and Intra-regional Remittances 7
How Much They Send 7
Remittance Channels, Access & Cost 9
  Channels and Access 10
  Transaction Cost 12
Developmental Effects of Remittances 14
  Macro-economic Effects 14
  Use & Benefits of Remittances 16
  Collective Investment of Remittances 17
Policy & Regulation Nexus 18
  Sending Countries 18
  Receiving Countries 19

CURRENT TRENDS & STAKEHOLDER INTERESTS 22

Private Sector Providers – Trends & Initiatives 22
  Banks & Credit Unions 23
  Money Transfer Operators 24
Donor Interests & Initiatives 24
Areas for Research & Initiatives 26

ANNEXES 27
  Annex 1 – Financial Action Task Force (FATF) 28
  Annex 2 – Transfer Costs 28
  Annex 3 – Policy Incentives: Mexico, Morocco, Philippines, Turkey 30
  Annex 4 – Remittances & Microfinance: Banco Solidario and Fonkoze 30

Bibliography 35
Endnotes 41

The views and opinions expressed in this study are those of the author and do not necessarily correspond to the views or policies of the Department for International Development (DFID), UK.
Glossary & Definitions

Glossary

AML anti money laundering
FATF Financial Action Task Force
KYC Know Your Customer
MFI microfinance institution
MSB Money Service Business
  (a regulatory term which includes cheque cashing and money transfer businesses)
MTO money transfer operator
MTS money transfer service
SWIFT Society for Worldwide Interbank Financial Telecommunication
  (SWIFT is the industry-owned cooperative supplying secure, standardised messaging services and interface software to 7,500 financial institutions in 199 countries with head quarters in Belgium. http://www.swift.com)

Definitions

Workers’ remittances
Remittances are monies sent from one individual or household to another. International remittances are those sent by migrant workers who left their home country. Domestic remittances are those sent by migrant workers who left their home village or town to work elsewhere in their home country (e.g. rural-urban migration; sometimes also referred to as national remittances). Typically remittances are in cash rather than goods. Imports or goods purchased on location are, however, also common.

Communal or collective remittances
Monies sent by migrant associations or church groups to their home communities. By being communal or collective, however, these remittances are very different from household or individual remittances both in intended use and in that the volume is very low on a global scale.

Formal Transfer Systems
Formal money transfers are offered primarily by banks with account to account transfers such as through SWIFT and by money transfer operators, such as Western Union or MoneyGram, and their agents.

Informal Transfer Systems
A range of informal systems exist which include the migrants carrying money themselves or sending it with relatives or friends. There are also a number of informal services, typically operating as a side business to an import-export operation, retail shop, or currency dealership. Most of them operate on the basis of no or very little paper or electronic documentation. The transaction is communicated by phone, fax, or email to the counterpart who will be paying out. The details vary, such as whether there is a password or form of identification or not.

Most publicised and studied are Hawala and Hundi services. Both operate in a very similar fashion and the terms can be used interchangeably though there are geographical links: whereas Hawala is typically used more in the context of the Middle East and Arab countries and migrant populations, Hundi is typically connected with South Asia (especially Bangladesh).
Executive Summary

Official statistics recorded US$ 80 billion in migrant remittances to developing countries in 2002. Taking into account informal flows and underreporting of official data, estimates put the value much higher, at between US$ 100 and 200 billion.

Global flows of migrant remittances and transfer channels have recently become highly publicised topics. Many aspects which contribute to a better understanding of remittance flows or their role, however, are less well known, partly because they are somewhat buried in a rich but fragmented body of work or are not yet as well researched. This study aims to contribute to filling this gap by offering an introduction to remittances, their developmental contributions and, especially, by focussing on issues related to financial services. It thus complements recent work on remittances emphasising macro-economic aspects; a body of work on flows and issues with geographic focus on Latin America, the Caribbean, and the United States; extensive work on informal transfer systems; and an extensive body of work in the migration literature.1

The study draws on secondary material along with input from key informants on developmental and commercial initiatives around remittances as well as on related primary research by the author. It looks at remittance flows, channels and transaction costs, related regulations and policies, use and developmental effects of remittances, and current trends as well as donor interests. This summary highlights the main findings. For the reader who is interested in further depth of discussion, detailed data, and illustrative examples, the full report offers a wealth of information and analysis.

KEY FINDINGS

Remittances have become the second largest capital flow behind Foreign Direct Investment (FDI) and ahead of Overseas Development Assistance (ODA). In 2001, remittances represented 42% of total FDI flows and 260% of ODA; remittance flows have surpassed ODA since 1995. Today remittances constitute the fastest growing and most stable capital flow to developing countries. Remittances have more than doubled in value in the past decade and also grown faster than migration - a trend which is likely to continue. Thus, while FDI and ODA have occupied the limelight of development finance to date, remittances have made a quiet yet substantial contribution to international capital flows as well as to national balance of payments, forex reserves, and, especially, to the welfare of receiving households in developing countries.

Regionally, Latin America and the Caribbean received the lion share of remittances in nominal terms with $25 billion followed by South Asia with $16 billion (2002). Relative to GDP, however, South Asia was the largest recipient with remittance receipts amounting to 2.5% of GDP. Flows to East Asia and Pacific with 14% of global remittance receipts and Sub-Saharan Africa with 5% are dwarfed by those to the other regions. Especially for Africa, however, this picture is heavily skewed by underreporting or complete lack of data; close to two thirds of Sub-Saharan African countries lack data.

Official statistics and unofficial estimates typically neglect domestic as well as intra-regional remittance flows. As the focus has tended to be on capital flows from developed to developing countries, other flows are only documented as illustrative or ‘snap-shot’ data of remittance receipts in household surveys and studies of select domestic or intra-regional migrant groups. While particularly domestic transactions are much more common and constitute a significant source of income to more households than international remittances, the latter dwarfs domestic remittances in value.

The single biggest contribution of remittances is to the welfare and improved livelihood of the receiving household – be it in terms of basic necessities such as food or clothing, of better health and education, or to a smaller extent in terms of savings or business investments. Remittances
also finance some informal lending. The bulk, an estimated average of 80% of remittances, however, goes to consumption, thereby building human and social capital. Though benefits are concentrated at the individual or household levels, case studies indicate that there are spill-over effects into extended families and the local economy as well as into community development projects.

The overall tenor is that the benefits of remittances by far outweigh any actual or potential drawbacks. The benefits at the macro level are generally seen as positive though, as some flag, they can have the drawback of masking problems and of delaying necessary reforms. On the micro level, some researchers highlight remittances resulting in skills drain as well as income inequalities in communities. On balance, however, the contribution to welfare and, thereby, to reduced poverty levels, is seen as a net positive transfer.

While remittances were originally mostly of interest to migration and livelihood experts, more recently they have featured prominently in debates around topics such as global financial trends as well as anti money laundering and anti terrorism, the latter following the attacks in the United States on 11 September 2001. Recent research and initiatives on remittances have thus revolved around remittance volumes, flows and their macro-economic effects as well as around how to attract and leverage remittances, and how to make financial services for money transfers more transparent as well as reduce the transaction fees.

Latin America, as one of the top receiving regions with a relatively ‘condensed’ diaspora in the United States, has received the most concerted attention and has been strongly profiled and supported through the initiatives of the Multilateral Investment Fund. North and Latin America along with Spain are setting some trends in remittance transfer services, in part due to the sheer volume and concentration of markets. Several banks and smaller money transfer operators in the United States and Spain have recognised the business opportunity and provide attractive and innovative services, including integrated financial service offers and access through ATMs.

Globally, the launch of the World Bank’s Global Development Finance report for 2003 has profiled particularly the significant role of remittances in capital flows to developing countries. It has helped to launch and legitimise the magnitude and role of remittances to a global constituency of economists, financial analysts, and development finance experts who have tended to neglect them. Meanwhile some of the top receiving countries of remittances – such as the Philippines, India, Bangladesh, Brazil and Mexico – have understood the importance of remittance flows for some time and have engaged in initiatives such as to leverage their investment or facilitate awareness about money transfer services.

Donors have begun to recognise the role of remittances and have become interested primarily in how to facilitate an increase of the flow and use of remittances for developmental benefits. This includes how to facilitate a reduction in transaction cost and better access to formal sector transfer services; as well as how to better integrate and improve access to a broader range of financial services through remittances as an ‘entry point’.

The material and discussion presented here indicate that remittances and their investment are significantly hampered by inefficiencies and access barriers in financial systems and services, both in sending and receiving countries. It is estimated that on average one third of remittances flow through informal channels; for countries with weak financial sectors or tight forex controls, sending money via informal channels is more common. In part, regulatory requirements for financial service providers both in remittance sending and receiving countries are deterrents in accessing formal services. Especially for markets with high volumes of remittances, however, remittances might offer an opportunity for financial services to extend geographically and offer ancillary financial services, such as savings. Early initiatives to cross-sell financial services with remittance transfers indicate a good potential for uptake more generally. The findings also indicate that some form of platform initiative which would bring together interested stakeholders around remittances for exchange, facilitation of linkages, and development of good practice would be beneficial.
**What do we know?**

**Remittances Globally**

Official statistics recorded $80 billion in workers’ remittances to developing countries for 2002. This is up from $72 billion in 2001 and, compared to $33.1 billion in 1991, remittances have more than doubled in the past decade.

Growing at this pace, they have become the second largest capital inflow to developing countries behind foreign direct investment (FDI) and ahead of official development assistance (ODA). In 2001, remittances represented 42% of total FDI flows and 260% of ODA. Official remittance flows have surpassed ODA since 1995 (see also Figure 7.1 reproduced from GDF, 2003).

Remittances have also proved to be the most stable flow compared to ODA and, especially, to private capital flows. The latter tend to be pro-cyclical whereas remittances are less affected by economic downturn; on the contrary, they are known to rise during periods of downturns or crises.

Accounting for unrecorded and informal flows, the actual amount of remittances could be as high as $200 billion – more than double the official value. For individual receiving countries, the estimates for informal remittance flows range anywhere from typically 10 to 50% and for some as high as 85% of the total remittance flows into a single country.

Remittances have also outpaced migration. In 2000, an estimated 175 million people lived outside their country of origin. This number is up from 75 million in 1965 and projected to increase at a continued 2 to 3% annually. With the projected continued growth in migration, remittances are expected to grow further at the same or even an accelerated pace.

While figures vary by source and assumptions, the overall message remains the same: Remittances are substantial and are becoming increasingly important as they continue to grow both nominally as well as compared to other transfers to developing countries.

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**Factors that distinguish remittances from other payment transactions include the following -- remittances are…**

- between individuals and/or households
- typically transfers from relatively richer to relatively poorer households or individuals
- small and frequent
- higher and/or more frequent in certain seasons (seasonal patterns vary by migrant group due to cultural or religious dates – e.g. Chinese New Year, Diwali, end of Ramadan, Christmas)
- often on a rise in times of economic downturn or of conflict in the receiving area
- in significant part routed through informal channels

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**Workers’ remittances and other inflows**

Source: Global Development Finance, IMF Balance of Payments Yearbook (various years).

Source: GDF, 2003: Figure 7.1
**Remittance Flows by Region**

There are marked differences in remittance flows by region and country. In nominal terms, Latin America and the Caribbean received the lion share with $25 billion followed by South Asia with $16 billion in 2002 (see pie chart for regional percentage distribution). Compared to the size of GDP, however, South Asia was the largest recipient with 2.5% of GDP.8

The top five receiving countries by volume in 2001 are India, Mexico, Philippines, Morocco, and Egypt.9 On a per capita basis, the picture changes significantly: In 2000, the top five receivers were Jordan, Portugal, Barbados, Jamaica, and El Salvador.10

The list of top sending countries of global workers’ remittances includes the US, Saudi Arabia, Germany, Belgium, Switzerland, France -- in descending order for 2001.11 The US tops the list with $28.4 billion, though some sources argue that this is grossly overreported due to the fact that many transactions transfer through accounts of correspondent banks in the US.12 The UK ranks 14th with $1.3 billion.

**Domestic and Intra-regional Remittances**

To date analyses of remittance flows tend to emphasise aggregate international flows and high volume flows between industrialised and developing countries, such as between the US and Latin American countries. Intra-regional and domestic remittance flows have received much less attention and are even harder to capture through current official statistics.

The value of international remittances dwarfs other types of remittances. Yet households are generally more likely to receive domestic than international remittances. For instance, a study on Viet Nam showed that 7 out of 8 transactions received were domestic remittances but they constituted only 50% of the value.13

Similarly, intra-regional remittance flows have not been profiled very much. While intra-regional migration is quite pronounced, it tends to be less documented or dominant in international debates than migration and remittances between developing and industrialised countries. A study of migration flows between Costa Rica and Nicaragua, for instance, suggests that about one third of remittances received in Nicaragua are sent from Costa Rica.14

**How Much They Send**

The amount migrants send per transaction typically ranges between $100 and $1,000 for international remittances; for intra-regional and domestic remittances they are generally significantly lower.15 GDF (2003) quotes $200 as a global average transaction value. Orozco, looking at remittances to seven different countries from the United States, shows average
remittances per transaction ranging from circa $200 to the Dominican Republic to $1,100 to India (see also table 9 reproduced from Orozco, 2002).

<table>
<thead>
<tr>
<th>Country</th>
<th>January</th>
<th>February</th>
<th>March</th>
<th>April</th>
<th>May</th>
<th>June</th>
<th>July</th>
<th>August</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>741</td>
<td>699</td>
<td>700</td>
<td>649</td>
<td>652</td>
<td>501</td>
<td>57</td>
<td>874</td>
<td>272</td>
</tr>
<tr>
<td>Egypt</td>
<td>369</td>
<td>323</td>
<td>287</td>
<td>307</td>
<td>336</td>
<td>285</td>
<td>248</td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>1,178</td>
<td>1,082</td>
<td>1,129</td>
<td>1,016</td>
<td>1,186</td>
<td>1,298</td>
<td>1,168</td>
<td>994</td>
<td>888</td>
</tr>
<tr>
<td>Pakistan</td>
<td>845</td>
<td>734</td>
<td>744</td>
<td>756</td>
<td>803</td>
<td>762</td>
<td>821</td>
<td>836</td>
<td>804</td>
</tr>
<tr>
<td>Mexico</td>
<td>379</td>
<td>376</td>
<td>372</td>
<td>394</td>
<td>372</td>
<td>400</td>
<td>394</td>
<td>384</td>
<td>394</td>
</tr>
<tr>
<td>Dom. Rep.</td>
<td>204</td>
<td>200</td>
<td>208</td>
<td>214</td>
<td>202</td>
<td>202</td>
<td>195</td>
<td>193</td>
<td>196</td>
</tr>
<tr>
<td>El Salvador</td>
<td>250</td>
<td>245</td>
<td>225</td>
<td>242</td>
<td>248</td>
<td>270</td>
<td>355</td>
<td>341</td>
<td>342</td>
</tr>
</tbody>
</table>

Source: NMTA, October 2002.

Data on what percentage of their incomes migrants actually send home is sketchy. Amounts vary subject to a myriad of factors such as the migrant’s profile, salary level, cost of living in the host country, the volatility of the home currency, and differentials in interest on savings between the host and the home country. Anecdotal evidence suggests that sending up to one third is not uncommon. A study on remittances in Bangladesh found that international migrants remitted more than 40% of their income. For Latin American migrants in the US, studies indicate that permanent migrants send about 15% of their salary home, whereas temporary migrants remit 50%. In exceptional cases the full income stays in the home country, such as for Korean and Chinese workers on infrastructure projects whose salaries are often paid into an account in their home countries; their essential needs while they are working away from home, such as accommodation, are taken care of by their employing company.

Sending patterns vary over the migration period as well. A study of Mexican migrants in the US showed a curvilinear trend in sending remittances: migrants in their 5th to 10th year abroad send the most, whereas recent migrants remit less as do migrants who stay on for more than 10 years (see figure 2 reproduced from Orozco, 2003c). A study on Turkish migration and remittances, however, showed that maturing migration population and family unification did not reduce remittance flows; on the contrary, average remittances per worker more than doubled between 1973 ($1,609) and 1999 ($3,837) and were as high as $5,400 in 1998. The generational patterns of remittances vary as well; again the Turkish example indicates that subsequent generations continue to send remittances whereas the Mexican example and anecdotal evidence for other migrant groups, for instance Ethiopians, suggests that remittances drop off the longer the emigrant has been abroad.

![Figure 2. Length of time living in the U.S. and amount sent](image-url)
**Remittance Channels, Access & Cost**

In recent years, informal remittance channels have received growing attention along with access to, and cost of, formal transfer services. One question is what factors determine or influence a migrant’s choice of channels for remittances.21 Behind this is an interest in having remittances flow through formal channels – for instance for reasons of accountability and transparency; to increase forex inflows and reserves; or to reduce transaction cost and thereby increase the amount received.

In many analyses, channels, access and cost tend to be discussed only in the context of the sending country. Often, however, an interplay of factors at both the sending and receiving ends account for choices of channels and also affects access and costs (e.g. use of a particular channel due to access at both ends or familiarity with it).

Table 1 provides a quick overview for the main channels’ ‘plusses and minuses’ as well as of accessibility, service, and cost. The discussion in this section highlights that factors such as trust, familiarity, service in the migrant’s mother tongue, and having the service within easy reach – in the neighbourhood or accessible as part of a regular shopping route – can often be as important as the cost.

<table>
<thead>
<tr>
<th>Remittance Channel</th>
<th>+</th>
<th>-</th>
<th>cost</th>
<th>access</th>
<th>service</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal</strong> Bank</td>
<td>Often cheapest option for large transfers; reliable though can be slow; money never lost, but can be delayed; good networks in most sending countries</td>
<td>High cost for small transactions; more accessible in host than in home countries; requirements for account opening for both sender &amp; receiver (e.g. ID requirements, minimum balances, maintenance fees); restricted banking hours; bank locations (urban centres; more affluent neighbourhoods); low interest in the customer group and their business; cumbersome to track lost funds</td>
<td>high</td>
<td>medium/low</td>
<td>medium</td>
</tr>
<tr>
<td>Post office</td>
<td>Often cheaper than other formal services; extensive network of service points worldwide</td>
<td>Slow; possible delays at payout due to low service quality and lack of liquidity in many developing countries</td>
<td>low</td>
<td>high</td>
<td>medium/low</td>
</tr>
<tr>
<td>MTO</td>
<td>Fast, reliable, very accessible in major centres</td>
<td>High cost per transaction, especially for small transactions; unfavourable forex rates; not typically available outside main centres</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Informal</td>
<td>Cost typically lower than formal services; reliable; often good forex rates; trust relationship; fast transfers; some deliver to door; some ‘advance’ money; service clients and locations which are not serviced or underserviced by formal providers</td>
<td>Cost at times as high or higher than formal services</td>
<td>medium/low</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Self, relatives, friends</td>
<td>Trust; no fee or direct cost; door-to-door delivery; operate in areas with no or very limited financial services</td>
<td>Slow; risk of loss with slow, partial, or no recovery of funds</td>
<td>low</td>
<td>high</td>
<td>medium</td>
</tr>
</tbody>
</table>
Channels and Access

The common remittance channels cover the spectrum from formal to informal transfer services.

At the formal end are:

- Banks (with various products, most commonly electronic transfers between accounts)
- Money transfer operators (MTOs) (such as Western Union and MoneyGram, as well as many smaller global or market-specific MTOs)
- Forex or currency bureaus (at times operating their own service but often an agent to a global or regional MTO)
- Post offices (operating in part with their own products and/or as agents of either postal banks or MTOs)

At the informal end are service providers as well as personal arrangements (see also text box on 'informal systems' in this section):

- Hundi or Hawala agents as part of an organised network (e.g. shop owners, travel agents)
- Shop owners, business people (e.g. import-export traders), or individuals who 'do a favour'
- Personally carrying the remittance either oneself or sending it with a family member or friend

Informal channels tend to be used more where the financial sector is either missing (e.g. as can be the case in conflict or post-conflict countries), weak, or mistrusted (for instance due to bankruptcies). Similarly, forex controls generally lead to a higher use of informal channels. Conversely, formal sector use increases in stronger, more liberalised economies with a stronger financial sector.

Key issues regarding accessibility of services are familiarity, trust, proximity, reliability, and awareness of a service. Many of the smaller 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.

Access to the transfer service at both the sending and the receiving end is a critical factor. Many of the remitters need to send money to locations with often weak or no financial infrastructure and where banks of their host country have little or no other business volume or connection. While capitals and other urban centres have fairly good financial service availability, rural regions tend to be much less well serviced by the financial industry. Thus, while the main transfer channel into a country such as Bangladesh may be banks for some sub-regions, for other sub-regions informal channels are more popular. The choice of service is often limited at the receiving end due to lack of an outlet or point of sale close to the receiving home, unfamiliarity with the service, or, for instance in the case of banks, due to perceived or actual rejection of the potential client by the service provider. Banks can be intimidating to people not used to dealing with them and banks typically prefer to target high net worth individuals and corporate clients; this they project in image, choice of buildings and locations, as well as through access barriers such as account fees and/or minimum balances on accounts.

### Channels Used for International Money Transfers

A sample of feedback from surveys illustrates the variations of channels used according to surveys of remittance recipients in different countries or regions.

<table>
<thead>
<tr>
<th>Channels</th>
<th>Philippines</th>
<th>Bangladesh</th>
<th>Latin America</th>
<th>Mexico</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>49 (all formal)</td>
<td>46</td>
<td>20</td>
<td>8</td>
</tr>
<tr>
<td>Money couriers / MTOs</td>
<td>37</td>
<td>--</td>
<td>41</td>
<td>n/a</td>
</tr>
<tr>
<td>Post</td>
<td>n/a</td>
<td>--</td>
<td>14</td>
<td>68</td>
</tr>
<tr>
<td>Other formal</td>
<td>n/a</td>
<td>--</td>
<td>n/a</td>
<td>5</td>
</tr>
<tr>
<td>Self/Travellers</td>
<td>14</td>
<td>13</td>
<td>15</td>
<td>19</td>
</tr>
<tr>
<td>Informal service (eg Hundi)</td>
<td>n/a</td>
<td>40</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

Informal Systems*

Informal systems have been dated back to ancient China. In the wake of 11 September 2001, especially Hawala, but also informal systems more generally, have received a lot of attention. Numerous studies have been conducted and many media reports have covered the topic, the latter in part in a highly sensationalist tone.

The debate is polarised between discussions of Hawala, Hundi and other informal money transfer systems as illegal operations that serve money laundering and financing of terrorism, on the one hand, and as essential services filling a market gap which is crucial for many migrants and their remittance receiving families, on the other hand. To date there is no clear indication that informal transfer systems or small scale MTOs are more likely to be instrumentalised for money laundering or sending funds in support of terrorist activities. While revenues from illegal transactions of precious metals or drugs may flow through informal transfer channels, for money laundering the use of formal channels is an essential step in the process of the ‘laundry’.

Informal services as well as some of the smaller MTOs, however, do not readily comply with international standards of transparency and accountability, which are also becoming tighter as the Financial Action Task Force (FATF) and other stakeholders seek to ensure better control and security through regulations and their enforcement. Nor do they necessarily have the capacity to comply readily or within the price margins with which they currently operate.

As informal systems often provide an essential service where formal systems have left gaps, aims of transparency and accountability should be balanced with assessments of actual risk of misuse in informal systems on the one hand, and of risk and cost of clamping down on informal services regarding the effect on flows of remittances and the cost of transfers, on the other hand. Both of these can have strongly felt effects on livelihoods. The latter is underlined, for instance, in the case of Somalia (see Omer, 2002).

The interface of formal international remittance services with service points in the receiving country is an important aspect as many formal remittance channels weaken or break down beyond an initial ‘arrival point’ in the migrant’s home country. For instance, only banks which are part of SWIFT or similar systems or have correspondent banks can have international transfers sent to them. In some countries this excludes post banks (for instance in Kenya, which can receive transfers but only as an agent of Western Union). Similarly, ATM systems, where they have sprung up and are expanding, are often not yet integrated but either proprietary to a specific bank and for use only with their cards, or limited to one or another network, such as either VISA or Mastercard (e.g. Uganda).

In domestic and regional markets, some transfer services have developed a niche due to inefficient domestic financial systems but do not extend to international transfers. For instance, in East Africa some of the courier and overland bus or coach companies provide money transfer services which many people use for private transfers, including remittances, as well as for business purposes.

Market failures, such as weak or mistrusted banking industries and inefficiencies in their transfer systems, have prepared the ground for MTOs to be as successful as they are. For instance, bank transfers are relatively frequently delayed as anecdotal evidence as well as conversations with experts in banking operations and national payments systems indicate. In part this is due to inherent weaknesses of systems such as SWIFT whereby banks tend to use cash floats of transfers to their advantage as there is no agreed settlement time.

Similarly, post offices, a prime service provider as far as access or outreach is concerned, are often not used in receiving countries because clients have experienced their services as inefficient and unfriendly. Stories of insufficient cash on hand or other delays in receiving the funds are commonly cited. At the same time, where post offices do operate effectively, such as in the case of Japan in collaboration with Banco do Brasil, they are an excellent agent or service provider precisely because of their network of outlets.

Another common factor is lack of familiarity with services. Many of the banks, post offices, or other providers are not necessarily good at marketing their services or at pursuing segmented strategies, such as advertising in different languages or having multi-lingual staff. Some recipient country governments have recognised this market failure.
and seek to compensate by informing their migrant communities through newsletters and information events through their embassies in sending countries.\textsuperscript{29} Informal systems tend to operate on the basis of word of mouth, while the larger MTOs and their agents often advertise heavily and aggressively. Smaller, regionally focussed MTOs can be found to target their client group through advertising in community papers or shops popular with the specific migrant community.

Informal systems such as Hawala and Hundi, and MTO services are typically the fastest. Some services are almost instantaneous, others take 1 to 3 days. Bank transfers are slower with 3 to 5 business days as a standard minimum quotation for a transaction.\textsuperscript{30} MTOs as well as informal systems are also the most straight forward and least complicated person-to-person transfer services, whereas for a bank transfer both the sender and receiver typically need an account.

**Transaction Cost**

Media reporting such as on the class action suits against Western Union in the United States for alleged usury practices, for instance, have put the cost of money transfers into the public limelight. This has raised awareness also with international development agencies and others interested in the welfare of migrant workers.

Studies indicate an average cost of about 13\% of the remittance value. Costs vary by amount remitted, service used, the destination, and also from where it is sent; typically they range from a low of 0.2\% to about 20\% for average remittance transactions.\textsuperscript{31} Costs tend to be highest for small transactions as most of the transfer services charge a minimum fee. While some studies find that certain migrant groups show high sensitivity towards cost, others find that familiarity or convenience can often lead to the use of a more expensive service.\textsuperscript{32}

Of the various transfer products, transaction costs are on average higher with MTOs compared to bank transfers between accounts, such as negotiated through SWIFT. At the same time, MTOs have a more demand-oriented network of points of sale, on average much shorter transaction times, and do not have access barriers such as requiring an account. Speed and reliability is part of their service and also their marketing strategy.

Especially in recent years, the competition among service providers in some markets has already begun to lower the costs, such as for transfers from the US to Mexico. Thus, the sending cost can often be cheaper when the funds are sent to a high volume destination and, especially, when there is competition in the market, either among MTOs or between MTOs and informal services. For instance, MTOs such as

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**Transaction Costs to the Users**

Often neither the remitter (sender) nor the recipient knows the actual cost involved. Even for a financially very educated client this can be difficult to determine unless one uses several services in parallel on the same day and sends the same amount. What is paid out depends not only on the forex fee applied that day but, for instance, also on how the operation is structured. Some services book everything into US$ independent of where they operate so that they often incur forex revenues in receiving as well as in paying out – so a double forex loss to the client.

As studies estimating transaction costs typically look at direct costs (commissions / fees) and forex losses, they are still not a full reflection of transaction costs. Some of the cost factors are difficult or tedious to measure. Cost factors include:

- **direct costs:**
  - minimum fees
  - percentage commission

- **indirect or hidden costs, e.g.:**
  - getting to/from point of sale such as a bank branch
  - phone calls (to inform recipient of transaction and, in the case of non-account transactions, of a password or similar identifier)
  - lower/unfavourable forex rates often used, for instance by banks and MTOs compared to either forex bureaus or the black market
  - maintaining a minimum balance or account fees (in the case of account-based transfers)
Western Union have a single set of standard rates for transactions from some of their markets but in a high volume market such as London, UK, they offer lower rates for money transfers selected high volume destinations such as Ghana, Nigeria, Bangladesh, India, and Pakistan.

For global MTOs such as Western Union and MoneyGram the lowest fees typically start around GBP10 but again actual fees depend on the sending and receiving country. The fee structure is by bracket of the transfer value. Smaller MTOs typically charge a commission on a percentage basis, commonly around 5%, though it can be higher.

Banks typically combine a minimum fee with a percentage fee. Minimum fees at banks range from about GBP 3 to 30 depending on the sending and receiving country as well as the product. Percentage fees are sometimes flat, sometimes bracketed on a declining percentage for larger amounts.

Informal services charge about 3 to 5% though they can at times be substantially higher. In some cases there are no fees for informal services and the revenue is realised solely from the forex gain. (For illustrative purposes, please refer to examples of percentage fee costs in Annex 2.)

A compelling arithmetic suggests that a lowering of transaction costs by even 5% would increase remittance flows by $3.5 billion (GDF, 2003). As remittances constitute many small transactions with sometimes a high degree of geographic dispersion of both the senders and the receivers, however, fees also reflect the availability and accessibility of services. Understanding the differences in markets and in cost structures of existing services such as by banks and MTOs are areas which, to date, have not received much documented attention.

**Initiatives to Promote Remittances, Use of Formal Channels, Improved Access, and Reduced Cost**

(This text box summarises very briefly some initiatives taken to attract remittances to formal channels to reduce transfer costs. These are discussed in more detail lateron, in the sections identified respectively.)

Governments of remittance receiving countries have in the past attempted to legislate inflow through mandatory remittances (e.g. Philippines), and some still do (e.g. in part Viet Nam), or through channelling all forex trade through the central bank (e.g. Mexico). More recently, however, many governments aim to provide their migrant communities with better information on transfer services and costs (e.g. Mexico, Bangladesh), and some aim to attract remittances also into investment vehicles or programmes they have launched, such as a pension plan or business ventures based on matching or joint inputs (e.g. Philippines, Mexico). (See also section on ‘Policy & Regulation Nexus’.)

On cost, access and channels, initiatives such as IRNet aim to provide a cheaper alternative for remittance transfers that reach into the communities of migrants and their families in their home countries. This was started by WOCCU building on the network of credit unions in the US with support of a number of donors such as USAID and IADB/MIF. (See also section on ‘Current Trends’.)

IADB’s MIF has been very active and vocal in the remittance debate regarding Latin America and the Caribbean. Through a number of conferences and key studies looking at flows and costs, MIF has been instrumental in putting remittances ‘on the map’ and in engaging various stakeholders, especially commercial banks and MTOs, in the debate and in initiatives for better and cheaper transfer services. (See also section on ‘Current Trends’.)
Developmental Effects of Remittances

Macro-economic Effects

Due to the sheer value of monies remitted to selected countries and/or the weakness of their economies, remittances can have a substantial effect on macro-economic indicators. Additionally, the stability of the flow has led to remittances constituting a major factor in international credit rating and securitisation analysis. Generally, however, while remittances contribute to balance of payments such as foreign exchange reserves and off-setting trade deficits, they are seen to contribute little to economic growth.

The bulk of the impact is a substantial positive effect on the receiving households in terms of improved standard of living with a knock-on effect for the local economy due to consumption and investment such as in land, housing, and livestock. Both the macro-economic effects as well as the contributions to household well-being can also have the effect of delaying government reforms to restructure economic and other policies to tackle underlying causes.

Generally, remittances are most important to low-income countries. Overall, remittances constituted not only 1.9% of GDP but also 6.2% of imports to this group of countries (see also Figure 7.2 reproduced from GDF, 2003). For low-income countries, remittances are also relatively more important by contributing close to one third of all international resource flows compared to one fifth and one eighth for lower and upper middle income countries, respectively.

For individual countries, this contribution can be much more pronounced. Examples are summarised below in the reproduced table 3 (Orozco, 2002).

### Table 3: Relevance of Remittances to Each Country in 2000

<table>
<thead>
<tr>
<th>Country</th>
<th>Remittances, millions USD</th>
<th>Remittances as % of Merchandise Exports</th>
<th>Remittances as % of Official Development Assistance</th>
<th>Remittances as % of Foreign Direct Investment (net inflows)</th>
<th>Remittances as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>3,747</td>
<td>80%</td>
<td>282%</td>
<td>30%</td>
<td>4%</td>
</tr>
<tr>
<td>Greece</td>
<td>1,613</td>
<td>16%</td>
<td>11%</td>
<td>14%</td>
<td>1%</td>
</tr>
<tr>
<td>India</td>
<td>11,586</td>
<td>27%</td>
<td>777%</td>
<td>500%</td>
<td>3%</td>
</tr>
<tr>
<td>Pakistan</td>
<td>1036</td>
<td>12%</td>
<td>155%</td>
<td>35%</td>
<td>2%</td>
</tr>
<tr>
<td>Portugal</td>
<td>3,121</td>
<td>13%</td>
<td>16%</td>
<td>56%</td>
<td>3%</td>
</tr>
<tr>
<td>Philippin es</td>
<td>6,056</td>
<td>15%</td>
<td>1047%</td>
<td>298%</td>
<td>8%</td>
</tr>
<tr>
<td>Turkey</td>
<td>4,560</td>
<td>17%</td>
<td>1403%</td>
<td>464%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Sources: World Bank “World Development Indicators 2002” CD-ROM. Remittances to Philippines are from Central Bank of the Philippines.

Source: Orozco, 2002

Source: GDF, 2003: Figure 7.2
By region, remittances contribute most significantly in the Middle East (72% of total capital flows), North Africa (54%), Caribbean (51%), and South Asia (51%). Countries which rely much more on remittances than on ODA include Turkey (ratio 39:1), Mexico (34:1), Costa Rica (24:1), Jamaica (15:1), Philippines (8:1), Nigeria (7:1), India (6:1), Tunisia (5:1), and Lesotho (4:1). For Africa (excluding North Africa), ODA contributes the larger share with 50% of all flows compared to 14% from remittances. This interpretation of high aid dependency is, however, heavily skewed as it is based on IMF tables with data for only one third of Sub-Saharan Africa.

Measured against GDP, for individual countries, remittances account for up to 37% of GDP and make the strongest impact for countries like Tonga, Lesotho, Jordan, Albania, and Nicaragua (see table 7.4 below reproduced from GDF, 2003). For countries where remittance flows are heavily channelled through informal services or are largely unrecorded due to a lack of systems, the figure could be even higher (e.g. Sudan, Somalia, Afghanistan).

Hence, by relying on an analysis of official data alone, one risks overlooking countries and populations for which remittances constitute an important part of their resources, and in the extreme, their lifeline. Somalia, for instance, received an estimated $800 million to $1 billion in 2000. On a per capita basis Somalia would rank 13th compared to recorded remittances in other developing countries.

Benefits to the country vary depending on the structure of the local economy and related policies and regulations, such as foreign exchange controls. They also vary by both the capacity and the opportunity of the recipients to make productive use of these transfers, such as due to poverty levels and the freedom, ease of access, and available ways to invest.
Use & Benefits of Remittances

Data from a number of surveys and much anecdotal evidence indicates that the bulk of remittances is used for consumption as well as for investment in human capital (education, health, better nutrition). Especially where migration is coupled with high cost, such as in the Philippines for fees for recruitment agencies and travel to the destination, loan repayment is another important use of remittances. Investment in land, livestock, and in building or improving a home is also relatively common but secondary to daily needs and human capital expenses. Still less of remittances is used for investments such as in savings or in business. Insecurity tends to be the main motivator for investment, and the type of insecurity affects the type of investment. (See also text box on remittances & savings / lending / business investments in this section.)

Typically remittances constitute a transfer from relatively richer to relatively poorer individuals or households. The high proportion going to consumption is congruent with the aspect that, to a great extent, migration and remittances are part of a livelihood and poverty reduction strategy of the individual migrant and their families.

Consumption alone can have a clear follow-on effect of an improved standard of living and educational opportunities for the receiving individual or household. Consumption, land or other purchases, and investments overall, also constitute contributions to the local economy.

A look at analyses of household or migrant surveys highlights some general messages on benefits and use, despite many variations in the detailed findings:

- The contribution of remittances to household income is often substantial and domestic and international remittances are important generally, and relatively more important where there are no or only very limited public transfers.
- Remittance receiving households tend to be better off (e.g. have higher average incomes and asset bases) than households that do not receive remittances.
- Transfers tend to flow from relatively richer to relatively poorer households, mostly from children to parents (in contrast to an inverse flow in industrialised countries), and receiving households are on average more likely to be headed by single females or by the elderly.
- Receiving households in less developed regions will spend a higher proportion on daily expenses or consumption than households in more developed regions.

Some researchers have raised concern over the growing income inequality migrant remittances can cause in a community, such as price increases for land, as well as the demonstration effect of a more affluent place beyond the village in contrast to the simpler life and poverty in the village. As migrants are typically from a socio-economic band between the poorest and the richest – the former cannot afford to leave, the latter have no reason, at least if the situation is stable – the benefits tend to go to the slightly better off households in a community (those that could afford to send someone to migrate). In communities, especially villages, where extended families still function as a support network, the income distribution effect, while not equal, could however be expected to spread beyond the immediate recipient of the remittance.
Remittances & Saving

Savings are of growing interest to donors as one of the areas of investment and integration of remittances with the formal financial system. Data on this is very sketchy, but, for instance the Central Bank of El Salvador estimates that 1% of remittances go to savings. A recent study on Mexico shows estimates of 11% going to savings. WOCCU estimates that 10% in their network (IRNet) goes into savings; in Guatemala they observed that of 100 remittance disbursements, 14 lead to account opening; of those with accounts, 37% put some of the remittance payment they received into savings. (World Bank, 2001; D. Grace, WOCCU)

Remittances & Lending

Remittances also finance lending. Cox (2002), for instance, reports this from a study on Viet Nam. Whereas the majority of remittances are gifts and given to relatives, non-relatives tend to be given loans. Gifts are typically used for consumption (72%), whereas loans are much more likely used for investments (91%).

Anecdotal evidence the author has come across over the years suggests that remittances potentially finance ROSCAs or loans to neighbours, who will ask for loans because they know their neighbour receives money from overseas.

Remittances & Business Investment

While daily expenses and consumption are the main use for remittances, they are also a source of business investments. In several instances migrants returning home use their savings, new skills and attitudes to set up a business; in line with much of micro-enterprise development generally, these tend to be service or transport businesses (see, for instance, Koc et al., 2001; McCormick/Wahba quoted in GDF, 2003).

In other cases, remittances sent home are used to finance businesses. One study found that almost one fifth of capital invested in microenterprises in urban Mexico came from remittances (Woodruff et al., 2001) Another study of Mexico shows estimates of about 5% of remittances being invested in small business (Coronado, 2002). Especially in Mexico, government programmes have aimed to attract remittances into business ventures (see section on ‘Policy & Regulation Nexus’ for further details). In a survey in Albania, researchers found that 17% of the capital to establish a firm came from remittances (Kule et al., 1999).

Overall, however, the leveraging or success of such programmes is still unclear. In part this may be due to the cost of such programmes, in part also because migrants are generally no less likely to be entrepreneurs than non-migrants. (see, for instance, Koc et al., 2001)

Collective Investment of Remittances

While remittances are typically transfers between individuals or families, some of the migrants participate in community associations or groups that make collective remittances to their home communities. These are for a range of investments, including building or renovating schools or churches. The Home Town Associations (HTAs) of Latin Americans living in the United States have probably received the most attention as NGOs or foundations and, through them, donors, have begun to work with them on facilitating community investments in their home villages or regions.

The phenomenon is, however, much broader both in terms of the ethnicity of the groups and also in the organisational forms. AFFORD (2001), for instance, lists a number of African and other groupings and points out that they can take the form of associations, cultural or church groups, refugee groups, ethnic professional groups (e.g. Society of Black Lawyers), or even virtual organizations (Somali Forum).

There are a number of references to communal or collective sending and use of remittances. For instance, IOM (2001) mentions the contributions of remittance following the devastation by Hurricane Mitch in Nicaragua. Tourist information on Warsaw mentions the financial contributions
by Poles at home and abroad to the rebuilding of the old town. AFFORD speaks of DIY Development (Do-It-Yourself) and highlights the example of the Somali diaspora that built the University of Hargeisa back home. And in Mali, the Kayes region, home to the great majority of migrants to France, has benefited from support by some forty immigrant associations in France, most of which have counterparts in Kayes.

Policy & Regulation Nexus

The focus on policies and regulations regarding remittances has primarily been on the receiving countries. An individual migrant’s choices of whether and how much to remit, through what channel, and for what use are typically shaped by factors such as the economic and political stability or volatility of a migrant’s home country as well as foreign exchange and taxation policies. As part of creating a more enabling environment for the freer flow of remittances, the emphasis has been on reducing barriers by getting governments of receiving countries to stop taxing remittances and to liberalise their financial markets and, in particular, foreign exchange trade. Some governments have gone further having recognised the importance of remittance flows to their economies and the receiving households. As case examples such as Mexico and the Philippines illustrate, some governments have become proactive, not only in reducing hurdles, but also in attracting more remittances, and attracting them in part into investment schemes (see Annex 3 for case illustrations on Mexico, Morocco, the Philippines, and Turkey).

What has received much less attention are the effects of policies and regulations in the host / sending country on remittance flows and channels used. For instance, this choice can be influenced by whether MTOs can operate in the sending country and what licensing and other regulatory requirements they have to fulfill.

The following provides a first illustrative introduction and discussion to issues in the host / sending countries, followed by those occurring in home / receiving countries. A subsequent section provides a brief overview of some of the regulatory changes and incentive policies some home / receiving countries have employed in an effort to attract more remittances and/or make their investment more attractive.

Globally, the efforts of the Financial Action Task Force (FATF), working with country regulators to implement regulations to prevent money laundering and financing of terrorist activities, have had a noticeable effect on the financial industry, including money transfer services. This is discussed here particularly with reference to the Know Your Customer rule (KYC). A brief general introduction to FATF can be found in Annex 1.

Sending Countries

In sending or host countries, the most pronounced policy and regulatory aspects affecting remittances are linked to those which shape the availability and access to money transfer services that connect with a service point close to the family back home. Questions include whether policies and regulations facilitate migrants’ access to bank services; and whether other service providers, such as MTOs, can operate, and if so, how and how easily?

The most common money transfers using a bank’s services require the sender and receiver to be account holders. The requirements for opening an account, such as identification and proof of residence, can make it difficult for someone to open an account, even if their status as a migrant is legal. New or tightened interpretations following the anti terrorism and anti money laundering initiatives, such as the Know Your Customer (KYC) requirement, contribute to better controls, accountability and transparency (see also FATF Annex 1); however, they seem to also increase access hurdles to using banks, both for individuals and MTOs.
KYC rules have added new compliance requirements for all financial service providers around client identification, verification, and record keeping. The necessary development of adequate or updated policies or protocols, new or adjusted systems, manuals, staff training and other related costs are relatively more burdensome to the smaller MTOs who have to finance this from narrow margins and ensure roll-out throughout their network of agencies as well.

For MTOs, for instance, the KYC rule has changed the way they do business in terms of how they deal with client identification to comply with the rule.\textsuperscript{53} It also applies in terms of how banks look upon MTOs as a client. A link into the banking system is an essential part for an MTO’s operation. Anecdotal evidence suggests that banks have become highly risk averse and are less likely to open accounts for MTOs or have actually asked MTOs to move their accounts to another bank.\textsuperscript{54}

Another aspect of the regulatory environment are licensing requirements for MTOs (see also Table 2 below). While banks have correspondent banks or use membership in SWIFT as a basis for their money transfer products, MTOs have to set up a network of agents. Thus banks typically do not have to deal with the regulatory environment in the country where the money is received, whereas MTOs have to comply with often complex and different rules in the receiving as well as the sending country. Where the agents are banks, they may not need to register but the partner bank has to get the approval of the central bank. In some cases, the MTO has to additionally set up a company as a legal entity to be allowed to operate in the country.

In a few instances, forex restrictions, which are typically discussed as hurdles in connection with remittance receiving countries, can apply to sending countries. South Africa is one such example which has a large migrant and remitting population from around Southern Africa.

Table 2 illustrates some of the variations based on a cross-section of sending countries:\textsuperscript{55}

<table>
<thead>
<tr>
<th>Country</th>
<th>Requirements and Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>MTO would need a full banking licence (high cost)</td>
</tr>
<tr>
<td>Norway, Scandinavian countries</td>
<td>MTOs unregulated</td>
</tr>
<tr>
<td>South Africa</td>
<td>Regulator prefers that banks handle money transfers, in part due to the strict reporting requirements related to the country’s forex controls</td>
</tr>
<tr>
<td>UAE</td>
<td>Now has registration and reporting system for hawaladars</td>
</tr>
<tr>
<td>UK</td>
<td>As of June 2002, mandatory registration of ‘Money Service Business (MSB)’; previously unregulated; licensing requirement is said to have driven out a plethora of small and inefficient MTOs</td>
</tr>
<tr>
<td>US</td>
<td>MTOs have to comply with federal as well as state licensing requirements; they need to register federally (since 1999) and pay a fee; they also need to register in each state where they want to operate, or have an agent operate; at state level in addition to fees a bond has to be posted; fees and bond values vary by state; there are also capitalisation requirements; bonds range from US$50,000 to 250,000; capitalisation requirements are in addition, e.g. California has the highest with $250,00 minimum capital; as MTOs have to register on behalf of their agents, for many of the smaller operators pursuing specific ethnic markets this can be very expensive; if the service is mail or internet based, the regulation is unclear for the US market. For credit unions, as per the US Credit Union Act, remittance or money transfer services can only be offered to members. The legislator has interpreted this as allowing potential members access to remittance services as well.</td>
</tr>
</tbody>
</table>

Receiving Countries

Regulatory and policy contexts vary widely in receiving countries and there is no readily accessible comprehensive overview of hampering and enabling conditions. The focus of discussions has tended to be on monetary policies, particularly forex policies, and on taxation. Less attention has been paid to financial and private sector regulations and policies which can affect either the
availability and accessibility of financial services and products or the ease or attractiveness of investing in financial products or a business.

Hampering factors of a regulatory or policy nature regarding sending remittances, especially through formal channels, include, for instance:
- monetary policies, such as forex restrictions or channelling of all forex dealings through the central bank or a state bank
- financial sector regulations which affect the availability or outreach of financial services; for instance, when bank regulations or supervision require banks to open full branches wherever they want to operate and do not allow for less costly alternatives; or when MTOs cannot get licensed or cannot get permission to operate through a variety of agents, not just banks

Deciding factors regarding the investment of remittances include, for instance:
- restrictions on forex holdings, such as opening of forex denominated bank accounts
- denial of repatriation of savings / funds
- ‘taxation’ of remittances through forex rate controls or withholding of portions of remittances
- the range of financial investment products available
- ‘red tape’ in setting up a business

The following draws together a brief discussion and examples on three topics regarding the policy and regulatory environment in remittance receiving countries: financial market liberalisation vs. control; licensing and regulation for money transfer services; and incentives for sending and investing remittances.

Liberalisation or Control in the Financial Market

Generally forex controls and state-regulated financial sectors are seen as a deterrent to remittances. Especially where governments enforce official forex rates or taxes for remittances, informal transfer channels are seen to be more likely to avoid such direct or indirect taxation. Countries like Brazil and Colombia, for instance, control foreign remittances through foreign exchange rules. In Brazil, all international transfers have to go through the central bank. In Colombia a 3% tax is levied on funds received. In Viet Nam the state controls all forex trade and temporary migrants pay 30% of their earnings into a government fund. In contrast, countries such as India and Uganda have moved on from such practices. In Uganda, for instance, the liberalisation of the financial market, and particularly of forex trade and allowing foreign denominated accounts, is said to have led to increased remittances.

Licensing & Regulation

Where forex trade or remittances themselves are state controlled, the central bank or a government bank is the officially licensed channel. In countries where forex trade has been liberalised, typically commercial banks, or at times also forex bureaus, offer money transfer services or act as agents to one of the MTOs.

Licensing or the granting of permission for money transfer services (MTS) is not consistently regulated. Where it is addressed by law or process, it is usually handled by the central bank. As different entities provide MTS, however, such as banks and forex bureaus, different parts of the central bank deal with licensing or permissions in connection with remittances. The two key departments tend to be bank supervision and foreign trade.

Banks are generally licensed to deal in forex as part of their bank licence. This is, however, not true for many of the postal banks which tend to operate under communications as opposed to banking acts. Either, however, is typically required to consult with the supervision department of the central bank to get approval prior to introducing a product which involves forex. Failure to do so can lead to closure of the service.
The licensing for MTOs varies by country. In many cases the agents are licensed as banks and seek permission by the central bank. Similarly, forex bureaus typically require a license to trade, usually granted by the central bank. The forex trading license is again not necessarily sufficient on its own to set up as MTO or operate a MTS. Again it is prudent, if not required in most cases, to seek permission of the regulator within the central bank. Some countries have additional rules, such as India where the MTO has to set up an incorporated company to provide a legal business entity in-country even if all operations are done through, for instance, a bank as an agent.

Central banks are on average more inclined to grant permission to a bank than to a forex bureau. This depends on the country, however. For instance, Bank of Uganda’s Forex and Trade Department is generally supportive and positively inclined towards granting permission, whereas the Central Bank of Kenya seems less keen. Similarly, South Africa has a preference for banks to deal with money transfers, particularly following the experience with Western Union and Union African Money Transfers (UAMT) which ran afoul of compliance with forex control regulations.

**Sending / Investment Incentive Policies**

Countries such as Bangladesh, India, Korea, Mexico, Pakistan, the Philippines, Thailand, and Turkey stand out among emigration countries where either state and/or federal government levels are actively engaged in attracting remittances to the country or in creating incentives to invest. In addition to the following brief summary of examples of policy initiatives cited in the literature, Annex 3 provides brief case illustrations of the range of policy initiatives in Mexico, Morocco, Philippines, and Turkey.

Governments such as in Mexico and the Philippines aim to attract remittances into investment vehicles or programmes they have launched, including pension plans or business ventures on matching or joint inputs. Pakistan offers a non-repatriable investment scheme and investment and business set-up advisory services are available through a foundation. India has preferential access to capital goods and raw material imports for recent returnees. Korea has a training programme for returned migrants and Bangkok Bank in Thailand advises on investment opportunities. Bangladesh has taken active steps to attract more remittances such as reduced commission rates and opening of monitoring units in banks.

Especially in recent years, governments such as Mexico and Bangladesh have recognised the value of providing their migrant communities with better information on transfer services and costs, both in terms of creating competition, and thus lowering prices in the money transfer business, as well as in making migrants aware of financial services as a viable alternative to informal channels they may be using. Thus Mexican consulates in the US now provide their migrant communities with information and ID cards to facilitate access to banking services. Similarly Bangladesh informs for instance with newsletters.
Current Trends & Stakeholder Interests

Through the immediate connection with migrant labour, researchers and other stakeholders interested in migration have had the longest and most consistent interest in remittances. Facilitating action on remittances has been part of international agreements on migration and development. More recently, interest from other perspectives has emerged -- both from developmental angles (economic, financial systems, and livelihood aspects) as well as from concerns with international security. More specifically, these include:

- the developmental contributions of remittances given the immense and still growing flow of remittances to developing countries -- especially the macro-economic dimensions of remittances;
- the question of access and cost of money transfers affecting remittances;
- the better integration of the flow and use or investment of remittances through the financial sector;
- and the heightened attention to money transfers, more generally, resulting from anti-terrorism and anti money laundering initiatives in the wake of the terrorist attacks in the United States on 11 September 2001.

The financial services aspects have served as the primary focus for this study. The heightened attention from stakeholders concerned with crime prevention and regulation of financial flows has generated a lot of activity and changes; these have been touched upon as they relate to remittances, primarily in the context of the discussion on regulations and policies as well as in terms of any knock-on effects regarding access and costs.

In sum, current research and initiatives by donors, NGOs, associations, foundations, and also governments aim to improve access and reduce cost, to promote awareness of services among migrant communities, or to create investment mechanisms and promote developmental use. Banks and non-bank financial institutions, especially in recent years, have expanded with more services coming onto the market. The following sections provide further detail on trends and interests both in the private sector and among donors.

Private Sector Providers – Trends & Initiatives

Business strategies for banks or post offices are very different from those of MTOs; for the latter it is the core and often only business, whereas for banks it constitutes one of a myriad of products. Thus, while MTOs such as Western Union and MoneyGram have pursued fairly aggressive expansion strategies in recent years, among the banks the bulk has continued with business as usual while a select few have recognised a niche, taken initiative and introduced products and marketing to boost this business segment. Similarly, other non-bank financial agents have recognised the business opportunities offered by money transfer, such as for remittances, and have entered the market as MTOs in more recent years.
Banks & Credit Unions

Banks have typically overlooked or been dismissive of remittances as a business, focusing on corporate services and money transfer for the corporate client. In recent years some of them have woken up to the opportunities remittance transfers can offer. Banks in markets such as the US and Spain have recognised the market potential for remittance services and begun to offer attractive services in part through strategic links. American banks such as Wells Fargo have set up a competitive money transfer service to parts of Latin America. Similarly, Spanish and Ecuadorian banks have recently hooked up to provide money transfer and other financial services around remittances.62

Other banks and financial service providers, especially in developing countries, are entering the remittance money transfer business more actively by becoming an agent to one of the MTOs. Many of the MTOs are actively seeking new agents and new deals are constantly being struck, such as between UAE Exchange and Financial Services Ltd, part of the UAE Exchange group, and India's Dhanalakshmi Bank to operate a money transfer service (Xpress Money) out of 55 locations across India.63

In the US, credit unions are signing up with IRNet operated by WOCCU with VIGO. IRNet links American credit unions to agents in 42 countries, the majority in Latin America.64

ATMs

ATMs and debit cards have recently been introduced as remittance transfer products, especially between the US and Mexico. For instance, Bank of America's SafeSend program and Citibank's Money Card each issue debit cards to a designated person in Mexico upon enrolment of a person in the United States. SafeSend charges $10 per transfer while Money Card charges $7.95, plus a $5 monthly maintenance fee. Through this service, some banks offer a very low transfer fee and profit instead from the exchange rate. In 2001, an estimated 88% of remittances to Mexico were sent as electronic transfers and 9% as Money Orders. This represented a 24% increase in electronic transfers over the previous year and more than a 50% reduction in both Money Orders which has in part been fuelled by the introduction of ATMs and smart cards.

A recent market study suggests that money transfer by ATM will be the revolutionary change that will allow others to rival Western Union some of its market share and will also push smaller, regional MTOs out of business. Given the high set-up cost, however, these technologies are currently still viable only in high volume markets with the requisite infrastructure.

Sources: Orozco, 2003c; Lopez Espinosa, 2002; Bézard, 2002

Domestic Transfer Services

In countries where financial systems are weak and burdened with structural problems, especially in the national payments system, many companies, organisations, and individuals have to revert to informal or self-managed means to transfer money within the country. A few banks stand out as having identified this market opportunity and pursuing it. Banks such as National Microfinance Bank of Tanzania, CRDB of Tanzania, and Teba Bank of South Africa, for instance, have very actively increased the capacity within their respective branch networks to provide money transfer services domestically. Fee-based products such as money transfer are often seen as an excellent opportunity that requires some start-up investment, but as a volume business it turns very good profits once start-up and operational costs are covered.65
Money Transfer Operators (MTOs)

Market leaders among the MTOs are Western Union and MoneyGram. They have the greatest global reach and have long been capturing a significant part of remittance flows. In recent years they have expanded and marketed more aggressively. The industry has also seen the emergence of more of the smaller, often regionally focussed MTOs.

New providers, such as FirstRemit which is building a global network, tend to compete on the basis of a slightly lower fee. Other MTOs have developed regional markets, such as RapidMoney between the US and Latin America. Dahabshiil is another example. Originally a more niche market oriented company, servicing different Muslim communities, especially Somalis, Dahabshiil has recently expanded globally and also become the biggest provider in Somalia – replacing Al Barakaat which suffered an extended closure following an AML investigation post 9/11. Crown Agents, another MTO, grasped a market opportunity and has moved into Afghanistan to provide money transfer services primarily to humanitarian and other aid organisations or official delegations.

The current trend in the market is clearly to grasp the opportunity. The challenge then is to get to scale quickly, either within a niche market that generates sufficient volume, or by rapidly building up a network globally in key sending and receiving locations.

Other companies provide the software or backbone, allowing their clients to set up their own products or brands and network. Vigo, which is behind IRNet, is one example. Another variation are platform providers, such as Mastrex, which offer a platform that is compliant with all regulations and can link participating banks and MTOs.

Donor Interests & Initiatives

Among donors there is continued and growing interest in the magnitude and role of remittances – both in terms of their contribution to international capital flows as well as in their developmental role regarding improved livelihoods and poverty reduction for migrants and their families and for actual and potential investment. At the same time, as data and knowledge is still partial and rather fragmented, there is a continued need to raise awareness about remittances, their contributions, and donors’ roles.

Over the last couple of years, the Multilateral Investment Fund (MIF) of IADB has created tremendous awareness of remittances and issues such as cost and access to formal sector services, especially in the context of Latin America and the Caribbean and the US. They have drawn on, and supported, the work of key researchers on this topic, such as Manuel Orozco at the Inter-American Dialogue.

The World Bank’s Global Development Finance report of 2003 constitutes a big step in the international debate around remittances highlighting the importance and role of remittances in the context of global financial flows. It should help to increase awareness internationally and lends the kind of credibility and scope of dissemination that individual studies or initiatives could scarcely reach. It also takes remittances into a new realm of debate. Whereas migration experts have long been aware of remittances, for many macro economists, financial analysts, and all stakeholders in development finance and investment, this constitutes a new topic that, as the GDF indicates, they can no longer ignore.

In recognising the importance of remittance flows, a growing number of donors have begun to share the interests of some of the governments of remittance receiving countries: how to attract more remittances; how to attract them to formal transfer services and to those which hold the promise of integration with other financial services, such as savings; how to reduce the cost of transfers; and how to leverage or increase the use of remittances for developmental benefits. As
part of reflections and explorative initiatives which seek better integration of remittance transfers into financial sector services, the link between remittances and microfinance has also gained some momentum (see also text box on ‘Remittances & Microfinance’).

An additional dimension has been the interest to create a better understanding and transparency in systems such as Hawala and Hundi which came under heightened scrutiny following the terrorist attacks of September 2001 in the US. The subsequent clamp-down on financial services, especially MTOs and informal operators, as part of tightening and enforce anti-money laundering regulations and preventing the financing of terrorist activities under the auspices of the Financial Action Task Force (FATF), led to important initiatives, such as by UNDP Somalia. These efforts have helped to document the importance of remittances and the money transfer service providers to countries like Somalia. They have also created some of the dialogue necessary to allow MTOs to continue to operate while collaborating with FATF and country regulators to ensure that they are seen to be on the path to swift compliance with new regulations.

Table 3: Overview of Donors and their Current Activity Areas in Remittances

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<td>Role to economy / livelihoods</td>
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<td>Lower transfer costs</td>
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<td>Integration with formal financial services</td>
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<td>Remittance transfers through microfinance institutions</td>
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<tr>
<td>Leverage / increase developmental use of remittances</td>
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<tr>
<td>Mitigate / find common ground between FATF requirements and facilitating MTS</td>
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<td>X</td>
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<tr>
<td>Enabling policies for migration and remittances</td>
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<td>x</td>
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Note: Several donors are in the process of identifying additional initiatives which are not reflected here.

Remittances & Microfinance

In the context of the discussion around cost and access to money transfer services for remittances, there has been growing interest in looking at microfinance institutions as service providers. Examples of MFIs already engaged in remittances include Fonkoze in Haiti, Banco Solidario in Ecuador, PRODEM in Bolivia, Kosovo’s microfinance bank, Equity Building Society in Kenya, and Centenary Rural Development Bank in Uganda. They are, however, still relatively few and far between, and tend to be licensed banks, with exceptions such as Fonkoze (see Annex 4 for case illustrations; see also ILO, 2000 and Puri et al., 1999).

As these cases illustrate, MFIs are not the panacea either to lower cost and more accessible transfer services or to the integration of low-income remittance receivers with broader financial services. At the same time, the opportunities for MFIs as niche market providers can be there but need to be looked at very carefully, including in terms of sufficient business volume and some promise of continuity over time. As with other products, MFIs wishing to develop money transfer as a product need to look at their institutional capacity as well as the regulatory requirements and the potential market for the service.

Who is engaged in initiatives on microfinance and money transfer?

- ACCION is in the initial stages of working on how to operationalise money transfer services for MFIs within its network. Also, Banco Solidario is a network affiliate.
- CGAP through its challenge fund has supported a number of pilots and will be looking to build on their experiences.
- PlanetFinance Italy is in the initial stages of looking at how to establish relationships between Italian banks and MFIs in their network for high volume remittance markets out of Italy.
- WOCCU has set up IRNet linking US credit unions with outlets in some 40 countries, mostly in Latin America; they are seeking to include more credit unions in receiving countries but emphasises that capacity building of the credit unions is required in the vast majority of the cases before they can be made part of IRNet.
Areas for Research & Initiatives

The scoping work highlights that much work has been done to analyse and understand remittances, especially through migration and livelihood surveys along with analyses of global remittance statistics. More recently, this has been complemented by work on issues that affect the flow or use of remittances, including early initiatives and research on reducing the cost of money transfer services and increasing the outreach of their networks; in addition there has been some interest in how to promote individual or community investments through remittances.

The scoping work also highlights that activities have been highly concentrated around selected themes, such as flows, and in certain geographic locations, such as Latin America. Research and initiatives have also tended to be quite dispersed and somewhat isolated so that, for instance, work in or on one region or country does not appear to draw much or at all on experiences or knowledge from other cases. Within agencies, as well, there are often separate initiatives progressing, at times, to a high degree in isolation from one another.

Among the missing pieces to complement the numerous individual survey analyses are analytical frameworks and tools to pull them together and build on the knowledge. In particular there is a need for this to contribute to a much better understanding of remittances at a national as well as an intra-regional level.

While financial services are an essential factor in remittance transactions, interest in this is much more recent than from the perspective of migration and labour issues. The focus is on aspects such as transfer cost, availability of services, regulations, and developmental benefits through better integration with financial services. In part this interest has been fuelled by anti money laundering and anti terrorism initiatives in the wake of 9/11/200 but in part also by a much stronger focus on pro-poor financial services in recent years. Documentation of existing experiences and initiatives to build and innovate on these are timely.

Geographically, Latin and Central America and the migration and remittance links with the US have received vastly more attention than other parts of the developing world. Exceptions are countries such as the Philippines. The geographic focus is in part relatively easily explained by migration flows and concentration of migrants in certain host countries. Another factor is how much attention these patterns receive due to, for instance, debates or policy initiatives around migration or immigration (e.g. in Europe or in the US periodic discussions re illegal migrants, migration or labour market trends, and programmes to attract migrant labour).

Another factor, though not explicitly explored here, is that migration flows from Asia and especially from Africa are on average more dispersed than those from Latin America. They tend to be less homogeneous as well as less concentrated in single locations, partly due to the greater variety in socio-economic profiles and professional skills levels which lead to multiple migrational paths and other differences in migrational patterns.

Opportunities for additional or new research and initiatives include the following foci or topics,...
- focus on Africa / Asia
- applicability & application of Latin American experiences to other regions
- integration of international remittance debate with intra-regional and domestic systems/transfers and NPS
- regulation & policies in sending and receiving countries (re facilitation of flows and uses)
- integration with financial sector reform programmes
- outreach of services (e.g. through links with non-conventional channels or use of technologies – for instance, link banks with shops or couriers; or use of sms / mobile telephone technology)
- development of attractive / flexible means & products (e.g. send x amount of which 50% goes to cover health care premium and the rest to a remittance receiver)
- market research on migration locales & trends (diaspora, generational patterns, socio-econ profiles & remittance behaviours)
- intra-agency and inter-agency collaboration, integration, joint initiatives
- linking stakeholders from migrant communities and public and private sectors
Annexes
Annex 1 – Financial Action Task Force (FATF)

**Financial Action Task Force on Money Laundering (FATF)**

Created in 1989 by the G-7 Heads of State and the President of the European Commission, the Financial Action Task Force on Money Laundering (FATF) has since grown to 29 member countries, most of whom are OECD members. Initially, the purpose of FATF was to function as a policy making inter-governmental body which would develop and promote policies to combat money laundering both nationally and internationally, and help to mobilise the political will necessary to conduct legislative and regulatory reforms on the national level. The organisation has neither a rigidly defined constitution nor a defined lifespan: every five years member governments review whether to continue it. The next review is due in 2004.

In 1990, FATF published 40 Recommendations to counter money laundering in three areas: legal, financial and regulatory, and law enforcement. In the legal area, it involved making money laundering a criminal offence and providing legal measures to confiscate proceeds of crime. In the financial and regulatory area, it required prohibition of anonymous accounts and financial institutions to identify and report suspicious transactions. In the law enforcement area, it called for assistance between jurisdictions in money laundering investigations and prosecutions, plus the capacity to extradite individuals charged with money laundering offences. These recommendations have since been implemented by most member countries and worldwide they have become a policy benchmark for money laundering counter-measures – adopted, among others, by the UN General Assembly.

Building effective anti-money laundering systems within FATF member countries depends in part on the quality of monitoring, follow-up and co-operation. Most members are strongly committed to the discipline of multilateral monitoring which involves both an annual internal self-assessment and an external FATF-led evaluation. Both check the country’s progress in implementing the 40 Recommendations.

This mutual evaluation process is coupled with FATF’s policy for dealing with non-compliant members. If countries fail to take measures in areas highlighted by FATF, they can be blacklisted or even suspended. Public naming and shaming of non-compliant nations often spur these to take the corrective action expected of them. Continued non-compliance can yield severe economic consequences. For example, international credit rating agencies (such as Standard and Poor’s) have downgraded countries on FATF’s blacklist thus leading to an increased cost of capital for these countries.

Compliance reviews for 2001 showed that even founding members such as the U.S. and Canada have problems meeting FATF standards. Still, the FATF manages to maintain compliance pressure on countries, both inside and outside the membership sphere. Since 2000 it has published blacklists of “non-cooperating jurisdictions” (non-member countries) that risk being placed off-limits by western financial institutions if they do not ‘clean up their act’. These include small offshore centres, e.g. Lichtenstein and Cayman Islands, but also larger countries, including Hungary, Israel, and Russia.

Shortly after the terrorist attacks on 11 September 2001, FATF expanded its mission beyond money laundering to focus on detecting and preventing the misuse of the world financial system by terrorists. Rapidly, a set of recommendations was produced, the so-called G7 Action Plan. By February 2002, a total of 200 countries and jurisdictions had signed up to implement the plan. Initial results were impressive, but not without imperfections. Although many countries tightened up their legislation, new burdensome rules still deter part of the banking community from complying. The attention given to terrorist finance has, however, encouraged many governments to combat money laundering more seriously. Much of the burden of compliance, and associated costs, however, rest with the financial industry and are likely to be passed on to their clients as much as possible. It has also tended to lead banks to be very cautious, erring on the side of over-compliance, which has introduced additional hurdles or barriers for migrants and MTOs in accessing banking services (see also discussion in main text on KYC). (FATF, 2002; 2002a; FATF home page at http://www1.oecd.org/fatf/)
Table 10 (reproduced from Orozco, 2003) shows the cost of sending US$200 from the US to nine different countries. The subsequent diagrams graph research on pricing of formal transfer products in Tanzania, which is a remittance receiver, but the data is indicative of the cost of intra-regional and domestic transfers. The Tanzania data shows that bank transfers are most competitive for sending larger amounts in a single transaction, whereas for transfers of small values bus companies are the cheapest followed by money orders (see Figure 1 below).

Table 10: Cost of Sending $200

<table>
<thead>
<tr>
<th>U.S. to</th>
<th>Bank</th>
<th>Bank</th>
<th>Exchange</th>
<th>Major</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>MTO</td>
<td>MTO</td>
<td>House</td>
<td>MTO</td>
<td></td>
</tr>
<tr>
<td>Philippines</td>
<td>8.0%</td>
<td>6.2%</td>
<td>10.1%</td>
<td>10.3%</td>
<td>6.6%</td>
</tr>
<tr>
<td>Greece</td>
<td>13.8%</td>
<td>13.8%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>7.0%</td>
<td>8.3%</td>
<td>12.2%</td>
<td>10.1%</td>
<td></td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.2%</td>
<td>16.8%</td>
<td>14.0%</td>
<td>11.8%</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>13.8%</td>
<td>9.5%</td>
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<tr>
<td>Turkey</td>
<td>13.1%</td>
<td>13.1%</td>
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<tr>
<td>Zimbabwe</td>
<td>11.9%</td>
<td>11.5%</td>
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<tr>
<td>Bangladesh</td>
<td>8.0%</td>
<td>9.2%</td>
<td>15.1%</td>
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<tr>
<td>Ghana</td>
<td>7.5%</td>
<td>7.5%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td>6.2%</td>
<td>7.7%</td>
<td>14.2%</td>
<td>9.2%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Orozco, 2003

Figure 1: Pricing of Formal Transfer Products in Tanzania
(1 US$ ca. TSH 800)

The first diagram shows low value transfers (ca. US$12 to 625) and the percentage fee cost per transaction; the second diagram shows the percentage fee costs for higher value transfers (up to ca. US$ 12,500).

For black&white version print outs, in order of each lines’ starting point on the left hand side, reading the lines from top to bottom they represent:
1. diagram (low values): commercial banks, Western Union, MoneyGram, EMS, money order, bus companies
2. diagram: Western Union, MoneyGram, money orders, EMS, commercial banks, bus companies

Source: Sander, 2001
Annex 3 – Policy Incentives: Mexico, Morocco, Philippines, Turkey

**Mexico**

Mexico receives an 8% share of the world’s total remittances and a 34% share of all remittances to Latin America and the Caribbean. Annual remittances to Mexico have almost quintupled over the past 13 years - from US$ 1.7 million in 1989 to 8.9 million in 2001.

Around 10% of all Mexican households are entirely or partly dependent on family remittances for their survival. In some rural parts of the country, such as Guanajuato, as much as 45% of households depend on money sent from the US as their main source of income.

According to official statistics, the most frequent method of sending remittances is through electronic transfer. In 2001, an estimated 88% of remittances were sent as electronic transfers, 9% as Money Orders and about 3% sent informally as cash or goods in kind. This represented a 24% increase in electronic transfers over the previous year and more than a 50% reduction in both Money Orders and informal transfers and has in part been fuelled by the introduction of ATMs and smart cards.

Although Mexico has been one of the largest recipients of remittances in the world for some time, charges for sending remittances from the US have until recently been very high. This was largely ascribed to a lack in competition to the overwhelming market dominance of a handful of money transfer agencies, including Western Union and MoneyGram. They had captured the market whereas US commercial banks had shown little interest and strict banking regulations made it hard for Mexican banks to open up branches in the US. In 2001, the Government (through CONDUSEF) estimated that it would cost an average of between US$ 12 and US$ 45 to transfer US$ 300 from the US to Mexico. In 2003, costs have come down significantly, averaging between US$3 and US$ 17.5 per transfer. The significant drop in prices can be attributed to both increased competition from Mexican and American Banks and other intermediaries (for example internet-based companies), as well as to an increased monitoring of the sector on the part of the Mexican Government. The latter has lead to a significant rise in awareness among senders about what constitutes good practice in the industry.

In 1998 the Mexican Government, through its Consumers’ rights watch (PROFECO) and the Foreign Office, launched a special programme to monitor the remittances market and provide Mexicans living in the US with information about money transfers, including prices and consumer rights both through a website and at nine of its consulates.

Many of the Mexican States from which migrants traditionally originated have taken measures to channel remittances back into their local communities. The Central Mexican state of Zacatecas, for example, has run a programme since 1992 called ‘Tres Por Uno’ (3-for-1) that matches each dollar remitted by migrants or hometown clubs in the US with three additional dollars, one from each of the federal, state and local governments. The programme is aimed at job creation and supports projects such as street paving. Within 8 years this has raised about US$4.5 million towards some 400 community projects.

The state of Guanajuato has a programme called “Adopta una Comunidad”. It has helped to channel remittances saving from nationals abroad into nine local sewing projects where it was invested in machinery and other facilities.

The national government has since the early 1990s launched programmes for migrants including “Paisano”, a Program for Mexican Communities Abroad in the Ministry of Foreign Relations. It has also taken legislative measures to allow migrants to hold dollar accounts and to allow Mexicans in the US to keep their nationality.

With the election of President Vicente Fox in 2000 migration issues received a significantly higher profile within Government. In 2001 the government launched a special Presidential Office to deal with Migrants and Mexican-Americans Abroad, with the purpose to strengthen the ties between the Mexican communities in the US and their communities of origin within Mexico, much in the same way that many state governments had been operating. In 2002 the office expanded the “3 for 1” programme beyond Zacatecas, launched a “godfather program” similar to the “Adopt a Community” programme in Guanajuato, and created a National Council for Mexican Communities Living Abroad.

Both the national and state governments are increasingly working with donors such as the Inter-American Development Bank (FOMIN) in this area. The Zacatecas, Guanajuato, Michoacán, and Oaxaca state governments are, for example part, of an IDB and Nacional Financiera sponsored pilot programme to provide funds and support to returned migrants who would like to invest their remittances in job-creating small and medium-size enterprises.

Sources: CONDUSEF; Lopez Espinosa, 2002; Immigration Laws, Orozco, 2002 & 2003; PROFECO, 2003; Preciado Coronado, 2002; Garcia Zamora, 2002; Smith, 2003; van Doorn, 2002
Remittances and Morocco’s Banques Populaires
By Natasha Iskander, MIT

Morocco is a country with 2.5 million Moroccans living outside their Kingdom’s borders. They send home 3.6 billion US dollars last year, an amount that represented over 11% of Morocco’s GDP. At least 60% of those monies were sent through Groupe Banques Populaires (BP), a majority state-owned bank with an extensive network of branches in Morocco and in Europe—the main destination for Moroccans who emigrate.

Since 1969, just after Moroccan emigration to Europe began in earnest, BP has been developing financial products to meet the banking needs of Moroccans living abroad. It currently offers Moroccan emigrants a wide range of banking services, including a number of methods to send money home. The cornerstone of these services is the basic checking account, of which three quarters of the emigrant transfers handled by BP arrived in this fashion.

A Moroccan emigrant, living anywhere from England to Italy, can open a joint checking account at his local BP branch for himself and for a family member in Morocco. The relative living abroad deposits funds that his relative can withdraw at no cost to either party. BP offers accounts in Moroccan dirhams, in convertible dirhams from which funds can be withdrawn in dirhams or in another currency, and in foreign currency.

In addition to checking accounts, BP offers emigrants a number of ways to wire money to Morocco. They can wire money to a BP account, from which funds can be withdrawn by the account holder in Morocco, at a fee of 0.1% of the amount transferred, provided it is over 100 USD. They can also wire money to a person in Morocco, to be picked up at any BP branch for a fixed fee of 90 Moroccan dirhams—about 9 dollars—regardless of the amount wired. Alternatively, they can send money through Moneygram at any of BP’s branches in Europe to any of its branches in Morocco; BP hosts this service and does not charge any commission over and above the commission charged by Moneygram.

Noting, for example, that 70% of Moroccan living abroad have invested in Morocco as opposed to less than 30% who have invested in their country of residence abroad, BP provides subsidized credit for real estate and entrepreneurial investments in Morocco. BP also offers a variety of insurance schemes just for emigrants, covering everything from repatriation of one’s body after death to airplane fare in the case of a family emergency. BP has even created a foundation to meet some of the cultural and educational needs of emigrants and their families, establishing, for example, special schools for the children of returning emigrants in Tangier and Agadir, and organizing competitions for cultural presentations.

Source: Orozco, 2002
**Philippines**

From 1995 to 1999, the Philippines was the world’s second largest receiver of remittances after India. Total annual remittances had grown from US$ 103 million in 1975 to approximately US$6.5 billion. In 2001, the value of remittances was roughly equivalent to one fifth of total merchandise exports. Estimates including informal flows suggest they could easily be up to 10 billion.

The Government has come a long way from the days when, for instance, it attempted to legislate Overseas Filipino Workers (OFWs) to remit 80% of their foreign exchange earnings. Recognising the importance of OFWs to the country’s economy, the Government has been strongly pro-active in this sector, first in facilitating overseas employment, and more recently also in attracting remittances to investments:

- In the mid-70s it started by promoting and arranging temporary work placements in countries such as Saudi Arabia, Iraq and the UAE. In 1980 it established the Commission on Filipinos Overseas to track the movements of OFWs and provide a formal link between the Government and the OFWs. In 1982, a second government body – the Philippine Overseas Employment Administration – was created under the Department of Labor and Employment (DOLE). This agency is responsible for optimising the benefits of the country’s overseas employment programme, including facilitating, enhancing and preserving employment of OFWs.
- As of 1988, the Overseas Workers Welfare Administration, created under DOLE, is specifically tasked to support the OFWs.
- In 1989 the Commission on Filipinos Overseas launched a programme called LINKAPIL which allowed OFWs to contribute to national development by supporting education, health and welfare, livelihood and small-infrastructure projects back home. Through monetary or in-kind donations, OFWs have contributed in excess of US$ 1 billion.
- In 2000, the official year of the OFW, the Government set up an OFW pension fund which included resettlement services and a hospital for returning migrant workers.
- In the 2001 tax year, the Government scrapped the requirement that OFWs file an income tax information sheet; it also removed the penalty for non-filing.
- Also in 2001, it launched the Bagong Bayani (New Heroes) bond which allows OFWs to invest in increments of US$ 100 for three to five years. Some of the monies raised through the bonds went into supporting a new package of socio-economic benefits, including the ‘Tulong OFW’ housing programme, which would enable migrants to generate savings for investment in housing or other projects in the Philippines.

The ability of the Government to facilitate the channelling of remittances into activities which generate long-term sustainable growth is still uncertain. A recent study shows that while portfolio investment and domestic savings have a statistically positive effect on the investment ratio, remittances have a positive effect on consumption but no significant effect on total investment in the economy.

The Philippines has been under pressure by FATF to put in place anti-money laundering measures which currently no counter-measures will be imposed which could cause a delay in remittance flows or other penalties.

**Turkey**

Turkey ranked number six of the top developing country remittance receivers in 2001 in terms of total flows, receiving US$ 2.9 billion. It has a long-standing diaspora which has remitted a growing volume of remittances since the contemporary migration began with the ‘economic miracle’ in Germany seeking ‘guest workers’.

Turkey is a good example of an active government aiming to attract remittances and their investment as well as of how volatility and migration patterns or motivations can affect remittance flows and their investment. In the early 1970s, the Turkish Government established DESIYAB, the State Industrial and Workers’ Investment Bank, to attract savings and remittances. It also promoted programmes for worker owned and managed cooperatives and joint public-private investment in enterprises, based on the model of the Yugoslavian self-management worker coops. Joint stock companies were promoted for less developed areas to industrialise the home regions of migrants and provide jobs on return.

Over 600 of these joint ventures, in which migrants invested from abroad, were founded and most failed. Reasons of failure included bad decisions regarding the location of some of the ventures which had insufficient inputs nearby; poor financial and technical planning and management; and economic turmoil which reduced business opportunities and slowed investment by migrants. Similarly, village development cooperatives and shareholding companies to channel workers’ savings to rural development proved inefficient in terms of fuelling economic development. Joint stock companies to create job opportunities for returnees have lost in popularity as emigrants have stayed on.

The Turkish government also introduced new regulations in 1978 to favour savings of remittances in Turkish banks. As migrants stayed longer and families followed, however, they began to prefer banks in host countries – a trend that strengthened due to economic and financial crises in Turkey. Incentives to attract remittances through premium exchange rates and forex deposits with high returns were not very successful.

Source: Koc et al., 2001

Sources: Alburo/Abella, 2002; Bangko Sentral ng Philinas; de Castro, 2002; Immigration Laws; Llanto/Lamberte; National Statistics Office, Philippines, 2001; Philippine Overseas Employment Administration (POEA); Puri et al., 1999
Annex 4 – Remittances & Microfinance: Banco Solidario and Fonkoze

Banco Solidario: Programa de apoyo al emigrante – Emigrant support programme

In 2001 an estimated 2.5 million Ecuadorians lived outside their country and sent home around US$1.425 million worth of remittances. This was equivalent to 8% of the country’s GDP that year. The average size of remittances from the US to Ecuador is estimated at about $450, whereas from Spain they are thought to be a bit higher, at about $700. The Ecuadorian Diaspora is mainly concentrated in the US, Spain and Italy. In June 2002, there were at least 388,000 Ecuadorians living in Spain and their remittances alone accounted for over $400 million.

In 2002, Banco Solidario joined forces with a number of Spanish Savings banks to capture a share of the Spanish remittances market and to offer an innovative and complete range of services to Ecuadorians living in Spain. In 2002, agreements were signed between Banco Solidario and Confederación Española de Cajas de Ahorros (CECA), Caja Madrid and Caja Murcia, with the addition of La “Caixa” in February 2003. Caja Madrid and Caja Murcia have around 6,900 retail branches points in Spain and La “Caixa” has around 4.800 offices.

Banco Solidario’s entry point is their low-cost and secure remittance transfer service which is complemented by a series of other products to meet the financial needs of both the emigrants and their families in Ecuador. So far four product ranges have been launched within the overall “Programa de apoyo al emigrante”: low cost transfer of remittances, low-cost (18% interest) short-term credit to cover urgent needs in Spain, long-term low-cost credit such as mortgages (also around 18%), and an integrated dollar savings account called “Mi Familia, Mi País, Mi Regreso”.

This versatile savings account facilitates the banking of both the emigrant and his/her family in Ecuador and allows the emigrant to have full control of his/her money while abroad - only whatever amount the sender has made “available” to withdraw can be removed by the named account holder in Ecuador. The service also promotes long-term savings with a view to provide for a future return to Ecuador. For example, the emigrant can voluntarily block-off part of his/her remittances to save up for a house or to start up a business upon return. The emigrant can also use his/her remittances to service any loans that s/he may have with the bank. This may for example include paying off credits given to the migrants to finance his/her initial travel to Spain, including airfares and initial living expenses.

The services offered by Banco Solidario are among the most complete offered to immigrants in Spain today. With sponsors, such as the Inter-American Development Bank, they have managed to lower the cost and improve the reliability of remittance transfers between the two countries. Thanks to the alliances formed with Spanish Savings Banks (as mentioned above), emigrants are able to access the bank’s integral package of services from almost all parts of Spain. The agreements allow for anybody to transfer remittances from any of the Spanish banks’ branches. Senders do not have to be clients of any of these banks, nor do they need to have a regularised migratory status in Spain. In Ecuador payments can be withdrawn at any of Banco Solidario’s 24 branches (December 2002), at any of the BANKRED’s 836 ATMs (July 2002), or at any of the around 100 cooperatives with which the bank has formed strategic alliances.

In spite of this, Banco Solidario has a rather limited share of the total remittances market. Between January and August 2002, it completed 275 remittances transfers from Spain totalling $294,744. This was equivalent to an average of $1,072 per transfer. During the same period, 14% of these transfers ($41,396) were used to open 99 new savings accounts.

How the transfer works:

- Transfers are made through inter-bank transfers
- The cost to the sender is a fixed 4% of the total amount with a minimum of $7 dollars and a maximum of $20 dollars
- The transfer is made in dollars (based on a competitive EURO to US Dollar exchange rate)
- The maximum length of transfer is 72 hours, although the average is around 24 hours

Sources: Banco Central del Ecuador; Eguez, 2001; IADB/MIF, 2003; World Development Indicators 2002; http://www.solidario.com
Haiti’s Fonkoze is a microfinance NGO with 18 branches in Haiti. In addition to money transfer (Ayiti Dirèk Dirèk), they offer savings accounts, microloans to street vendors, currency exchange as financial services and business development and educational services. Fonkoze is in the process of spinning off its financial services into a commercial microfinance bank.

In 2002, Fonkoze received around USD 2.5 million in remittances. This cost their clients USD 15,000 - roughly one sixth of a percentage point. An additional cost is, however, incurred by the client for depositing the funds into Fonkoze’s US account such as in the form of a wire transfer, money order or cheque.*

Fonkoze estimates that on average about USD 1 billion are transferred to Haiti each year, constituting about 17% of the country’s GDP. The majority of the Haitian diaspora can be found in the US and the Dominican Republic. An average remittance is about USD 100 to 200 per transaction.

Fonkoze identified two types of remitters - individual workers sending money to their families and churches and charitable organisations who send money for community development projects. With these two markets in mind they set out to look for a US-based bank as collaborator and did not find it easy. Eventually a contact with a Haitian-American CEO provided the breakthrough and City National Bank of New Jersey (CNB) became the partner.

Churches, parishes, associations, and small charitable organisations have found Fonkoze’s service to be very attractive. Haitian migrants, however, are much more suspicious of the service. Part of their hesitation is the fact that there is no physical office and they are afraid to fall prey to a scam. Fonkoze plans a campaign in the US of awareness of its services combined with financial literacy training and educating Haitian migrants about the benefits of forming associations along the lines of the Home Town Associations of Mexican migrants in the US.

How does the transfer works:
- Fonkoze keeps the majority of their microcredit reserves in CNB making it a major client of the bank
- CNB dropped all bank fees, including fees for the acceptance of wire transfers.
- CNB sends a daily email detailing the day’s deposits into Fonkoze’s account
- Fonkoze has a Haitian American fluent in English, Creole, and French as their U.S. Customer Service Representative working from home with a computer, an AOL account, and a free access 1-800 number
- deposits are made into Fonkoze accounts for a flat fee of $10 by depositing the funds with Fonkoze’s account at CNB. Accounts are free, can be opened by the sender or receiver and can be denominated in U.S. dollars or in gourdes. The minimum opening balance is 100 gourdes (under $3 US).
- the funds become available the same day or within 24 hours of their receipt by CNB

Sources: Fonkoze, 2002; FONKOZE, Port-au-Prince, Haiti. http://www.fonkoze.org; Fonkoze@aol.com

*This compares to an average cost of 13% of remittances from the US to Latin America (Orozco, 2003).
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Migrant Remittances to Developing Countries
Bannock Consulting, Cerstin Sander, June 2003

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Endnotes

The author would like to thank Mariell Juhlin and Julia Brown for research assistance and Linda Aaslien for her support on the bibliography. Any errors or omissions, however, are the sole responsibility of the author.

1 For macro flows, see GDF, 2003; Gammeltoft, 2002; for geographic focus on Latin America, the Caribbean, and the United States see MIF and Orozco; various years; for informal transfer systems see Wilson et al., 2003; Maimbo, 2003; Omer, 2002; and Ballard, 2003, among many others; for migration literature, see for instance de Haan et al., 2001.

2 GDF, 2003. Please note that throughout this study, year references on data change subject to which set the respective author used for their analysis.

3 The volume and flows have been the dominant questions in recent work on remittances. The research typically summarises official records and some analysts have added extrapolations from case studies on informal flows. (The most current analyses of remittance flows to developing countries are Gammeltoft, 2002, and GDF, 2003.)

The key source for official data are the annual IMF Balance of Payment statistics (BoP) and the World Bank’s World Development Indicators, which build on the BoP data. The weaknesses are well documented and include insufficient and unreliable data collection as well as attribution (see, for instance, Gammeltoft, 2002; Orozco, 2003; GDF 2003). Furthermore this data does not capture the remittance flows which go through informal channels or are otherwise outside of the formally regulated financial sector, for instance in the form of goods. Estimates put these informal flows at double or triple the recorded flows globally (Puri et al., 1999).

4 Note that none of the analyses take into account outflows of workers’ remittances from developing countries, which can also be significant, for instance the very sketchy official aggregate data for Africa is $7.5mill of inflows and $1.6mill of outflows (IMF, BOP Statistics Yearbook 2002, Table B-19).

Cumulatively for the 1990s, remittance flows constituted 17% of all long-term resource flows. Remittances exceeded ODA by 27% for that period. Remittances almost doubled in value and retained a fairly constant share of the total flows. Meanwhile ODA started out at 32% in 1991 then dropped significantly to consolidate around 12% by 1999. FDI, in contrast, increased from 23% in 1991 to 56% in 1999 (at 49 % in 2000). (Gammeltoft, 2002, Table A1, 1991-99)

5 GDF, 2003; see also Buch et al., 2002

6 See Puri et al., 1999. This review of case studies published in the 1980s and 90s found the following estimated percentages of unrecorded remittances:

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<td>Pakistan</td>
<td>43</td>
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<td>Sri Lanka</td>
<td>13</td>
<td>Western Samoa</td>
<td>42</td>
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<tr>
<td>Thailand</td>
<td>18</td>
<td>Tonga</td>
<td>43</td>
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<tr>
<td>Bangladesh</td>
<td>20</td>
<td>Philippines</td>
<td>50</td>
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<tr>
<td>Egypt</td>
<td>33</td>
<td>Sudan</td>
<td>85</td>
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7 Estimates vary by source, for instance Doorn, 2002, quotes United Nations projection of 2%; ILO migration expert Manolo Abella indicates it is closer to an annual increase 2.8%.

8 Ratios of remittances to GDP and further aspects of macro-economic effects of remittances are discussed in the section on ‘Macro-Economic Effects’ as part of ‘Developmental Effects of Remittances’.

9 GDF, 2003. This can fluctuate by year and source. For instance, according to the Word Development Indicators (WDI online subscription), in 2000 the order was India, Mexico, Turkey, Egypt, and Spain, whereas in 2001 it was India, Mexico, Jamaica, Spain, Portugal -- in part because there was no data available for Turkey.

10 WDI, 2000 (online data subscription). Positions six through ten are: Dominican Republic, Albania, Greece, Cape Verde, St. Lucia.

11 GDF, 2003. Saudi Arabia follows with $15.1 billion, Germany $8.2 billion, Belgium and Switzerland $8.1 billion, respectively, and France $3.9 billion. UK shows outgoing remittances of $1.3 billion and ranks 14th along with Bahrain.

Note that this includes all remittances, not just to developing countries. Destination is not captured in the official records.

12 for instance, GDF, 2003, discusses the source attribution. Another source quotes $17.6 billion, or a quarter of an estimated US total resource flow of $70.5 billion as in the form of personal remittances. (estimate by USAID/GDA for 2001)

13 Cox, 2002

14 IOM, 2001. It estimates that Nicaraguans in Costa Rica sent remittances amounting to US$ 108.6 million compared to a total of officially recorded remittances received by Nicaragua of US$ 320 million (in 2000).

15 This follows in part logically as income levels for migrants in industrialised countries tend to be higher than for domestic or intra-regional migrants. See also, for instance, Cox, 2002 on Viet Nam and Sander et al., 2001 on Tanzania and Uganda regarding lower values for domestic remittance transfers.

16 Nyberg Sørensen, 2002
The discussion here focuses on cash as, in aggregate, the bulk of remittances are in cash. While there is no global data, household surveys indicate that remittances in-kind or in goods are not as common as in cash. For instance, a study in the Philippines found that of the households receiving remittances 7% received them in goods and a study in Turkey found 18% to receive goods and 28% to receive a mix of goods and cash (Puri et al., 1999; Koc et al., 2001). Typically, goods form a smaller share of remittances in countries with liberalised financial markets than in countries where currency or forex restrictions exist or where there are large price differentials for import items and proximity or ease of transport allow for it.

Examples of such MTOs are FirstRemit (www.firstremit.com), ikobo (www.ikobo.com), or RapidMoney (www.rapidmoney.com).

For instance, concentrations of Kenyan migrants can be found in Minneapolis in the US or in Tottenham, North of London, in the UK. To capture their business, MTOs have to be present in their neighbourhoods. Western Union and its Kenyan agent Kenya Post Office Savings Bank, for instance, seek out these communities for marketing trips and events.

For instance, a study in Bangladesh compared this for two regions and found that the use of the informal hundi is higher in Mirersharai with 47% than in Kalihati with 34%, whereas the transactions received in bank drafts was 45% and 63%, respectively. It cited as one of the reasons for the higher use of banking system in Kalihati the fact that the majority of the migrants sending monies there are based in Saudi Arabia (26%), followed by Singapore (13%) and Malaysia (4%). In contrast, a significant portion of migrants from Mirersharai is based in the UAE (37%). (Siddiqui et al., 2001)


Considering the limited reach of formal financial services into some of the home communities of migrants, it is also conceivable that a mixture of services is used before the remittance reaches its destination. Thus, for instance, a migrant may send the funds by electronic transfer to a relative back home living in a major urban centre. The relative, depending on instructions by the migrant, will eventually pass some or all of the money on to relatives who do not have easy access to receiving it directly.

By way of illustration of transfer terms, for a recent overseas transfer by the author, the bank sent a confirmation stating: 'We have today debited your Account [...] with GBP [...]. Every effort has been made to make sure the transaction will be completed successfully. However please note that it has been undertaken on your understanding that the transfer will be sent entirely at your risk and the Bank will not be responsible for any loss or damage (direct or indirect) however caused, which is not directly due to the negligence or wilful default of any of the Bank's officers or employees.'

See also section on ‘Sending and Investment Policies’

Ancedotal evidence indicates that they often take longer. In areas where drafts are used rather than account transfers, for instance to Bangladesh, this typically takes 10 to 15 days (Siddiqui et al., 2001).

A prominent example is Brazil (see Ketkar, 2001). For instance, for Turkey remittances have constituted an important source of forex as well as compensated for trade deficits. Remittances are also seen to have delayed the balance of payment crisis in the early 1970s, but likely also played a major part in delaying government action on tackling causes of trade deficits and restructuring the economy. (Koc et al., 2001)

See also Doyle, 2002, which summarises: “Most studies have confirmed the positive net effects of migration and remittances on development.” A good measure of the significance of remittances is their proportion to other income-generating activities like merchandise exports and tourism. In 1994, remittances in Cape Verde exceeded the country’s exports by 16 to one. In the same year, remittances made up over 75 per cent of merchandise exports in Egypt, El Salvador and Jordan, and 25 per cent or more of merchandise exports in Bangladesh, where remittances financed around 43 per cent of the development budget.” (*Amjad, R.: To the Gulf and back: studies on the economic impact of Asian labour migration. ILO-ARTEP, New Delhi, 1989; and Massey, D.: International migration and economic development: a comparative perspective, in Population and Development Review, Vol. 14, 1989.)

See also Omer, 2002; and comparison to WDI data for 2000 (online subscription); neither IMF BoP statistics nor WDI data include figures for workers’ remittances to Somalia, as is the case for selected other countries where data is not available.
As land, livestock and buildings are typical ways to invest and save in many of the migrants’ home countries, the distinction is one of saving within the financial system.

For instance land rather than a financial investment if the currency is volatile or there is high inflation. Insecurity as the motivator for investment is a point made by AFFORD (2001).

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For instance, a study on Mexico found that remittances contribute an average 30% of household income for receiving households (World Bank, 2001, Report No. 21286-ME).

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In the span of a decade, these associations supported 146 projects for total budget of FF 19.4 million (EURO 2.96 million) of which 16.6 million constituted their savings, and 2.8 million contributions from donors through NGOs. The authors estimate that over 60% of the infrastructure in the villages of Kayes can be attributed to the diaspora in France. (AFFORD (2001) quoting Libercier/Schneider 1996; see also Martin, 2002, or http://migration.ucdavis.edu/ceme/mali.html)

Other changes in the financial services industry are likely to occur once the current round of GATS negotiations is concluded. This includes negotiations on liberalising the access of financial services to all member countries. An assessment of the discussions and potential implications for remittances goes beyond the scope of this study. It would require separate research and analysis of a debate which is highly polarised and politicised.

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For instance, in the UK a proof of residence in the form of a utility bill or an account statement from another UK bank is required in addition to an ID. A new arrival or someone who is living in shared or ‘all-in’ rental accommodation will not have such documentation. Other reasons why some migrants do not use banks for money transfers are less to do with regulatory issues and can include: unfamiliarity with banks, distrust if migrants experienced banks as volatile industries in their home countries, the often limited business hours of banks, or language barriers. Banks also build in deliberate barriers such as minimum amounts for opening an account and administrative fees.

“Knowing your customer’ is the process of positively identifying the customers that are conducting business with an organization. The organization must apply a process of due diligence in the identification of both personal and business customers for all types of transactions. This process includes obtaining adequate identification and taking reasonable steps to verify the identity, credentials and supporting information provided by customers.” (Omer, 2002)

Western Union, for instance, now runs a check, presumably for ‘known suspects’, on clients with Muslim or Arabic names before accepting or paying out funds.

This is seen as one effect of a lack of clarity in what is required to comply with KYC and in the interest of prudence. In the case of the United States, for instance, where only a few banks have a country-wide network, if none of them is willing to take the MTOs account, the choice can quickly become limited to a patchwork of regional or local banks or, in the extreme, push the MTO out of business.

based on van Doorn, 2002; UK registration information for MSBs at http://www.hmce.gov.uk/business/othertaxes/msbre gistration.htm; Omer 2002; Genesis, 2003; and stakeholder conversations

Examples mentioned here are based on van Doorn, 2002, and GDF, 2003.

This happened, for instance, to Kenya Postal Savings Bank when they started as an agent to Western Union which led to a suspension of the money transfer operation until the Central Bank of Kenya granted the authorisation.

Genesis, 2003 for South Africa and author’s own research in East Africa;

see, for instance, Orozco, 2003c

see van Doorn, 2002 for various examples; and http://www.bangladoot.org/newsletter27dec2001.pdf re Bangladesh

For instance, with the Cairo Programme of Action of 1994, as part of the action area on international migration and development, governments have agreed to promote constructive action to ‘foster the inflow of remittances for development by adopting sound policies, facilitating funds transfers, and promoting conditions to increase domestic savings and investment.’ (Doyle, 2002)

Bair, 2003 and Orozco, 2003c provide an overview of US commercial bank involvement.

www.blonnet.com/2003/02/03/stories/ 2003020300621300.htm
Western Union has the largest market share (24%) and is the oldest, most globally established MTO with over 150,000 points of sale. (D. Grace, Woccu; Bézard, 2002; Western Union on web http://www.westernunion.com)

FirstRemit is likely a good illustration of recent trends. With a forex business division as well as a soft- and hardware division providing payment solutions such as to parking garages, the company already had some of the core business elements required for MTOs. In anticipation of the reduction in profits on the forex business with the introduction of the Euro, the company started up a money transfer operation. Apart from competing on price, they offer, on average, a better deal to their agents as their key competitors as well as a fax back-up arrangement.

A recent key UN report on migration for instance recommends regarding remittances: ‘The flow of remittances through official channels should be encouraged. Banks, credit unions and regulated financial institutions can leverage the economic impact of remittances and are faster, safer and have lower transaction costs than informal channels. All remittance receiving countries should minimize macro economic uncertainty, ensure transparency and the standardized regulation of financial institutions. The potential benefits of remittances could be enhanced if international actors were to share research and good practice information on these issues.’ (Doyle, 2002)

In terms of domestic money transfer services more related to business and personal transfers more generally than workers' remittances specifically, National Microfinance Bank of Tanzania and Uganda Microfinance Union in Uganda are a couple of examples. The latter, however, operates this on a very limited basis between two locations for a small number of businesses, whereas NMB Tanzania operates on a country-wide and growing basis for businesses, salary payments for government, and personal transfers.

see Omer, 2002