

**OVERSEAS DEVELOPMENT GROUP  
NORWICH**

**INFORMAL  
REMITTANCES  
FROM THE UK**  
Values, Flows  
and Mechanisms

**A REPORT TO DFID  
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**MICHAEL BLACKWELL  
& DAVID SEDDON**

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## EXECUTIVE SUMMARY

▪ Remittances can be defined as transfers of money from members of immigrant communities or foreign nationals in the UK back to family or friends in their countries of origin. The amount of remittances flowing out of the UK is difficult to measure because, since the abandonment of exchange controls in 1979, estimates have been based on data from recipient countries that are not standardised and are of questionable accuracy. Distinguishing between *informal* and *formal* routes for the transmission of remittances is also not easy as the routes sometimes merge and what is legal in one country is not in another. In this report, informal is defined simply as transfers initiated outside the formal banking system and outside the mainline money transfer businesses such as Western Union—in other words by ‘hawaladar’ and similar money transfer businesses (whether they are registered and thus operating legally or not), and by carriage by hand or by couriers.

▪ Data from official ‘top-down’ sources point to a level of outward remittances close to £3.5 billion per year. Data from household surveys, however, point to much lower levels of £1.1 billion or less. The amount of remittances from immigrant households in the UK to households in their home countries is likely to be closer to amounts revealed by household surveys, but there are reasons for believing that remittances are under-reported in these surveys.

▪ On the basis of the available figures and their contacts within the remitting communities, **the authors estimate at £1.4 billion the total remittances flowing out of the UK toward developing countries and of this amount £0.5 billion flowing out through informal mechanisms.**

▪ There is a substantial demand in the UK from various groups of immigrants and expatriate groups for money transfer systems which provide easy access, low costs and rapid and reliable delivery – this demand is

currently being met, in part, by a large number of informal money transfer businesses. The informal value transfer systems (IVTS) in operation include what are often known as hawala or hundi systems, in which – as in the case of formal banking and money transfer systems - funds do not travel and an accounting system is used, and chit or chop systems in which funds again do not physically travel but a tangible confirmation (a chit or piece of paper) of the transaction agreed is required for payments to be made. The flows of remittances sent through the hawala or hundi system are only a part of the total flow of funds through these systems, which involves complex sets of transactions, often involving intermediaries in the UK or elsewhere. A significant proportion of those wishing to transfer funds overseas, however, either take the funds themselves or have them taken by a trusted individual (a courier); in this case the funds move (as cash, bullion or in kind).

▪ Most studies of the IVTS suggest that they are highly competitive and are often more attractive to migrant workers and members of immigrant/diaspora communities wishing to send funds ‘back home’ than are the ‘formal’ operators and mechanisms. This is broadly confirmed by the investigations undertaken for this research. They tend to be more accessible to would-be remitters and recipients, with a generally better ‘outreach’ into the smaller towns in developing countries than their formal sector competitors, they usually offer more rapid transmission and delivery, their service is at least as reliable as the formal sector rivals, and the cost is generally significantly lower.

▪ There is growing evidence, however, that a combination of factors have tended to squeeze the IVTS in recent years: greater control and regulation, greater suspicion that some operators are involved in illegal activities (including transferring funds for terrorist purposes) and encouragement by governments and banks to provide incentives

to would-be remitters to send funds through formal channels. There is evidence also that many of the formal operators are becoming more competitive, and that new operators, including NGOs, are entering the field, both in the UK and in some of the receiving countries.

- In general, there are close links between the various minority communities of migrants and immigrants in the UK and their country of origin. Investigation of the flows of remittances, and of the channels and mechanisms used, reveals that different communities have different 'remittance sending behaviour'. It is also likely that there would be important differences between different categories of 'immigrant' – asylum seekers and refugees, short stay and longer stay migrant workers, regular and irregular migrant workers, immigrant and settled diaspora communities, members of which may have claimed British nationality.

- According to Home Office figures, foreign nationals total some 2.8 million, with the three largest groups being from the Republic of Ireland, India and the USA (see table 4.1.). The major categories identified in the 2001 census include the Irish community and the so-called 'ethnic minority groups'. The figures from the census are higher than those received from the Home Office because the latter exclude immigrants holding British passports. The census total of 'ethnic minorities (not including the Irish) was some 4.6 million). The major groups were of

Indian, Pakistani, Irish, Caribbean, African, Bangladeshi, Chinese and other Asian origin. These were, for the most part sending remittances to their country of origin.

- The studies based on *The Fourth National Survey of Ethnic Minorities* supplemented by information from a number of local community 'associations' and academics familiar with specific communities, indicated that different communities exhibited different propensities to remit and different patterns of remittance behaviour. These were related not only to the constraints and impediments experienced in encounters with the formal money transfer systems, but also to different economic circumstances, social norms and cultural tendencies.

- Use of IVTS was generally high, with reliance on the hawala and hundi type operations dependent heavily on interpersonal trust and community solidarity, and on a history of usage of such systems. Pakistani, Chinese, Somali, Yemeni and to a somewhat lesser extent Indian and Bangladeshi communities, for example, relied heavily on hawala and hundi type systems. Caribbean, African and eastern European communities tended to make greater use of hand-carrying of cash or kind (self or trusted relative or friend) or courier services.

# 1. INFORMAL REMITTANCE FLOWS

## Definitions

**1.1** Remittances have been defined for the purpose of this report as *transfers of money from members of immigrant communities or foreign nationals in the UK back to family or friends in their countries of origin*. This follows the internationally accepted definition enshrined in the IMF's *Balance of Payments Manual* that considers "workers' remittances" as transfers to "related persons" but departs from it in that it does not attempt to exclude transfers made by those living in the UK for less than one year.<sup>1</sup> While the definition is broader than the standard definition, it is narrower than one used recently by the World Bank, in its *Global Development Finance Report*. This adds to the standard definition other items such as payments made to developing country nationals working in their own countries for foreign embassies and even some capital transfers as well<sup>2</sup>. It is important to note that there is not a commonly understood definition of remittances. In the same way that the IMF and World Bank use different interpretations, so also do different countries. This makes it extremely difficult to compare statistics across countries<sup>3</sup>.

**1.2** There is also no common understanding of what is meant by *informal* as opposed to *formal* channels for the transmission of remittances. In this report, informal is defined simply as transfers initiated outside the formal banking system and outside the mainline money transfer businesses such as Western Union—in other words by hawaladar and similar money transfer businesses (whether they are registered and thus operating legally or not), and by carriage by hand or by couriers. Since regulatory frameworks differ from country to country, what may be formal in one may be informal in another. Some agencies find it more useful to distinguish between regulated and non-regulated, others between legal and illegal. Another difficulty is that what may start off as an informal transaction (for example, giving money for transfer to an

unregulated money transfer agent) may become formal at a later stage as the funds involved are deposited in the banking system.

**1.3** Finally, this report focuses on remittances sent out to developing countries. This is consistent with the fact that the UK measure of remittances used in the balance of payments is based on data from developing countries mostly with large diaspora communities in the UK.

## Data sources

**1.4** The transfers back to their home countries made by immigrant community households in the UK are not comprehensively captured in any database. This is true of transfers made through both formal channels and informal channels as defined in paragraph 1.2. All figures that purport to be measures of remittances in both official and other reports are thus only estimates. And these estimates are based on assumptions that are generally poorly tested and often out of date and, hence, subject to enormous margins of error. This is not a problem that is unique to the UK. The difficulties of capturing the data and the differing interpretations of the definitions in the IMF's BOP manual mean that most countries find themselves in a similar situation. **It is, therefore, not possible to present hard figures in this report. We, therefore, provide our own best estimates.**

**1.5** In the absence of data on informal remittance flows from the UK, an attempt was first made to estimate total remittance outflows, with a view to breaking down these figures between formal and informal for each immigrant community. This was not a straightforward task. Lines for both "workers' remittances" and "other current transfers" from the UK are left blank in the IMF's *Balance of Payments Statistics Yearbook*. Since the lifting of exchange controls in 1979, the Bank of England has not been keeping any relevant data on

remittances. Only the ONS attempts to make some measure of these outflows as part of its BOP reporting responsibilities.

**1.6** ONS data on remittances are based on estimates and data from recipient countries<sup>4</sup> and do not indicate destinations of UK remittances<sup>5</sup>. It is not clear that the remittance-receiving countries providing the data share a common definition of remittances. The figure for Pakistan, for example, includes all sterling purchased by currency traders in the country—obviously, not all of this money should be considered as remittances.

**1.7** Customs and Excise are currently bringing together data on money transfer businesses operating in the UK. This will soon provide some useful data. However, it was considered premature to draw conclusions for this report from the initial data.

**1.8** Attempts were made to find non-governmental data on the flows of remittances through the banking system. The British Bankers' Association collected no data that would be useful. The same was true of the Association of Payments and Clearing Services (APACS). The respondent at APACS had recently worked in Eurostat and the European Central Bank and remarked that he was not aware of any figures kept by these institutions—or indeed anywhere else—that would be germane to the enquiry.

**1.9** In short, official data on remittance flows from the UK is based on estimates made by recipient countries and is not disaggregated by destination. The same is true in many other countries. We spoke with IMF officials who confirmed that 'top-down' data available often bore only a tenuous relationship to the amounts of money actually being remitted by immigrant households to family, friends or communities in their home country<sup>6</sup>.

**1.10** Attempts were then made to construct the figures from the bottom up—first, based

on results from the ONS 2002-03 Expenditure and Food Survey. From a sample of about 7,000, only 363 households in the survey reported sending money abroad. This represents about 5 percent of the sample. This is broadly consistent with the fact that households from ethnic minorities make up about 8 percent of the British population and that one half or more of them do not make regular remittances to their homelands<sup>7</sup>.

**1.11** The Policy Studies Institute (PSI) has conducted surveys of ethnic minorities in the UK in which it questions households on the amounts of money they send home on a regular basis. The responses to the *Fourth National Survey of Ethnic Minorities* provided some useful information but they dated back to 1994 and were not precise enough to draw firm conclusions<sup>8</sup>. A literature survey revealed a number of useful studies which described remittance mechanisms and which analysed the propensity of different ethnic groups to send remittances—but none were found that had made the attempt to put a total figure on remittances from the UK.

**1.12** Finally, members of different immigrant communities were asked for their best estimate of the proportion of households in their community that sent remittances home and of what would be the average yearly amount. Some interesting responses were received that are reflected elsewhere in this report. However, no comprehensive data were forthcoming.

## **Making the estimates**

**1.13** The estimates in this report represent our best judgment of how to interpret the incomplete and flawed data sets that were available to us. Paragraphs 1.14-1.19 discuss estimates of total remittance flows. Estimates of informal flows are in paragraphs 1.20-1.23.

**1.14** We began by establishing a baseline range of estimates that would define an upper and lower limit for the total amount of remittances from the UK. For the upper limit, it was assumed that every immigrant household would send home £100 per month.

For the mid-range value, it was assumed that 50 percent would do so, and for the lower limit 25 percent of households. The figure of £100 per month was chosen since a number of studies consulted and people interviewed indicated that remittances sent home by a UK-based immigrant households averaged £100 or less. The figure of 25 percent of households remitting used for the lower limit of the model was chosen because it would be consistent with PSI survey that indicated that only 23.65 percent of immigrant households sent regular remittances home<sup>9</sup>. These calculations point to an annual range of from £463 million to £1.9 billion (see table 1.1.).

**1.15** Estimates based on official UK BOP data<sup>10</sup> pointed to a much higher annual total of £3.5 billion or £2.8 billion if remittances made to communities by charities were excluded (see table 1.2.).

**1.16** The counterpart data made available from recipient countries brings in a result that

is remarkably close to the total figure of the ONS. Figures extrapolated from statistical material made available by the authorities of Bangladesh, India and Pakistan (B,I,P) show an annual figure of £1.0 billion for B,I,P alone. If it is assumed that all immigrant communities made remittances at the same level as these three countries then total remittances would amount to £3.503 billion compared to the ONS's £3.541 billion<sup>11</sup> (table 1.3.).

**1.17** These official BOP figures, however, include more than just the amounts of true workers' remittances as they also include estimates for other private transfers such as amounts remitted abroad by non-profit institutions serving households. This helps to explain the discrepancy with bottom-up survey data. The data from the ONS Expenditure and Food Survey, for example, point to an annual total outward remittances of only £1.1 billion (table 1.4.).<sup>12</sup>

**Table 1.1. Baseline Estimates**

| Number of immigrant households 2001 | Assuming £100 per household per month (High) | Assuming £100 by 50% of households per month (mid-range) | Assuming £100 by 25% of households per month (Low) |
|-------------------------------------|--|--|--|
| 1,544,757                           | £1,854 million                               | £926 million   | £463 million                                       |

**Table 1.2. Based on BOP 'Pink Book'**

| Number of immigrant households 2001 | Total Remittances | Inferred average monthly amount per immigrant household | Total Remittances minus estimated remittances made by charities | Inferred average monthly amount per immigrant household |
|-------------------------------------|-------------------|---|---|---|
| 1,544,757                           | £3,541million     | £191  | £2,833 million  | £153  |

**Table 1.3. Based on Recipient Country Data**

|            | Number of immigrant households 2001 | Total Remittances | Inferred average monthly amount per immigrant household |
|------------|-------------------------------------|-------------------|---|
| B,I,P only | 454,331                             | £1,028 million    | £189  |
| Total      | 1,544,757                           | £3,503 million    | £189  |

**Table 1.4. Based on Expenditure and Food Survey**

| Number of immigrant households 2001 | Total Remittances | Inferred average monthly amount per immigrant household |
|-------------------------------------|-------------------|---|
| 1,544,757                           | £1,092 million    | £59   |



**Table 1.5. Based on *Fourth National Survey of Ethnic Minorities* (Policy Studies Institute)**

|            | <b>Number of<br/>immigrant<br/>households 1994</b> | <b>Total<br/>Remittances<br/>(conservative)</b> | <b>Total<br/>Remittances<br/>(generous)</b> | <b>Inferred average monthly<br/>amount per immigrant<br/>household 1994</b> |
|------------|--|---|---|---|
| BCCIP only | 750,316  | £139 million                                    | £364 million                                | £12   |
| Total      | 1,411,804  | £261 million                                    | £684 million                                | £32   |

**1.18** Data from the *Fourth National Survey of Ethnic Minorities* made by Clark and Drinkwater point to even lower amounts. A conservative analysis of their figures implies that households in the Bangladeshi, Caribbean, Chinese, Indian, and Pakistani (BCCIP) immigrant groups in the UK in 1994 made average monthly remittances home of only £12 per month. A more generous estimate pushes that up to £32 per month. Again assuming that other immigrant groups make identical remittances, total remittance outflows from the UK amounted to only £261 million on the conservative estimate to £684 million in the more generous estimate (see table 1.5.). Allowing for inflation since 1994, this would push the amounts up to £319 million and £836 million.<sup>13</sup>

**1.19** In summary, household survey data point to total remittances from the UK falling in a range from £0.3 billion to £1.1 billion. The baseline assumptions point to a range from £0.5 billion to £1.9 billion. Official BOP figures point to a total figure of £3.5 billion. We feel that the survey figures are likely to give a better indication of genuine workers' remittances and deduce that the official figures are thus inflated by other types of flows. On the basis of available figures and of our baseline assumptions, it would appear most likely that total remittances, as defined in paragraph 1.1, would be close to £1.1 billion per year. This would be slightly higher than the mid-point of our baseline scenario and the same as the highest of the survey figures—the ONS EF survey. However, there are reasons for believing that this figure might err on the low side and these are elaborated in paragraphs 1.20-1.22.

**1.20** Of the initial estimate of £1.1 billion, it would be logical to estimate that £220 million—or 20 percent—flows out through

informal mechanisms. The elements justifying an estimate of 20 percent would be as follows:

- the share of informal transfers in total transfers is declining as competition and coverage in the formal sector has increased, and as transaction costs have fallen. While remittances to some countries such as Somalia still pass almost 100 percent through informal channels, those to India (by far the largest immigrant community) now pass by 90 percent or more through formal channels.
- the informal sector has shrunk in a number of countries, where regulations against such transactions have been more effectively enforced. It is likely to have shrunk in the UK as well as a result of the enforcement of registration for all money transfer businesses by HM Customs and Excise over the past year.
- In light of these developments, the conclusion of the joint IMF/World Bank study on informal remittances that the overall share of the informal sector has been reduced from about 50 percent in the 1980s to 20 percent in the late 1990s seems reasonable.

**1.21** While this figure of £220 million can be defended, we feel that there are some reasons for increasing it:

- It is possible that households remitting large sums of money home through informal sources may not have wanted to reveal this in household survey questionnaires. In the PSI Survey of ethnic minorities almost 40 percent of respondents claimed that the remittances they sent home 'varied' or 'can't say'. It is possible that this reticence masks for some respondents relatively high remittance payments through informal mechanisms.
- Field research has indicated that informal remittances to some countries are several multiples of officially measured remittances. In Nepal, for example, it is estimated that



informal remittances are at least 10 times greater than those flowing through formal channels<sup>14</sup>.

- Perhaps most importantly, the surveys of immigrant households that have been conducted in the UK are not designed to measure the amounts of goods and cash that members of immigrant groups take back to their home countries on visits.

- ♦ PSI data indicate that 44 percent of Caribbeans, 47 percent of Indians, 58 percent of Pakistanis, and 60 percent of Chinese had returned to their home countries during a five year period and that, of these, many had gone twice or more (about a third of the Indians and Pakistanis, 43 percent of the Caribbeans and 53 percent of the Chinese). It is likely that each person returning takes home gifts in money or in kind and also disposable cash that finds its way into the economy of their hometown or village.

- ♦ Immigrants from some African countries, for example Nigeria, have no confidence in their banking systems at home or in the equivalents of hawaladar systems that rely on trust and dependability<sup>15</sup>. Anecdotal evidence reveals a clear preference for hand carrying cash and goods back home either by themselves or through the use of family members or trusted couriers.

- ♦ Over the past few years there has been a growing number of refugees and others that have slipped into an 'irregular' (illegal or quasi-legal) residence in the UK—people that are unlikely to use formal banking systems that will require some proof of identity. Again there is anecdotal evidence that some of these people send money home via couriers or other go-betweens. For those from 'failed states' such as Afghanistan, Iraq, Kosovo, sending money via courier might be the most attractive option available.

**1.22** This would point to a figure for informal remittance outflows higher than £220 million per year. But how much higher? If a third of immigrant households returned home each year and on each visit made a

remittance equivalent to £750, this would represent an additional amount of about £350 million a year. If 50,000 households in quasi-legal status managed to send home £100 pounds a month that would add another £60 million.<sup>16</sup> If these assumptions were correct, then the total amount of remittances flowing out from the UK through informal mechanisms would be the £220 million share of remittances declared in household surveys, plus a further £410 million of remittances that would not have been declared, £630 million in total. **The total figure of informal remittances from the UK probably falls towards the top end of this range from £220 million to £630 million, say at £500 million.** This figure refers only to remittances from UK households to family, friends or community in the home country, as per the definition in paragraph 1.1. It does not include donations to charities, which may themselves transfer funds abroad. It does not relate to other flows for trade and investment that might go through informal mechanisms, which are no doubt considerably larger. Nor does it include money that might be flowing out through informal mechanisms for purposes of money laundering or financing of terrorism.

**1.23** To conclude, our best estimate is that **total outward remittances annually from the UK amount to £1.4 billion<sup>17</sup> and that of this amount informal flows account for £0.5 billion.** This figure draws on anecdotal evidence and incomplete data and is thus subject to a wide margin of error. A dedicated study of remittance behaviour among the different immigrant communities could help enormously to make these estimates more precise<sup>18</sup>. This was not possible with the time and resources available for the preparation of this report.

**1.24** The assumptions that underlie all of the figures are set out in the statistical appendix. The figures admittedly often rely on arbitrarily assigned fixed percentages for remittances from individual countries but in the absence of detailed community-by-community studies, this is the best that could be done in the time available.

## **2. INFORMAL TRANSFER SYSTEMS AND MECHANISMS**

**2.1.** We shall not here attempt to discuss what are usually referred to as the ‘formal’ money transfer systems and mechanisms: banks, the post office, credit unions, or the major money transfer companies (e.g. Western Union, Moneygram etc.), except to note that the latter are becoming rapidly more competitive and the number of operators in the sector is growing fast, both in the UK and in the developing countries to which remittances are sent<sup>19</sup>. We should note, however, that many companies registered as money exchange operators, travel agents, etc. actually operate informal transfer systems (ITS). Visa and MasterCard are also used to send remittances.

**2.2.** Furthermore, the distinction between the ‘formal’ and the ‘informal’ sectors of the money transfer business is not, as we have already noted, clear. Nor is it the case that what many call informal value transfer systems (IVTS) constitute a separate and/or parallel sector<sup>20</sup>. In fact, it could be said that the IVTS present would-be remitters and receivers with a set of alternatives to the mainstream providers, but also both complement, and themselves weave in and out of, the more formal systems and mechanisms. Most but not all need to use the mainstream banking system. Some physical transport systems (couriers, transport companies etc.) might not need to.

**2.3.** Finally, we should state that the term ‘remittances’ is used in the literature with different meanings. Here, we refer strictly to ‘transfers by individuals of funds to relatives or friends or perhaps to some local community organisation in their country of origin’. This may involve sending funds or taking them (personally or by courier). These remittances can be distinguished from ‘gifts and donations to charities’ – which may also be sent through informal transfer systems – and from broader international flows of funds, including transfers from charities in the UK to one elsewhere<sup>21</sup>.

### **Money transfer businesses**

**2.4.** The number of small money transfer businesses in the UK is substantial. One source <sup>22</sup> suggested about 35,000 MTBs. Since June 2003, all of these should be registered to comply with the law. It is not clear what proportion of the total are now registered. In so far as they are registered they have become part of the legal system of money transfers in the UK; in so far as they have not yet registered, they are potentially liable to prosecution and must strictly be regarded as illegal. Many of these MTBs are perfectly open about their activities and advertise in the local press, often in the vernacular, aiming particularly at customers from specific ‘ethnic communities’ in the UK. Many are associated with some other business, run by the same entrepreneur or company. These ‘other businesses’ may include bureaux d’échange, travel agencies, import-export businesses, shops and stores, bus companies and taxi firms – just as they may in the receiving countries.

**2.5.** In central London alone, there are 217 money exchange businesses (bureaux d’échange) in the Yellow Pages, many of which also openly advertise their capacity to transfer money abroad. While most of these are mainly currency exchange businesses – and are located in the main tourist areas of W1, (55), W2 (39), SW1 (26) – others are in areas where there are substantial immigrant communities and specialise in money transfers and remittances to specific home communities. Double Crown Enterprises, for example, in Uxbridge, specialises in sending money to Nigeria, London-Manila Express Ltd in Gloucester Road, transmits remittances to the Philippines, Sidhi Baba Services provides facilities to the Nepali community. And so on.

**2.6.** Many of the money transfer businesses are ‘up front’ about their activities.

Experimental enquiries regarding money transfers, for example, produced straightforward responses and quotations of charges. All of those contacted by telephone, however, referred only to transfers involving bank accounts at the receiving end. Others, approached through contacts and intermediaries, were sometimes prepared to state that they operated 'informal' money transfer services or money courier services 'on the side'.<sup>23</sup> Some may operate both formal and informal systems, and keep a double set of accounts.

### **'Informal value transfer systems' and 'alternative remittance systems'**

**2.7.** Some authors have used the term informal value transfer systems (IVTS) to refer to the more 'shadowy' informal mechanisms and systems for transferring money abroad<sup>24</sup>. Others have used the term 'alternative remittance systems' (ARS)<sup>25</sup>. Use of the term 'informal' is problematic. Firstly, many of the businesses operating under this rubric in the UK are now registered – as of June 2003 this has become mandatory and HMCE has spent a good deal of time and effort ensuring that as many as possible of the 'informal' money transmitting businesses are registered and therefore legal. The registered businesses are now in a sense within the formal sector, although many (including some in HMCE) feel that they remain inadequately regulated. Alternative is closer to the mark. Un-regulated is another term used, although registration implies a degree of regulation.

**2.8.** Those money transfer businesses that remain unregistered in the UK will be now regarded as illegal. In many receiving countries (e.g. India, Pakistan, Bangladesh), informal money transfer systems and operators are already illegal, although the extent to which the law is implemented varies considerably. There has been a significant tightening up in these countries on illegal operators since 9/11<sup>26</sup>.

**2.9.** Most of the informal money transfer operators operate a system that is widely referred to in the literature as hawala – an

Arabic term used by many of those involved in this system, particularly where transactions between the UK and the Middle East or Pakistan are concerned. A similar system – known as hundi – is used by those involved in transactions to other parts of south Asia (e.g. India and Nepal and parts of northern Pakistan). Similar systems are identifiable in other parts of the world – fei ch'ien in China and padola in the Philippines, for example.

**2.10.** Nikos Passas has noted that very little original and systematic work has been done on this subject until recently<sup>27</sup>. Another source comments that: "because ARS is as unregulated as it is extensive, researchers have so far relied on unofficial estimates and anecdotal evidence to provide a rough idea of the magnitude of the activity"<sup>28</sup>. The situation has changed in the last three years, and there is now a substantial and growing literature on these systems and how they work<sup>29</sup>.

**2.11.** Essentially, the IVTS provide the facility to make international money transfers on a competitive basis and are widely used by those wishing to send money back home. Until very recently, the hawala and related systems have proved very attractive, particularly but by no means only, to the migrant workers and their families who are heavily involved in sending and receiving remittances. They are not only accessible, they are cost-effective, swift and generally reliable – in other words, they are competitive. There are indications (discussed below) that in the last few years they have become somewhat less attractive and, as a consequence, flows of funds through these systems has tended to decline relative to the overall flow of remittances – which appears to be increasing.

### **Hawala-hundi systems**

**2.12.** The hawala or hundi systems involve mechanisms for transmitting remittances from the UK to a receiving country without a physical transfer. The individual wishing to transfer funds approaches a money transmitter (hawaladar or hundi wallah) and agrees on the

amount to be sent in pounds sterling, a charge for the service and the amount to be received at the other end in local currency – these are the ‘cost’ of the service to the sender and/or recipient. The money transmitter records this agreement and then proceeds to arrange for a transfer to take place. This is done either by direct contact with a trusted agent in the receiving country or by indirect contact through a larger hawaladar or hundi wallah who has the necessary contacts abroad. The money transmitter deposits the funds given him and arranges with his counterpart in the receiving country that the ultimate recipient (identified usually by some code) be given the agreed amount, usually in local currency, and when this is done, the transfer is achieved, as far as the remitter and the ultimate recipient are concerned.

**2.13.** This ‘simple’ transfer conveys the essential mechanism, but it must be recognised that any given money transmitter may be involved in many such ‘deals’ with a large number of clients, and that there are also mechanisms to ensure ‘settlement’ of the debts that accumulate between the money transmitter and the money receiver – which may involve ‘return flows’ of funds or other arrangements<sup>30</sup>.

**2.14.** The reality of the hawala and hundi systems is that they are extremely complex and that the ‘remittance transfers’ are often part of a more complex pattern of flows and exchanges. They inter-weave with the formal banking system at various points: hawaladars in the UK, for example, often use their bank accounts to consolidate the street cash collected from various sources. This enables the resulting ‘lump sum’ to be electronically transferred within the banking system, as well as outside it, to any location worldwide, if wished.

**2.15.** The widespread lack of a clear audit trail and the ability of those involved to remain largely anonymous are clearly distinctive. But the procedures involved cannot be said to be ‘paperless’, as the hawaladar or hundi wallah has to maintain records to keep track of how much is owed in

both directions. Often records can be quite extensive, with details of sender, recipient, amount, exchange rate, commission charged, date and balances. These records can, however, be difficult to decipher without the co-operation of the creator.

**2.16.** It seems that there is an important distinction between what might be termed ‘wholesale’ money transmitters<sup>31</sup> – relatively large operators who move significant (£ millions) amounts of money out of (and also into) the country – and a larger number of smaller operators (‘retail’ money transmitters) who collect relatively small amounts from individuals wishing to send funds abroad. These ‘retailers’ tend to have limited contacts abroad themselves and often rely on sending their business through one of the ‘wholesale’ operators. The ‘wholesale’ operators may transfer funds directly to the receiving country, or through an intermediary, usually in the Gulf (notably Dubai).

## **Other informal value transfer systems**

**2.17.** Chit or chop systems differ from the hawala-hundi systems in that they usually involve various kinds of receipts or tokens – tangible proof of identity and of the transaction itself (chits – pieces of paper) that may require actual contact between the parties involved. Historically widely used in the Asian networks, it seems that they may still be used by members of the Chinese diaspora. This system implies that, often, the funds are transferred by a courier carrying a chit or chop for identification purposes at the other end.

**2.18.** While there has been a good deal of emphasis on the operation and significance of the IVTS in the recent literature, it is important to recognise that a significant proportion of the ‘remittance flow’ from the UK does not involve this system, but a variety of mechanisms for making even more direct transfers, by taking the funds, or having them taken by courier - in cash, bullion or in kind – directly from the UK to the receiving country.

**2.19.** There are many who do not trust even the IVTS but prefer either to take their funds themselves or to entrust them to a specific ‘courier’ (whether a relative, personal friend or ‘courier service’). While the literature on the hawala and hundi systems (derived very largely from descriptions of how it works for Pakistanis, Nepalis and others) emphasises the trust that remitters and receivers have in the hawaladars and hundi wallahs, it is also clear that this may only apply where the IVTS is an established system with experienced players.

**2.20.** Where such networks of trust are weaker or effectively non-existent, the IVTS may not operate on such a scale. Bangladeshis, in particular among the South Asian communities, appear to be somewhat suspicious of the IVTS and of money transmitters and moneylenders generally. Anecdotal evidence suggests that they often prefer to make use of a courier, or to take the funds themselves, if possible<sup>32</sup>.

**2.21.** A small survey of the African diaspora undertaken by Africarecruit<sup>33</sup> suggests that only 35 percent of Africans in the UK sent money back home via banks or international money transfer systems (See Table 2.1).

Nigerians and Ghanaians interviewed in the course of this research have indicated that there is often a preference for taking the funds (in cash or in the form of purchased commodities) directly, or for engaging a courier to smuggle the funds into the receiving country and take them direct to the ultimate recipient. “We don’t trust each other enough”, admitted one Ghanaian informant, “to rely on indirect transfer systems”. There is a good number of courier services operating in both these countries. In Ghana, the money movement business is largely in the hands of Akkan (southerners), considered experienced in such matters.

**2.22.** Hand-carrying or courier services may also be a more acceptable form of sending funds when the receiving country is relatively close, and journeys relatively simple. It seems that many Bulgarians in London make use of a courier system which involves a van driving from the UK to Bulgaria once a week (and back) to move goods and funds. The substantial Irish community in the UK also, apparently, often prefers to take funds directly across the borders (by land or by ferry) into the Irish Republic than to send them.

**Table 2.1. Africarecruit Survey**

| Transfer Method                        | Percentage of Respondents Using It |
|--|------------------------------------|
| Cash or Goods In Kind (As Gifts)       | 42                                 |
| International Money Transfer Companies | 30                                 |
| Banks                                  | 5                                  |
| Other Methods                          | 23                                 |

**Box 2.1. – Taking Money Home**

There is evidence from research on Albanian migrants in Greece that they also often return home with substantial accumulated savings at the end of a period of working, rather than entrust the funds to someone else; sometimes, however, they will trust a friend or relative to take the funds back home. Nepalis working in India tend not to use any form of IVTS (the hundi system was reputedly crushed in the 1980s by Indira Gandhi’s government, which not only made it illegal but actively implemented the law), preferring to carry savings home themselves or to entrust the sum to a trustworthy friend or relative.



**2.23.** There are innumerable stories and reports of the transfer of funds, mainly in the Middle East, involving the large-scale movement of cash (suitcases full of dollars) or bullion (gold), particularly between Dubai, and Pakistan and Afghanistan. For many years, Nepalis returning from periods of employment in the Far East (Japan, Hong Kong, Singapore etc.) would bring their accumulated earnings back home in the form of gold. This would then be sold on to India by the hawaladars, who thereby increased their profits overall. This is unlikely to constitute a significant part of the flow out from the UK.

**2.24.** Hand-carrying or taking cash or goods (as ‘gifts’) directly from the UK to the receiving countries is, however, a common

method of effecting transfer of funds in situations where the IVTS is not considered suitable or is not really available as an established, trustworthy system. It is unlikely that this flow of funds out of the UK is captured fully, either in the surveys that ask about remittances (although questions asked about ‘gifts sent abroad’ would probably capture some of it) or in any other calculations of IVTS flows. In the case of some communities, this mechanism may account for as much as 40 per cent of the total flow of informal remittances. For the UK as a whole, it is impossible to gauge with any real degree of accuracy what proportion of informal remittances, let alone what proportion of total remittances, moves through these mechanisms. Our estimates in 1.22 are very speculative.



### **3. CHANGING COMPARATIVE ADVANTAGE**

**3.1.** In this section we provide an analysis of the constraints on the use of formal remittance transfer systems and the factors underlying decisions to make use of informal remittance systems from the UK. This allows us to appreciate the comparative advantage of the informal money transfer systems for the sending of remittances by those living and working in the UK but having ties to their country of origin or ancestry. We then turn to recent developments and suggest that there are signs in the last few years of a ‘fight-back’ by the larger, more corporate money transmitters (such as Western Union and Moneygram), which recognise the effectiveness of the competition and are doing what they can to improve their cost-effectiveness and overall attractiveness.

**3.2.** We note that there are also indications that the attempts by government agencies and others to increase the regulation and surveillance of informal transfer systems have had the effect of making it more difficult to use these systems. In some cases (Al Barakat – for Somalis and Somalia), whole networks have effectively been closed down – with far-reaching and damaging effects for those relying on remittances sent through the informal mechanisms – which are the only ones operating in the case of Somalia. Elsewhere, as in Bangladesh, combined action by government and the Bank of Bangladesh has encouraged a switch towards the formal system as various incentives are provided. The combination of ‘carrot and stick’ appears quite effective.

**3.3.** Finally, there is evidence that innovations are taking place in some receiving countries as NGOs make efforts to develop alternative informal money transfer systems which reach out to the rural villages where most of the ultimate recipients of remittances live. The NGO BRAC in Bangladesh, for example, is developing a money transfer system that aims to compete with the hawaladars and hundi wallahs.

**3.4.** Peter Stalker, in the *No-Nonsense Guide to International Migration* (1999) remarks that “studies in individual developing countries suggest that migrants on average send only around half of remittances through official banking channels”. “This is because they are discouraged by high fees and poor rates of exchange: if they want to send \$300 from the United States to Mexico via either of the two main companies, Western Union or Moneygram, for example, they have to pay around \$30. Some migrants therefore just carry a bag of cash, or cart home expensive consumer goods, or send money with friends. Others use professional money couriers, the padala system in the Philippines, for example, or the hundi system in the Indian subcontinent”<sup>34</sup>

**3.5.** Many other sources make the same comment – that the informal money transfer systems are usually more accessible, ‘user friendly’ and cheaper both for the sender and for the ultimate receiver. They are also usually faster, often enabling funds to be transferred the same day and sometimes within hours or even minutes. They appear to be as reliable as the ‘formal’ systems, relying as they do on close social networks and trust, and the informal sanctions that would severely threaten any transmitter who failed to deliver as agreed.

**3.6.** In many countries, it is only the banks and the post office that can legally transfer money into and out of the country. In Bangladesh, for example, according to the Bank Company Law and the Post Office Act, only banks and post offices can transfer money. But the growth of informal money transfer services, including courier services, has grown substantially because of the comparative disadvantage of the banks and the postal service. In Bangladesh, the post office charges Tk 2.5 for a transfer of a hundred taka – or Tk 25 per thousand, and may take at least five or six days to deliver funds to places outside the major district headquarters. The courier services, by

contrast, charge Tk 20 for a transfer of Tk 1,000 and Tk 10 per additional thousand, and deliver the money within at most two days. The number of courier services operating in Bangladesh has grown to 70, and there are, in addition, 15 foreign courier services operating in the country, handling large amounts of money.

**3.7.** We have already referred to the inefficiency of the banks and postal services in Bangladesh. The same complaint has been levelled both at banks in the UK and in the other countries to which remittances are sent. It is not only, however, a matter of efficiency. It is also about accessibility, anonymity, speed, reliability and cost. Box 3.1 explains this in more detail.

#### **Box 3.1.**

**Accessibility** – banks and even the larger money transmitters are often in large buildings and appear forbidding to the workers and others who wish to send money; at the other end, they are even more intimidating to the relatives of the migrant who come to receive the funds. They are also not always geographically or physically accessible to those involved. Unlike the banks and even the larger money transfer companies, the IVTS operators seem to be accessible to those wishing to send funds home. They operate out of small businesses or their own homes, and there is a minimum of bureaucracy. Banks in the UK are not generally linked to banking services at the other end that reach into the countryside. The outreach of the informal systems and their accessibility at the receiving end is of critical importance to remittance senders and their families and local communities back home. In the case of the IVTS, the family of the recipient does not have to struggle to gain access to the money sent – face the large buildings the formal counters, the bureaucratic procedures, the demands for identification etc. – but again either approaches a businessman, or waits until a courier service brings the money to them.

**Anonymity** – in the IVTS, the person sending the remittances is under no obligation to provide details of his or her identity, business or the source of the funds to be sent abroad. The increasing concern within the formal system regarding the need for identification (under FATF ‘Know Your Customer’ and ‘Customer Due Diligence’ principles) tends to impose constraints on would-be senders, even when they are perfectly legitimate.

**Speed** – the lack of bureaucracy and direct communications (fax, telephone and e mail) between transmitting and receiving agents make it possible for the transfer itself to take place in hours if not minutes in most cases, with the ultimate recipient often taking hold of the funds remitted within a day or so. In some cases, the ‘transfer’ can be arranged even before the person wishing to send the money back home makes the deposit.

**Reliability** – most commentators and most users comment on the high level of reliability of the informal mechanisms – although there are known (and usually much cited) cases where the transfer has gone wrong in some way. This is because the key agents involved, the hawaladars or hundi wallahs are generally closely linked through ties of kinship and marriage, ethnic affiliation, friendship or long association. Trust is crucial to the whole operation. It is not the single strand of the one remittance that matters, but the complex inter-weaving of many deals and transfers associated with many different transactions. This holds the system together and allows for considerable reliability.

**Cost** – finally, the low overheads and limited expenses of the IVTS allow the money transmitter to reduce charges to a minimum, while in cases where there are discrepancies between exchange rates he will be able to take advantage of these, offering an attractive exchange rate to his customer but managing himself to make a profit at the same time. If, in addition, the remittance part of his business is supported by other financial and commercial activities, he will be able to ‘cover’ his costs in such a way that the deal remains attractive to the would-be sender of funds. This is particularly evident at the lower end of the market, where the charges for smaller amounts of money are relatively higher than for larger amounts.

**Table 3.1.**

| Company  | Cost of sending £100 to Pakistan (phone quotes) | Destination                        | Working Days for Completion |
|--|---|------------------------------------|-----------------------------|
| Western Union  | £25   | Local Branch<br>Office For Pick-up | 1                           |
| Moneygram  | £12   | As Western Union                   | 1                           |
| HSBC Bank via Electronic Fund Transfer               | £17.50 to HSBC A/C<br>£20 to non-HSBC A/C       | Bank Account Only                  | 1                           |
| HSBC Bank via Priority Payment                       | £15   | Bank Account Only                  | 4-5                         |
| HSBC Bank via Worldpay                               | £9  | Bank Account Only                  | 7-10                        |
| Leinster Foreign Exchange                            | £15   | Bank Account Only                  | 2                           |
| Thomas Exchange Global                               | £12.50  | Bank Account Only                  | 4-5                         |
| Lloyds TSB via International Money Movers – Express  | £19   | Bank Account Only                  | 2-3                         |
| Lloyds TSB via International Money Movers – Standard | £13   | Bank Account Only                  | 3-5                         |
| Lloyds TSB via International Money Movers – Economy  | £5.50 plus receiving bank charge                | Bank Account Only                  | 5                           |

**3.8.** Enquiries made in mid-March 2004 revealed that a transfer of £100 to Pakistan through formal channels would cost from £9-£25 and would take from one to ten days to complete. The cost of sending relatively large amounts was not unreasonable, but, as table 3.1 reveals, for the smaller amounts that most migrant workers and members of the immigrant/diaspora community are able to send, (and we have been told that, for most, £100 a month is the upper limit), it was

prohibitive. Most hawaladars and hundi wallahs in the UK, by contrast, are able to keep fees and charges lower than this. Most sources refer to one or two per cent, although enquiries made through known intermediaries resulted in quotations of between £5 and £10 for a transfer of £100<sup>35</sup>. But the transfers would be made direct to the ultimate recipient, via the agent in-country, and would offer a slightly better exchange rate.

### **Box 3.2. – A Case Study of a Remittance from New York to Pakistan**

Abdul is a Pakistani taxi driver in New York. He has long outstayed his tourist visa. He wishes to send \$5,000 to his brother, Mohammed, in Karachi.

- He goes to the bank. The bank offers to open an account for him; it will then sell him Pakistani Rupees (Rs) at the official rate of 31 to the dollar, and charge \$25 to issue a bankers draft. He will then be able to send Mohammed **Rs 154,225. Delivery would be extra.** (An overnight courier service can cost as much as \$40 to Pakistan and take a week to arrive).
- Abdul goes then to a money transfer agent (hawaladar), Iqbal, who offers Rs 35 to the dollar and a 5 per cent commission charge. This will allow Abdul to send Mohammed **Rs 166,250. Delivery is included.** It will get there more quickly.
- He then sees an advertisement in a local paper by a travel agent, which he has heard might transfer money abroad. He contacts the agent who offers him Rs37 for a dollar with a fee of one rupee for each dollar transferred. Under these terms, Abdul can send Mohammed **Rs 180,000. Delivery is included.** He agrees to deal with the travel agent.

The agent (Yasmeen) contacts Ghulam (her collaborator) in Karachi and gives him the details. Abdul give Yasmeen the \$5,000. Ghulam arranges to have Rs 180,000 delivered to Mohammed. The deal is done. The money is delivered within a day. Abdul rings Mohammed to check the funds have arrived. They have. All are pleased. Abdul and Mohammed benefited from the additional nearly Rs 30,000 on the \$5,000; the deal took an hour or so, and the transfer one or two days. The transaction seemed simple to both Abdul and Mohammed once the agreement had been reached and little bureaucracy was involved. Abdul was pleased he did not have to reveal his 'irregular' status and Mohammed was pleased not to have to declare the money he received to the tax authorities.

**3.9.** Jost and Sandhu provide a useful set of examples to demonstrate the way in which the informal money transfer system (hawala) works and the comparative advantage in cost effectiveness over rival systems (see Box 3.2).

## Increasing competition for IVTS

**3.10.** Until relatively recently, comparative advantage tended to favour the IVTS strongly over the formal systems and mechanisms. However, the key role played by fixed exchange rates (which allowed the hawaladar or hundi wallah to take advantage of the 'spread' between the official and the black-market rates) has meant that, as countries have tended to move away from fixed exchange rates there has been a tendency for the margins provided to be reduced, and a generally lower proportion of remittances to go through the IVTS as a consequence. This has increased the pressure on the IVTS generally.

**3.11.** The governments of remittance receiving countries, increasingly recognising the substantial flows entering their countries from migrant workers and immigrant/diaspora

communities abroad, have become more concerned to re-direct the flow of these funds into formal systems, in part by increasing the regulation of IVTS, in part by encouraging more competitive behaviour on the part of local banks and money transfer companies, and in part by establishing new mechanisms and incentives to attract the remittance senders and their funds. The last two of these three are apparently proving reasonably effective.

**3.12.** The money transfer business as a whole is becoming increasingly competitive. Major players like Western Union and Moneygram are rapidly improving their comparative advantage, by extending their reach, providing a quicker and more user-friendly service, and by reducing costs to the customer. Both of these major companies are acutely aware of the growing competition in this sector (this affected their willingness to provide any detailed information for this study) and are making great efforts to maintain their market leadership. Although there is some overlap in the countries that provide these two companies with most business, there are also signs of real efforts to diversify and 'specialise'.

### Box 3.3. Moneygram and Western Union (UK)

With a significant outreach - Money Gram has 3,000 branches in the UK and 60,000 agents in 160 countries (only a couple of years ago their brochures advertised that it had 22,000 agents in 100 countries). It claims to be able to get funds transferred in 10 minutes. Western Union is probably the largest and certainly the best known of the major companies involved in the money transfer business. It is rapidly expanding its range and 'reach' globally and within recipient countries. It is interesting to note the differences in the destinations they serve.

The money transfer business is highly competitive and companies were unwilling to provide details of the amounts and destinations of their operations.

#### Main Destinations For Western Union Transfers (Not In Order)

Albania, Ghana, India, Jamaica, Kenya, Nigeria, Poland, Romania, USA, Zimbabwe

#### Main Destinations For Moneygram Transfers (Not In Order)

Africa (Kenya, Nigeria and South Africa), Australia, Bangladesh, Eastern Europe (Romania and Bulgaria), India, Jamaica, Pakistan, Sri Lanka, Thailand

### **Box 3.4. New Money Transfer Businesses**

Increasingly, new agencies, such as Travelex, Checkpoint, First Remit, Ikobo and others – which advertise widely in the press directed at local ‘immigrant and diaspora’ communities (such as New Nation, Africa Times, TNT, The Voice etc.) – are moving into the UK business. Identified by the larger operators as ‘niche players’, some of these focus on specific communities, channels and mechanisms. Checkpoint, for example, is taking advantage of the market for money transfers to Europe, particularly Spain, making considerable use of a courier service to reach the final recipient. We are not entirely sure to what extent agencies based in recipient countries have established operations in the UK. Certainly, in the United States, there are several important companies from abroad that operate as specific niche players; for example, Sonali Exchange, a Bangladeshi money exchange company. This company has been obliged to operate under the new rules of the US banking system (which require, for example, that transmitters provide documents proving that they are legal residents). Sonali Exchange is the major, if not the only, Bangladeshi bank operating in Italy.

**3.13.** New ‘niche players’ are entering the market. All of these – which most would regard as part of the ‘formal’ sector - are rapidly becoming more competitive, offering faster and more user-friendly services. Increasingly, in addition, these agencies and companies are establishing links both with the larger and more formal banking system and with the IVTS.

**3.14.** At the other end of the scale, some NGOs are beginning to move into this sector. BRAC, the major Bangladeshi NGO, for example, has recently (in 2003) established the Secured Easy Remittance Service (SERS). BRAC claims that SERS will be able to ‘out-perform’ the hundi system by delivering remittances from abroad to remote locations just as fast, but legally. It works through a combination of international money transfer and local in-country courier system. Whether this will prove competitive remains to be seen.

### **Constraints on IVTS**

**3.15.** Finally, increasing concern about money laundering, and the possibility (as yet un-realised on the basis of available evidence) of links between international money transfers and the funding of terrorism, have combined to increase the concern to regulate the various international value transfer systems more effectively. Undoubtedly this has had some impact, since 9/11 in particular. There is increasing pressure, both in the sending and in the receiving countries, to regulate more rigorously, and even to criminalise, the IVTS. India, Pakistan and Bangladesh have all outlawed the hawala and hundi systems, but have generally – in Pakistan and Bangladesh anyway – have not been able to implement the law. There are indications that law enforcement in this area is being tightened up.

### **Box 3.5. The Formal/Informal Link In Nepal**

In Nepal, Western Union has formed an alliance with a major Nepali corporation the Chaudhury Group, and specifically with its banking arm, the Chaudhury Finance Group, to establish over 100 branches throughout Nepal, in all of the major towns. These ‘branches’ will not, however, all be banks – they will also be associated businesses, including travel agencies, hotels, bus companies, import-export businesses, and even larger shops and stores, which will become ‘agents’ of the WU-CFG operation.



## 4. KEY CHARACTERISTICS – FLOWS AND COMMUNITIES

### **The Remittance Communities**

**4.1.** The flows of remittances from the UK originate for the most part with particular sets of ‘sending communities’. It is important to understand the differences between these different communities as they appear to exhibit rather different ‘remittance behaviour’ – which eventually affects the overall volume and value of the remittance flows, as well as the division between ‘formal’ and ‘informal’ and between different ‘informal’ mechanisms and procedures. These communities can be defined in different ways.

### **Asylum seekers and refugees**

**4.2.** Firstly, we can identify asylum seekers and refugees. Their numbers are relatively small but, over the years, as some are granted asylum and refugee status, the number of people who were originally asylum seekers increases. Many work while awaiting the outcome of their claim or appeal, or after being granted refugee status. They often send money back home. The work is likely to be low paid and in the informal sector, given their uncertain status, and their ability to send remittances back home may be small.

**4.3.** Their remittance behaviour depends to a great deal on the country from which they ‘fled’ and on their own circumstances. The major groups of asylum seekers in recent years have included Afghans, Iranians, Iraqis, Zimbabweans, Sri Lankans, Somalis, citizens of former Yugoslavia and the former Soviet Union. If asylum, or extended leave to remain, is granted, then the individual joins the expatriate community in the UK and may, eventually, apply for British citizenship.

Many of these come from countries which are in economic crisis and which, moreover, have no effective banking system (Somalia, Afghanistan, Kosovo) – in such cases, as visits are impossible, there is a strong propensity to remit and a strong propensity to make use of IVTS.<sup>36</sup>

### **Short-stay workers**

**4.4.** Then there are short-stay (less than one year) migrant workers or employees on short, fixed-term contracts. This will include those from Eastern Europe, for example, who work as agricultural labourers under the special government rules for the employment of foreign nationals in agricultural work. Some of these may have entered the country unofficially and be ‘irregular’ workers. This category may include students who work part time, and others. A much larger group is those foreign nationals who are here as temporary workers for a period longer than a year, but less than the period required to obtain legal residence.

### **Foreign nationals**

**4.5.** All of the above should be captured by Home Office statistics. Detailed information is kept on asylum seekers. Data on all foreign nationals working in the UK are relatively reliable. In 2002, these totalled 2,784,722. The largest group of foreign nationals was from the Republic of Ireland (404,203). The next largest group was from India (170,679). The third largest group was from the USA (121,828). Many of these may be remitting money home, but it is hard to estimate, in the absence of any further details regarding these ‘populations’.

**Table 4.1.**

| <b>Foreign Nationals in the UK</b> |         |              |        |                   |        |
|------------------------------------|---------|--------------|--------|-------------------|--------|
| Rep of Ireland                     | 404,203 | Portugal     | 83,407 | Other Africa      | 54,274 |
| India                              | 170,679 | South Africa | 79,323 | China             | 52,664 |
| USA                                | 121,828 | Australia    | 75,273 | Jamaica           | 52,663 |
| France                             | 99,717  | Germany      | 73,504 | Turkey            | 52,499 |
| Italy                              | 96,420  | Somalia      | 64,638 | Spain             | 51,411 |
| Pakistan                           | 92,258  | Bangladesh   | 54,293 | Former Yugoslavia | 50,072 |



**Table 4.2.**

| <b>Ethnic Origin</b>      | <b>Size of Population</b> | <b>Number of Households</b> |
|---------------------------|---------------------------|-----------------------------|
| Indian                    | 1,053,411                 | 319,215                     |
| Pakistani                 | 747,285                   | 182,264                     |
| Black Caribbean           | 565,876                   | 246,033                     |
| Black African             | 485,277                   |                             |
| Bangladeshi               | 283,063                   | 62,903                      |
| Chinese                   | 247,403                   |                             |
| Mixed                     | 677,117                   |                             |
| Other Asian               | 247,664                   |                             |
| Other                     | 230,615                   |                             |
| Black Other               | 97,585                    |                             |
| Total 'ethnic minorities' | 4,635,296                 |                             |
| Irish                     | 691,000                   |                             |

### **Minority ethnic groups**

**4.6.** More helpful in some respects, but constituting relatively crude pictures of real 'communities', are the categories identified in the census. The major categories identified in the 2001 census include the Irish community and the so-called 'minority ethnic groups'. These figures from the census are higher than those received from the Home Office because they include immigrants holding British passports; that is, they show ethnic origin rather than nationality.

**4.7.** The census provides some basis, but a not entirely adequate one, for identifying flows of remittances to specific countries, in the sense that it is highly probable (95 per cent plus) that Pakistanis and Bangladeshis send money to Pakistan and Bangladesh respectively<sup>37</sup>. It is also highly probable that the bulk of Indians send funds, if they send them at all, to India (although a significant proportion have their immediate country of origin in East Africa and may not remit significant funds). The majority of Chinese (75 per cent) send money to Hong Kong and the New Territories or, if more recent, to the mainland of the People's Republic (although given the Chinese global diaspora, some 25 per cent of remittances go elsewhere). Taken overall, and excluding the Chinese, virtually all the remittances sent by immigrant communities go back to their countries of origin<sup>38</sup>.

### **The propensity to remit**

#### **Size of community**

**4.8.** We might a priori expect a rough correlation between the size of the particular community of foreign nationals and expatriates, on the one hand, and the volume and value of remittances to their country of origin, on the other - other things being equal. But, of course, other things are not equal, and there are significant differences between the 'remittance behaviour' of different communities<sup>39</sup>. These are related both to the economic circumstances of the UK communities and the households and local communities in the receiving countries, and to social and cultural characteristics.

#### **Income levels**

**4.9.** As regards the former, the 2001 census reveals that minority ethnic groups have generally lower levels of household income than white households, and Pakistanis and Bangladeshis are much more likely than other groups to be living on low incomes. Black Caribbean families are slightly better off than the Pakistani/Bangladeshi group but still just under half of them live on low incomes after housing costs are deducted. Income levels affect households' capacity to save and remit funds abroad. A more detailed analysis of the 'shares' of total community population likely to fall into the 'poor' and into the 'non-poor' categories might be

#### Box 4.1. Low Income among Bangladeshi and Pakistani immigrant groups

- Almost 60 per cent live in low-income households – 68 per cent after housing costs are deducted;
- Nearly 20 per cent of their income derived from social security benefits;
- Over one third of income coming from self-employment;
- Unemployment particularly high among Bangladeshis—young men 40%, all men 20% and women 24%. 40% of inactive Bangladeshi men are long term sick or disabled.

possible, and might give a more refined basis for estimating average remittances per month. An examination of this issue in other European countries might prove fruitful. But this has not been possible in this research, given the time frame.

#### Household size

**4.10.** Remittance behaviour is also likely to be affected by household size and structure. The census reveals some significant disparities in this respect between different ethnic minority groups.

**Table 4.3.**

| Ethnic Origin   | Household Size |
|-----------------|----------------|
| Bangladeshi     | 4.5            |
| Pakistani       | 4.1            |
| Indian          | 3.3            |
| Black Caribbean | 2.3            |
| White British   | 2.3            |
| UK average      | 2.4            |

These data affect calculations of the number of households available to remit, and also the capacity of those households to remit particular amounts.

#### Choice of mechanisms

**4.11.** Some specific information on the remittance behaviour of households in the UK comes from the various studies that have been undertaken on the basis of a series of National Surveys on Ethnic Minorities. Modood et al., discussing the results of *The Fourth National Survey of Ethnic Minorities*, note that information on the mechanisms for sending remittances in particular is hard to come by. They cite ‘a recent small-scale PSI study of ethnic minority credit facilities’<sup>40</sup> which reported that 13 out of 15 Pakistanis interviewed had borrowed money from local

unofficial foreign exchange agents whose primary business was sending remittances outside the banking system’, but add that ‘it has never been clear how many migrants send money home, how much they send and to whom they send it’<sup>41</sup>.

**4.12.** The study they cite suggests that Pakistanis opted to use local ‘foreign exchange organisations’ (IVTS) to remit money for largely positive reasons. They were part of the community, they offered a door-to-door service, they were thought to be more efficient and to offer a better exchange rate than banks, and using them involved a minimum of paperwork. Significantly, they also offered remitters loans. The experiences of the Bangladeshi people interviewed were much less positive. Again most of them used local organisations to remit money and most of them had some experience of having borrowed money from these organisations. In this case, though, there were frequent reports of the use of heavy-handed tactics to collect money owed. Comments like ‘not all agents are angels’ and ‘some agents can be nasty’ were common<sup>42</sup>.

**4.13.** The 1994 PSI Survey showed there was substantial variation between ethnic groups in their propensity to remit (see box 4.4.). One finding that the propensity to remit was greater among Caribbeans than among South Asians has attracted little attention. This is surprising because it is not in line with the finding that most of the remittances outside Britain were being sent from households where at least one adult had been born abroad<sup>43</sup>. These findings by Modood are very much in line with those of Clark and Drinkwater (2001)<sup>44</sup> and echo data in the equivalent survey conducted in 1984<sup>45</sup>.

#### **Box 4.4. Findings from the Fourth National Survey of Ethnic Minorities (1994)**

Remittances were most common among Caribbean households, around 40% of which sent money to their family.

Around 30% of Pakistani and Chinese households remitted money, as did around 22% of Bangladeshi; 15% of Indian and 13% of African Asian households

At the same time, Caribbean households were more likely to send money only occasionally, so that the level of regular remittances among Caribbean, Pakistani and Chinese households was about the same (at 25%) and Bangladeshi households were not far behind (at 17%).

The level of remitting was a good deal higher in households containing at least one adult born overseas than it was in those where all adults had been born in Britain (20% compared with 4% among South Asian households; 14% compared with 42% among Caribbean households)

Remittances to parents were most common among Indian and Pakistani households. Caribbean and African Asian households most often mentioned 'other relatives', which would have included wives.

The great majority were sending the money to their country of origin.

The majority of responses clustered in the 'below £100 a month' and 'can't say' or 'it varies'. Only a very few sent more than £100 a month.

The majority of responses clustered in the 'below £100 a month' and 'can't say' or 'it varies'. A few sent more than £100 a month.

In most cases virtually all of the funds were sent back to the country of origin, with the exception of the Chinese who sent only 70 per cent of the funds to Hong Kong and China.

Generally, low-income households were less likely to send remittances than those with higher incomes. This was not the case though for Caribbean households where the propensity to remit was around 40 per cent for all income groups.

**4.14.** The hypothesis arising from the 1994 survey - that as migrants settled and became members of an expatriate immigrant or diaspora community they would send less in the way of remittances - has not, however, been entirely confirmed. Indeed, it seems that certain expatriate communities – particularly those of Caribbean and Pakistani origin – have maintained and even multiplied their links with the home country and continue to visit, travelling back and forth, for a variety of purposes, including marriage and business, and also to send money. Bangladeshis also seem to be continuing to send substantial volumes of money back home, even though many are no longer migrants, but residents and even British citizens and members of a settled immigrant or diaspora community in Britain.

#### **Size of remittances**

**4.15.** Unfortunately, the PSI survey provided only limited information on the average amounts remitted each month. As Clark and Drinkwater remark, the obvious limitation of the data is that the question asked for responses to be given within bands that were probably too wide.

#### **Limitations of survey data**

**4.16.** These data from the census and surveys relate to broad-brush categories rather than real 'communities', given the variation and heterogeneity of the category 'Indian', 'Caribbean', etc.<sup>46</sup> Attempts to obtain more detailed systematic statistical data from surveys on more tightly defined groups and 'ethnic communities' proved difficult within the time frame. It is possible that the ONS might be able to provide disaggregated data on households and remittances from the Food and Expenditure Survey within the next few months. It is impossible at this point, however, to quantify with any degree of reliability the amounts being sent by each community to each receiving country, as we have indicated throughout this report, on the basis of existing data sets and studies.

#### **Local associations**

**4.17.** One further source of information explored was the various diaspora groups and associations. Most ethnic communities of any size at all have developed associations that provide personal, social and sometimes material support and act as lobbying groups in a variety of respects. Some ethnic minority communities have established numerous local

associations. These tend to have anecdotal, but useful information on remittances for the members of their 'group'. Given the shortness of time, we were unable to do more than ask a few of the representatives of some of these associations for their own 'ball park' estimates. The responses tended both a) to confirm that our own estimates were not wildly unrealistic, but also b) to indicate

significant variations in the 'remitting behaviour' of different communities, and of different groups within these, according to economic, social and personal circumstances.<sup>47</sup> Pursuit of these differences would require more protracted investigation of remitting behaviour on the basis of field studies among the various local communities.

## 5. CONCLUSION

**5.1.** While data from official ‘top-down’ sources point to a level of outward remittances close to £3.5 billion per year, data from household surveys point to much lower levels of £1.1 billion or less. The amount of remittances from immigrant households in the UK to households in their home countries is likely to be closer to amounts revealed by household surveys. On the basis of the available figures and contacts within the remitting communities, **the total remittances flowing out of the UK can be estimated at £1.4 billion of which £0.5 billion flows out through informal mechanisms.**

**5.2.** There is a substantial demand in the UK from various groups of immigrants and expatriate groups for money transfer systems which provide easy access, low costs and rapid and reliable delivery – this demand is currently being met, in part, by a large number of informal value transfer systems (IVTS), including notably the hawala and hundi systems. The flows of remittances through these systems, involve complex sets of transactions. Most studies of the IVTS suggest that they are highly competitive and are often more attractive to immigrant/diaspora communities than are the ‘formal’ operators and mechanisms. They tend to be more accessible to would-be remitters and recipients, with a better ‘outreach’ into the smaller towns in developing countries than their formal sector competitors; they offer more rapid transmission and delivery; their service is at least as reliable as the formal sector rivals; and the cost is generally significantly lower.

**5.3.** There is growing evidence, however, that a combination of factors have tended to squeeze the IVTS in recent years: greater control and regulation, greater suspicion that some operators may be involved in illegal activities (including transferring funds for terrorist purposes) and encouragement by governments and banks to provide incentives to would-be remitters to send funds through formal channels. There is evidence also that

many of the formal operators are becoming more competitive, and that new operators, including NGOs, are entering the field, both in the UK and in some of the receiving countries.

**5.4.** In general, there are close links between the various minority communities of migrants and immigrants in the UK and their country of origin. Detailed investigation of the flows of remittances and of the channels and mechanisms used, drawing on household survey data and more qualitative information, reveals that different communities have significantly different ‘remittance sending behaviour’. It seems likely that as migrants stay longer, become immigrants and settle in the UK, their propensity to remit back home declines, but this general tendency is not always observed – in the case of the Pakistani and Caribbean communities remittances are now part of a long-established, but constantly changing, nexus of flows to and from the ‘place of origin’ and the UK.

**5.5.** Transfers via IVTS are only part of a much larger international flow of funds. For example, a significant proportion of those wishing to transfer funds overseas either take the funds themselves or have them taken by a trusted individual (a courier); in this case the funds move (as cash, bullion or in kind). Understanding the scale and the characteristics of these flows – and particularly the different mechanisms and processes involved - is a crucial pre-requisite for making appropriate policy decisions – whether in the field of development, of the regulation of money laundering, or of counter-terrorism – and for distinguishing between remittances and other flows of funds.

**5.6.** This paper provides one of the first attempts to quantify the informal flows of remittances from the UK to the rest of the world and to analyse the different mechanisms being used. The paper was prepared in a very short time scale (20 days) and inevitably leaves many questions with

only partial answers. It is hoped that it might provide the basis for further research based on focused investigations within the immigrant communities to elicit information about amounts of remittances sent home and the transfer mechanisms that are available and preferred. Detailed research of this nature has not before been undertaken but is essential for a fuller understanding of the issues involved.



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## **APPENDIX 1 – TERMS OF REFERENCE/SCOPE OF WORK**

### **I. Background**

1. In recent years, global flows of remittances have become steadily larger and more important as a source of development finance for poor countries. Official flows to developing countries reached an estimated \$88 billion in 2002, while informal unofficial remittances are estimated as at least as large. Remittances are now second only to foreign direct investment (FDI) as a capital flow into developing countries, and substantially exceed development aid. Remittance transfers are a crucial source of income to developing country economies as a whole, as well as to millions of individual households, particularly poor women and their children. Unlike aid or private investment flows, they reach the poor directly, and the poor decide how the money is spent. Importantly, remittance services also offer a means for financial institutions to increase their outreach and relevance to poor clients.

2. Official remittance transfers are made through banks, money transfer companies, and using credit cards such as Mastercard. A plethora of other entities also offer remittance services (with varying degrees of legality), including bus companies, taxi drivers, furniture removal firms, travel agents, and convenience stores. Quite sophisticated informal transfer systems have existed for generations to transfer monies more efficiently to the receiver. These systems operate partly outside of the banking sector, minimize paperwork, and rely on trust, with wide networks of agents in sending and receiving countries. The Hawala (or Hundi) system in South Asia comprises an international network of agents operating in sending and receiving countries interlinked with global commodity trading networks. Recent research conducted by the ILO indicates that over half of remittances to Bangladesh were channelled through unofficial sources such as Hundi or Hawala (40%), friends and relatives (5%), the rest being physically brought back by the migrants (8%).

3. Yet there are a number of gaps in knowledge regarding remittances from the UK that need addressed, including: i) the size and nature of informal remittance mechanisms, ii) decision factors behind the choice to select a formal versus an informal remittance mechanism, iii) impediments to use of the formal remittances sector, and iv) primary destination countries for UK remittances.

### **II. Scope of Work and Objectives**

4. DFID is looking for a researcher to review and assess a range of sources on informal remittances from the UK, with the twin aims of: 1. addressing the knowledge gaps listed above (in point 3.) as a contribution to UK and international policy on remittances, migration, and anti-money laundering/counter-terrorist financing (AML/CTF), and 2. providing information on informal remittances from the UK for the UK Remittances Report to the G7. The short timeline for the G7 report adds urgency to this consultancy.

### **III. Methodology**

5. The researcher would be expected to take quite an entrepreneurial and proactive approach to identifying and securing data (qualitative and quantitative) and perspective on informal remittance flows from the UK that will likely include the following:

- Phone and face-to-face (where convenient and not requiring significant travel costs) interviews with persons able to offer valuable information and insights, such as: academics,

World Bank/IMF experts, HMG experts, enforcement/monitoring agencies, money transfer operators, and migrant/diaspora associations/NGOs.

- Identification, review and analysis of existing studies and data.

DFID will provide the researcher with initial lists and references to sources, but the researcher is expected to utilise his/her own contacts and also to identify additional sources and contacts.

6. This research has elements of overlap and complementarity with other studies and reviews: the EC-Prep study on informal remittances from the EU, the DFID-commissioned study on UK diaspora, and the UK Treasury review of money transfer operators. The researcher would be expected to make use of these studies to avoid duplication and to maximise the opportunities for identifying and collecting a broad range of relevant data and perspective. Where data from another complementary study is used in the final report, it should be appropriately referenced in the final report.

7. There would be an initial meeting (or teleconference if necessary) with DFID at the preparation stage for this consultancy, in order to review and discuss a proposed action plan/schedule from the researcher, and to agree any changes necessary to that. There would also be several meetings during the consultancy that the consultant would be expected to attend and participate in where feasible, for example with UK diaspora and the DFID migration team, and with UK Treasury.

#### **IV. Results and Output**

8. A succinct and accessible report that should include the following (as a minimum): i) estimates (with justification) of informal remittance flows from the UK, ii) primary informal remittance receiving countries identified, with estimates for amounts sent, iii) examples of informal remittance transactions through different mechanisms and to different destinations, iv) an outline/description of the key characteristics of informal remittance flows from the UK (amounts sent, frequency, uses by receiving household, etc); where possible differentiated by mechanism and destination country v) constraints to use of formal remittance channels in the UK, and vi) factors underlying decisions to make use of informal remittance channels from the UK.

9. A briefing based on the report findings should also be made to DFID when the final draft is ready (and if appropriate also to UK Treasury). Ideal length of the report is less than 15 pages, although additional appendices can be used to present supplementary information and data.

#### **V. Timing and Deliverables**

10. A final draft report should be sent to DFID by March 18, 2004. DFID will endeavour to provide comments and feedback by end March 22 if not before, and a final report should be submitted by end March 23 (if required revisions are significant, then the deadline may be stretched by a day or two, at DFID's discretion).

## **APPENDIX 2 - ACKNOWLEDGEMENTS**

### **Persons who assisted us in our investigations**

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**ODG**

Paul Burgon, Project Development Manager

Jane Bartlett, ODG Administrator

Donna Simpson, ODG, research assistant

Giles Heather, ODG, text and tables editor

## APPENDIX 3 – STATISTICAL TABLES

**TABLE 1 – BASELINE ESTIMATES OF TOTAL REMITTANCES<sup>a</sup>**

| Recipient Country                 | Size of UK immigrant community <sup>b</sup> | Number of households <sup>c</sup> | Total Level of Remittances |                          |                       |
|-----------------------------------|---|-----------------------------------|----------------------------|--------------------------|-----------------------|
|                                   |   |                                   | High <sup>d</sup> (£m)     | Medium <sup>e</sup> (£m) | Low <sup>f</sup> (£m) |
| Bangladesh                        | 283,063                                     | 62,903                            | 75                         | 38                       | 19                    |
| China <sup>g</sup>                | 247,403                                     | 74,073                            | 88                         | 44                       | 22                    |
| India                             | 1,053,411                                   | 319,215                           | 383                        | 191                      | 96                    |
| Pakistan                          | 742,285                                     | 181,045                           | 217                        | 109                      | 54                    |
| <i>Black Caribbean</i>            | 565,876                                     | 246,033                           | 295                        | 148                      | 74                    |
| <i>Black African</i>              | 485,277                                     | 141,480                           | 170                        | 85                       | 42                    |
| <i>Not included in above</i>      | 1,257,981                                   | 520,008                           | 624                        | 312                      | 156                   |
| <i>All Minority Ethnic Groups</i> | 4,635,296                                   | 1,544,757                         | 1,854                      | 927                      | 463                   |

<sup>a</sup> This table is based on our assumptions that average monthly remittances from immigrant households are £100 per month with a high figure (for 100 percent remitting), a medium figure (50 percent remitting) and a low figure (25 percent remitting).

<sup>b</sup> 2001 Census

<sup>c</sup> 2001 Census data divided by average household size in the census for Bangladesh, India, Pakistan and Caribbean countries and by estimates from Clark & Drinkwater for others.

<sup>d</sup> Based on an assumption of 100% of households remitting £100 per month

<sup>e</sup> Based on an assumption of 50% of households remitting £100 per month

<sup>f</sup> Based on an assumption of 25% of households remitting £100 per month – Clark and Drinkwater estimated that 23.65 percent of households remitted money back to their home countries

<sup>g</sup> Includes Hong Kong

**TABLE 2 – ESTIMATES OF TOTAL REMITTANCES USING BOP DATA<sup>a</sup>**

| Recipient Country                 | Percentage of total immigrant community <sup>b</sup> | Total Remittances <sup>c</sup> (£m) | Total Remittances minus remittances made by charities <sup>d</sup> (£m) |
|-----------------------------------|--|-------------------------------------|---|
| Bangladesh                        | 6.1  | 216                                 | 173   |
| China <sup>e</sup>                | 5.3  | 187                                 | 150   |
| India                             | 22.7   | 803                                 | 643   |
| Pakistan                          | 16.1   | 570                                 | 456   |
| <i>Black Caribbean</i>            | 12.2   | 432                                 | 345   |
| <i>Black African</i>              | 10.5   | 372                                 | 297   |
| <i>Not included in above</i>      | 27.1   | 959                                 | 768   |
| <i>All Minority Ethnic Groups</i> | 100  | 3,541                               | 2,832   |

<sup>a</sup> This table shares out the BOP line for total 'other payments by households' according to the size of the immigrant sub-groups

<sup>b</sup> Figures taken from 2001 Census

<sup>c</sup> Share of total figure of £3,541 million reported in Table 5.1 of Pink Book--Line FKIQ--other payments by households

<sup>d</sup> Total amount in column C minus 20 percent--the weight of charitable remittances in line FKIQ

<sup>e</sup> Includes Hong Kong



**TABLE 3 – ESTIMATES OF TOTAL REMITTANCES USING RECIPIENT COUNTRY DATA<sup>a</sup>** (in millions of currency units)

| Recipient Country                 |             | Total Remittance Inflows US\$ <sup>b</sup> | Total Remittance Inflows £ <sup>d</sup> | Declared Remittances from UK US\$ <sup>c</sup> | Declared Remittances from UK £ <sup>d</sup> | Estimated Remittances from UK US\$ <sup>e</sup> | Estimated Remittances from UK £ <sup>d</sup> | Declared + Estimated Remittances from UK US\$ | Declared + Estimated Remittances from UK £ <sup>d</sup> |
|-----------------------------------|-------------|--|---|--|---|---|--|---|---|
| Bangladesh                        |             | 3,335                                      | 2,222                                   | 229  | 153   |   |  | 229   | 153   |
| China <sup>f</sup>                |             | 14,383                                     | 9,585                                   |  |   | 288   | 192  | 288   | 192   |
| India                             |             | 14,842                                     | 9,891                                   |  |   | 1,039   | 669  | 1,039   | 669   |
| Nepal                             |             | 240  | 160                                     |  |   | 17  | 11   | 17  | 11  |
| Pakistan                          |             | 6,096                                      | 4,062                                   | 274  | 183   |   |  | 274   | 183   |
| Sri Lanka                         |             | 1,296                                      | 864                                     |  |   | 91  | 60   | 91  | 60  |
| <i>Black Caribbean</i>            |             |  |   |  |   |   |  |   |   |
| of which                          | Belize      | 123  | 82                                      |  |   | 9   | 6  | 9   | 6   |
|                                   | Guyana      | 129  | 86                                      |  |   | 9   | 6  | 9   | 6   |
|                                   | Jamaica     | 1,333                                      | 888                                     |  |   | 93  | 62   | 93  | 62  |
| <i>Black African</i>              |             |  |   |  |   |   |  |   |   |
| of which                          | Ghana       | 680  | 453                                     |  |   | 48  | 32   | 48  | 32  |
|                                   | Nigeria     | 1,421                                      | 947                                     |  |   | 99  | 66   | 99  | 66  |
|                                   | Somalia     |  |   |  |   |   |  |   |   |
|                                   | Sudan       | 978  | 652                                     |  |   | 68  | 46   | 68  | 46  |
|                                   | Uganda      | 542  | 361                                     |  |   | 38  | 25   | 38  | 25  |
| <i>Central and Eastern Europe</i> |             |  |   |  |   |   |  |   |   |
| of which                          | Turkey      | 2,990                                      | 1,993                                   |  |   | 209   | 139  | 209   | 139   |
|                                   | Bosnia      | 676  | 450                                     |  |   | 47  | 32   | 47  | 32  |
| <i>Other Middle East and Asia</i> |             |  |   |  |   |   |  |   |   |
| of which                          | Egypt       | 2,946                                      | 1,963                                   |  |   | 206   | 137  | 206   | 137   |
|                                   | Indonesia   | 1,682                                      | 1,121                                   |  |   | 118   | 78   | 118   | 78  |
|                                   | Philippines | 7,660                                      | 5,105                                   |  |   | 536   | 357  | 536   | 357   |
|                                   | Yemen       | 1,300                                      | 866                                     |  |   | 91  | 61   | 91  | 61  |

<sup>a</sup> This table is based on data provided by recipient countries. In millions of currency units.

<sup>b</sup> Latest figures in IMF BOP Statistics Yearbook

<sup>c</sup> Figures from National Authorities

<sup>d</sup> Uses average \$/£ exchange rate for 2002 = .66641

<sup>e</sup> Based on assumption that the Chinese remit 2 percent and immigrants from the other countries 7 percent of the total remittances reported by their home country in IMF BOP Statistics Yearbook.

<sup>f</sup> Includes Hong Kong

**TABLE 4 – ESTIMATES OF TOTAL REMITTANCES USING EFS DATA<sup>a</sup>**

| <b>Recipient Country</b>          | <b>Percentage of total immigrant community<sup>b</sup></b> | <b>Total Remittances<sup>c</sup></b> |
|-----------------------------------|--|--------------------------------------|
| Bangladesh                        | 6.1  | £66,612,000                          |
| China <sup>d</sup>                | 5.3  | £57,876,000                          |
| India                             | 22.7   | £247,884,000                         |
| Pakistan                          | 16.1   | £175,812,000                         |
| <i>Black Caribbean</i>            | 12.2   | £133,224,000                         |
| <i>Black African</i>              | 10.5   | £114,660,000                         |
| <i>Not included in above</i>      | 27.1   | £295,932,000                         |
| <i>All Minority Ethnic Groups</i> | 100  | £1,092,000,000                       |

<sup>a</sup> This table shares out the total amount of payments made abroad by EFS respondents among immigrant sub-groups.

<sup>b</sup> Figures taken from 2001 Census

<sup>c</sup> Share of total figure of £1,092 million reported in Table 7.1 of Family Spending (Report on 2002-03 Expenditure and Food Survey). The share is equivalent to the share of the immigrant group in the UK population.

<sup>d</sup> Includes Hong Kong

**TABLE 5A – CONSERVATIVE ESTIMATES OF TOTAL REMITTANCES USING DATA IN CLARK & DRINKWATER STUDY<sup>a</sup>**

| <b>Recipient Country</b>                            | <b>Size of UK Immigrant Community<sup>b</sup> (thousands)</b> | <b>Number of households<sup>c</sup> (thousands)</b> | <b>Number of Households Remitting (thousands)</b> | <b>Number of Households Remitting a specified amount (R) (thousands)</b> | <b>Average monthly remittance home by (R)<sup>d</sup> (1994 £ thousands)</b> | <b>Number of Households Remitting a variable amount (V) (thousands)</b> | <b>Average monthly remittance home by (V)<sup>d</sup> (1994 £ thousands)</b> | <b>Total Annual Remittances (1994 £ thousands)</b> |
|---|---|---|---|--|--|---|--|--|
| Bangladesh  | 283.0   | 48.9  | 10.1  | 4.7  | 274  | 5.4   | 271  | 6,540  |
| China <sup>e</sup>                                  | 247.4   | 74.1  | 19.6  | 11.8   | 887  | 7.8   | 390  | 15,329   |
| India   | 1,053.4   | 262.7   | 35.7  | 23.1   | 1,617  | 12.6  | 629  | 26,947   |
| Nepal   |   |   |   |  |  |   |  |  |
| Pakistan  | 742.3   | 142.7   | 43.0  | 23.7   | 1,820  | 19.3  | 964  | 33,408   |
| Sri Lanka   |   |   |   |  |  |   |  |  |
| <i>Black Caribbean</i>                              | 565.9   | 221.9   | 81.0  | 49.1   | 3,145  | 31.9  | 1,594  | 56,878   |
| <i>Black African</i>                                | 485.3   | 141.5   |   |  |  |   |  |  |
| <i>Not included in above</i>                        | 1,258.0   | 520.0   |   |  |  |   |  |  |
| <i>All Minority Ethnic Groups</i>                   | 4,635.3   | 1,411.9   |   |  |  |   |  | 261,736  |
| Bangladesh, China, India, Pakistan & Caribbean only | 2,892.0   | 750.3   | 189.4   | 112.4  | 7,744  | 77.0  | 3,847  | 139,101  |
| Bangladesh, India, and Pakistan only                |   |   |   |  |  |   |  | 66,895   |

<sup>a</sup> This table is based on data in the PSI's Fourth National Survey of Ethnic Minorities as set out by Clark and Drinkwater (2001) in *An Investigation of Household Remittance Behaviour*

<sup>b</sup> 2001 Census Data

<sup>c</sup> Number of households equals size of immigrant community divided by average household size

<sup>d</sup> Average monthly remittances calculated by assuming that amount was at mid-point of specified ranges and that those who did not specify a range remitted £50 per month

<sup>e</sup> Includes Hong Kong

**TABLE 5B – GENEROUS ESTIMATES OF TOTAL REMITTANCES  
USING DATA IN CLARK & DRINKWATER STUDY<sup>a</sup>**

| <b>Recipient Country</b>                            | <b>Size of UK Immigrant Community<sup>b</sup> (thousands)</b> | <b>Number of households<sup>c</sup> (thousands)</b> | <b>Number of Households Remitting (thousands)</b> | <b>Number of Households Remitting a specified amount (R) (thousands)</b> | <b>Average monthly remittance home by (R)<sup>d</sup> (1994 £ thousands)</b> | <b>Number of Households Remitting a variable amount (V) (thousands)</b> | <b>Average monthly remittance home by (V)<sup>d</sup> (1994 £ thousands)</b> | <b>Total Annual Remittances (1994 £ thousands)</b> |
|---|---|---|---|--|--|---|--|--|
| Bangladesh  | 283.0   | 48.9  | 10.1  | 4.7  | 548  | 5.4   | 1,082  | 19,573   |
| China <sup>e</sup>                                  | 247.4   | 74.1  | 19.6  | 11.8   | 1,680  | 7.8   | 1,561  | 38,887   |
| India   | 1,053.4   | 262.7   | 35.7  | 23.1   | 3,061  | 12.6  | 2,515  | 66,917   |
| Nepal   |   |   |   |  |  |   |  |  |
| Pakistan  | 742.3   | 142.7   | 43.0  | 23.7   | 3,530  | 19.3  | 3,855  | 88,630   |
| Sri Lanka   |   |   |   |  |  |   |  |  |
| <i>Black Caribbean</i>                              | 565.9   | 221.9   | 81.0  | 49.1   | 6,087  | 31.9  | 6,377  | 149,569  |
| <i>Black African</i>                                | 485.3   | 141.5   |   |  |  |   |  |  |
| <i>Not included in above</i>                        | 1,258.0   | 520.0   |   |  |  |   |  |  |
| <i>All Minority Ethnic Groups</i>                   | 4,635.3   | 1,411.9   |   |  |  |   |  | 684,109  |
| Bangladesh, China, India, Pakistan & Caribbean only | 2,892.0   | 750.3   | 189.4   | 112.4  | £14,906.4  | 77.0  | 15,392   | 363,576  |
| Bangladesh, India, and Pakistan only                |   |   |   |  |  |   |  | 175,120  |

<sup>a</sup> This table is based on data in the PSI's Fourth National Survey of Ethnic Minorities as set out by Clark and Drinkwater (2001) in *An Investigation of Household Remittance Behaviour*

<sup>b</sup> 2001 Census Data

<sup>c</sup> Number of households equals size of immigrant community divided by average household size

<sup>d</sup> Average monthly remittances calculated by assuming that amount was at top point of specified ranges and that those who did not specify a range remitted £200 per month

<sup>e</sup> Includes Hong Kong

## NOTES

<sup>1</sup> Paragraph 302 of the current edition of the *Balance of Payments Manual* states:

Workers' remittances covers *current transfers* by migrants who are employed in new economies and considered residents there. (A migrant is a person who comes to an economy and stays, or is expected to stay, for a year or more.) Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered nonresidents; their transactions are appropriate mainly to the component for compensation of employees. (See paragraphs 269 through 272.)"

Paragraph 269 states:

*Compensation of employees* comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals—in economies other than those in which they are residents—for work performed for and paid for by residents of those economies. Included are contributions paid by employers, on behalf of employees, to social security schemes or to private insurance or pension funds (whether funded or unfunded) to secure benefits for employees. Employees, in this context, include seasonal or other short-term workers (less than one year) and border workers who have centers of economic interest in their own economies. Because embassies and consulates are considered extraterritorial to the economies in which they are located, the compensation received by local (host country) staff of these institutional entities is classified as that paid to resident entities by non-resident entities.

<sup>2</sup> The World Bank GDF definition includes three components: (a) workers' remittances recorded under the heading "current transfers" in the current account of the balance of payments; (b) compensation of employees which includes wages, salaries, and other benefits of border, seasonal, and other non-resident workers (such as local staff of embassies) and which are recorded under the "income" sub-category of the current account; and (c) migrants' transfers which are reported under "capital transfers" in the capital account of the IMF's *Balance of Payments Yearbook* (item codes 2391, 2310, and 2431 respectively).

<sup>3</sup> Different countries use different definitions and succeed to different degrees in capturing the relevant figures from transfer agencies. For example, in 2002, the Philippines, a country of 80 million people and a large number of overseas workers, recorded only a modest \$0.2 billion of inward remittances. In contrast, Yemen with a population almost five times lower than the Philippines recorded inward remittances that were 7 times higher at \$1.3 billion. The reason for this is that the Philippines records inflows from its citizens abroad (probably close to \$7 billion) under different headings.

<sup>4</sup> Remittances are recorded in the UK 'Pink Book' of BOP statistics as 'other payments by households' under 'current transfers' in the balance of payments ('Other payments by households', line FKIQ, in table 5.1 of the pink book). This figure is the aggregate of three figures: i) the sum of inward remittances from the UK reported by Bangladesh, India, Israel, Pakistan and Sri Lanka (about 77 percent weighting); ii) the amount remitted abroad by voluntary aid agencies or non-profit organisations serving households (about 20 percent weighting); and iii) an estimate of the value of gifts sent abroad by parcel post (about 3 percent weighting).

Element i), however:

- is based on reports received from the five countries in the early to mid-1990s that have been projected forward.
- assumes that remittances to these three countries are equivalent to about one third of remittances to all countries and this has not been adjusted for several years. It does not take into account different propensities to remit among different immigrant communities.

Element ii) is

- based on a survey undertaken in 1995 with the figures projected forward.
- makes no breakdown between uses of the funds—i.e. what proportion goes to developmental objectives in specific regions and what to political parties or other objectives without a clear developmental impact.

Element iii) accounts for only 3 percent of the weighting but is based on data that are not regularly updated.

Outward flows of 'compensation of employees' - a category that records compensation paid to workers in the United Kingdom for less than one year and to workers in British embassies etc. abroad - are also measured. The proportion being remitted abroad by workers in the UK is estimated by using the results of declarations made in surveys of passengers leaving the country. Most captured by these surveys are not nationals of developing countries. Thus these figures also do not identify the flows of remittances that are the focus of this paper.

<sup>5</sup> See the response of the National Statistician to Lord Lamont <http://www.parliament.the-stationery-office.co.uk/pa/ld199697/ldhansrd/pdvn/lds03/text/30911w03.htm>. Scroll down to: Personal Remittances: Flows from UK 1997–2002

<sup>6</sup> The IMF is aware of the unreliability of its remittances data and of the differing interpretations of the *Balance of Payments Manual*. Attempts will be made to clarify the definition of remittances in the 6<sup>th</sup> edition of the manual but work on this is just beginning and publication is not expected before 2008.

- <sup>7</sup> It was not possible to specify, however, whether the ethnic breakdown of these 363 families corresponded to the weight of each immigrant community in the UK nor to measure the number of people from each immigrant community that had not answered the question on money sent abroad. This small sample and the questions about its composition undermined the value of the aggregate figure for money sent abroad in the composite tables. It is possible that the survey picked up households of Western Europeans or Americans resident in the UK and sending money home and this would obviously have an impact on the estimates derived from the survey of remittances sent out to Southern Asia and the Caribbean. Table 7.1, Components of Household Expenditure, 13 Other Expenditure Items, Line 13.4.2.3 Money Sent Abroad.
- <sup>8</sup> We draw on useful paper by Clark and Drinkwater (2001) in our analysis of the survey. The respondents to the survey were not asked exact amounts—only whether it was less than £100, between £100 and £499, between £500 and £999, or a variable amount. About 60 percent of respondents chose one of the specific ranges, and of this figure over 90 percent opted for £0-£100. There is no way of knowing whether the most typical amount would be closer to the bottom or top end of the range. Analysis is also complicated by the fact that almost 40 percent of respondents said the amounts they sent varied or could not say how much. The findings made by Clark and Drinkwater about the propensity of different immigrant groups to make remittances are consistent with analysis of the same survey made by Modood and of a similar analysis made in 1982 (Modood et al (1997))
- <sup>9</sup> Table 1, Statistical Annex
- <sup>10</sup> Table 2 Statistical Annex
- <sup>11</sup> Figures for these and other countries are in Table 3 in the Statistical annex.
- <sup>12</sup> Table 4 Statistical Annex
- <sup>13</sup> Tables 5a and b in Statistical Annex
- <sup>14</sup> Seddon et al (2001)
- <sup>15</sup> A survey of Africans in the UK in December 2003 seems to show that over 60 percent of remittances were transmitted through informal channels. Africa Recruit (2003) *Survey on Remittances and Skills*.
- <sup>16</sup> A significant but unknown proportion of migrant workers, asylum seekers and failed asylum seekers in the UK work despite their 'irregular' status and send money home. The figure of 50,000 is, admittedly, somewhat arbitrary.
- <sup>17</sup> This figure is close to the figure of \$1.3 billion estimated by Dilip Ratha in the World Bank's Global Development Finance Report. This is, however, a coincidence as this study used UK data on 'compensation of employees' reported to the IMF, a category that does not include most forms of remittance transfer.
- <sup>18</sup> It would then be possible to draw conclusions based to start with on a simple formula similar to the one used by Korovilas in his analysis of Albanians sending home remittances from Greece. Something along the lines of:
- $$R = p(N \times I)$$
- where R is monthly remittances, p is proportion of monthly income used for remittances by nationals of the recipient country working abroad, N is number of immigrant households in the UK, and I is monthly income of these households. According to the amount of data received, this formula could then be modified to take account of different propensities to remit by sub-groups within the immigrant communities.
- <sup>19</sup> We have collected very useful general information from both Western Union and Moneygram as regards the increasingly competitive field and entry of new players – particularly 'niche players' – into the sector, and as regards the major direction of flows of funds.
- <sup>20</sup> This is suggested by Jost & Sandhu 2000.
- <sup>21</sup> Gifts and donations to charities have been a matter of some concern to those involved with combatting money laundering and counter-terrorism. On the other hand, they may be a valid mechanism for contributing to a development NGO or association 'back home'.
- <sup>22</sup> HMCE, informal estimate, pers.comm.
- <sup>23</sup> Particularly since June 2003 and the requirement of registration, many money transfer businesses making use of IVTS are wary of investigations and enquiries. Even when introduced by known third parties there is a certain reluctance to speak openly in any detail about the business.
- <sup>24</sup> for example, El Qorchi, Wilson & Maimbo, 2003. In fact many different terms are used in the literature, with slightly different meanings and implications: informal value transfer systems; informal money transfer systems; non-regulated transfer systems; illegal transfer systems (because in many countries this kind of system is outlawed).
- <sup>25</sup> For example, the study of 'Informal Funds Transfer (IFT) Systems in the APEC Region'.
- <sup>26</sup> Several references were found in the local press, particularly in Bangladesh, of the 'seizure' of large-scale money dealers.
- <sup>27</sup> N. Passas (1999a, 2000) cites APG (2001) in his essay 'Hawala and other informal value transfer systems: how to regulate them?' He also suggests that "unfortunately, the current literature on the subject lacks depth and is replete with inaccuracies. My earlier study, which included original material and a review of public-source information and reports revealed that information was sparse and often completely unreliable. Exaggerations and contradictions were even found within single documents. Interviews with officials from different continents demonstrated significant differences of opinion. Equally well-intentioned people offered diametrically opposite assessments of the IVTS issue. Moreover, some interviewees questioned the validity of certain official reports"
- <sup>28</sup> Informal Funds Transfer (IFT) Systems in the APEC Region.
- <sup>29</sup> See bibliography.



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- <sup>30</sup> For a good example, see the illustration given by Maimbo (2003).
- <sup>31</sup> This is a term used by Roger Ballard in his several detailed discussions of hawala systems and particularly of Pakistani hawaladars.
- <sup>32</sup> There are numerous (estimated now at 70) courier services within Bangladesh, of which a significant minority (15) are foreign courier services.
- <sup>33</sup> This small (under 200 responses) sample comprised those who responded to a circulated questionnaire and cannot be regarded as necessarily statistically representative of 'the African diaspora', which according to the 2001 census includes 485,277 individuals.
- <sup>34</sup> Stalker p109. Costs have halved since 1999 and the Western Union figure quoted is no longer accurate.
- <sup>35</sup> This higher-than-anticipated charge may be the result of an enquiry from a stranger, even if made through a known third party; it may also reflect increasing pressure on hawaladars and hundi wallahs following registration. The findings suggest that the IVTS remain competitive in the UK at the present time. Other evidence suggests, however, a decline in the proportion of total remittances transferred through the IVTS in recent years, which may reflect a decreasing comparative advantage.
- <sup>36</sup> The countries involved here differ, often significantly, from the largest group of expatriates – those in the immigrant/diaspora communities. The main groups of asylum seekers/refugees have been, in recent years, from Iraq, Iran, Afghanistan, Zimbabwe, Somalia etc.
- <sup>37</sup> There may be 'Pakistanis' who still identify themselves on the basis of the situation before the split between East and West Pakistan in 1971.
- <sup>38</sup> Modood et al (1997)
- <sup>39</sup> Modood et al (1997), Clark & Drinkwater (2001)
- <sup>40</sup> Herbert & Kempson (1996)
- <sup>41</sup> Modood et al (1997) p. 166
- <sup>42</sup> Herbert & Kempson (1996)
- <sup>43</sup> Modood et al. suggest "It seems clear, therefore, that it is migrants who tend to adopt this practice, and in principle it will probably become less common as the years go by. But that makes it all the more surprising that it was Caribbeans – many more of whom were born in Britain – who were most likely to be sending money home".
- <sup>44</sup> In the household level survey data from 1994, it appears that remittances were most common among Caribbean households, around 40% of whom sent money to their family. Around 30% of Pakistani and Chinese households remitted money, as did around 22% of Bangladeshi; 15% of Indian and 13% of African Asian households (Modood et al 1997). At the same time, Caribbean households were more likely to send money only occasionally, so that the level of regular remittances among Caribbean, Pakistani and Chinese households was about the same (at 25%) and Bangladeshi households were not far behind (at 17%). The level of remitting was a good deal higher in households containing at least one adult born overseas than it was in those where all adults had been born in Britain (20% compared with 4% among South Asian households; 14% compared with 42% among Caribbean households) (Modood et al 1997). Remittances to parents were most common among Indian and Pakistani households. Caribbean and African Asian households most often mentioned 'other relatives', which would have included wives. The great majority were sending the money to their country of origin. Among those able to give an amount, most said that they sent less than £100 a month (Modood et al 1997).
- <sup>45</sup> Brown (1984)
- <sup>46</sup> In the Indian community alone, there is an important distinction to be made between Indians of East African origin, Indians from the West Indies and Indians of immediate Indian origin. Furthermore, there are Muslims, as well as Sikhs and Hindus, among the Indian population. Finally, there are many different linguistic groupings – Bengali, Gujarati etc. – which tend to constitute distinct 'communities'.
- <sup>47</sup> A representative from the Somali community gave us some estimates, as did a representative of the Bangladeshi community and a representative of the Nepali community.