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Migrant Labor Remittances In the South Asia Region

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ABBREVIATIONS

ACH	Automated Clearing House
AML	Anti Money Laundering
ATM	Automotive Teller Machines
BMET	Bureau of Manpower Employment and Training
BOESL	Bangladesh Employment and Services, LTD
CFT	Counter Financing of Terrorism
CIRC	Corporate and Industrial Rehabilitation Corporation
GDP	Gross Domestic Product
IMF	International Monetary Fund
IT	Informational Technology
LSMS	Living Standard Measurement Surveys
MSBs	Money Service Business
NEFT	Nationwide Funds Transfer System
NRFC	Non Resident Foreign Currency
NRH	Non Receiving Households
NRI	Non Resident Indians
NRP	Non Resident Pakistanis
ODA	Overseas Development Agency
OPF	Overseas Pakistanis Foundation
POSB	Post Office Savings Bank
RBI	Reserve Bank of India
RRH	Remittance Receiving Households
SAR	South Asia Region
SBI	State Bank of India
SBP	State Bank of Pakistan
SLBFE	Sri Lanka Bureau of Foreign Employment
UAE	United Arab Emirates
VSAT	Very Small Aperture Terminals

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The study draws on numerous interviews with public and private sector officials from select South Asian countries to whom we are thankful for their candid opinions, comments and suggestions.

As authors of an exploratory study of this nature, whose primary objective is to highlight the key policy discussion issues regarding remittances rather than an exhaustive paper on the subject as it affects every country in the region, we take full responsibility for failing to account for all the fascinating remittance innovations that are rapidly emerging in the region.

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EXECUTIVE SUMMARY

Bangladesh, India, Pakistan, and Sri Lanka have all experienced a sharp increase in remittances during the past decade. As at the end of 2003, Bangladesh, India, Pakistan, and Sri Lanka were all among the to 20 receivers of remittances, with estimated receipts of US\$3.2 billion, US\$17.4 billion, US\$3.9 billion and US\$1.3 billion respectively (Table 1).

Table 1 - Workers' remittances (billions of dollars)

	1999	2000	2001	2002	2003
Total	14.0	16.0	15.9	21.4	25.9
Bangladesh	1.8	2.0	2.1	2.8	3.2
India	11.1	11.7	11.1	13.7	17.4
Pakistan	0.1	1.1	1.5	3.6	4.0
Sri Lanka	1.0	1.2	1.2	1.3	1.3
Total, as a % of GDP	2.6	2.7	2.6	3.4	3.5
Bangladesh	3.9	4.2	4.5	6.0	6.1
India	2.5	2.6	2.3	2.7	2.9
Pakistan	1.7	1.8	2.5	6.0	5.8
Sri Lanka	6.8	7.1	7.5	7.9	7.1

Source: Author's calculation based on IMF, Balance of Payments Statistics; World Bank, World Development Indicators.

This paper provides a strategic overview of key issues relating to the remittance industry in the South Asia region

The paper builds on recent World Bank research on remittances that prominently features the South Asia region.¹ Rather than duplicate that work, this study only focuses on the region's distinguishing characteristics, namely:

- A large migrant population of semi-skilled and unskilled workers largely concentrated in the Arabian Gulf countries, particularly Saudi Arabia and the United Arab Emirates contributing to rising remittance flows
- The presence of dedicated public institutions and government financial incentives aimed at facilitating and providing support for temporary migration and remittance inflows
- The existence of large state bank branch networks with immense potential for a more effective and efficient remittance financial market
- The widespread use of trade-related informal remittance channels by both legal and illegal migrants

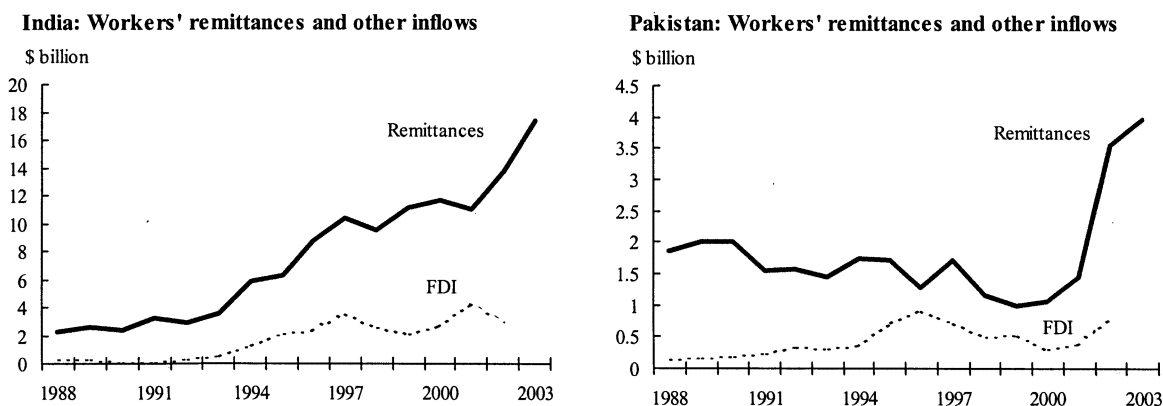
The Development Impact of Remittances

That this increase is taking place at a time of declining ODA flows to the region is of additional importance. Interest in the development impact of remittances has increased as they continue to be the largest financial flows to the region after foreign direct investment.

¹ El Qorchi and others 2003, Ratha 2003, Ratha 2004, Maimbo (2003)

The increase in remittance volumes has renewed academic and public policy interest in their potential to reduce poverty and economic vulnerability, improve family welfare, and stimulate local economic development in the face of much lower, and sometimes temperamental FDI flows (Figure 1).

Figure 1: Worker remittances and other in-flows in India and Pakistan



Despite this ever-increasing interest, the specific development impact of remittances is still unclear and requires further research and debate. The following questions are particularly important:

- What proportion of remittance monies is spent on consumption versus investment? Does the proportion vary with the income and educational level of the remittance-receiving family?
- What kinds of productive investment activities are remittances spent on? How does this vary by urban or rural setting, and by district, region, or country?

Addressing the questions listed above is methodologically challenging because of three factors. The most important of these is that remittance income is fungible: that is, remittances can be spent on anything. This makes it very difficult to associate remittances with any specific changes in household patterns of consumption or investment. Second, remittances have multiple effects on the local economy. For example, an increase in the volume of remittances in a community may lead to higher spending on housing, which in turn helps to generate more income and employment opportunities for unskilled construction workers. Third, a robust theoretical and analytical framework for determining the development impact of remittances is largely absent. Because remittance research is often based on data collected at just one point in time, it is difficult to measure how remittances change patterns of investment over time.²

This study analyzes the impact of international remittances on poverty using a growth-poverty model. This model, which has been used by a host of poverty researchers,³ assumes that economic growth—as measured by increases in mean per capita income—will reduce poverty.

² For example, using data collected in a series of 14 interviews with 469 households in rural Pakistan over a five-year period (1986–87 to 1990–91), Adams (1998) found that the availability of remittance income helps to increase investment in rural assets by raising migrant households' marginal propensity to invest. Contrary to the common notion that remittances are primarily used for consumption, the results suggested important statistical effects on the accumulation of rural assets. This is because households receiving remittances tend to treat them as transitory income, and the marginal propensity to invest transitory income is higher than it is for total labor income (excluding remittances and rental income).

³ In addition to Ravallion (1997) and Ravallion and Chen (1997), see (2001).

The results are interesting. The analysis finds that, when the estimated values for unofficial remittances are added to official remittance figures, total remittances (official and unofficial) reduce the level of poverty in South Asia. On average, the point estimates for the poverty headcount measure suggest that a 10 percent increase in total remittances (official and unofficial) will lead to a 0.9 percent decline in the level of poverty in South Asia. This means that for a “representative” country where exactly one-half of the population lives below the poverty line, a 10 percent increase in total remittances (official and unofficial) will bring the proportion living in poverty down to about 0.48 percent.

The Public Infrastructure for Remittances

All the countries in the region have taken active steps to support the migration of their nationals. The public infrastructure to support the search for employment abroad, the migration of successful applicants, and their subsequent stay is, in principal, in place. In all four countries, the public infrastructure includes emigration legislation, government ministries and departments, and a plethora of incentives for non-resident nationals.

- *Legislation:* Legislation such as the Emigration Act of 1983 (India) and the Emigration Ordinance of 1979 (Pakistan) form the legal basis for today’s migration practices and influence the ease and convenience of dealing with the resulting government ministries and departments. These provide the basis for the support governments provide to pre-migrants, migrants, and returnees.
- *Government departments:* The Bureau of Manpower Employment and Training (Bangladesh), the Bureau of Emigration and Overseas Employment (Pakistan), and the Bureau of Foreign Employment (Sri Lanka) provide a range of pre- and post-migration services and facilities. For first time migrants in particular, pre-migration training, visa application processing, and other services are highly prized. However, these bureaus have a mixed record in terms of their effectiveness and efficiency. The lack of resources limits their outreach and the types of services that they offer. As government institutions, perceptions of bureaucracies persist even where corrective actions have been undertaken.
- *Incentives:* The most notable government actions directed at migrants have been the plethora of incentives that have been announced in successive budgets that specifically target migrants. These incentives include: Special access to the merit-based quota system assigned in all public professional colleges and universities; generous duty-free import limits for items of personal convenience; preferential allocation of investment opportunities such as initial public offerings to be subscribed in foreign currency; eligibility for special lotteries such as those for prime plots in public housing schemes at attractive prices, and tax exemptions.

Consistently improving its effectiveness will substantially aid the development impact of remittances.

Formal Financial Institutions

State Banks

The South Asian remittances market is unique for the presence of an extensive branch network of state commercial banks. They have long dominated the official remittances business through monopolistic national foreign-currency legislation and large bank branch networks.

Today, for example, India has over 32,000 rural commercial bank branches; Bangladesh has four nationalized banks with at least 3,346 branches in total, and Sri Lanka’s largest state bank alone has

326 branches, 81 counter services, and 188 pawning centers. Physically, the infrastructure for an active far-reaching remittance network is already present. The challenge lies in making it more effective and efficient for that purpose.

Foreign Banks

Foreign banks have noted the huge remittance potential in the region too. Previously reluctant participants, they are slowly investing in this business albeit largely for the higher-income migrants—doctors, accountants, lawyers, and other professionals. Foreign banks have hitherto largely been inhibited by their limited branch networks, which are primarily centered in major cities. They have been careful about heightened anti-money laundering and counter terrorist financing standards, and concerned about the changing remittance business model.

Profits from remittance transactions have been declining. The removal of foreign exchange controls, competition from money transfer companies, and pressure to make even speedier deliveries has reduced exchange gains, pushed down upfront commissions, and minimized the potential interest gains from cash floats.

Local Banks

It is largely the local banks that are taking the lead in the remittance service market. Investing heavily in various remittance application technologies—credit cards, debit cards, Internet banking, and tele-banking—the local banks are surely changing the nature of the remittance market.

The increase in the number of Automated Teller Machines (ATMs) has been impressive. In Sri Lanka for example, the total number of ATMs operated by commercial banks increased to 705 at end of 2003 from 622 at end of 2002. In Pakistan one ATM network has over 392 ATMs in 26 cities while the other has 130.

Yet, the true potential for the ATMs to act as a remittance conduit or platform is yet to be realized. The majority of ATM transactions are only by customers withdrawing cash from their own accounts. Only a limited number of transactions are by customers using ATMs other than those installed by their own banks. Until this happens more frequently, the possibility of using the networks for remittance purposes will remain limited.

Money Service Businesses

The strongest remittance competition in the market comes from the emergence of licensed money service businesses (MSBs)—non-bank financial institutions that accept cash, checks, or other money instruments, or ‘stored value’, in one location and pay the equivalent amount in another.

Leading MSBs such as Western Union and Money Gram have extensive agent locations in the region that support their operations. However, Internet-based businesses such as e-exchange and Remit2India are having a positive impact on the way business is managed.

Post Offices

In the wake of declining traditional postal business, post offices in the region are exploring the possibility of participating in the remittance business more actively. Long used to deliver money orders to rural families, post offices are now investing in electronic money orders, partnering with money service businesses, and investing in Internet-based technology.

The potential benefits for postal involvement are substantial. With 154,149 postal offices and 554 sorting offices, India Post has the most extensive postal retail network in the world. Sri Lanka Post has 625 main post offices, 3,423 sub-post offices, and 632 agency post offices.

But as long as the postal systems are plagued with operational losses, the absence of management information systems, limited access to funds for investing in technology, and negative publicity, such as stories of insufficient cash on hand and delays in effecting payment, client demand and usage will remain low. Reliability, credibility, and efficiency are essential ingredients to a remittance business.

Informal Financial Institutions

Informal remittance systems—courier services, in-kind remittances, and *hawala* systems—have a long history in the region. Originally developed at a time when conventional banking instruments were either absent or weak, informal channels offered a speedy, low cost, convenient, accessible, and when necessary, anonymous option.

- *Courier services*: These are the simplest and oldest way of moving value in the region. Physical transfer of cash by migrants either on their own behalf or on behalf of others is said to be high. This is not unique to the region as such transfers are still observed in other regions.
- *In-kind remittances*: Some migrants choose to invest in durable goods such as refrigerators, stoves, televisions, VCRs, and other valuable commodities such as gold or precious stones, which they send to their families for sale or personally carry home at the end of their contracts.
- *Hawala*: Also referred to as *hundi* or *chit*, *hawala* systems owe their popularity to the long history of trade in the region. *Hundi*, a form of bill of exchange or promissory note, was in use in the region before the advent of modern banking. The interface between traders and *hawala* dealers also owes much to the traditionally complex framework of regulating import and export transactions in the region. Until very recently burdensome legislation regarding international payments, rebates, refunds, and other financial payments encouraged the use of informal alternatives.

Overall, migrants use informal systems for a variety of reasons, particularly the following: reliability, lower cost, speed, convenience and accessibility, and for some the anonymity that informality can provide users and recipients alike.

Highly trust based and rooted in age-old cultural traditions, informal systems deliver cash much faster than conventional banking systems at a much more cost effective rate. Importantly, the convenience of door-to-door collection and delivery services is invaluable to migrants working long shifts and recipient families in communities with absent or weak formal financial services.

Unfortunately, the informal system's success—speedy transactions with minimal or no documentation—has also been its undoing. The anonymity associated with such transactions has long raised concern with law enforcement communities. This has led some countries to issue an outright ban while others have proceeded to or are considering the issuance of new regulations in an effort to improve the transparency of the sector.

Conclusion and Recommendations

Remittances from migrant workers are increasingly important and a stable source of external finance for countries in the South Asia region.

This preliminary analysis of migrant remittances to the region has been based on a review of widely-dispersed data and documentation, and interviews. Its purpose is to stimulate and inform discussion on the role remittances play in the region and to help stakeholders design, development and implementation of appropriate policy. By exploring the actual and potential impact of remittances in the region, and the capacity of the public and private infrastructure to facilitate that impact, this study identifies opportunities for the potential for greater contributions.

With an extensive state and private bank network already in the region, a key component of the requisite building blocks for an effective remittance industry is already in place. However, much more needs to be done to maximize the network's full potential, including the following:

- *Shared payments systems platforms:* Greater investment in open architecture payments system information technology is required. Recipients should increasingly be able to receive remittances from any state or private bank branch or ATM machine, whether or not they hold an account with that institution. The potential for non-bank financial institutions, such as post office networks and money transfer businesses, to connect to banks branches and technological advantages promises great potential for expedient, cost-effective remittance networks and services.
- *Public-private partnerships:* Strategic partnerships between the public and private sectors across infrastructure, products, and services are necessary for countries in the region that seek the types of gains attained elsewhere.
- *Cross selling:* It is essential that as the profitability of the conventional remittance business model continues to decline, formal financial institutions invest in cross selling complimentary financial services and products. Encouraging recipients to open and maintain bank accounts that might lead to short- and long-term auto and housing loans, for example, should be part of a business strategy for banks.

In the long run, strengthening the formal financial sector for remittance purposes will facilitate the move away from informal remittance systems, which though beneficial to the direct users, may not have as effective an impact on the macro-level as formal remittance transfers.

High transaction costs, long delays in transferring remittances, foreign currency controls, and overly-bureaucratic policies and procedures for simple money transfers have no place in a vibrant and still growing remittance industry.

CHAPTER 1

INTRODUCTION

As volumes of international remittances have swelled, policymakers have become increasingly concerned with their impact on poverty and economic development. Over the past decade, the literature on the macro- and microeconomic implications of migrant remittances has grown with the financial flows. Only recently, however, has that research taken decidedly regional and global perspectives.

In a much-quoted study of remittances, Ratha (2003) underscored the importance of remittance flows for developing countries and delineated their regional patterns. In a follow-up study, Ratha (2004) observed that workers' remittances continued to rise in 2003 to an estimated US\$93 billion, up from US\$88.1 billion in 2002. Latin America and the Caribbean region continued to lead in the volume of remittance receipts—receiving US\$30 billion, nearly a third of remittance flows to all developing countries. South Asia and East Asia and the Pacific each received some US\$18 billion, whereas Sub-Saharan Africa received just US\$4 billion. Bangladesh, India, Pakistan, and Sri Lanka all are among the top 20 receivers of remittances, with estimated receipts of US\$3.2 billion, US\$8.4 billion, US\$4.2 billion, and US\$1.5 billion respectively (table 1.1). These four countries made the South Asia region the second largest regional recipient of remittances in the world after Latin America and the Caribbean.

Table 1.1 Workers' remittances received by selected countries in South Asia, 1995–2003
(billions of dollars)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bangladesh	1.2	1.3	1.5	1.6	1.8	2.0	2.1	2.8	3.2
India	6.2	8.8	10.3	9.5	11.1	11.7	11.1	13.7	17.4
Pakistan	1.7	1.3	1.7	1.2	0.1	1.1	1.5	3.6	4.0
Sri Lanka	0.8	0.8	0.9	1.0	1.0	1.2	1.2	1.3	1.3
Total	10.0	12.3	14.6	13.3	14.0	16.0	15.9	21.4	25.9

Note: e=estimate.

Source: World Bank 2004,197.

The figures above ensured that remittances remained the second-largest financial flow to developing countries in 2003 after foreign direct investment, more than double the size of net official development assistance. Moreover, remittance volumes increased, despite expectations to the contrary based on weak labor markets and the tightening of border controls in the industrial countries after the terrorist attacks of September 11, 2001. Ratha (2004) attributes the continued increase in remittances to three factors. First, more remittances are being diverted from alternative channels to formal channels as a result of efforts to curb money laundering. Second, the increased focus on remittances has brought better reporting of data in many developing countries. And third, the fear of being deported or investigated may have prompted some migrant workers to remit their entire savings to their home countries.

The economic policy implications of these trends are significant. Policymakers are rightly debating the following key issues:

- The impact on poverty and economic development of migrant remittances, especially the proportion of remittances directed to productive investment and savings in developing countries
- The efficiency and effectiveness of the public infrastructure for remittances
- The high transaction costs associated with remittances through formal financial institutions
- The level of transparency and accountability in the informal remittance industry, particularly in light of the growing security concerns relating to money laundering and terrorist financing

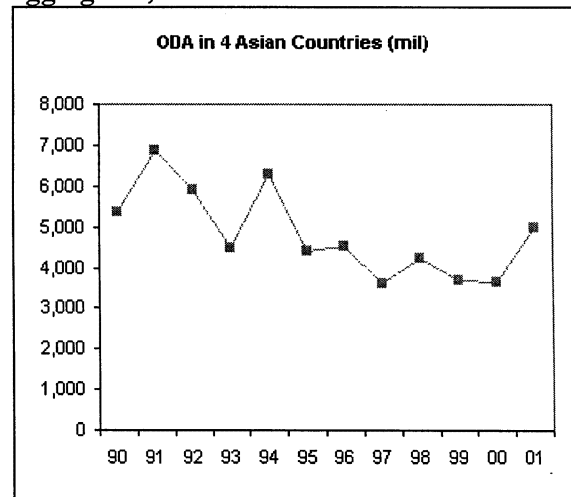
This paper addresses each of the issues listed above with specific references to the South Asian countries of Pakistan, India, Sri Lanka, and Bangladesh. This study is not an exhaustive examination from these countries to emphasize, illustrate, and argue their policy relevance to the region. At best, the study is a platform for further, more detailed investigative research.

The Impact on Poverty and Economic Development of International Remittances

Chapter 2 is premised on the argument that, in part, the impact of remittances on economic development has come to the fore in the development debate with the steady decline in the volume of ODA to South Asia, and to the developing world as a whole (figures 1.1 and 1.2). The downward trend in ODA has increased interest in the effect of remittances on economic development. But more importantly, the paper is also premised on suggestions in the recent literature that remittances raise the incomes of migrant households and increase the recipient country's foreign-exchange reserves. At the household level, the literature suggests that remittance income helps meet a variety of family needs, such as increased consumption—of food, housing, and durable items—and increased investment—in business, microenterprise, education, and financial enterprises.⁴

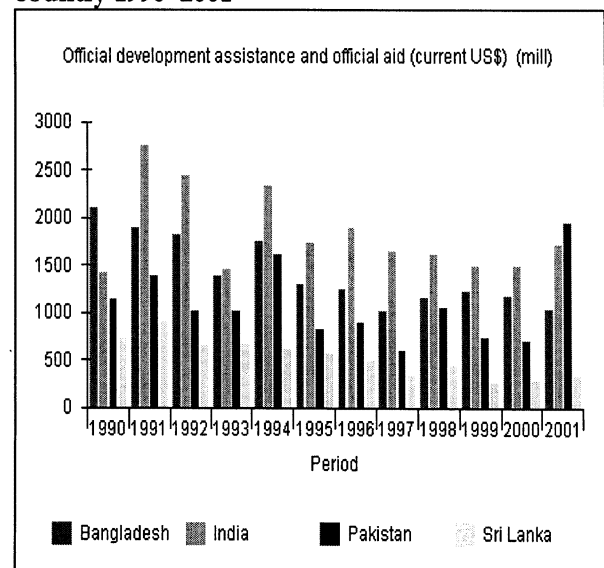
Through these means, remittances support a wide variety of development purposes: improving family welfare, reducing economic vulnerability, and boosting the local economy, while increasing the use of formal banking services by the poor. If remittances are invested in productive activities

Figure 1.1 Official development assistance to Bangladesh, India, Pakistan, and Sri Lanka, aggregated, 1990-2000



Source: World Bank, *Global Development Finance 2003*

Figure 1.2 Official development assistance to Bangladesh, India, Pakistan, and Sri Lanka, by country 1990–2001



Source: World Bank, *Global Development Finance 2003*

⁴ See, for example, Adams 1991 and 1998.

such as local business and the education of young children, they can contribute to output growth and generate positive multiplier effects for the economy as a whole. Yet the developmental impact of remittances is still unclear, and requires more work on such policy questions as:

- What proportion of remittance monies is spent on consumption versus investment? Does the proportion vary with the income and educational level of the remittance-receiving family?
- What kinds of productive investment activities are remittances spent on? How does this vary by urban or rural setting, and by district, region, or country?
- What is the impact of the channels through which remittances arrive (formal vs. informal) on spending patterns? A reasonable hypothesis is that *hawala* funds may be used for less productive investments, facilitate tax evasion, and negatively affect governance and exchange reserves.

Using countries in the region, particularly Pakistan, chapter 2 highlights the potential developmental impact of remittances. The discussion is brief because methodological hurdles make it difficult to test the impact of remittances on migrant households.⁵ The most important of the methodological problems is that remittance income is fungible: that is, remittances can be spent on anything. This makes it very difficult to associate remittances with any specific changes in household patterns of consumption or investment. Second, remittances have multiple effects on the local economy. For example, an increase in the volume of remittances in a community may lead to higher spending on housing, which in turn would help generate more income and employment opportunities for unskilled construction workers. Third, a robust theoretical and analytical framework for determining the development impact of remittances is largely absent. Because data used in remittance research are often based on information collected at just one point in time, it is difficult to measure how patterns of investment change over time.⁶

The Efficiency and Effectiveness of the Public Infrastructure for Remittances

Chapter 3 takes stock of the public infrastructure for remittances in the four countries and comments on the opportunities for improving the effectiveness and efficiency of the existing institutions. Governments in the region are increasingly taking active note of the development impact of remittances and are taking various forms of initiatives—with varying degrees of success—to facilitate migration of their nationals, the welfare of their citizens abroad, and the remittance of earnings to their home countries. Chapter 3 highlights the similarities among the four countries with respect to their basic public infrastructure for remittances. It commends the efforts made to facilitate easier migration for the average migrant, particular low-income migrants. However it concludes by contending that more could be done to improve the effectiveness and efficiency of the existing public infrastructure.

The High Transaction Costs Associated with Remittances through Formal Financial Institutions

Chapter 4 argues that while government should be commended for allocating public infrastructure for the migration and remittance industry, in the long term, it is the private formal financial institutions that should take the lead in improving the quality of the remittance infrastructure available to migrants. At present, inefficient financial systems and high-cost transactions in some

⁵ Adams 1998.

⁶ For example, using data collected in 14 interviews with 469 households in rural Pakistan over a five-year period (1986–87 to 1990–91), Adams (1998) found that the availability of remittance income helps to increase investment in rural assets by raising migrant households' marginal propensity to invest. Contrary to the common notion that remittances are primarily used for consumption, the results suggest important statistical effects on the accumulation of rural assets. This is because households receiving remittances tend to treat them as transitory income, and the marginal propensity to invest transitory income is higher than it is for total labor income (excluding remittances and rental income).

parts of the region remain a significant impediment to the more effective use of remittances in many labor-exporting countries.

Chapter 4 also discusses the transaction costs associated with the formal financial sector with special regard to the unique presence in the region of dense formal state commercial bank branch networks, with tremendous potential for facilitating remittances, especially to the rural poor. While extensive state bank branch networks provide a relatively dense infrastructure for remittance services, questions remain regarding the capacity of these networks to provide affordable payments systems attractive to migrant workers.

Hitherto, weak access to formal finance has resulted in a heavy reliance among poorer rural households on informal finance, mostly moneylenders and shopkeepers, for credit and deposit services, including remittance services. Making the formal financial institutions more attractive for remittance agencies remains a fundamental challenge for governments. Despite recent innovations by private financial institutions, more needs to be done. This is not unique to the region. The World Bank estimates that the average cost of transferring remittances remains about 13 percent, and sometimes exceeds 20 percent, of the amount remitted. In addition to these high transaction costs, recipients often face exchange losses and slow check clearance because of inefficient banking systems. Reducing the transaction cost of remittances to less than 10 percent would imply an annual saving of \$3.5 billion to overseas workers.⁷

The Level of Transparency and Accountability in the Informal Remittance Industry

In Bangladesh, India, Pakistan, and Sri Lanka, informal remittance systems—used for both legal and illegal remittance purposes—are commonplace. They are particularly attractive for their speed, low cost, convenience, accessibility, and potential anonymity, especially in rural communities when conventional banking instruments are either absent or weak. While acknowledging the potential benefits to the migrants for using such systems, governments in the region are concerned about the risks of financial abuse and criminal activity. With a long and rich history of commercial trade, there is widespread co-mingling of trade and remittance businesses among different countries. Unfortunately, some of the businesses are illegal and have raised legitimate concerns amongst law enforcement agencies. Understanding how these systems work, as detailed in chapter 5, and the incentives for migrants to use them, is an essential pre-requisite for an effective formal remittance development strategy.

The study's conclusions and recommendations are presented in chapter 6. Overall, this study complements and extends the existing literature by reviewing remittances in a development context in four countries of South Asia. The objective of the study is to deepen understanding of the poverty impact of remittances, the developmental roles of remittances, the public and private infrastructure for remitting migrant earnings, and current concerns about transparency and accountability of remittance flows.

⁷ Ratha 2003.

CHAPTER 2

THE DEVELOPMENT IMPACT OF REMITTANCES

2.1 Introduction

International migration is one of the most important factors affecting economic relations between developed and developing countries in the 21st Century. It is currently estimated that about 175 million people—roughly 3 percent of the world population—live and work outside the country of their birth.⁸ The international remittances sent home by these migrant workers have a profound impact on the living standards of people in the developing world.

The purpose of this chapter is to analyze the impact of international remittances (official and unofficial) on poverty and economic development in South Asia. Despite the ever-increasing size of international remittances in South Asia, little attention has been paid to the effect of these transfers on poverty and development in the region. At least three factors are responsible for this lacuna. The first is a lack of poverty data: Until recently, it has been difficult to estimate accurate poverty headcounts in the five countries of South Asia. The second factor relates to international remittances: At present, the data on international remittances do not include the large (and unknown) sum of remittance monies that are transmitted through informal, unofficial channels. This makes it very difficult to pinpoint the total impact of remittances—official and unofficial—on poverty in South Asia. The final factor concerns measuring the effect of remittances on investment and development. While household budget surveys represent the best source of information on how migrant households spend or invest their remittance earnings, few of these household surveys ask any questions about how international remittances are used.

This chapter seeks to overcome these and other problems by proceeding in the following manner. First, to set the South Asian experience in a larger international context, it builds a new dataset composed of 71 developing countries. This dataset includes all those low- and middle-income developing countries for which reasonable information on poverty and international remittances could be assembled. Second, the chapter uses this dataset to estimate the impact of official remittances on the level and depth of poverty in South Asia. Third, the chapter uses new techniques to simulate (estimate) the size of unofficial remittance flows to South Asian countries. The analysis then takes these estimates of unofficial remittances, combines them with the official remittance figures, and re-estimates the impact of remittances (official and unofficial) on poverty in South Asia. Finally, the chapter uses data from a 5-year panel household survey in rural Pakistan to analyze how remittances are spent or used.

This section sheds light on the question of how households use international remittances for economic development at the local level.

2.2 A New Data Set on International Remittances and Poverty

To set the South Asia experience into a larger context, this section develops a new dataset that includes information on international remittances and poverty for as many developing countries and time periods as possible. Initially the goal was to include all 157 countries that are classified as either

⁸ United Nations 2002.

low-income or middle-income countries by the World Bank in the *World Development Report, 2000/01*.⁹ However, it proved impossible to find remittances and poverty data for many of these developing countries. Since these data problems have constrained past work on this topic, it is useful to spell out the nature of these difficulties.¹⁰

Because of their importance to labor-exporting countries, remittance flows tend to be the best-measured aspect of the migration experience. For instance, the International Monetary Fund (IMF) keeps annual records of the amount of international remittances received by each labor-exporting country.¹¹ However, as noted above, the IMF only reports data on official international remittance flows, that is, remittance monies that are transmitted through official banking channels. Since a large (and unknown) proportion of remittance monies is transmitted through private, unofficial channels, the level of remittances recorded by the IMF underestimates the actual flow of remittance monies returning to labor-exporting countries.

With respect to poverty, many developing countries—especially countries with smaller populations—have not conducted the type of nationally-representative household budget surveys that are needed to estimate poverty. For example, of the 157 countries classified as low- or middle-income by the World Bank, 76 countries (48 percent) have not published the results of any household budget survey.

Given these data limitations, the dataset in this chapter includes information from 71 low-income and middle-income developing countries. Annex table A1 gives the countries, geographical regions, poverty, and remittances indicators included in this new dataset. The dataset includes 184 observations from the 71 developing countries; an observation is any point in time for which complete data on poverty and remittances exist. The dataset includes 20 observations (from five countries) in South Asia.

Annex table A1 reports three different poverty measures. The first, the headcount index, set at \$1 per person per day, measures the percentage of the population living beneath that poverty line at the time of the survey.¹² However, the headcount index ignores the “depth of poverty,” that is, the amounts by which the average income and expenditures of the poor fall short of the poverty line. The table therefore reports the poverty gap index, which measures in percentage terms how far the average income and expenditures of the poor fall short of the poverty line. The third poverty measure—the squared poverty gap index—indicates the severity of poverty. The squared poverty gap index possesses useful analytical properties because it is sensitive to changes in distribution among the poor.¹³

Table 2.1 summarizes the poverty and remittances information in the dataset by comparing the observations for South Asia with those for the rest of the developing world. On average, poverty is higher in South Asia. For example, both the mean poverty headcount and poverty gap measures for

⁹ The full list of these 157 countries appears in World Bank 2001, 334.

¹⁰ More details on data problems, especially those concerned with estimating international migration variables, can be found in Adams and Page 2003.

¹¹ The IMF records annual flows of official international remittances in its publication, *Balance of Payments Statistics Yearbook*.

¹² To ensure compatibility across countries, all of the poverty lines in Annex table A1 are international poverty lines, set at estimates of \$1.08 per person per day in 1993 purchasing power parity (PPP) exchange rates. The PPP exchange rates are used so that \$1.08 is worth roughly the same in all countries. PPP values are calculated by pricing a representative bundle of goods in each country and comparing the local cost of that bundle with the U.S. dollar cost of the same bundle. In calculating PPP values, the comparison of local costs with U.S. costs is done using conversion estimates produced by the World Bank.

¹³ While a transfer of expenditures from a poor person to a poorer person will not change the headcount index or the poverty gap index, it will decrease the squared poverty gap index.

South Asia are higher than those for the developing world, and the differences between South Asia and the rest of the world for these two poverty measures are statistically significant. However, income inequality (measured by the Gini coefficient) is lower, on average, in South Asia than the rest of the developing world, and this difference is significant. With respect to migration and remittances, international migration as a share of country population is lower in South Asia, but official international remittances as a share of country GDP are higher than in other developing countries. The reason for this paradox is that while South Asian countries send large numbers of international migrants to the Arab Gulf, no data are available on the number of migrants working there.¹⁴ Thus, while the migration information in the dataset tends to underestimate the extent of international migration from South Asia, the remittances information provides a more accurate reflection of the impact of remittances on this region of the world. Mean official remittances as a share of country GDP are higher in South Asia (2.59 percent) than in any other region of the world save one: the Middle East and North Africa (9.60 percent).

2.3 Official International Remittances and Poverty: Econometric Results

In this section the cross-country data are used to analyze how international remittances that are sent back through official channels affect poverty in South Asia. Using the basic growth-poverty model suggested by Ravallion (1997) and Ravallion and Chen (1997), we want to estimate variations in poverty as a function of three variables: mean per capita income, income distribution, and level of official international remittances.¹⁵

This growth-poverty model, which has been used by a host of poverty researchers,¹⁶ assumes that economic growth—as measured by increases in mean per capita income—will reduce poverty. The relationship between poverty and the income variable is therefore expected to be negative and significant. The model also assumes that the level of income inequality affects poverty reduction. Since past work has shown that a given rate of economic growth reduces poverty more in low-inequality countries, as opposed to high-inequality countries,¹⁷ the income inequality variable is expected to be positive and significant. The innovation in this study is to introduce into the model a variable measuring the level of international remittances. All other things being equal, it is hypothesized that countries receiving more international remittances will have less poverty.¹⁸

This growth-poverty model is often measured in first differences, in order to deal with possible correlation problems between the variables, since the dependent and independent variables are drawn

¹⁴ While the Arab Gulf countries (Kuwait, Oman, Saudi Arabia and United Arab Emirates) appear to keep detailed records on the number of international migrants working within their borders, they do not publish such data.

¹⁵ The growth-poverty model can be written as: $\text{Log } P_{it} = \alpha_i + \beta_1 \log \mu_{it} + \beta_2 \log (g_{it}) + \beta_3 \log (x_{it}) + \epsilon_{it}$ where P is the measure of poverty in country i at time t , β_1 is the “growth elasticity of poverty” with respect to mean per capita income given by μ , β_2 is the elasticity of poverty with respect to income distribution given by g , β_3 is the elasticity of poverty with respect to variable x (such as official international remittances) and ϵ is an error term that includes errors in the poverty measure.

¹⁶ In addition to Ravallion 1997 and Ravallion and Chen 1997, Collier and Dollar 2001.

¹⁷ See, for example, Birdsall and Londono 1997 and Ravallion 1997.

¹⁸ One possible problem with this model is that it assumes that all of the right hand side variables—including international remittances—are exogenous to poverty. However, it is possible that international remittances may be endogenous to poverty. Reverse causality may be taking place: International remittances may be reducing poverty, but poverty may also be affecting the level of international remittances being received. One means of accounting for this reverse causality is to pursue an instrumental variables approach. When this is done, results for the instrumented variable (international remittances) are more negative and of greater statistical significance than those for the non-instrumented variable. However, the extent of this reverse causality is small. For example, while the instrumented estimates for the poverty headcount measure suggest that a 10 percent increase in per capita official international remittances will lead to a 3.5 percent decline in the share of people living in poverty, the non-instrumented estimates in table 2.2 suggest that a similar increase in official international remittances will lead to a 1.8 percent decline in the share of poor people.

from the same single source of data (household budget surveys). In this chapter, however, the model is estimated as a level equation since the dependent and independent variables come from different sources of data: the dependent variable being drawn from household budget surveys and the independent variables (for official international remittances) from various other sources.

Regression results for the growth-poverty model are presented in table 2.2. As expected, the coefficients for the per capita income and Gini coefficient variables are negative and positive, respectively, and statistically significant in all cases. The magnitude of the poverty elasticities with

Table 2.1: Summary of Descriptive Statistics on Poverty, Inequality, International Migration and Remittances South Asia versus Developing World

	South Asia (N = 20)	Rest of Developing World (N = 164)	T-statistic (two-tailed)
Poverty headcount (\$1/person/day)	34.67	16.05	4.37**
Poverty gap (percent)	9.06	6.16	2.24*
Squared poverty gap (percent)	2.53	3.25	
Gini coefficient	0.324	0.423	-8.65**
International migration as share of country population	0.49	1.59	-3.42**
Official remittances as share of country GDP	2.59	1.41	2.76**

Note: N = 184 observations. See Table A1 for countries and survey dates.

* Significant at the 0.05 level

** Significant at the 0.01 level

respect to income and income inequality (Gini coefficient) is consistent with other recent analyses of poverty reduction (Adams 2003a; Ravallion 1997). When a shift dummy for South Asia is introduced into the model (equations 2-3 and 7-8), the dummy coefficients are positive and highly significant. This means that, controlling for level of income and income inequality, poverty is significantly higher in South Asia than in other regions of the world. This result parallels the findings in table 1.1.

In table 2.2 the remittances variable—per capita official international remittances—has a negative and significant impact on poverty in developing countries (equations 4 and 8). In other words, with all other variables held constant, a higher level of official international remittances can be statistically expected to reduce both the poverty headcount and the poverty gap in the developing world. However, the results for the interactive dummy variable for South Asia (South Asia dummy times official remittances) are negative but not statistically significant. These results suggest that while official international remittances reduce poverty in the developing world, in South Asia official remittances have no statistical impact on the level and depth of poverty. This is an unexpected outcome, one that needs to be further analyzed.

Table 2.2: Elasticity of Poverty, Estimated Using Official International Remittances

Variable	Dependent variable = Poverty headcount (\$1.08/person/day)				Dependent variable = Poverty gap			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Per Capita Survey Mean Income	-2.263 (-20.60)**	-2.090 (-18.61)**	-2.007 (-13.47)**	-2.002 (-13.40)**	-2.584 (-20.54)**	-2.434 (-18.36)**	-2.438 (-12.29)**	-2.340 (-12.25)**
Gini coefficient of country	3.832 (14.32)**	4.217 (15.59)**	4.134 (11.75)**	4.131 (11.72)**	4.792 (15.55)**	5.126 (16.05)**	5.539 (12.28)**	5.534 (12.28)**
Per capita official remittances			-0.188 (-4.73)**	-0.181 (-4.46)**			-0.207 (-4.07)**	-0.196 (-3.78)**
South Asia dummy (1 if South Asia country)		0.856 (4.15)**	0.800 (3.76)**	1.120 (2.61)*		0.745 (3.06)**	0.836 (3.07)**	1.353 (2.47)**
(South Asia dummy) x (per capita official remittances)				-0.153 (-0.86)				-0.247 (-1.09)
Constant	21.768 (24.63)**	20.759 (23.75)**	20.577 (17.43)**	20.522 (17.33)**	23.557 (23.13)**	22.679 (21.98)**	22.932 (15.15)**	22.843 (15.05)**
N	153	153	95	95	153	153	95	95
Adj R2	0.764	0.787	0.791	0.791	0.770	0.782	0.761	0.761
F-Statistic	247.39	188.49	90.45	72.30	255.72	183.11	75.83	61.02

Note: Estimates obtained using ordinary least squares. All variables expressed in logs. T-ratios shown in parenthesis. See table A1 for countries and survey dates.

* Significant at the 0.05 level.

** Significant at the 0.01 level

2.4 Estimating Unofficial Remittances: Simulation Functions

It is possible that official international remittances have no statistical impact on poverty in South Asia because these remittance figures just count a portion of total remittance flows. In other words, if unofficial remittances could be estimated and added to official remittances, then the impact of total remittances (official and unofficial) on poverty might be different. The hypothesis here is that unofficial remittances are more likely to be earned by the poor, because the poor are more likely to avoid banks and official channels (Adams 2003b). It is therefore possible that when remittance figures include unofficial remittances, they will tend to statistically reduce poverty. This hypothesis seems particularly plausible in South Asia, where various observers have noted that a large proportion of remittances flows through unofficial channels.¹⁹

One way to estimate the size of the remittance monies that is sent back through unofficial channels is to use the simulation model suggested by El-Qorchi, Maimbo, and Wilson (2003). This model states that the share of unofficial remittances in total (official and unofficial) remittances can be analyzed as a function of the black market premium prevailing in different developing countries.²⁰ Results for the model are obtained by assigning different values for the minimum (MIN) and maximum (MAX) share of unofficial remittances in total remittances, according to country characteristics and exchange rate histories. For example, El-Qorchi, Maimbo, and Wilson (2003) note that the *hawala* system of unofficial remittances is deeply entrenched in Pakistan, and so the choice value for the minimum and maximum shares of unofficial remittances in total remittances would be high. As El-Qorchi, Maimbo, and Wilson (2003, Appendix II) emphasize, this method of selecting values for minimum and maximum shares of unofficial remittances in total remittances is “judgmental,” based on current knowledge of the various factors in individual countries.

Table 2.3 summarizes the results of the model simulation by listing the values for official remittances (RP), unofficial remittances (RI) and total remittances (official and unofficial) (R) for the five South Asian countries.²¹ For the five South Asian countries as a whole, when the values for unofficial remittances are combined with those for official remittances, total remittances (official and unofficial) increase by 64.8 percent: from \$39.4 to \$64.9 billion dollars. In other words, in the latter situation unofficial remittances represent about 39 percent (\$25.5 billion/\$64.9 billion) of the total value of remittances (official and unofficial).

2.5 Official and Unofficial Remittances and Poverty

It is possible to take the estimated values for unofficial remittances, combine them with the official remittance figures, and then re-estimate the poverty equations used in section (2) of this chapter. This is done in table 2.4.

¹⁹ See, for example, El-Qorchi, Maimbo, and Wilson 2003.

²⁰ The full model elaborated by El-Qorchi, Maimbo, and Wilson (2003) can be written as: $RI/R = \alpha_0 + \alpha_1 B + \alpha_2 B^2 + \alpha_3 B^3$, where RI is unofficial remittances, R is total remittances (official and unofficial), RP is official remittances (as recorded in the balance of payments accounts), R equals RI plus RP, B is the black market premium (in percent of the official exchange rate), MIN is the intercept (α) or the minimum share of unofficial remittances in total remittances (official and unofficial) and MAX is the maximum share of unofficial remittances in total remittances (official and unofficial).

²¹ Full results for all observations from the 71 countries in the dataset are available from the author.

Table 2.3: Comparison of Official and Unofficial Remittances for South Asia

Country	Survey year	\$ Millions		
		Official remittances	Unofficial remittances (estimated from simulation model)	Total remittances (official and estimated unofficial remittances)
Bangladesh	1984	527	631	1,158
Bangladesh	1986	497	805	1,302
Bangladesh	1989	771	902	1,673
Bangladesh	1992	848	1,010	1,858
Bangladesh	1996	1,217	1,110	2,327
India	1983	2,311	444	2,755
India	1986	2,105	1,233	3,338
India	1988	2,402	1,101	3,503
India	1990	1,875	1,425	3,300
India	1995	7,685	4,123	11,808
India	1997	10,688	4,044	14,732
Nepal	1985	39	0	39
Nepal	1995	101	75	176
Pakistan	1988	2,013	442	2,455
Pakistan	1991	1,848	1,262	3,110
Pakistan	1993	1,562	1,642	3,204
Pakistan	1997	1,409	4,013	5,422
Sri Lanka	1985	292	25	317
Sri Lanka	1990	401	601	1,002
Sri Lanka	1995	790	646	1,436
Total		39,381	25,534	64,915

The most important results in table 2.4 are contained in equations (4) and (8), which show the findings for the interactive dummy variable for South Asia. For the poverty headcount measure, this interactive variable (South Asia dummy times official and unofficial remittances) is negative and statistically significant. For the poverty gap measure, this interactive variable is also negative and just misses the 5 percent level of significance. In other words, when the estimated values for unofficial remittances are added to official remittance figures, total remittances (official and unofficial) reduce the level of poverty in South Asia.²² On average, the point estimates for the poverty headcount measure (equation 4) suggest that a 10 percent increase in total remittances (official and unofficial) will lead to a 0.9 percent decline in the level of poverty. This means that for a “representative” country where exactly one-half of the population lives below the poverty line, a 10 percent increase in total remittances (official and unofficial) will bring the proportion living in poverty down to about 0.48 percent.

²² Equations 4 (4) and 4 (8) also show that total remittances (official and unofficial) significantly reduce the level and depth of poverty in the developing world as a whole.

Table 2.4: Elasticity of Poverty, Estimated Using Official and Estimated Unofficial International Remittances
(unofficial remittances estimated from simulation model)

Variable	Dependent variable = Poverty headcount				Dependent variable = Poverty gap			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Per capita survey mean	-2.263 (-20.60)**	-2.090 (-18.61)**	-1.829 (-14.84)**	-1.832 (-14.81)**	-2.584 (-20.42)**	-2.434 (-18.36)**	-2.200 (-14.29)**	-2.206 (-14.33)**
Gini coefficient of country	3.832 (14.32)**	4.217 (15.59)**	4.085 (13.98)**	4.080 (13.92)**	4.792 (15.55)**	5.126 (16.05)**	4.942 (13.55)**	4.931 (13.52)**
Per capita official and unofficial remittances			-0.162 (-3.85)**	-0.156 (-3.62)**			-0.145 (-2.76)**	-0.133 (-2.47)*
South Asia dummy (1 if South Asia country)		0.856 (4.15)**	0.945 (4.64)**	1.202 (2.46)*		0.745 (3.06)**	0.781 (3.07)**	1.348 (2.22)*
(South Asia dummy) x (per capita official and unofficial remittances)				-0.099 (-1.98)*				-0.220 (-1.53)
Constant	21.768 (24.63)**	20.759 (23.75)**	19.262 (21.05)**	19.263 (21.00)**	23.557 (23.13)**	22.679 (21.98)**	21.304 (18.66)**	21.306 (18.66)**
N	153	153	134	134	153	153	134	134
Adj R ²	0.764	0.787	0.792	0.792	0.770	0.782	0.764	0.765
F-Statistic	274.39	188.49	128.21	102.10	255.77	183.11	109.15	87.57

Note: Estimates obtained using ordinary least squares. All variables expressed in logs. T-ratios shown in parenthesis. See Table A1 for countries and survey dates. See text for details on estimating unofficial remittances using simulation model.

* Significant at the 0.05 level.

** Significant at the 0.01 level.

The question now arises: Why do total remittances (official and unofficial) have a statistical impact on reducing poverty in South Asia, while official remittances do not? The answer to this policy question has already been broached above. Unofficial remittances are more likely to be earned by the poor, because these are the people who are more likely to shun banks and to avoid official financial channels. Thus, when remittance figures only include those funds that enter official banking channels, the impact of these transfers on the poor is underestimated. However, when remittance figures are revised to include estimates of unofficial remittances, the impact of these resource flows on the poor becomes more evident. These factors are all the more critical in those regions of the world—like South Asia—where a large share of remittance monies have tended to flow through unofficial and informal channels. In South Asia (and perhaps the Middle East) it is very important to estimate the size of unofficial remittance flows, in order to arrive at a proper (and more correct) understanding of the impact of international remittances (official and unofficial) on poverty.

2.6 Remittances, Investment, and Economic Development

From the standpoint of economic development, the central question regarding international remittances is quite straightforward, namely, how are these monies spent or used? Do migrant workers channel international remittances into productive investments at home, or do they use such monies merely to underwrite the consumption of newly desired consumer goods? Stated more baldly, do international remittances help provide the investment needed to facilitate economic development, or do they merely foster new patterns of dependence on status-oriented consumer goods for migrant workers and their families?

Unfortunately, these questions are difficult to answer because of three related methodological problems. The first is the design of household budget surveys, which represent the best source for collecting information on how migrant households spend or use remittances. However, as noted above, few of these household surveys ask any questions about how international remittances are used. For example, an analysis of all the World Bank Living Standard Measurement Surveys (LSMS) done on South Asian countries failed to uncover even one survey question concerning how remittance monies were spent.²³ The second problem is fungibility: Because international remittances are like any other form of cash income, it is difficult to associate this income source with any particular changes in household expenditure behavior. Thus, in designing household surveys, it is not enough to just ask a household how it spent its remittance income, because that income could have freed other resources for expenditure on saving or investment. The most effective approach is to design household panel surveys to collect information on the expenditure patterns of international migrant households over time. The final problem relates to the multiple-round effects of international remittances on development. For example, an inflow of remittances into a local economy may lead to a surge in expenditures in housing, which may, in turn, create new income and employment opportunities for the poor and unskilled. Unfortunately, few studies have tried to evaluate the second- and third-order effects of international remittances on wages and employment.²⁴

One of the few empirical studies that has examined how international remittances are spent or used in South Asia is by Adams (1998). Adams used a 5-year panel dataset from rural Pakistan to examine how international remittances were spent or invested in different assets over time.²⁵ While this study

²³ None of the following LSMS household surveys done in the South Asia region contained any questions on how remittances were used or spent: India, 1997-98; Nepal, 1991; Pakistan, 1991; and Sri Lanka, 1999-2000. In all fairness, it should be noted that this problem is not just confined to South Asia. The following LSMS surveys also failed to include any questions on the uses of remittances: Brazil, 1996-97; Morocco, 1991; and Vietnam, 1997-98.

²⁴ For one notable exception to this statement, see Taylor and Adelman (1996).

²⁵ Adams' study (1998) was based on a panel of 500 households in four rural Pakistani districts over the period 1986-87 to 1990-91.

was based on a limited number of rural households (500), and was not representative of either rural Pakistan or Pakistan as a whole, its findings are suggestive.

Adams found that international remittances (official and unofficial) account for only a small share—between 4.8 and 11.7 percent—of total household income in rural Pakistan. When households are ranked into quintile groups based on total per capita income, these international remittances go mainly to the rich. According to the data, households in the top income quintile receive 13.8 percent of their household income from international remittances, while households in the poorest quintile receive only 1.0 percent of their household income from international remittances. One of the main reasons for this phenomenon seems to be the high entry costs to international migration. In rural Pakistan most international migrants go to work in the Persian Gulf, and the average costs of international migration—about \$1,300 dollars—are too high for lower-income households.

In his study Adams used an asset accumulation model to estimate the impact of international remittances on the accumulation of four different types of assets. These are all physical assets: irrigated land owned; rain-fed land owned, livestock assets (value of animals); and nonfarm assets (value of vehicles, bikes, stores or buildings). Efforts to estimate the impact of international remittances on the accumulation of human capital assets, such as change in male and female education, failed to produce meaningful results.²⁶

The analysis found that international remittances had a positive and significant effect on the accumulation of two assets in rural Pakistan: irrigated and rain-fed land. These results, which parallel those of other studies regarding the propensity of international migrants to invest in land,²⁷ are important for two reasons. First, they show that despite the high cost of land in rural Pakistan—an estimated \$3,420 per acre for irrigated land in Punjab province—remittances can and do lead to rural asset accumulation. Second, these findings show that rather than wasting their remittance earnings on increased consumption (more food, more lavish social ceremonies), international migrants prefer to invest their remittance money. In rural Pakistan international migrants do invest and they actually exhibit a higher propensity to invest than do their nonmigrant counterparts.

However, it should be emphasized that this study found that international remittances do not have a significant effect on the accumulation of nonfarm assets (value of stores or buildings). This finding is disappointing because some studies have suggested that international remittances may provide the capital for increased investment in new business and mercantile activities. However, in rural Pakistan international migrants do not invest in business activities because apparently the rates of return to this investment are lower than those for land. Moreover, since many of the international migrants from rural Pakistan are government bureaucrats or farmers, they probably lack the necessary mercantile skills to start a new business when they return. In their investments migrants seem to avoid investing in areas that they do not know (such as business) in favor of committing their earnings to what they know best (namely land).

2.7 Conclusion

This chapter has shown that international migration and remittances are important to poverty and economic development in South Asia. International remittances (official and unofficial) reduce poverty in South Asia, and international remittances do lead to asset accumulation—mainly land accumulation—in rural areas.

²⁶ There was very little change in male and female education over the course of the 5-year panel.

²⁷ See, for example, Adams (1991) and Russell (1986).

Obviously, more research work needs to be done to clarify the impact of international remittances on poverty and economic development in South Asia. Such work should be focused on three areas. First, with respect to data, the International Monetary Fund should make greater efforts to count the amount of remittance monies that are currently transmitted through informal, unofficial channels. Since it is likely that poor people remit more through informal channels, a full and complete accounting of the impact of international remittances (official and unofficial) on poverty in South Asia needs more accurate data on the large level of unofficial remittances returning to that region.

Second, with respect to research methods, more household panel surveys need to be implemented in South Asian countries to collect information on the expenditure patterns of international migrant households. These surveys need to be conducted on nationally-representative samples of urban and rural households, and should include modules designed to measure the second- and third-round effects of international remittances on wages and employment. A full and complete accounting of the impact of international remittances on local-level economic development requires more detailed and complete household-level data.

Third, and finally, more research and policy work needs to be undertaken to encourage policymakers in South Asia to improve the investment climate for returning migrant workers. If, for example, policy makers would like to see a larger share of international remittance monies invested in business, then they need to undertake the type of infrastructure improvements—better roads, improved telephone systems and electrical grids—which would encourage expanded commerce and trade. The provision of small business loans to new firms would also do much to improve the business climate for returning migrants. The point to emphasize here is that international migrants do invest their remittance earnings, and they tend to invest these earnings in areas where financial rates of return are the greatest.

CHAPTER 3

PUBLIC INFRASTRUCTURE FOR REMITTANCES

3.1 Introduction

All the countries in the region have taken active steps to support the migration of nationals. The public infrastructure to support the search for employment abroad, the migration of successful applicants and their subsequent stay is, in principal, in place. This chapter considers the basic public infrastructure and incentives that have been established in recent times in each of the four countries.

3.2 Bangladesh

Remittances to Bangladesh have been growing steadily over the last decade. Since its independence in 1971, more than three million Bangladeshi's have left the country in search of employment. The central bank estimates their cumulative remittances during 1976-2003 at around US\$22 billion²⁸. Recognizing their economic importance, the government for years has had legislation, policies, and an institutional structure in place to facilitate the migration of its citizens. Currently three government agencies manage the welfare of migrants: the Ministry of Expatriates' Welfare and Overseas Employment; its Bureau of Manpower, Employment, and Training (BMET); and Bangladesh Employment and Services, Ltd (BOESL).²⁹

Administratively, the Ministry of Expatriates' Welfare and Overseas Employment is responsible for all public sector organizations and companies dealing with overseas employment. It also registers recruitment agencies, manages the Labor Wing in Bangladeshi missions abroad, and administers the Wage Earners' Welfare Fund. Because it is directly responsible for migrants, the Ministry handles complaints from expatriates, manages projects for expatriate participation in local economic and social welfare activities, facilitates expatriate investments in the country, promotes Bangladeshi culture among expatriates abroad, and maintains ties with associations of Bangladeshis abroad.

BMET has seven specific functions: (1) to promote employment in Bangladesh and abroad; (2) to protect the interests of emigrants; (3) to ensure the welfare and remittances of Bangladeshis working abroad; (4) to provide vocational guidance and employment counseling; (5) to promote self-employment by distributing tool-kits and preparing investment schedules; (6) to maintain liaison with international agencies regarding development of training and employment; and (7) to compile and publish reports on employment and to carry out research and studies on action-oriented programs.

BOESL projects Bangladesh as a reliable source of quality manpower through regular publicity and advertising in foreign media, and through employment-promotion campaigns in labor-importing countries. Its work is carried out either independently through its numerous agencies, branches, and offices in Bangladesh and abroad, or in collaboration with private sector agents. To this end it acts as a consultant and recruitment agency for Bangladeshis looking for foreign employment, particularly on large civil and mechanical construction projects. It arranges employment tests, medical tests, tickets, and other facilities for persons selected for foreign employment, either independently or in collaboration with other organizations. Thereafter, it continues to look into the welfare of migrants

²⁸ Azad (2005)

²⁹ IOM 2003.

while motivating and mobilizing Bangladeshi citizens living abroad into productive investment in the country through joint ventures and other commercial enterprises.

Together, and in coordination with other arms of government, the three agencies facilitate the marketing of potential migrants, the migration of successful candidates, and their sojourn abroad and eventual return home.

- *Premigration*: Bangladesh actively markets its labor resources abroad through labor attachés posted to missions in foreign countries, who coordinate visits of ambassadors and ministers with opposite numbers, as well as employer groups, in host countries. Licensed agents in the country market their employer clients by contacting prospective foreign workers directly. Interested candidates are briefed at centers run by the BMET. Training is provided, particularly for semi-skilled and unskilled workers who form the majority of Bangladeshi migrants (table 3.1) for future housemaids. First-time travelers receive instructions on procedures for leaving the country.
- *Migrants*: Migrants are said to have access to welfare officers in their governments' missions to submit complaints of nonpayment or underpayment of wages, lack of medical facilities, and poor food. In cases where no amicable resolution of the problem is available, migrants are given legal assistance in seeking redress. Sometimes, when the migration experience fails, the government is called upon to assist in the repatriation of migrant workers from host countries, including the repatriation of remains of workers who have died abroad. To assist with these and other expensive support systems, migrants are expected to contribute to a welfare fund. The fund helps with legal support in the host country, initial sustenance, repatriation, and legal support to family members in the country of origin.

Throughout this process, particular attention is paid to the convenience of sending remittances to Bangladesh. Numerous initiatives address this specific concern—among them (1) the appointment of bank representatives in major labor-importing countries; (2) agreements with banks in host countries to facilitate remittances; (3) encouragement and facilitation of investments in privatized Bangladeshi industries; (4) special savings incentives in the form of a Wage Earners Bond; and (5) housing opportunities on government land developments.

Table 3.1: Official Flow of Bangladeshi Workers by their Skill Composition

Year	Professional	Skilled	Semi-Skilled	Unskilled	Total
1998	9,574	74,718	51,590	131,785	267,667
1999	8,045	98,449	44,947	116,741	268,182
2000	10,669	99,606	26,461	85,950	222,686
2001	5,940	42,742	30,702	10,581	188,965
2002	14,450	56,265	36,025	109,285	216,025

Source: Siddiqui and Abrar 2003.

The momentum for direct government participation in the remittance sector goes back to the early 1980s, after studies found significantly higher saving rates for remittance receiving households (RRH) than for nonreceiving households (NRH). Ali (1981), for example, estimated the savings rate of rural RRHs at 50 percent of income, in contrast to the 2 percent saving rate of NRHs. For urban dwellers the corresponding figures were 39 percent and 4 percent. These results are in line with the argument that saving from transitory income is higher than from permanent income, a corollary of the permanent income hypothesis. Habib (1985) also found a higher savings rate for the RRHs, a finding

supported by Mahmud and Osmani (1980), who showed that the saving rate increases monotonically with income.

Both Ali (1981) and Habib (1985) found that RRHs spent the largest share of their disposable income on land, home construction, and home improvements. While Habib found this pattern in both rural and urban areas, Ali found it only in rural areas. Neither author found much difference in the expenditure pattern of RRHs and NRHs except for the fact that RRHs spent more on land and homes than NRHs.

This pattern of higher savings by RRHs and greater spending on land and homes held through 1990, according to Mahmud (1991). However, Murshid and others (2001) found a significant shift toward consumption in the spending pattern of RRHs. RRHs were found to spend 35 percent of their income on food, followed by loan repayments, land purchase, house construction, and repair. It is not clear whether this shift was systematic or due to idiosyncratic shocks.

3.3 India

The Emigration Act of 1983 safeguards the interests and ensures the welfare of Indians employed overseas on a contractual basis. The Ministry of Labor administers the act and supervises the emigration of Indian workers through the eight offices of the Protectors of Emigrants. The other ministries involved in the emigration of Indians are the Passport Issuing Authority, India's diplomatic missions, under the Ministry of External Affairs, and the Airport Immigration Authorities of the Bureau of Immigration in the Ministry of Home Affairs.

- *Premigration:* Although some state governments have set up manpower corporations to promote labor exports from their states, the central government assumes no role in promoting emigration. Nor are centrally-organized predeparture orientations or services yet available to migrant workers. Instead, the private sector plays a significant role in expanding labor migration. Recruiting agencies search out new areas and avenues for deployment of Indian workers abroad. Under the Emigration Act, only agencies registered with the Ministry of Labor and holding a registration certificate can conduct the business of recruiting for overseas employment.³⁰ A foreign employer may recruit any Indian citizen for employment abroad either through a recruitment agent competent under the act to perform such recruitment, or directly in accordance with a valid permit issued by the government. Indian workers are also deployed by Indian firms on project sites abroad. The recruitment agent is authorized to collect service charges from each worker, as fixed by the government.
- *Migrants:* India's diplomatic posts in countries where there is a large concentration of Indian expatriate workers have a dedicated labor attaché/welfare officer. Posts provide various forms of assistance to migrants, including assistance in settling disputes. Most of the complaints received from Indian migrants relate to nonpayment or delayed payment of wages, irregular working hours, modification of the labor contract to their disadvantage, poor working and living conditions, stranding because of foreign employers' unwillingness to meet workers on arrival, and nonpayment of compensation in the case of injuries resulting from accidents in the course of employment.³¹ Reports of physical abuse of domestic workers, especially housemaids, are

³⁰ The certificate is granted after checking, among other things, the agent's financial soundness, trustworthiness, adequacy of premises, and experience in dealing with manpower export, and after depositing financial security.

A proposal is under consideration to constitute a Central Manpower Export Promotion Council and an Indian Overseas Workers' Welfare Fund that would fund return tickets for workers stranded abroad, pay for repatriation of deceased workers, and grant assistance to workers who become partially or permanently disabled, among other purposes.

received from Kuwait and other countries of the Middle East. Overall, most complaints are received from workers in the Gulf region and in Southeast Asia, notably Malaysia.

Although India does not have specific national programs and services to assist in the reintegration of returning migrants, it does provide various forms of incentives for nonresident Indians (NRIs) to reinvest in the country. Many of India's migrants have established themselves in other countries and now hold dual citizenship. One of the most important incentives for investing in India is the ability to move capital freely between their two homes without undue bureaucratic constraints. In 2004 alone, this group remitted substantially through formal banking channels (table 3.2).

In this regard, the government has sought to be accommodating. On January 10, 2004, the Minister of Finance announced that "any citizen can walk into a bank, buy dollars up to US\$25,000 a year and remit it abroad—anywhere he likes, for whatever he wants."³² Despite the annual cap of US\$25,000 on free outward remittances, this is the first time that a resident need not specify the underlying or purpose of the foreign-exchange transaction. Previously, capital convertibility existed only for nonresident Indians. Full convertibility is expected to take years and may depend on whether India can achieve lower fiscal deficits and manage inflation, among other conditions. The announcement of January 2004 was driven by the need to create a demand for the U.S. dollar, which had been sliding against the rupee. In the face of the US\$7 billion FII inflow and even greater remittances, the Indian currency appreciated by more than 5 percent in 2003 despite regular intervention by the Central Bank.

Table 3.2: NRI Deposits as at End March (US\$ million)

Year	FCNR(A)	FCNR(B)	NR(E) RA	NR(NR)RD	Total
1991	10,103	...	3,618	...	13,721
1992	9,792	...	3,025	...	12,817
1993	10,617	...	2,740	621	13,978
1994	9,300	1,108	3,523	1,754	15,685
1995	7,051	3,063	4,556	2,486	17,156
1996	4,255	5,720	3,916	3,542	17,433
1997	2,306	7,496	4,983	5,604	20,389
1998	1	8,467	5,637	6,262	20,367
1999	...	7,835	6,045	6,618	20,498
2000	...	8,172	6,758	6,754	21,684
2001	...	9,076	7,147	6,849	23,072
2002	...	9,673	8,449	7,052	25,174
2003	...	10,199	14,923	3,407	28,529
2004	...	10,961	20,559	1,746	33,266

Source: Reserve Bank of India Bulletin 2004

There have been other reforms as well. Indian companies can now invest up to 100 percent of their net worth overseas. Previously, a ceiling of US\$100 million had been imposed. Indian companies are now allowed to undertake agricultural ventures abroad. Places are reserved in educational institutions for the children of nonresident Indians in the Gulf and Southeast Asia. Those in the Gulf are eligible to pay lower resident fees in educational institutions.

³² *The Economic Times* (Chennai), January 10, 2004.

3.4 Pakistan

Pakistan has a comprehensive system of emigration under the supervision of the Ministry of Labor, Manpower, and Overseas Pakistanis. Under the Emigration Ordinance of 1979, the Ministry's Bureau of Emigration and Overseas Employment regulates labor emigration in the private sector, while the Overseas Employment Corporation deals with labor emigration in the public sector. Emigration of Pakistanis for purposes other than foreign employment is controlled by the Ministry of Interior through its departments—the Federal Investigations Agency, the Directorate General of Passports, and the Immigration and National Database and Registration Authority.

- *Premigration:* The government organizes premigration briefings on the customs, local conditions, and relevant laws of destination countries. The briefings are held for all registered migrants in offices of the Protector of Emigrants in Karachi, Lahore, Rawalpindi, and Peshawar. The government endeavors to improve the skills and attitudes of the workers in demand abroad in accordance with international norms and standards. Foreign recruiting, however, is primarily managed by overseas employment promoters in the private sector. About 70 percent foreign employment is handled by licensed overseas employment promoters. The remaining 30 percent of workers find employment through their own efforts.
- *Migrants:* Community welfare attachés are posted in Pakistan's diplomatic missions in manpower-importing countries. Attachés maintain liaison with Pakistani workers and help them solve problems in coordination with authorities in the host country. A welfare fund established under the Emigration Ordinance of 1979 is managed by the Overseas Pakistanis Foundation (OPF) for the welfare of migrant workers and their dependents in Pakistan. OPF provides education, training, housing, and medical facilities for the families of overseas Pakistanis.

Over the past few years, the government has announced several measures to encourage Pakistanis abroad to remit their funds to Pakistan, especially those in the Arabian Gulf States (table 3.3). In June 2001 the minister of finance announced the following benefits.

Overseas Pakistanis remitting US\$2,500 per annum through banking channels to Pakistan are entitled to:

- Separate immigration and customs counters at all international airports at arrivals and departures
- Free renewal of passports on a priority basis
- Duty-free import of items of personal convenience up to US\$700 during any year

Nonresident Pakistanis (NRPs) remitting a minimum of US\$10,000 through banking channels are entitled to:

- Special access to the merit-based quota system assigned in all public professional colleges and universities
- Duty-free import of items of personal convenience of a value up to US\$1,200 per year.
- An allocation of up to 25 percent for initial public offerings to be subscribed in foreign currency
- Participation in a lottery for choice plots in public housing schemes at attractive prices if paid in foreign currency

Table 3.3: Top Five Countries of Destination for Contract Migrant Workers

Country	Number of Migrants (Jan – Nov 2002)
Saudi Arabia	94,852
UAE	29,593
Kuwait	2,755
Bahrain	955
Qatar	410

Source : IOM, 2003.

- A discount in the auctions of the Corporate and Industrial Rehabilitation Corporation (CIRC) if payment is made in foreign currency
- Expedited allocation of shares in privatizations

Tax incentives: In addition, bona fide remittances are not subject to tax. Overseas Pakistanis may remit money freely to their families in Pakistan for consumption or investment without any interference from tax authorities. The income of Pakistani seafarers working on foreign vessels remitted to Pakistan through normal banking channels also is exempt from income tax.

Banking Sector: Banks have been directed to review their arrangements for remittances to speed up the remittance process and ensure outreach to labor migrants by establishing prior contacts with the recipients. Both residents and nonresidents may now maintain foreign-currency accounts without risk of freezing or seizure.

In addition, the following measures are being adopted to encourage the participation of professionals in remittance and investment:

- Exclusive investment products will be marketed to nonresident Pakistanis.
- Banks will be encouraged to offer new products for nonresident Pakistanis, who now may hold and manage their own foreign-currency deposits.
- The market for private pension funds will be developed and promoted with a view to attracting investment from nonresidents.
- A Web site will host information about charities for the benefit of nonresidents who wish to support them.

3.5 Sri Lanka

Two departments are directly active in the migration and remittances business: The Ministry of Employment and Labor and its implementing arm, the Sri Lanka Bureau of Foreign Employment (SLBFE). The ministry is responsible for formulating policies and monitoring the overall administration of foreign employment, as well as coordinating with relevant state agencies. SLBFE implements a wide range of workers' welfare programs, both locally and in host countries, that protect migrant workers during the entire migration process. SBBFE is responsible for monitoring the migration of individuals, the activities of employment agencies, and the promotion of foreign employment opportunities especially to the Arabian Gulf states to which the majority of unskilled

Table 3.4: Official Flow of Sri Lankan Workers to the Middle East by Skill Composition

Country	Professional Level	Middle Level	Clerical Related	Skilled	Unskilled	Housemaids	Total
Saudi Arabia	319	2,810	1,853	13,774	16,349	40,728	75,830
Kuwait	51	378	408	6,518	4,725	26,178	38,258
UAE	472	1,912	2,414	10,141	8,469	8,762	32,173
Qatar	284	878	920	9,138	9,198	3,281	23,699
Lebanon	5	14	10	55	304	12,787	13,175
Jordan	12	264	108	3,527	445	2,720	7,076
Oman	85	416	265	1,361	385	1,572	4,084
Bahrain	55	205	175	976	573	1,729	3,713

Source: Sri Lankan Bureau of Foreign Employment (2003) p. 5.

workers emigrate (table 3.4). Programs to ensure the welfare of families of migrant workers are being prepared.

- *Premigration:* Sri Lanka has a comprehensive range of premigration facilities and services that include identifying foreign employment opportunities, predeparture training, and predeparture loan schemes.
- *Identification of foreign employment opportunities:* SLBFE seeks out employment opportunities for its nationals abroad. The majority of opportunities, however, are identified and filled by numerous foreign employment agencies registered and supervised by the SLBFE. Traditionally, the largest markets have been for unskilled laborers, particularly housemaids, in the Middle East. However, new markets are opening up in Europe and Southeast Asia. Recent efforts have been made to increase the number of male migrants, increase opportunities for skilled workers, and diversify the geographical destination of Sri Lankan migrants.
- *Training:* In coordination with the Ministry of Vocational Training and other government bodies SLBFE provides training to prospective migrants at 22 training centers and works with a further eight private institutions. Provided free of charge to all who desire foreign employment (as long as they are registered with the SLBFE or a private employment agency), the training includes immigration procedures, customs and etiquette in the host country, and basic financial management skills. The training for housemaids destined for the Middle East, who constitute as much as 80 percent of the migrant labor force, is particularly important given the number of complaints received from that region and the high social costs associated with female migrants.
- *Predeparture loan schemes:* Through the state banks, the SLBFE also provides predeparture loans to cover departure expenses, including travel costs. The loans are available at a flat interest rate of 8 percent. The difference between that rate and the market interest rate is subsidized by the government. The loans can be used for the purchase of the air ticket, for Sri Lankan Foreign Bureau registration fees, and for medical expenses and other necessities. To obtain the loan, applicants must open an account with a state bank and must be 18–50 years of age, hold a valid visa, a letter of employment from an employment agency in Sri Lanka or employer abroad, and a certificate from the SLBFE. Once these requirements are met, the applicant need only complete an application, obtain a draft for at least US\$50 as an initial deposit, and provide a photocopy of the page of the passport that contains photographs and personal data.
- *Predeparture insurance schemes:* The SLBFE also provides free life insurance to eligible migrants and their families.³³ A migrant becomes eligible on producing the following documents: passport, return ticket and purchase receipt, receipt of registration payment with the SLBFE, medical records if the migrant has been sick, documents from the employer or employment agency, a letter from the agency (if the migrant returns within three months), and a bank pass book.
- *Migrants:* Once abroad, migrants are permitted to maintain nonresident foreign-currency accounts through which they may send their remittances. While all banks provide NRFC accounts, there is a clear market segmentation between the foreign banks and the state-run banks. The former concentrate on middle- and higher-income skilled professionals, while the latter hold the accounts of the majority of lower-income unskilled laborers. The following categories of migrants are eligible to open NRFC accounts: (1) Sri Lankans employed abroad or within 90 days of return to Sri Lanka; (2) nonnationals of Sri Lankan origin living abroad; and (3) Sri Lankan

³³ In addition to this scheme, migrants have access to a welfare fund financed through a fee of US\$25 levied on employers abroad.

nationals who go overseas to study or participate in conferences, subject to production of documentary evidence that they have brought into the country any funds received from overseas institutions.³⁴

In its recently-published National Employment Policy, the government made it clear that it will seek to “adopt a proactive approach to identifying global employment opportunities and uplift the image and skills of migrant human capital by providing them with appropriate training to enhance their competitiveness.”³⁵ To achieve this, the government plans to reorganize the SLBFE to make it more market oriented and effective in its promotional and training activities, particularly with respect to domestic female workers.

3.6 Conclusion

Remittances to the South Asia region have been growing steadily over the last decade. The economic benefits of that growth are clear—remittance income enables families to supplement their local income. To the extent remittances are transferred through formal financial institutions, the government’s balance of payments benefits from the increased foreign-exchange reserves. Governments have noticed and taken various forms of initiatives—with varying degrees of success—to facilitate migration of their nationals, the welfare of their citizens abroad, and the remittance of earnings to their home countries. Government legislation, dedicated departments, labor training centers, labor attachés in embassies abroad, and a plethora of targeted incentives are part of a far-reaching public framework for remittances in the region. Consistently improving its effectiveness will substantially aid the development impact of migrant remittances in the years to come.

³⁴ The accounts may be held individually or jointly. Spouses may open a joint account in their names provided at least one is working abroad and the other is living with him or her.

³⁵ Ministry of Employment and Labor 2004.

CHAPTER 4

FORMAL FINANCIAL INFRASTRUCTURE FOR REMITTANCES

4.1 Introduction

Most studies of workers' remittances have focused on the senders and receivers of remittances with little attention given to intermediaries, official or unofficial, which facilitate the process.

This chapter discusses the formal financial infrastructure for remittances in South Asia available to migrant workers, with particular attention to the extensive state financial infrastructure already in place. The South Asia region is unique in its vast state banking and non-banking financial institutions. While Latin America, Africa, and East Asia have largely privatized their state banking infrastructure, the South Asia region continues to be dominated by large state banks with heavy and dense urban and rural branch networks.

The formal financial system for remittances includes four principal actors—state commercial banks, private foreign and local commercial banks, and money service businesses or companies.

Remittances through banks are typically by way of bank drafts (10-15 days) and telegraphic money transfers (48 hours). The former cost about US\$1 from the Arabian Gulf, while the latter are slightly more at US\$4. Though the banks do not always have branches in destination areas such as the Arabian Gulf, they are able to participate in the remittance business by partnering with remittance companies eager to take advantage of the significant branch networks the banks in the region have to offer.

Slowly, other actors—such as post offices and microfinance institutions—have begun exploring opportunities in the remittance industry. However, their participation is still in its infancy.

4.2 State Commercial Banks

In South Asia, the extensive branch network of the state commercial banks is unique. They have long dominated the official remittance business, in part because of their large commercial branch networks, but also because they long enjoyed monopolistic control of foreign-exchange transactions.

In India, the 1970s and 1980s saw a rapid expansion of India's financial system into rural areas. Following Indira Gandhi's bank nationalization drive, launched in 1969, commercial banks were required to open rural branches. Between 1973 and 1985, bank branches in rural areas grew at an average of 15.2% each year, about double the growth rate of branches in semi-urban (6.4%), urban (7.8%), and metropolitan (7.5%) areas. Rural branches grew from 1,833 in 1969 to 30,186 in 1985, an increase of 1,547%. Rural branches continued to expand in the 1980s to 35,000 by 1991, declining slightly to 32,400 in 2001. Today, India has over 32,000 rural branches of commercial banks and regional rural banks, and some 14,000 cooperative bank branches.³⁶

The State Bank of India (SBI) alone for example, has 9,000 branches in urban and rural India. Although it has no branches in the Middle East, it attracts remittances from that region through money exchange companies that receive local currency from remitters and convert the funds to a

³⁶ World Bank 2004.

demand deposit that eventually is deposited in the SBI accounts in India. In the United States, the SBI allows individuals to obtain demand drafts in Indian rupees using that day's exchange rate. SBI accepts cash for demand drafts valued up to \$1,000. For amounts greater than \$1,000, a cashier's check from the customer's U.S. bank is required. If a personal check is used, then time is required for clearance. A charge of \$10 applies to drafts of Rs. 50,000 or less, with no charge for greater amounts. If the recipient has an account with SBI in India, a wire transfer can be made. The amount is transferred in two business days for a fee of \$30 per transaction. The SBI offers various remittances modes, including personal checks, cashier's checks, wire transfers, Automated Clearing House (ACH) debit authorizations, and account debits. Recipients may choose to receive the money in rupees or foreign currency, either in cash or as a direct deposit into their account.

The banking system in Bangladesh is dominated by four nationalized commercial banks, which together operate at least 3,346 branches. Sonali Bank, the largest commercial bank in Bangladesh and fully state-owned, handles 40 percent of all remittances to Bangladesh. Sonali Bank has subsidiaries in the United States and United Kingdom, a representative office in Saudi Arabia, and 23 agency offices in the Middle East. The U.S. subsidiary has six offices from New York to California. The U.K. subsidiary has five offices. The bank has arrangements with 22 foreign correspondent banks in the United States (including American Express and Banker's Trust) for facilitating remittances to Bangladesh. Sonali Bank guarantees to pay the remitted funds in 48 hours. A bank account can be opened without an initial deposit, and funds sent by workers can be used to purchase Wage Earners' Development Bonds.

In Sri Lanka, People's Bank—the largest state bank—has 326 branches, 81 counter services, 188 pawning centers, and 97 ATMs,³⁷ while Bank of Ceylon has 299 branches.³⁸ Between them, the two state banks make a substantial contribution to a Sri Lankan bank-branch density (per 10,000 people) of 0.69 in 2003.³⁹

4.3 Private Foreign and Local Commercial Banks

Increasingly, however, it is the private commercial banks that are eyeing the remittances market. Sensing a growing market for remittances to South Asia, several banks have introduced remittance services and started aggressive marketing programs.

Foreign Commercial Banks

Foreign banks in Bangladesh, India, Pakistan, and Sri Lanka are newcomers to the remittance business. Where they are involved, they have tended to focus on skilled migrants—doctors, accountants, lawyers, and other professionals—mainly account holders who have migrated. They are not known to offer competitively-priced services to walk-in-clients. A number of reasons are given for their reluctant participation in the sector—which is quite different from the experience in Latin America and Southeast Asia, where all banks are taking a serious interest in the remittances sector.

- *Limited branch networks:* Most foreign banks are concentrated in the capital cities. Their branch networks are designed for corporate clients and the more affluent individual clients. They do not have the rural outreach of the state banks and local private banks.
- *Transaction costs:* The high minimum account balances required by commercial banks are a deterrent for lower-income migrants. People are reluctant to give up access to sizeable funds in

³⁷ Peoples Bank (2005)

³⁸ Bank of Ceylon (2005)

³⁹ Central Bank Annual Report p. 237

order to maintain a bank account.⁴⁰ Further, the experience of banks that have held such accounts is that the recipient rarely keeps the money in the account, but rather withdraws it as it comes in. The transaction costs for maintaining an account with no float potential are high.

- *Remittance business model:* The remittances business has three direct sources of income—profit on the exchange rate, commissions and fees paid by the remitter and sometimes by the recipient, and the interest earned on remitted funds before they are paid out to the recipient. On all three accounts, the profits on remittances to the region have been falling. With the removal of exchange-rate controls in recent times, the margins have declined drastically. Competition among transfer agents has pushed down commissions and fees to US\$1 dollar or less. And pressure to make payments within 24 hours has minimized the potential for gains on cash float. Unless clients open bank accounts and banks are able to cross sell other more profitable products, remittances are not an attractive business proposition for the larger private commercial banks.
- *Anti-money Laundering and Counter Terrorist Financing (AML/CFT) Standards:* Heightened international concerns over money laundering and terrorist financing have increased the pressure on international banks to adhere strictly to international AML/CFT standards. High volumes of individual money transfers, especially between non-account holders, make it difficult to comply with know-your-customer and suspicious-activity-reporting requirements.

However, the limitations noted above have not limited all the foreign banks. Many have been aggressive in investing in the sector. Many are competitively offering a variety of products to migrants including life, accident, and baggage insurance, and predeparture loans at concessional rates to be repaid from remittance proceeds. The size of the loan is determined by the level of income offered by the prospective employer and the duration of employment. Some migrants use the loans to pay their employment agency fees, passage, and settling-in costs.

Local Commercial Banks

However, it is largely the local banks in all four countries that are taking the lead in investing heavily in remittance application technology. The use of non-cash bank methods of payment such as credit cards, debit cards, Internet banking, and tele-banking combined continue to rise.

Technology is having a positive impact on the remittance market. As account holders in some of the more technologically-advanced banks discover the benefits of ATM machines, debit cards, and credit cards the volume of account-to-account money transfers is increasing. The Internet is also being used as a method of transferring funds. Both developments give remitters ever more convenient access to banking services. For banks, the contribution of technology to the increase in account-to-account transfers is a welcome development. From a regulatory perspective, technology makes it easier to comply with know-your-customer requirements by automatically recording the identity of the remitter and the recipient. Financially, technology gives the bank the opportunity to cross sell other financial products—such as credit cards, insurance products, and loans.

Payment Card Infrastructure

To facilitate the increased use of card-based small value payment systems, there has been an equal increase in the number of automated teller machines installed in bank branches in the region. In Sri Lanka, for example, the total number of ATMs operated by commercial banks increased to 705 at the

⁴⁰ To encourage people to maintain a bank account, one bank has been operating a lottery scheme for account holders. To participate, account holders need to maintain a minimum balance of US\$100. The prizes include cars, motorcycles, and gold coins.

end of 2003 from 622 at the end 2002 while there was a notable increase in e-banking and e-payment services (table 4.2).

Table 4.2 ATMs in Sri Lanka

ATMS	2002	2003	1Q04	2Q04
No. of Machines	636	721	760	783
Vol. Of Transactions	25,124	33,491	9,938	8862

Source: Central Bank of Sri Lanka, 237

For a long time, the vast majority of the ATMs were only used by customers to withdraw or deposit cash to or from their accounts and to perform a range of nonfinancial transactions such as balance enquiries and requests checks books. These

transactions were largely by customers using ATMs installed by their own branches.

Only a limited number of ATM transactions were by customers using ATMs other than those installed by their bank which required cross-institution clearing. Until banks increase the sharing of infrastructure across branches, ATM usage will remain limited.

Fortunately, this is fast changing. As of June 2004, 92 percent (720) of ATMs in Sri Lanka were open-access ATMs, which could only be used by the holder of an ATM card issued by a bank other than the bank that owned the ATM. The number of limited access ATMs, which could be used by a holder of a card issued by the bank that owned the ATM, was 63. Out of 783 ATMs, domestic banks owned 535 while the two state banks owned 196. At end 2003, the number of ATMs per 1 million inhabitants was 37.

Ideally, this cross sharing of ATM infrastructure should be voluntary and led by banks themselves as they see the business logic of sharing infrastructure and competing on service. However, in some instances more than moral suasion by the regulator has been used in to encourage cross-bank sharing of infrastructure.

For example, on August 5, 2002, the State Bank of Pakistan (SBP) asked all banks that were not part of the then two ATM switch networks managed by two private banks to join or come to agreement on their use. In a circular the SBP argued that to improve the interconnecting of the ATM payment system, and to introduce enabling e-commerce technologies in the financial sectors, a single platform for the 250 ATMs then in operation was essential.⁴¹ Today, 1 link is the largest network of ATMs across Pakistan, with 392 ATMs in 26 cities, all member banks,⁴² while the MCB network has 130 ATMs.⁴³

In India, the central bank is taking an active interest in the inter-branch connectivity of bank branches. With a view to providing for transfer of funds electronically across a large number of bank branches in the country as a forerunner to the Nationwide Funds Transfer System (NEFT), the Special Electronic Funds Transfer System (SEFT) was introduced in April 2003. SEFT covers 2,312 branches of 29 banks situated in 127 cities across India.⁴⁴

Overall, new technology in the region will increase the speed of transactions through card-based remittance products used at ATM machines. ATMs represent a way for competitors to use technology to create wider distribution networks.

⁴¹ SBP Circular No. 20, 2002

⁴² ABN.AMOR (2005)

⁴³ MCB (2005)

⁴⁴ RBI Annual Report, p. 191

However, multiplying ATM-networked branches in rural communities in the region will remain a tremendous challenge. In addition to the recipients' unfamiliarity with using them, banks face the challenge of physically distributing them and the cost of keeping them in operation. Poor road infrastructure, security challenges, and weak local economies unable to support them limit their expansion.

4.5 Money Service Businesses

Money transfer businesses play a leading role in providing remittance services to South Asian migrants. In the context of this study, money service businesses (MSBs) are financial service agents that accept cash, checks, other monetary instruments or forms of stored value in one location and pay a corresponding sum in cash or another form of value to a beneficiary in another location by means of a communication, message, or transfer, or through a clearing network to which the MSB belongs. Transactions performed by such services may involve one or more intermediary and final payment by a third party.

Money services or value transfer services may be provided formally by persons (natural or legal) through the regulated financial system, for example through bank accounts, or informally through nonbank financial institutions or other entities operating outside the regulated system.

Primary among the formal MSBs are Western Union and MoneyGram, companies licensed and authorized to engage in foreign-exchange activities that do not involve acceptance of deposits (that is, money that can be withdrawn by check writing). Western Union allows customers to send money using credit and debit cards through the company's Web sites, through offices and agent locations, over the telephone, or through physical mail, using a money order.

With a 150-year history, Western Union is the global leader in money transfer services. It has more than 150,000 agent locations in 190 countries. Although estimates vary, it is commonly agreed that after banks, Western Union handles the largest share of remittances from the United States to South Asia. The company came to India in 1993–94. Before obtaining its own license from the Reserve Bank of India in 1998, it operated through representatives. In 2001, Western Union handled \$85 million in remittances to India.

Western Union has 13 principal agents and 14,500 subagent locations in India, of which 4,200 are a result of a partnership with the Indian post office. Principal agents can appoint subagents such as travel agents. India Post is an important partner for Western Union because of its geographical outreach and experience in postal orders. From India Post's point of view a new product such as money transfers helps it diversify and expand its business by collaborating with a reputable global firm. The venture with Western Union is part of India Post's Financial Services Group, which also distributes mutual funds and bonds, provides a money changing facility, and issues prepaid credit cards for use by students and tourists.

In addition to India Post, Western Union's partners include banks such as Andhra Bank and Punjab National Bank; travel agents such as Kuoni Travels; and financial firms such as Wall Street Finance Limited. These agents, whose participation with Western Union dates from the mid-1990s, are all authorized by the Reserve Bank of India to engage in the money transfer business, a small component of their business portfolio.

Other MSBs are taking advantage of the Internet. These latest entrants in the remittance market typically make arrangements with money transfer companies or banks to carry out remittances. They generally remit smaller amounts than other players.

Box 4.1: India Post and Remittances

The Indian post office has a long tradition of providing limited financial services to the general population through the Post Office Savings Bank (POSB), which was established in 1882. Presently, India Post is offering the following remittance related businesses:

- **Money Orders:** With a linkup to the post office's VSAT* connection, money transfers can now take place overnight in certain select locations compared with the many days required under older systems that relied upon hand-carried mail. Total money order traffic in 1999-2000 was 113,700,000 transactions with a value of around US\$1 billion.
- **International Money Orders:** An Inward International Money Order Service is also available with 27 countries whereby funds can be remitted to India. A two-way money order service is available with Nepal and Bhutan. During 1999-2000, a total of 49,363 foreign money orders brought in foreign exchange into India.
- **Western Union:** In late January 2001, the post office signed a memorandum of understanding with Western Union to support the transfer of funds into India using the post office network, permitting senders in 185 countries to remit money to India through electronic remittances of funds. Western Union, which has a five year contract with India Post, initially began providing the service in 75 post offices and will cover 3,000-5,000 post offices within three years. The Department of Posts earns revenue of US\$15 per transaction, which could become an important source of revenue.

Post office services are provided by the 600,000 staff working in the post office—supplemented by about 400,000 registered agents, who operate on a commission basis. With 154,149 postal offices and 554 sorting offices, India Post has the most extensive postal retail network in the world.

* Very Small Aperture Terminals are small earth stations, which are used for the reliable transmission of data, video or voice via satellite.

e-Exchange allows the remitter to transfer funds instantly to any part of Sri Lanka. The company asserts that its branch and ATM network throughout the country is electronically linked, thereby offering faster services. Senders can check to see whether funds have been received and can also review past transactions and print an account statement.

Remit2India is another example of an Internet-based provider. The firm, part of TimesofMoney.com (owned by the *Times of India*), came into existence in 1999, initially a joint venture with Citi Group. No cash or credit cards are used in its business. The company provides solely a portal. TimesofMoney.com developed the technology behind the service, while UTI Bank performs the actual money transfer. Because a bank is involved in the transaction and the *Times of India* has instant name recognition, Remit2India inspires customers' confidence. The maximum one-time sending limit is \$7,500. Remit2India's customers are not restricted by the \$2,500 limit of the Reserve Bank of India because the company performs no cash transactions.

Post Office Networks

The post office, which offers access to an extended branch network of rural post offices in all four countries, is a potentially exciting opportunity for facilitating remittances. Many post offices are conveniently located and integrated into the social activities of the community. In many villages, postmasters enjoy a high level of trust. Importantly, they have an extensive rural reach.

India has a large post office network with 154,000 outlets that are required to focus on deposit mobilization and money transfers.⁴⁵ Established in 1881, it holds the savings accounts of 130 million people. Sri Lanka has 4,600 post office branches (625 main post offices, 3,423 sub-post offices, and 632 agency post offices) that provide unequalled access to the country's rural regions.

Increasingly, post offices are exploring the possibility of increasing their remittance business.

⁴⁵ World Bank 2004.

Electronic money orders and e-money orders are on the increase. India Post has commenced reforms aimed at transforming it into a front-end outlet for financial services by 2010, including remittances.

The potential to innovate is high. However, this remittance channel remains largely spurned by clients who have experienced its inefficiency and poor service. Post offices are plagued by operational losses, absence of management information systems, limited access to funds for investing in technology, and negative publicity. Stories of insufficient cash on hand and other delays are common in the region. Yet where they do operate efficiently, postal money orders are a preferred option, especially for domestic remittances.

4.6 Conclusion

Overall, South Asia has an impressive density of rural formal financial institutions. The combined state and private banking infrastructure, including the postal networks, provides a good basic infrastructure for remittances flows.

However, the formal infrastructure's potential is not being maximized. The region remains largely cash dominated. The proportion of the rural poor in particular who have access to formal banking services, let alone formal payments systems, remains very limited.

A recent World Bank Access to Finance survey of 6,000 households in India, for example, found that 48% of the households surveyed reported receiving their income in the form of cash and 93 percent reported cash at home as the main mode of financing household expenses.⁴⁶ In the case of payment services such as remittances, cash dominated: 82 percent of the households reported cash as the main mode of remittance, as opposed to 15 percent who reported checks or drafts and 1.7 percent who reported postal money orders as the mode of remittance.

Several varied factors account for the lower-than-possible penetration rate of remittance services across the region, including the following:

- *Rural outreach:* While achievements have been made in the region with respect to rural access to financial services, poorer households in rural areas still have little access to formal financial services. Rural banks primarily serve the needs of richer rural borrowers: Some 66% of large farmers have a deposit account; 44% have access to credit (World Bank 2004,3). Thus, although the physical branch buildings have an extensive reach, this has not necessarily translated into financial service access for all. The lower income earners—many of whom have migrant relatives, do not have access to financial services.

In India, for example, the transaction costs of dealing with formal banks are high. In part, high transaction costs stem from distance to the nearest financial institution. The mean distance to the nearest financial institution ranges from 2 kilometers (post office branches) to 5 kilometers (commercial banks or cooperative banks); the median time taken to travel to the nearest commercial bank, cooperative, or rural regional bank is 30 minutes (post offices are available at closer proximity).⁴⁷

⁴⁶ World Bank 2004, 14.

⁴⁷ World Bank, 2004, 8.

- *Quality of financial services in rural areas:* The limited access to financial services extends to the quality and choice of products and services provided by rural bank branches, which appear to be generally lower than similar products and services in urban areas. On average, a rural bank branch serves almost three times the number of people served by a nonrural branch.
- *Regional disparities:* Large regional differences exist in the distribution of financial services. These differences exist both in terms of the volume of transactions and in branch density, with clients in economically weaker regions having a disproportionately lower level of financial services. For example, in India the spread of branches appears to be closely associated with regional shares in population: the eastern and central regions have larger shares in population and therefore, despite their low share in income, occupy the second and third positions in terms of share in branches. However, the presence of branches alone does not ensure access to finance; as expected, income is a determinant to financial access. Regional differences in the volume of financial services are largely explained by income differentials. India's lesser-developed and low-income eastern, central, and north-eastern regions account for 54% of the population and 40.5% of total branches, but only 20% of outstanding credit and 29% of deposits.⁴⁸
- *Payments system technology:* Banks in the region are investing heavily into payments system technology. The use of credit cards, debit cards, and the installation of ATMs is on the increase. Hitherto, however, most banks have been investing in proprietary IT platforms for their payments systems. There is very limited outsourcing or sharing on domestic branch networks. Improved payment systems platforms could substantially reduce transaction costs by expediting check clearance, reducing exchange losses, and improving disclosure, especially in rural areas.

Consequently, the formal financial sector still incurs higher transaction costs than the informal sector. The vast bank branch network is still largely suboptimal with respect to handing remittances for the average migrant in the Arabian Gulf region. Little wonder that the average cost of transferring remittances through banks using a bank draft is 1.34 – 3.97% more expensive than other nonbank options such as exchange companies and 2.72 – 6.80% more expensive than informal remittance channels. If a remitter were to use a telex transfer, using a bank would be 2.50 – 9.3% more expensive than exchange companies and 12.5% - 27.22% more than informal remittance channels such as *hawala* (discussed in the next chapter).⁴⁹

⁴⁸ World Bank 2004. 5.

⁴⁹ It is important to note that this cost comparison is made only for transferring US\$100 and if the amount increases, the cost will not increase in the case of banks and exchange companies.

CHAPTER 5

INFORMAL FINANCIAL SECTOR INFRASTRUCTURE FOR REMITTANCES

5.1 Introduction

In Bangladesh, India, Pakistan, and Sri Lanka, informal remittance systems are commonplace. Originally developed to facilitate trade between distant regions at a time when conventional banking instruments were either absent or weak, their speed, low cost, convenience, accessibility and anonymity led to their use for both legal and illegal remittance purposes.

This chapter provides an overview of the informal infrastructure for remittances. Section 5.2 provides a broad description of the common types of informal remittance systems with special emphasis on the *hawala* system, which is the most widespread in the region. Thereafter, section 5.3 provides a summary discussion of the historical context within which informal remittance systems have developed in the region. It highlights the role of trade practices, foreign exchange controls, weak financial systems, and regional conflicts in the sustained use of informal systems. The factors contributing to the sustained use of the *hawala* system are presented in section 5.4, the potential risks and abuse of such systems in section 5.5, and the chapter's conclusions in section 5.6.

5.2 Types of Informal Remittance Systems

A variety of simple as well as quite sophisticated informal methods are used by South Asian expatriates. The most salient ones are couriers, in-kind remittances, and *hawala*. Of these three, couriers are the most inefficient and risky, as they require the physical transportation of cash across borders. The risk of the cash being lost or stolen is considerable, so *hawala* is by far the most trusted and efficient method. Each of these systems is briefly discussed below.

Courier Services

Courier services are the simplest and oldest way of moving value. In South Asia, as in many Arabian Gulf countries where immigrants work, cash is commonly used even for large transactions. People take their cash with them or seek the assistance of trusted friends or relatives in moving it. There is evidence that physical transfer of cash by friends and relatives into the region is high. This is not unique to the region. Although there can be no precise estimates of the total volume carried, the use of courier services is booming in South Asia and elsewhere in the Americas, Asia, Europe, and the Middle East. The smuggling of cash in and out of the United States, for example, occurs with considerable ease, as billions of dollars are moved in this way each year.⁵⁰ Transfers conducted in this way are observed in Egypt, Pakistan, the Philippines, and Sudan, for example, where some estimate that they may amount to double or triple the official remittance figure.⁵¹ According to one estimate, as much as 27 percent of all remittances to Pakistan may go by hand.⁵²

In-kind Remittances

⁵⁰ GAO 1994; U.S. Congress 2000.

⁵¹ Abella 1989; Albuero and Abella 1992.

⁵² Kazi 1989.

In-kind remittances take place through the provision of goods or services in one country, while the payment is made in another country. On a small scale, someone can offer to look after a sick parent or relative overseas, while receiving payment in a country with strong currency. The tourism business, for instance, lends itself readily to this sort of practice. A travel agent may send groups to India and collect full payment from them in Europe. In India, an associate will cover all local expenses of the group and receive payment in an account maintained overseas.

Some migrants choose to invest in durable goods—such as refrigerators, stoves, televisions, VCRs, and so on—or valuable commodities—such as gold or precious stones—which they either send to their family for sale or haul back to the home countries upon the end of their contract. Other migrants pave the way for their return by building a house. A local company may provide the construction work for the migrant and receive payment in an overseas account.

The South Asian real estate market has provided many recent opportunities for such transactions. And where the migrants wish to buy or sell property at home without disclosing the true price to the tax authorities, balances between the real and declared price are settled through middlemen and payments outside the home country.

Hawala

There are many terms used to describe informal remittance systems such as *hawala* including, “alternative remittance systems,” “underground banking,” “ethnic banking,” and “informal value transfer systems.” In other parts of the world, terms used include: *fei-ch’ien* (China), *bundi* (Pakistan, Bangladesh), *hawala* (India and Middle East), *padala* (Philippines), *hui kuan* (Hong Kong), and *phei kwan* (Thailand).

Despite the differences in terminology, the operational mechanisms of the various systems are fundamentally the same. At its simplest, the typical *hawala* transaction involves the remitter, the recipient, and two intermediaries (*hawaladars*). For a basic transaction to take place there needs to be a remitting party, two remittance service providers and a recipient (see figure 5.1). When the remitting party, for example a Sri Lankan migrant worker in Italy, wants to send money to Colombo, he makes payment in euros or another convertible currency to a remittance agent or middleman in Rome. The service provider contacts a partner service provider counterparty (who might be a shopkeeper in Colombo), who arranges payment in local (or other) currency to the remitter’s family or other beneficiary on the production of a pre-agreed reference.

As a form of identification for the transaction, the agent in the remitting country provides the remitter a code or reference that must be passed on to his designated beneficiary for presentation to the agent in the recipient country.

Once the funds have been paid to the recipient, the agent in the remitting country is indebted to the agent in the recipient country. The principals to the initial transaction do not play any role in subsequent clearing and balancing of this position. The agents can settle their positions in various ways, including simple transactions going in the opposite direction, cash deliveries, and settlement by checks into the relevant accounts. Their positions can also be transferred to other intermediaries. These other entities can assume and consolidate the initial positions and settle at wholesale or multilateral levels, also by various means.⁵³

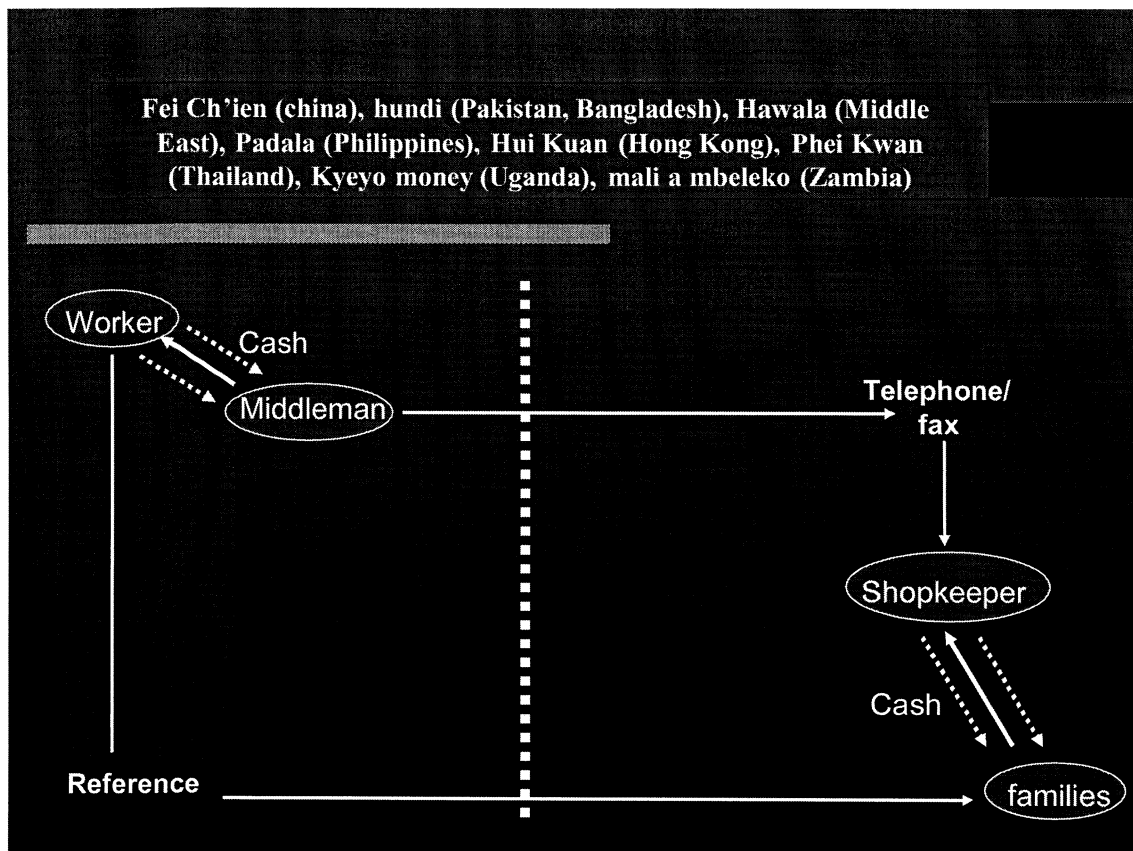
⁵³ For more details on informal remittance systems and how they work, including their economic and legal implications, see N. Passas 2000, El Qorchi and others 2003, and S. Maimbo 2003.

Payment and delivery are made in the currency of the corresponding countries, unless a request is made for delivery in U.S. dollars, euros, or another currency. Payment instructions to *hawaladars* are sent by fax, e-mail, or telephone at the end of each day for delivery in about 24 hours. As a form of identification, a code such “8 cents” may be sent along with the payment instructions (in Bangladesh and Sri Lanka) or the serial number of a rupee note in the hands of the intended recipient (in India). In Pakistan, a passport or ID number is increasingly used.

This is the remittance end of a *hawala* deal, which relates to the dealings between retail clients (remitters) and the intermediaries. More complex is the settlement end, which relates to the ways in which *hawaladars* interact with each other and third parties—a process associated with the illicit aspects of the business.

In order to be able to make quick and regular payments upon request, each *hawaladar* needs to maintain a cash pool proportionate to anticipated demand. Because the cash pools in various locations are never symmetrical, reverse payments cannot balance accounts among operators. It is instructive to look into the sources of cash pools in labor-importing (A) and labor-exporting (B) countries. *Hawala* operations thrive not only in regions with less developed or unregulated formal

Figure 5.1: The Basic Informal Remittance Transaction



banking infrastructures, but in all countries with significant South Asian communities, including North America and Europe.

The following are the main sources for cash pool A (labor-importing countries):

- Remittances of expatriates to their families
- Payments for imports
- Payments for services received overseas
- Investment funds in excess of permitted limits
- Traders who over-invoice exports or engage in bogus exports
- Income not declared in the country of residence (tax evasion money)
- Proceeds of misconduct or criminal enterprises of all types
- Contributions to militant groups and ethnic causes

Without further systematic study, it is not possible to determine the relative importance of these categories. The same applies to cash pool B. Anecdotal evidence, however, suggests that the largest number of customers would fall under the categories of remitters to the home country and traders. All but the first three listed sources require secret transfers from labor-importing countries. While *hawala* is certainly not the only means to make such transfers, it is a popular and efficient way.

The sources for the South Asian *hawala* pools are slightly different. Cash pool B (labor-exporting countries) is fed by:

- Funds to cover students' tuition overseas
- Funds to cover medical expenses overseas
- Tourists' money beyond amounts allowed under currency controls
- Capital flight
- Payment for imports
- Tax evasion
- Misinvoicing of trade
- Bribes of politicians and government officials
- (Laundered) money from criminal enterprises

The first few categories are affected by conditions specific to South Asian and other labor-exporting countries, such as currency and capital controls. Citizens and residents are allowed to take out of the country a limited amount per year, generating a demand for a discreet channel for currency exports. As restrictions are eased, the demand for that channel declines sharply. Many of the issues that used to cause capital flight have also been addressed through recent economic and policy reforms.

5.3 Historical Background on Informal Remittance Systems

Informal remittance systems have a long history in South Asia. In the 1950s and 1960s, the main method of payment in the Indian subcontinent was through *hundi*, *chiti*, or *hawala*, all of which involve a draft drawn on a trading associate.⁵⁴ Import credit from the “money bazaars” generally took the form of loans against *hawalas* or *hundis*. These were simple drafts drawn on correspondent traders in India, Iran, and Pakistan by traders and foreign exchange dealers from neighboring countries, including Afghanistan.

⁵⁴ A *chiti* is a piece of paper (for example, a half banknote) that a beneficiary presents to receive funds. A Hindi word, it was introduced into China by the English and denotes (with “chop shop”) the Chinese system of alternative remittance (Passas 1999a). The term *hawala* has acquired a wide, negative connotation in India. Associated with illegal payments to politicians, it is used by companies for a variety of advances, payments, and transfers. The famous “Jain Hawala” scandal of the early 1990s, which involved bribes to politicians, had repercussions throughout the decade. The case is recounted in Kapoor (1998).

Trade

Hundi, a form of bill of exchange or promissory note, was in use in India before the advent of modern-day banking. In India, no evidence has been found of the existence of paper money in early times, nor is there any reference to negotiable instruments in Hindu or Moslem texts. However, bills of exchange have been popular from very remote times. *Hundi* developed in India with a strong body of rules, usage, and customs, to which the legislature and courts gave effect. In the beginning, *hundis* were likely issued by brokers for the purpose of debt collection. They took diverse forms—as bills of exchange or other promissory notes—while being subject to local usage. These indigenous instruments acquired such a high level of credibility that to dishonor a *hundi* was a rare event. They were freely circulated among Indian bankers to finance internal trade and were gradually integrated into the activities of the emerging modern banking system. In an effort to reconcile and assimilate native and European law, the legislature did not abolish the numerous local customs and usages relating to *hundis*. Because the Indian commercial community was accustomed to their use, *hundis* were given the weight of formal bills of exchange in some Indian courts. Today, the speed and efficiency of *hawala* continues to attract traders in South Asia faced with foreign exchange controls or administrative inconveniences.

Foreign Exchange Controls

The interface between traders and *hawala* also owes much to the traditionally complex framework regulating the import-export business associated with the region. Until very recently, when countries liberalized their current accounts, the requirements regarding international payments, rebates, refunds, and other financial payments were perceived as too burdensome, and informal channels flourished. Further, tax evasion has also been notoriously widespread. Multiple studies address the problem of “black money” and “unaccounted money.” A good part of undeclared income is sent out of the country or otherwise laundered. Finally, in some parts of South Asia individuals and businesses pay “speed money” to get things done or to avoid taxes. Because companies do not wish to enter these payments in their official books, they purchase cash at a discount from *hawaladars*. An important implication of all this is that even when clean money is sent from labor-importing countries, dirty money may be flowing in the opposite direction.

Conflict

Areas of conflict are also more likely to be linked to informal methods of money transfers. The northern parts of Sri Lanka, Kashmir, and the northwestern provinces of Pakistan have limited formal financial services. Migrants from those regions resort to the *hawala* system to make remittances. After the partition of India and Pakistan in 1947, virtually no payments connected with trade between India and Pakistan were transacted through banks. Because it was long illegal to export currency from India and Pakistan, a considerable differential appeared between official and *hawala* exchange rates, which increased the popularity of the informal system.

5.4 Migrant Incentives for Using Informal Remittance Systems

Migrants use the *hawala* system for a variety of reasons. The most important are: trust, cost, speed, convenience and accessibility, and for some, the anonymity that *hawala* can provide users and recipients alike.

Trust

Highly trust-based, informal remittance systems have a long history of being a reliable way of transferring funds *hawala* is also reliable. Few complaints from retail customers have been reported over decades of *hawala* operations in South Asia. Disputes and errors are settled among *hawaladars*, who assume the risk of a counterpart's default or law-enforcement actions. Trust and the cultural importance of one's reputation and good name perform an effective self-regulatory function. The element of trust is a defining characteristic of most informal remittance systems.

Cost

Although the costs of remittances through the formal financial sector are falling in many areas, as discussed in the previous chapter, informal channels continue to hold a competitive advantage. Literature and field surveys indicate that households in recipient countries receive more local currency when informal channels are used. If Dh1,000 are sent to India and Pakistan using various official and unofficial methods, for example, the recipient household will collect different amounts (box 5.1).

Whereas a Pakistani remitter's family would receive 11,905 rupees for the thousand UAE dirham through the bank route or via a bank draft (before postage, encashment, and other fees), it could collect 12,391 rupees by cashing its remittance at a money exchange house. Through *hawala*, the remitter's family would do even better, receiving 12,660 rupees—the next day. Similar rate advantages exist for Indian rupees sent through *hawala*.

Speed

Speed is an important consideration. With courier, and *hawala* deliveries, funds are available immediately, whereas some formal alternatives may take many days (table 5.1). A case study in Bangladesh showed that on average 15 days were required to clear a draft made on a bank. The same draft was liquidated instantly if made by an exchange house.

Box 5.1: Remittance Options and Comparative Exchange Rates – an Example

Pakistan rupees (Pr) for UAE dirham (Dh) on December 8, 2003, in Dubai.

Amount of Pr for 1,000 Dh	Means of buying Pr
11,905	At draft/bank rate
12,391	At money exchange rate
12,660	At <i>hawala</i> rate

Indian Rupees (Rs) for U.S. dollars on December 9, 2003.

Amount of Rs for US\$1,000	Means of buying Rs
44,128	At draft/bank rate
45,510	At money exchange rate
46,259	At <i>hawala</i> rate

Source: WB field research.

Convenience and Accessibility

The convenience of door-to-door service is appealing to all customers as well, especially in regions where transportation is poor, and to female beneficiaries in remote and traditional regions, where they may not be allowed to leave the house. In some instances, as field surveys indicate, *hawaladars* visit the workplaces of expatriates and collect money for remittances.

The informality of *hawala* makes it attractive to many South Asians who find banks and other financial institutions uncomfortable to deal with. The lack of bureaucracy renders informal services accessible to illiterate customers, many of whom live in rural areas where alternatives are not available in any case.

Further, migrants without credit cards and those paid at the end of their contract rather than periodically are more likely than others to turn to informal remittance systems. The latter, especially those in the Arabian Gulf, are more likely to carry cash personally, believing that they can save thereby on costs and exchange rates, or to purchase goods for resale at a higher price at home. Unfortunately, some migrants are robbed of their cash and goods in the process. Other times, legal migrants avoid the banking systems because of language barriers, misperceptions about the cost of formal banking transactions, or social conditioning regarding formal financial institutions.

Anonymity

Informal transfers to the region are said to be significant, particularly from countries where there are large groups of illegal migrants. It is particularly attractive for undocumented migrants, who are able to open bank accounts or transact with formal institutions.

More significantly, the anonymity of informal remittance systems renders them highly susceptible to use in processing proceeds of criminal activities such as drug trafficking, prostitution, corruption, and tax evasion. Generally, clients need not produce identification documents or explain the source of their funds before using an informal system to remit funds to a counterpart in another jurisdiction. Neither is the recipient required to produce identity documents other than a pre-agreed code. Once the transaction is completed, records are quickly destroyed. Consequently, *hawala* transactions sometimes leave no audit trail for law-enforcement agencies investigating predicate offences of money laundering, tax evasion, corruption, or other illicit activity.

Table 5.1 Time and Expenses in Receiving Remittances through Various Channels

					Expenses in cashing remittance (Tk.)	Time spent in cashing DD/TT (days)		
					Mean	Mean		
Media of getting remittance	Bank draft	Category of household	Current migrant household	District	Noakhali	308	16	
					Chittagong	178	13	
					Comilla	171	7	
					Sylhet	33	12	
				Return migrant household	District	Noakhali	300	16
					Chittagong	200	15	
					Comilla	200	3	
			Postal order	Category of Household	Current migrant	District	Comilla	—
	Hundi	Category of household	Current migrant household	District	Chittagong	—	3	
					Sylhet	30	—	
Relatives/ friends	Category of household	Current Migrant Household	District	Comilla	—	5		
				Sylhet	60	—		

Source: Murshid, Kazi, and Meherun 2001.

The anonymity of informal systems also facilitates the process of transferring illegally obtained money or investments through various jurisdictions and institutions to conceal its true source, thereby preventing law enforcement from uncovering or confiscating the proceeds of crime, or using those proceeds as evidence in a criminal prosecution. As is occasionally the case in the formal sector, transactions in the informal sector do not always include accurate documentation of the beneficial owner of either the actual criminal proceeds or other property that might be subject to confiscation.

5.5 Risks and Potential Abuse of Informal Remittance Systems

Unfortunately, the *hawala* systems success—speedy transactions with minimal or no documentation—has also been its undoing. The anonymity that is possible with transactions of this kind has long raised concern in the law enforcement community. In some countries such as India, the concern has resulted in prohibition.⁵⁵ India is not alone. Concerned about the evasion of currency controls, countries in the region have long been worried about informal remittance systems, and the September 11, 2001 terrorist attacks in New York and Washington have only served to heighten this concern.

The interface of legal and illegal transactions is especially complicated in the settlement process. Each time a *hawaladar* sends payment instructions to a counterpart, he creates an informal debt or loan. Where transactions are reciprocal, the net difference needs to be settled. The closer are relationships among *hawaladars*, the easier is the settlement process. Kinship, family, and ethnic ties have made *hawala* work smoothly. In straightforward and small operations, a courier brings the cash from one party to another. This is a preferred method of moneychangers who need currency in their possession for their regular trades.

Other common methods involve interfaces with formal institutions, for example, by sending monetary instruments (such as checks and money orders) or a wire transfer to a designated account maintained in a financial center such as New York, Dubai, Hong Kong, or Singapore.

With payments made to multiple parties around the world, the *hawala* settlement process resembles the way formal banks go about their business. The main difference with *hawala*, however, is that *hawaladars* generally have been unrestricted by rules on how and with whom they conduct this process. Banks and money exchange companies must follow the laws of each country in which they operate and deal with duly authorized people and institutions. On the other hand, *hawala* is either outlawed or regulated in a nonpragmatic fashion in parts of the global North. In effect, it continues to operate largely outside formal regulatory frameworks.

Consequently, “informal economies” or black markets play a large role in the settlement process. Some interviewees from South Asia have gone so far as to argue that this is precisely what gives *hawala* a competitive edge over moneychangers and other financial channels. That claim may or may not be entirely accurate, but no one seriously questions the interface of *hawala* with unauthorized dealers, “black money,” or unaccounted fund transfers.

⁵⁵ Under both the Foreign Exchange Regulation Act (FERA, 1973) and its successor, the Foreign Exchange Management Act (FEMA, 2000), *hawala*-type transactions have been explicitly prohibited. The number of institutions (notably “authorized persons” such as banks) permitted to deal in foreign exchange has been closely defined, and the kinds of permitted transactions (travel, medical treatment, acquisition of foreign assets, and so on) have been set forth in regulations that have been frequently revised. The recent FEMA wording specifically addresses *hawala*-type transactions by prohibiting Indian residents from entering “into any financial transaction in India as consideration for or in association with acquisition or creation or transfer of a right to acquire, any asset outside India by any person.” Similarly, one of the mandates of the Directorate of Enforcement has been to prevent “remittances of Indians abroad otherwise than through normal banking channels (i.e., through compensatory payments).”

In South Asian countries, it is not uncommon to hear the argument that a pivotal factor that enables *hawaladars* to offer attractive rates to retail customers is their nexus with illegal and criminal actors who are prepared to pay a relatively high premium. Murshid, Kazi, and Meherun (2001) observed that the use of *hundi* in Bangladesh is significantly higher in Chittagong than in Noakhali, Comilla, and Sylhet. Not only is international migration a common demographic characteristic in Chittagong, but also Chittagong is a port city infamous for illicit trade. A recent study in Bangladesh by Siddiqui and Abrar (2001), for example, argues that *hawala* operations are based on the following factors:

- Demand for foreign exchange from racketeers who wish to finance smuggling of various items including gold
- Demand from importers for foreign exchange from other sources in order to derive tax savings by underinvoicing imports
- An unholy alliance among the officials of financial institutions, businesses, and *hundi* operators
- Financing charges of labor recruiters
- The gap between the official and unofficial exchange rates
- Quality and speed of service, and ability to reach clients both in destination and source countries

The different ways in which the *hawala* system is known to be abused in the region include the following, as described in El Qorchi, Maimbo, and Wilson (2003, 12-13).

- *Circumventing capital and exchange controls:* Countries facing shortages of foreign exchange reserves often have imposed capital controls and created tax barriers for imports. Individuals and businesses seek alternative means to make international fund transfers through the reverse *hawala* route, from countries under exchange controls to other, usually more developed, economies without any documentary requirements. The incentive to use informal mechanisms to externalize funds is even higher if the capital controls exist in a country where political and economic uncertainties create an exchange-rate risk.⁵⁶
- *Customs, excise, and income tax evasion:* Importers sometimes resort to making partial payments to an overseas exporter through informal fund transfers, particularly when customs, excise, and income taxes are high. To avoid paying customs duties, importers request the overseas exporter to underinvoice the goods. The difference between the actual price and the invoiced amount is then remitted to the overseas exporter through the *hawala* system. Similarly, when a government grants subsidies based on export receipts to encourage exports, exporters may resort to overinvoicing to maximize their gains.
- *Smuggling.* Recent literature attributes part of the growth of the *hawala* network to gold trading and smuggling operations in South Asia in the 1960s and 1970s. To avoid restrictions on gold imports, traders and smugglers used boats to ship gold from places like the Arabian Gulf regions to South Asia. To remit funds back to their countries of origin or in order to purchase more gold, traders and smugglers (importers) found a solution in the growing population of South Asian nationals working in the Arabian Gulf states. To settle their liabilities, *hawaladars* in Dubai, for instance, would finance gold exports to their counterparts and clients in South Asia. The remitting workers received better rates because *hawaladars* charged higher fees to smugglers who made substantial profits from the gold trade. Thus the smuggling activities benefited from, and enhanced, the existing systems of fund transfers used by expatriates in the Middle East,

⁵⁶ *Hawaladars* may be able to avoid capital controls in the short term without any difficulties in settling their external accounts. However, if these controls persist, they may experience difficulties in settling their accounts, especially if the volume of fund transfers requires the use of the formal banking sector. Different settlement mechanisms (discussed later) may have to be devised, including the smuggling of physical cash.

Southeast Asia, the United Kingdom, and even in North America. This network, it is argued, formed the base for the large-scale *hawala* operations that exist to this day.

- *Money laundering.* Both the formal banking sector and informal fund transfer systems are vulnerable to abuse. The number and variety of methods used to launder the proceeds of criminal and illegal activities and finance terrorist acts grow ever more complex. The methods are diverse and can employ both banking and nonbanking channels including *bureaux de change*, check cashing services, insurers, brokers, and nonfinancial traders.
- *Terrorist financing.* The anonymous transfer of funds through informal fund transfer systems has occasioned concern about their potential use as a conduit for terrorist funds. Because there is no requirement for identification documents or an indication of the source of funds, an informal dealer can initiate or facilitate a multiplicity of transfers through his network in different jurisdictions, thereby concealing the true origin of funds. The recipient can use the funds to conduct a terrorist act. Once the transaction is completed, all customer identification documents, codes, or references are most likely destroyed, except, perhaps, those required for settlement purposes.

It has also been reported that *hawala* has been used to finance trafficking in gold, precious stones, human organs, and human beings, as well as to commit credit card fraud and violate embargoes and sanctions. However, some formal institutions—travel agencies, merchants, nongovernmental organizations, money service businesses, banks, correspondent accounts, brokerages, import/export businesses, corner stores, and so on—also allegedly play intermediary roles in the settlement processes that facilitate illicit deals.

5.6 Conclusion

Informal transfer systems remain prevalent in the South Asia region because of their speed, convenience, low cost, and accessibility. Steeped in long-held historical trade practices they continue to exist today facilitating a host of both legal and illegal trade activities, notably remittances, trade, and money laundering.

Because of the lack of transparency associated with informal flows, efforts are being made to encourage migrants to choose formal over informal remittance channels such as courier services, in-kind remittances, and *hawala*.

Addressing the risks of financial abuse that the potential anonymity of informal remittance systems provides requires a two-pronged approach. A recent 2003 World Bank-IMF study⁵⁷ advised that in the majority of countries, where informal systems exist alongside a functioning conventional banking sector, it is recommended that *hawala* dealers be registered. In these systems, additional efforts should be made to improve transparency by bringing informal dealers closer to the formal financial sector without attempting to alter their specific nature. Simultaneously, the regulatory response must address weaknesses that may exist in the formal sector. Presently, formal and informal financial systems benefit from their mutual deficiencies, with each tending to expand when the condition of the other is impaired. High transaction costs, delays in transferring remittances, exchange controls, and overlybureaucratic policies and procedures for simple money transfers are major incentives for the existence of the informal financial system. To face the challenge, the formal sector should tackle its deficiencies and enhance its competitiveness. The regulators should consider the adverse effects on the formal industry of excessive administrative requirements.

⁵⁷ El Qorchi, et. Al (2003)

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

With globalization, international migration will continue to drive the increasing levels of remittances to developing countries. The South Asia region is no exception. A recent World Bank study concluded that “while long term and settlement migration are still predominant in most developed countries, migrant flows are now more diverse and complex, with migrants moving back and forth more readily and rapidly. Temporary movement, in particular by high skilled workers has seen the largest growth in the past decade”.⁵⁸ The study identified five forces governing international migration patterns:

- Wage and opportunity gaps between rich and poor countries
- Regional conflicts and political instability in developing countries
- The relative share of young adults in the populations of sending and receiving countries
- Numbers of migrant stock residing in receiving countries⁵⁹
- Reductions in the cost and inconvenience of travel

All these factors apply to the South Asia region. The income and opportunity gaps between the subcontinent and the Arabian Gulf and Europe could not be more disparate. Regional conflicts have led to the migration of many people. The rising share of young people in South Asia, like other parts of the developing world, is complementary to the shrinking share of young adults in the developed countries. The high number of foreign-born South Asians in developed countries makes it easier for others to join them. And the declining cost of international travel enables young people to embark on migration.

These trends have a significant impact on remittance flows. Governments in the region have rightly expressed a strong interest in macro- and microimpacts of remittance flows.

6.2 Enhancing the Development Impact of Remittances

The South Asia region has much to gain from the increased flow of migrants—employment and higher wages for the migrants as well as from the remittances that they send to their families. This study has shown that international migration and remittances are important to poverty and economic development in South Asia. International remittances (official and unofficial) reduce poverty in South Asia, and international remittances do lead to asset accumulation—mainly land accumulation—in rural areas. Although the sending countries need to balance the loss of skilled workers (who may have been educated at public expense) and benefits they accrue, there is an argument to be made for accepting the inevitability of present migration trends and enhancing the development impact of the remittances that they are already receiving.

Chapter 2 of this study showed that there are two key determinants to enhancing the development impact of remittances—the education level of the migrants and the investment opportunities available to the migrants. Using data from rural Pakistan, this study concludes that it seems wrong to

⁵⁸ World Bank 2004, 143.

⁵⁹ The World Bank estimates that foreignborn persons now account for 24 percent of the total population in Australia, 17 percent in Canada, 10 percent in the United States, 5 percent in Europe, and 1 percent in Japan.

claim that international migrants don't invest. Migrants *do* invest and they actually exhibit a higher propensity to invest than do their nonmigrant counterparts. Migrants in the case study from rural Pakistan tend to invest their remittance earnings in land, either irrigated or rain-fed. From the standpoint of the individual migrant, land represents a good investment. Not only does the value of land tend to keep pace with the rate of inflation, but for most peasant farmers, it also represents the best type of investment available.

To see a greater share of remittances invested in business activities, governments need to improve the rates of return on small business activities by improving infrastructure—better roads, telephone systems, and electrical grids—to encourage commerce and trade. Providing small business loans to new firms also would do much to improve the business climate for new mercantile activities in remittance-receiving areas.

The central point is that migrants do invest their remittance earnings, and these investments tend to go into areas where financial rates of return are the greatest. At present, financial rates of return in remittance-receiving areas are highest in land investment. However, with a little creative policy work by the government there is no reason why rates of return could not be raised in the area of small business activities, thereby creating new opportunities for investment by international migrants and their families.

In addition to improving physical infrastructure in recipient communities, governments need to provide career opportunities to maximize the use of job skills learned by migrants working abroad. Education in business development, particularly financial planning and management skills, would be particularly effective.

In light of opportunities highlighted above, it is further recommended that more research work needs to be done to clarify the impact of international remittances on poverty and economic development in South Asia. Such work should be focused in three areas.

- *Data:* Governments should make greater efforts to count the amount of remittance monies that are currently transmitted through informal, unofficial channels. Since it is likely that poor people remit more through informal channels, a full and complete accounting of the impact of international remittances (official and unofficial) on poverty in South Asia needs more accurate data on the large amount of unofficial remittances returning to that region.
- *Research Methods:* More household panel surveys need to be undertaken in South Asian countries to collect information on the expenditure patterns of international migrant households. These surveys need to be conducted on nationally-representative samples of urban and rural households, and should include modules designed to measure the second- and third-round effects of international remittances on wages and employment. A full and complete accounting of the impact of international remittances on local economic development requires more detailed and complete household-level data.
- *Investment Climate:* More research and policy work needs to be undertaken to encourage policy makers in South Asia to improve the investment climate for returning migrant workers. If, for example, policy makers would like to see a larger share of international remittance monies invested in business, then they need to undertake the type of infrastructure improvements that would encourage expanded commerce and trade. The provision of small business loans to new firms would also do much to improve the business climate for returning migrants. The point to emphasize here is that international migrants do invest their remittance earnings, and they tend to invest these earnings in areas where financial rates of return are the greatest.

6.3 Public Infrastructure for Remittances

Recognizing the importance of remittances, governments in Bangladesh, India, Pakistan, and Sri Lanka already have in place the public and private infrastructure for an active remittance industry. The high volume of remittances already going to the four countries testifies amply to that fact. Each country has a ministry of labor with a bureau or department dedicated to overseas workers, and a national association for migrant workers to safeguard their welfare.

With varying degrees of success, governments in the region have established public institutions to facilitate migration of their nationals, the welfare of their citizens abroad, and the remittance of earnings to their home countries. However, more can be done to improve the collective effectiveness and efficiency of the public remittance infrastructure. There is still room to improve the quality of training provided to potential migrants, the role of workers' associations in providing financial management information to their members, and linkages between state bank branch networks and the private, generally more innovative financial institutions.

6.4 Formal Financial Infrastructure for Remittances

Although the region is inundated with a dense, formal state commercial bank branch network, it does not provide a quality financial service, especially to the rural poor. The extensive state bank branch network provides a relatively dense infrastructure for remittance services. However gaps remain in exploiting the existing infrastructure for affordable payment systems attractive to migrant workers. Poor access to formal finance has resulted in a heavy reliance among poorer rural households on informal finance, mostly moneylenders and shopkeepers, for credit and deposit services, including remittance services.

Also, while the cost of international remittances has fallen drastically in recent years, the cost (and convenience) of in-country money transfers—the last portion of the remittance transaction—remains unnecessarily high compared to the actual cost of technology, labor, and currency-exchange commissions. Though remittance fees in the South Asia region are generally low compared to other regions where, according to Ratha (2004), it is not uncommon for fees to be as high as 20 percent for small transfers, more needs to be done to further improve the quality of access and level of outreach of financial institutions.

Unless there is a concerted effort to improve the level of access for the rural poor to financial services in general, the following goals will not be maximized with respect to improving their access to remittance services:

- Easy, nearby, convenient access to electronic small-value payment services, particularly in rural areas
- Reliable, rapid, low-cost remittances to support the transition from informal to formal channels
- Basic financial services, including savings and credit facilities
- Affordable access to information and communication

The above goals are all essential ingredients for attracting remittance clients. And to achieve them, the following are possible policy options to be considered across the spectrum of remittance options open to the public.

- *Competition among money-transfer agents:* It is often argued that the high costs of remittance reflect the large investments required to enter the formal money transfer market, including a widespread branch network in both source and recipient countries. High fixed costs, it is argued, impede would-be entrants to the market, allowing existing financial institutions to

charge above the marginal cost of transactions. Nevertheless, there is some evidence that competitive forces in other regions are having an impact on reducing remittance fees⁶⁰. In South Asia, the competitive process would be strengthened if smaller firms could enter into agreements with the state banks or the national post offices to use their branch networks to remit funds. Although many state banks lack the efficiency required to successfully link remittance services, they could dedicate specific staff or branches to the remittance business and thereby make better and faster use of technology to raise their efficiency.

- *Shared payments systems platforms*: In each country, the vast network of rural financial institutions should be converted into a single shared payments platform through which remittances could easily be channeled to any part of the country regardless of the owner of the physical building at the final remittance outlet. Presently, banks in the region are in the process of upgrading their IT systems and networks to provide electronic financial services in a very proprietary manner. Except for the payments clearing system, there appears to be minimal cooperation in integrating or creating shared financial services networks (such as ATMs).

Consequently, the investment in this technology may not be achieving its maximum remittance utilization potential. To rectify this, investment into payments information technology that supports an open architecture payment system should become the norm. Recipients must be able to get remittance value from any state or private bank or nonbank financial institution whether or not they hold an account at that outlet. The expected benefits of standardization of payments systems from standardization and shared platforms and networks are immense.

- *Public-private partnerships*: Achieving the level of integration suggested above requires strategic public-private partnerships between state institutions (banks and post offices), with their vast branch networks, and private institutions (banks, nonbanks, and Internet service providers), with the technology and capital for investment. Partnerships across infrastructure, products, and services will yield the types of gains attained in Latin America and East Asia with respect to remittance costs and convenience. Fundamentally, remittance service providers should cooperate on infrastructure and compete on services, but not both.

For example, the 4,600 offices of the Sri Lankan post office provide a basic infrastructure for rural financial services that, hitherto, remain strongly underutilized. Partnering with the post office immediately increases the reach of any bank that chooses to do so. International experience shows that postal networks can—as a niche player—be the front office for broad-based access to payments, deposits, and other financial services, and also for channeling informal remittances into formal channels.⁶¹

- *Cross selling*: In the medium- to long-term, the profitability of the remittance business will continue to decline. Advancements in technology will ensure that banks will receive less income from cash floats. Better macroeconomic management has already whittled away foreign exchange profits, and competition will force banks to charge lower fixed commissions on transfers. It is therefore essential that banks (as many have already started doing) continue to build on cross selling other financial products and services. Encouraging recipients to open and

⁶⁰ Ratha (2004) reports that some nonprofit credit unions affiliated with the World Council of Credit Unions and its International Remittance Network are able to provide the same service—for example, sending \$1,000 to Mexico from the United States—for a fixed fee of \$10–\$15, substantially lower than the \$50–\$76 charged by major commercial money-transfer agents. South Africa's Teba Bank and Canada's Meli Melo Transfert are able to send cross-border transfers at a fixed fee of \$3 for amounts up to \$400. In Hong Kong, cutthroat competition among money-transfer agents has brought the cost of sending remittances to the Philippines down to a fixed \$2.50 per transaction.

⁶¹ Ratha 2004, 165.

maintain bank accounts that might eventually lead to short- and long-term loans should be part of the business strategy of banks in the region.

- *Credibility*: Finally, besides investing in technology and creating new public-private partnerships, formal financial institutions, particularly state banks and post offices, need to re-build their credibility. People use informal remittance systems because they are not only cheaper, but also they are often more reliable than the formal institutions within their reach.

6.5 Informal Financial Infrastructure for Remittances

In Bangladesh, India, Pakistan, and Sri Lanka, informal remittance systems are commonplace. Originally developed to facilitate trade between distant regions at a time when conventional banking instruments were either absent or weak, their speed, low cost, ethnic and cultural convenience, versatility, and anonymity led to their use for various legal and illegitimate remittance purposes, including money laundering and terrorist financing.

Clearly, the development of various informal fund transfer systems over many years and across many countries points to the important role that these systems can play in the absence of a robust and efficient formal financial sector. However, the informal nature of these systems, particularly anonymity and lack of records, presents risks of misuse. If the formal financial sector is to respond to the legitimate market demand for *hawala*-type transactions, and if *hawala* operators are to be effectively regulated, countries will need sound and sustainable macroeconomic policies, a well-developed payments system, and a healthy financial sector. The progress made by the formal sector in expanding its activity at the expense of informal activity could easily be reversed. Poorly-functioning financial systems or the deterioration in financial or macroeconomic conditions could pave the way for greater recourse to informal payments systems.

Meanwhile, setbacks in financial and exchange liberalization or increases in the spread between official and parallel market exchanges will spur greater use of informal funds transfer systems. For purposes of long-term financial sector development, addressing the risks of financial abuse and criminal activity requires a two-pronged approach. In the majority of countries, where informal systems exist alongside a functioning conventional banking sector, it is recommended that *hawala* dealers be registered. In these systems, additional efforts should be made to improve transparency by bringing informal dealers closer to the formal financial sector without attempting to alter their specific nature. Simultaneously, the regulatory response must address weaknesses that may exist in the formal sector. Presently, formal and informal financial systems benefit from their mutual deficiencies, with each tending to expand when the condition of the other is impaired. High transaction costs, long delays in transferring remittances, exchange controls, and overly-bureaucratic policies and procedures for simple money transfers are major incentives for the existence of the informal financial system. To face the challenge, the formal sector should tackle its deficiencies and enhance its competitiveness. In conflict-afflicted countries with no functioning banking system, imposing requirements beyond basic registration may not be feasible because of lack of supervisory capacity.

6.6 Conclusion

Overall, remittances to the South Asia region are substantial and will continue to grow given today's migration trends.

Harnessing the development impact of these flows with an efficient and effective formal public and private remittance infrastructure in the face of an active parallel informal structure, is today's

principal policy challenge for governments in the region - a challenge governments in Bangladesh, Pakistan, India and Sri Lanka are taking seriously.

ANNEX 1
SUMMARY OF DATA SET ON POVERTY, INEQUALITY, INTERNATIONAL MIGRATION, AND REMITTANCES

Country	Survey year	Region	Poverty headcount (\$1/person /day)	Poverty gap (%)	Squared poverty gap (%)	Gini coefficient	Migration as share of country population	Official remittances (million dollars)	Official remittances as share of GDP (constant 1995 dollars)
Algeria	1988	Middle East, North Africa	1.75	0.64	0.48	0.414	2.77	379	0.97
Algeria	1995	Middle East, North Africa	1.16	0.23	0.094	0.353	2.01	1101	2.63
Bangladesh	1984	South Asia	26.16	5.98	1.96	0.258	0.04	527	2.19
Bangladesh	1986	South Asia	21.96	3.92	1.07	0.269	0.04	497	1.9
Bangladesh	1989	South Asia	33.75	7.72	2.44	0.288	0.05	771	2.68
Bangladesh	1992	South Asia	35.86	8.77	2.98	0.282	0.06	848	2.55
Bangladesh	1996	South Asia	29.07	5.88	1.6	0.336	0.09	1217	3.16
Belarus	1988	Europe, Central Asia	0	0	0	0.227	0	0	0
Belarus	1993	Europe, Central Asia	1.06	0.13	0.03	0.216	0	0	0
Belarus	1995	Europe, Central Asia	2.27	0.71	0.46	0.287	0	29	0.27
Bolivia	1990	Latin America	11.28	2.22	0.6	0.42	0.47	2	0.03
Botswana	1985	Sub-Saharan Africa	33.3	12.53	6.09	0.542	0	0	0
Brazil	1985	Latin America	15.8	4.69	1.82	0.595	0.05	25	0.01
Brazil	1988	Latin America	18.62	6.78	3.22	0.624	0.05	19	0.01
Brazil	1993	Latin America	18.79	8.38	5.01	0.615	0.08	1123	0.17
Brazil	1995	Latin America	13.94	3.94	1.46	0.6	0.09	2891	0.41
Brazil	1997	Latin America	5.1	1.32	0.5	0.517	0.11	1324	0.17
Bulgaria	1989	Europe, Central Asia	0	0	0	0.233	0.2	0	0
Bulgaria	1992	Europe, Central Asia	0	0	0	0.308	0.2	0	0
Bulgaria	1995	Europe, Central Asia	0	0	0	0.285	0.2	0	0
Burkina Faso	1994	Sub-Saharan Africa	61.18	25.51	13.03	0.482	0	80	3.83
Central African Rep	1993	Sub-Saharan Africa	66.58	40.04	28.56	0.613	0	0	0
Chile	1987	Latin America	10.2	2.25	0.66	0.564	0.4	0	0
Chile	1990	Latin America	8.26	2.03	0.73	0.56	0.42	0	0

Country	Survey year	Region	Poverty headcount (\$1/person /day)	Poverty gap (%)	Squared poverty gap (%)	Gini coefficient	Migration as share of country population	Official remittances (million dollars)	Official remittances as share of GDP (constant 1995 dollars)
Chile	1992	Latin America	3.91	0.74	0.23	0.557	0.44	0	0
Chile	1994	Latin America	4.18	0.65	0.15	0.548	0.46	0	0
Colombia	1988	Latin America	4.47	1.31	0.57	0.531	0.8	448	0.65
Colombia	1991	Latin America	2.82	0.75	0.32	0.513	0.86	866	1.14
Colombia	1995	Latin America	8.87	2.05	0.63	0.574	1.02	739	0.8
Colombia	1996	Latin America	10.99	3.16	1.21	0.571	1.06	635	0.67
Costa Rica	1986	Latin America	12.52	5.44	3.27	0.344	1.43	0	0
Costa Rica	1990	Latin America	11.08	4.19	2.37	0.456	1.41	0	0
Costa Rica	1993	Latin America	10.3	3.53	1.79	0.462	1.58	0	0
Costa Rica	1996	Latin America	9.57	3.18	1.55	0.47	1.71	122	1.03
Côte d'Ivoire	1985	Sub-Saharan Africa	4.71	0.59	0.1	0.412	0	0	0
Côte d'Ivoire	1987	Sub-Saharan Africa	3.28	0.41	0.08	0.4	0	0	0
Côte d'Ivoire	1993	Sub-Saharan Africa	9.88	1.86	0.54	0.369	0	0	0
Côte d'Ivoire	1995	Sub-Saharan Africa	12.29	2.4	0.71	0.367	0	0	0
Czech Republic	1988	Europe, Central Asia	0	0	0	0.194	1.73	0	0
Czech Republic	1993	Europe, Central Asia	0	0	0	0.266	1.53	0	0
Dominican Republic	1989	Latin America	7.73	1.51	0.42	0.504	4.89	301	2.91
Dominican Republic	1996	Latin America	3.19	0.71	0.26	0.487	7.08	914	7.13
Ecuador	1988	Latin America	24.85	10.21	5.82	0.439	1.38	0	0
Ecuador	1995	Latin America	20.21	5.77	2.27	0.437	1.92	382	2.13
Egypt	1991	Middle East, North Africa	3.97	0.53	0.13	0.35	0.15	2569	4.99
Egypt	1995	Middle East, North Africa	5.55	0.66	0.13	0.283	0.18	3279	5.45
El Salvador	1989	Latin America	25.49	13.72	10.06	0.489	9.06	228	3.39
El Salvador	1996	Latin America	25.26	10.35	5.79	0.522	11.67	1084	11.22
Estonia	1988	Europe, Central Asia	0	0	0	0.229	0	0	0
Estonia	1993	Europe, Central Asia	3.15	0.91	0.51	0.395	0	0	0
Estonia	1995	Europe, Central Asia	4.85	1.18	0.39	0.353	0	0	0

Country	Survey year	Region	Poverty headcount (\$1/person /day)	Poverty gap (%)	Squared poverty gap (%)	Gini coefficient	Migration as share of country population	Official remittances (million dollars)	Official remittances as share of GDP (constant 1995 dollars)
Ethiopia	1981	Sub-Saharan Africa	32.73	7.69	2.71	0.324	0.07	0	0
Ethiopia	1995	Sub-Saharan Africa	31.25	7.95	2.99	0.399	0.09	0	0
Gambia	1992	Sub-Saharan Africa	53.69	23.27	13.28	0.478	0	0	0
Ghana	1987	Sub-Saharan Africa	47.68	16.6	7.81	0.353	0.11	1	0.02
Ghana	1989	Sub-Saharan Africa	50.44	17.71	8.36	0.359	0.12	6	0.11
Ghana	1992	Sub-Saharan Africa	45.31	13.73	5.61	0.339	0.18	7	0.12
Ghana	1999	Sub-Saharan Africa	44.81	17.28	8.71	0.327	0.32	26	0.37
Guatemala	1987	Latin America	47.04	22.47	13.63	0.582	2.09	0	0
Guatemala	1989	Latin America	39.81	19.79	12.59	0.596	2.34	69	0.59
Honduras	1989	Latin America	44.67	20.65	12.08	0.595	2.11	35	1.05
Honduras	1992	Latin America	38.98	17.74	10.4	0.545	2.74	60	1.65
Honduras	1994	Latin America	37.93	16.6	9.38	0.552	3.23	85	2.23
Honduras	1996	Latin America	40.49	17.47	9.72	0.537	3.66	128	3.12
Hungary	1989	Europe, Central Asia	0	0	0	0.233	2.02	0	0
Hungary	1993	Europe, Central Asia	0	0	0	0.279	1.75	0	0
India	1983	South Asia	52.55	16.27	NA	0.32	0.04	2311	1.25
India	1986	South Asia	47.46	13.92	NA	0.337	0.06	2105	0.99
India	1988	South Asia	47.99	13.51	NA	0.329	0.07	2402	0.98
India	1990	South Asia	45.95	12.63	NA	0.312	0.09	1875	0.68
India	1995	South Asia	46.75	12.72	NA	0.363	0.11	7685	2.17
India	1997	South Asia	44.03	11.96	NA	0.378	0.12	10688	2.7
Indonesia	1987	East Asia	28.08	6.08	1.78	0.331	0.01	86	0.07
Indonesia	1993	East Asia	14.82	2.98	0.39	0.317	0.05	346	0.2
Indonesia	1996	East Asia	7.81	0.95	0.18	0.364	0.08	796	0.39
Indonesia	1998	East Asia	26.33	5.43	1.69	0.315	0.1	959	0.4
Iran	1990	Middle East, North Africa	0.9	0.8	NA	0.434	0.63	1	0.01
Jamaica	1988	Latin America	5.02	1.38	0.67	0.431	17.03	76	1.73
Jamaica	1990	Latin America	0.62	0.03	0.01	0.418	19.07	136	2.75

Country	Survey year	Region	Poverty headcount (\$1/person /day)	Poverty gap (%)	Squared poverty gap (%)	Gini coefficient	Migration as share of country population	Official remittances (million dollars)	Official remittances as share of GDP (constant 1995 dollars)
Jamaica	1993	Latin America	4.52	0.86	0.29	0.379	21.8	187	3.39
Jamaica	1996	Latin America	3.15	0.73	0.32	0.364	24.4	636	11.46
Jordan	1987	Middle East, North Africa	0	0	0	0.36	0.87	939	16.72
Jordan	1992	Middle East, North Africa	0.55	0.12	0.05	0.433	0.93	843	14.46
Jordan	1997	Middle East, North Africa	0.36	0.1	0.06	0.364	0.94	1655	23.08
Kazakhstan	1988	Europe, Central Asia	0.05	0.02	0.01	0.257	0	0	0
Kazakhstan	1993	Europe, Central Asia	1.06	0.04	0.01	0.326	0	0	0
Kazakhstan	1996	Europe, Central Asia	1.49	0.27	0.1	0.354	0	10	0.05
Kenya	1992	Sub-Saharan Africa	33.54	12.82	6.62	0.574	0	0	0
Kenya	1994	Sub-Saharan Africa	26.54	9.03	4.5	0.445	0	0	0
Kyrgyz Republic	1988	Europe, Central Asia	0	0	0	0.26	0	0	0
Kyrgyz Republic	1993	Europe, Central Asia	22.99	10.87	6.82	0.537	0	2	0.1
Kyrgyz Republic	1997	Europe, Central Asia	1.57	0.28	0.1	0.405	0	3	0.17
Latvia	1988	Europe, Central Asia	0	0	0	0.225	0	0	0
Latvia	1993	Europe, Central Asia	0	0	0	0.269	0	0	0
Latvia	1995	Europe, Central Asia	0	0	0	0.284	0	0	0
Latvia	1998	Europe, Central Asia	6.19	0.01	0	0.323	0	3	0.05
Lesotho	1987	Sub-Saharan Africa	30.34	12.66	6.85	0.56	0	0	0
Lesotho	1993	Sub-Saharan Africa	43.14	20.26	11.84	0.579	0	0	0
Lithuania	1988	Europe, Central Asia	0	0	0	0.224	0	0	0
Lithuania	1993	Europe, Central Asia	16.47	3.37	0.95	0.336	0	0	0
Lithuania	1996	Europe, Central Asia	0	0	0	0.323	0	2	0.03
Madagascar	1980	Sub-Saharan Africa	49.18	19.74	10.21	0.468	0	0	0
Madagascar	1994	Sub-Saharan Africa	60.17	24.46	12.83	0.434	0	11	0.35
Mali	1989	Sub-Saharan Africa	16.46	3.92	1.39	0.365	0	76	3.49
Mali	1994	Sub-Saharan Africa	72.29	37.38	23.06	0.505	0	103	4.43

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Mauritania	1988	Sub-Saharan Africa	40.64	19.07	12.75	0.425	0	9	1.04
Mauritania	1993	Sub-Saharan Africa	49.37	17.83	8.58	0.5	0	2	0.2
Mauritania	1995	Sub-Saharan Africa	30.98	9.99	4.59	0.389	0	5	0.47
Mexico	1984	Latin America	12.05	2.65	0.78	0.54	1.86	1127	0.47
Mexico	1989	Latin America	16.2	5.63	2.75	0.551	4.66	2213	0.87
Mexico	1992	Latin America	13.31	3.23	1.04	0.543	6.1	3070	1.07
Mexico	1995	Latin America	17.9	6.15	2.92	0.537	7.39	3673	1.28
Moldova	1988	Europe, Central Asia	0	0	0	0.241	0	0	0
Moldova	1992	Europe, Central Asia	7.31	1.32	0.32	0.344	0	0	0
Morocco	1985	Middle East, North Africa	2.04	0.7	0.5	0.392	4.38	967	3.81
Morocco	1990	Middle East, North Africa	0.14	0.02	0.01	0.392	4.02	1336	4.24
Mozambique	1996	Sub-Saharan Africa	37.85	12.02	5.42	0.396	0	0	0
Namibia	1993	Sub-Saharan Africa	34.93	13.97	6.93	0.743	0	8	0.25
Nepal	1985	South Asia	42.13	10.79	3.75	0.334	0	39	1.43
Nepal	1995	South Asia	37.68	9.74	3.71	0.387	0	101	2.3
Nicaragua	1993	Latin America	47.94	20.4	11.19	0.503	4.38	25	1.47
Niger	1993	Sub-Saharan Africa	41.73	12.43	5.29	0.361	0	13	0.74
Niger	1995	Sub-Saharan Africa	61.42	33.93	23.66	0.506	0	6	0.32
Nigeria	1997	Sub-Saharan Africa	70.24	34.91	NA	0.505	0.09	1920	6.37
Pakistan	1988	South Asia	49.63	14.85	6.03	0.333	0.11	2013	4.56
Pakistan	1991	South Asia	47.76	14.57	6.04	0.332	0.16	1848	3.62
Pakistan	1993	South Asia	33.9	8.44	3.01	0.342	0.18	1562	2.78
Pakistan	1997	South Asia	30.96	6.16	1.86	0.312	0.22	1409	2.19
Panama	1989	Latin America	16.57	7.84	4.9	0.565	3.53	14	0.25
Panama	1991	Latin America	18.9	8.87	5.48	0.568	3.55	14	0.21
Panama	1995	Latin America	14.73	6.15	3.39	0.57	3.61	16	0.2
Panama	1997	Latin America	10.31	3.15	3.67	0.485	3.67	16	0.19

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Paraguay	1990	Latin America	11.05	2.47	0.8	0.397	0	43	0.56
Paraguay	1995	Latin America	19.36	8.27	4.65	0.591	0	200	2.21
Peru	1985	Latin America	1.14	0.29	0.14	0.457	0.33	0	0
Peru	1994	Latin America	9.13	2.37	0.92	0.446	0.89	472	0.96
Peru	1997	Latin America	15.49	5.38	2.81	0.462	1.03	636	1.08
Philippines	1985	East Asia	22.78	5.32	1.66	0.41	1.26	111	0.21
Philippines	1988	East Asia	18.28	3.59	0.94	0.407	1.49	388	0.64
Philippines	1991	East Asia	15.7	2.79	0.66	0.438	1.69	329	0.49
Philippines	1994	East Asia	18.36	3.85	1.07	0.429	1.86	443	0.62
Philippines	1997	East Asia	14.4	2.85	0.75	0.461	2	1057	1.28
Poland	1987	Europe, Central Asia	0	0	0	0.255	1.89	0	0
Poland	1990	Europe, Central Asia	0.08	0.027	0.02	0.283	1.84	0	0
Poland	1992	Europe, Central Asia	0.08	0.031	0.02	0.271	1.81	0	0
Romania	1989	Europe, Central Asia	0	0	0	0.233	0.62	0	0
Romania	1992	Europe, Central Asia	0.8	0.34	0.31	0.254	0.77	0	0
Romania	1994	Europe, Central Asia	2.81	0.76	0.43	0.282	0.88	4	0.01
Russian Federation	1994	Europe, Central Asia	6.23	1.6	0.55	0.436	0.34	0	0
Russian Federation	1996	Europe, Central Asia	7.24	1.6	0.47	0.48	0.35	0	0
Russian Federation	1998	Europe, Central Asia	7.05	1.45	0.39	0.487	0.36	0	0
Senegal	1991	Sub-Saharan Africa	45.38	19.95	11.18	0.541	0	105	2.54
Senegal	1994	Sub-Saharan Africa	26.26	7.04	2.73	0.412	0	73	1.71
Sierra Leone	1989	Sub-Saharan Africa	56.81	40.45	33.8	0.628	0.18	0	0
South Africa	1993	Sub-Saharan Africa	11.47	1.83	0.38	0.593	0.14	0	0
Sri Lanka	1985	South Asia	9.39	1.69	0.5	0.324	0.06	292	3.45
Sri Lanka	1990	South Asia	3.82	0.67	0.23	0.301	0.12	401	4
Sri Lanka	1995	South Asia	6.56	1	0.26	0.343	0.3	790	6.06
Tanzania	1991	Sub-Saharan Africa	48.54	24.42	15.4	0.59	0	0	0
Tanzania	1993	Sub-Saharan Africa	19.89	4.77	1.66	0.381	0	0	0
Thailand	1988	East Asia	25.91	7.36	2.73	0.438	0.17	0	0

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Thailand	1992	East Asia	6.02	0.48	0.05	0.462	0.21	0	0
Thailand	1996	East Asia	2.2	0.14	0.01	0.434	0.24	0	0
Thailand	1998	East Asia	0	0	0	0.413	0.25	0	0
Trinidad, Tobago	1992	Latin America	12.36	3.48	NA	0.402	10.5	6	0.12
Tunisia	1985	Middle East, North Africa	1.67	0.34	0.13	0.434	3.12	271	2.11
Tunisia	1990	Middle East, North Africa	1.26	0.33	0.16	0.402	3.01	551	3.71
Turkey	1987	Europe, Central Asia	1.49	0.36	0.17	0.435	4.18	2021	1.56
Turkey	1994	Europe, Central Asia	2.35	0.55	0.24	0.415	4.13	2627	1.66
Turkmenistan	1988	Europe, Central Asia	0	0	0	0.264	0	0	0
Turkmenistan	1993	Europe, Central Asia	20.92	5.69	2.1	0.357	0	0	0
Uganda	1989	Sub-Saharan Africa	39.17	14.99	7.57	0.443	0	0	0
Uganda	1993	Sub-Saharan Africa	36.7	11.44	5	0.391	0	0	0
Ukraine	1989	Europe, Central Asia	0	0	0	0.233	0	0	0
Ukraine	1992	Europe, Central Asia	0.04	0.01	0.01	0.257	0	0	0
Ukraine	1996	Europe, Central Asia	0	0	0	0.325	0	0	0
Uruguay	1989	Latin America	1.1	0.47	0.4	0.423	0	0	0
Uzbekistan	1988	Europe, Central Asia	0	0	0	0.249	0	0	0
Uzbekistan	1993	Europe, Central Asia	3.29	0.46	0.11	0.332	0	0	0
Venezuela	1981	Latin America	6.3	1.08	0.25	0.556	0.08	0	0
Venezuela	1987	Latin America	6.6	1.04	0.22	0.534	0.14	0	0
Venezuela	1989	Latin America	8.49	1.77	0.49	0.557	0.19	0	0
Venezuela	1993	Latin America	2.66	0.57	0.22	0.416	0.29	0	0
Venezuela	1996	Latin America	14.69	5.62	3.17	0.487	0.36	0	0
Yemen	1992	Middle East, North Africa	5.07	0.93	NA	0.394	0	1018	28.49
Yemen	1998	Middle East, North Africa	10.7	2.42	0.85	0.344	0	1202	23.77

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Zambia	1991	Sub-Saharan Africa	58.59	31.04	20.18	0.483	0	0	0
Zambia	1993	Sub-Saharan Africa	69.16	38.49	25.7	0.462	0	0	0
Zambia	1996	Sub-Saharan Africa	72.63	37.75	23.88	0.497	0	0	0
Zimbabwe	1991	Sub-Saharan Africa	35.95	11.39	4.56	0.568	0	0	0

Notes: All poverty and inequality data from World Bank, Global Poverty Monitoring database. Migration data from U.S. Population Census and OECD, *Trends in International Migration*. Remittance data from IMF, *Balance of Payments*

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