

# **African Remittance Markets in the Netherlands**

**Study commissioned by  
Cordaid**

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## **Presentation**

The amount of money transferred by African migrants residing in the Netherlands to their home countries has risen sharply in recent years. This is not only due to an increase in the number of migrants but also to a substantial increase in the frequency of remittances sent by each migrant. However, although these remittances are an important source of foreign currency, it is difficult to assess their current and potential impact on the development of the recipient communities due to factors such as the diversity of transfers, the (formal and informal) channels used to send money, the costs involved in transferring money and the form of utilisation (consumption, savings and investment).

This study addresses the issue of African remittance markets in the Netherlands. Remittances are an important source of money for African countries but very little is yet known about the characteristics of the African remittance markets in the Netherlands. The study discusses the frequency, methods and costs of sending money to Africa, with attention also being paid to group remittances.

This paper aims to answer the following questions: How much money is being sent from the Netherlands to Africa? What are the reasons for using a formal or informal operator? What are community remittances? What are their social and economic characteristics? What are the migrants' relations with their places of origin?

The study has the following structure:

1. Key findings of the survey
2. Description of the methodology adopted in the survey
3. Description of the African remittance markets in the Netherlands
4. Statistical and graphical annexes

Many related issues were investigated in this study but it is impossible to include all the details in this report. Institutions and researchers interested in additional information are requested to contact:

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## List of abbreviations

<b>AZC</b>	Asielzoekerscentrum
<b>BIC</b>	Bank Identifier Code
<b>FCFA</b>	Franc de la Communauté Française d'Afrique
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GFN</b>	Global financial Networks
<b>GIT</b>	Ghana International Transfer
<b>IBAN</b>	International Bank account Number
<b>MG</b>	MoneyGram
<b>MT</b>	Moneytrans
<b>MTCN</b>	Money Transfer Control Number
<b>MTO</b>	Money Transfer Operator
<b>OC</b>	Ontvangscentrum voor asielzoekers
<b>SSB</b>	Security Social Bank
<b>SWIFT</b>	Society for Worldwide Interbank Financial Telecommunication
<b>TMT</b>	Travelex Money Transfer
<b>WU</b>	Western Union

## I. Introduction

Over the last 30 years, the number of international migrants has more than doubled and one of the most remarkable developments in Africa has been the rapid growth in migration flows. Serious political and economic crises seem to have reinforced this phenomenon. For many African households, remittances have become an important source of finance and foreign exchange that help to stabilise their irregular incomes and to build human and social capital.

Recent evaluations indicate that money remitted accounts for a significant percentage of the Gross Domestic Product (GDP) of many African countries. According to the World Bank report, *Global Development Finance 2003*, foreign direct investment (FDI) and migrant workers' remittances have become more important sources of finance for developing countries than private borrowing. Unlike loan capital, portfolio investments or FDI, which all dry up when economic conditions become worse in the host or receiving countries, remittances appear to maintain a steady flow during good and bad times.<sup>1</sup> The positive aspect of this kind of external finance is that it is more stable and more evenly distributed among African countries,<sup>2</sup> while Overseas Development Assistance (ODA) flows have declined and are concentrated in a few successful countries. Remittances have become the second largest capital flow after ODA and ahead of foreign direct investment. Remittances provide a way for migrants to maintain social and financial contact with their families and relatives and those who receive remittances are typically better-off than those who lack this source of income.

More than 170,000 migrants from Sub-Saharan African background reside in the Netherlands, although it is clear that this figure accounts for only part of the migration phenomenon, since illegal immigrants are not included in the figure. About 95% of legal and illegal migrants send money through a variety of channels to their families or relatives back home. These vary as there are specific methods for particular countries or regions. A number of factors influence the channels used: the existence of a modern banking system and financial infrastructure; the efficiency of the delivery system; and the educational and income status of the sender and recipient. Remittances from the Netherlands to Africa are predominantly sent by non-bank money operators.

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<sup>1</sup> When conditions worsen in their home country, migrants appear to send more money to support the family at home.

<sup>2</sup> Remittances are more evenly distributed. Nearly three-quarters of global FDI flows to developing countries end up in few number of countries. The corresponding figure for remittance receipts among African countries is quite evenly distributed.

The amount of money sent to Africa has increased considerably as a result of falling costs in technology and competition among remittance operators. But the present remittance figures reflect only the tip of the iceberg, since they do not include remittances sent through informal channels. These include the carrying of cash by migrants to their families and friends, as well as transfers through unregulated money transfer operators. As they are heavily underreported, actual remittance figures are much higher than the statistics suggest. The importance of remittances from the Netherlands to Africa would be more evident if informal transfer systems were taken into account.

Financial rules and regulations are the greatest concern for money transfer operators based in the Netherlands. The taxes imposed by the Dutch government on these operators are automatically transferred to their customers in each transaction to Africa. Furthermore, the migration that yields large remittances remains increasingly subject to immigration restrictions.

It is for this reason that **Cordaid** commissioned this study to better understand the different aspects of the African remittance markets in the Netherlands. The information contained in this survey presents the first detailed analysis of remittance markets in the Netherlands and insight into migration patterns.

The study survey considered remittances as financial flows and services because most remittances in the Netherlands are made in the form of money. To a much lesser extent do they come in the form of goods.

Although remittances and related aspects of migration and financial services are similar in all African countries, Sub-Saharan Africa is unique in some specific respects. This study concentrates on Sub-Saharan Africa because of its migration and remittance patterns, which differ from those in North Africa.

After analysing the information available on remittance markets and the choice of transfer channels and services, the study concludes with a brief summary and recommendations.

### Respondents by country of origin

Country	Frequency	%	Country	Frequency	%
Angola	54	4.7	Liberia	9	.8
Benin	28	2.4	Nigeria	193	16.8
Burkina Faso	4	.3	* RC	57	5.0
Burundi	6	.5	** DRC	218	19.0
Cameroon	55	4.8	Rwanda	5	.4
Cape Verde	35	3.1	Senegal	1	.1
Eritrea	2	.2	Sierra Leone	41	3.6
Ethiopia	13	1.1	Somalia	135	11.8
Ghana	173	15.1	South Africa	2	.2
Guinea	50	4.4	Sudan	18	1.6
Ivory Coast	6	.5	Tanzania	12	1.0
Kenya	28	2.4	Uganda	1	.1

**Total respondents 1146**

\* Republic of Congo

\*\* Democratic Republic of Congo

### Key findings of the survey:

- The survey was conducted among 1146 Africans in May/July 2004. It does not include remittances to North African countries.
- More than 95% of all African-born adult immigrants living in the Netherlands send money home at least 6 times a year.
- The immigrants who regularly send money home are relatively younger, with 65% being between 18 and 35 years of age.
- About 69% of immigrants use formal channels. Informal channels include service providers and agents and are based on personal relationships.
- The survey indicates that most African immigrants send remittances to their families through international money transfer companies like Western Union and MoneyGram.
- Western Union and MoneyGram dominate the remittance markets in the Netherlands. About 65% of African immigrants reported using these companies to send money home.
- Speed and safety are considered the most important reasons for using these companies.



- Approximately 78% of African immigrants have bank accounts in the Netherlands and over 60% of those without a bank account do not have an official residence permit.
- According to the survey, 38% are Dutch citizens and 62% are legal and undocumented migrants.
- Less well-educated immigrants send money more frequently than other groups.
- About 31% of African immigrants contribute money to collective remittances, which are used for projects in their home countries.
- More than 32% of migrants have been in the Netherlands longer than five years and have been sending remittances for more than five years.
- The total amount sent from the Netherlands to Africa in 2004 is estimated to be more than €40 million.
- Most migrants send between €100 and €1,000 per transaction.
- Transactions, which average about €200, help poor and middle-class families to pay for food, shelter, education and healthcare and to set up small businesses.
- The use of transfer services depends on familiarity, trust, proximity, reliability and awareness of the system. Access to the service by senders and receivers is a critical factor.
- Dutch financial and monetary policies and regulations affect the availability and choice of remittance channels.
- Sending money to Africa occurs more frequently during the important Muslim (Tabaski) and Christian (Christmas) religious festivals and at New Year for both of these groups.

## **Methodology**

Information was collected through the direct interview method. The interviewer had to visit the church or home of the migrants more than once to complete the interviews when not enough information could be collected during the first visit. The fieldwork team was made up of four interviewers, including the consultant who had personally trained the interviewers at an earlier date. It is important to point out that most of these persons were bilingual and spoke French and English. Furthermore, the fieldwork was directly and continuously supervised by the consultant to ensure the quality of the information. The sample therefore meets all the reliability standards.

The fieldwork consisted of a general survey of remittance activities in the Netherlands on the basis of existing information and a series of interviews with intermediary agencies and

senders. The survey combines data drawn from interviews with African organisations, churches, formal, informal and semi-formal money transfer agencies owned by Africans. It is also taken from interviews with formal money transfer agencies such as Western Union, MoneyGram and Moneytrans. The aim was to gain a general overview of the variables involved in remittance markets, such as the status of migrants, and the methods and costs of sending money back home.

To gain insight into the considerable regional variations, four African countries (Congo-Kinshasa, Ghana, Nigeria and Somalia) were selected for in-depth study. Ghana and Congo-Kinshasa were chosen because of the services offered and their importance in the remittance markets in the Netherlands; Somalia was selected because of its particular political status (being a country without a state), and Nigeria made up the countries to be profiled because of the important amount of money sent home in each transaction.

The difficulties encountered were enormous from the point of view of collecting information. The Nigerians and Congolese were prepared to contribute to this study and helped in finding other groups and networks of Nigerians or Congolese involved in the transfer of money to Nigeria and Congo. The survey questions were distributed to the Congolese and Nigerian churches thanks to some of the local pastors who were able to convince their members about the study's importance and encouraged them to respond to the survey.

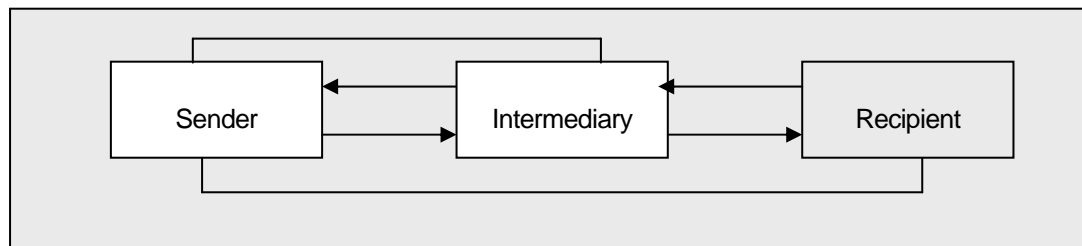
The Ghanaians were more reserved about responding to the survey and wanted to know more details about the study. The majority were afraid to give any information about themselves and their businesses and in some cases the owner of a business claimed that he was just an employee and that the owner had gone to Ghana. However, the involvement of the pastors in some of the Ghanaian churches was invaluable and when a pastor introduced us to a businessman or group of Ghanaians, cooperation was then forthcoming. Establishing contact with the Somali community was not easy. The majority never showed any sign of being interested in this study and we were unable to contact them at their places of worship, as we did with the three other groups. We talked to them during conferences, at an African festival, in trams and on the subway system.

This study, however, provides data that is richer than that available for the four pilot countries. The survey included both a questionnaire about remittance behaviour and a questionnaire about how the African remittance markets in the Netherlands work.

## 2. Remittance markets in the Netherlands

The remittance scheme is simple. The sender uses a formal or informal intermediary service to send money to a relative back home. The relationship between the sender, the intermediary and the recipient is one based generally on business, while the relationship between the sender and recipient can be business, friendship or familial.

Figure 1. Remittance markets



When the relationship between a sender and a recipient becomes a business relationship, the roles of both persons change. The recipient can become a sender and the sender a recipient. This study explores the Netherlands remittance markets, which is based on the sender and intermediary services. However, the status of the recipient will sometimes also be considered because of the interrelationship of the three variables in the markets.

### 2.1. The sender

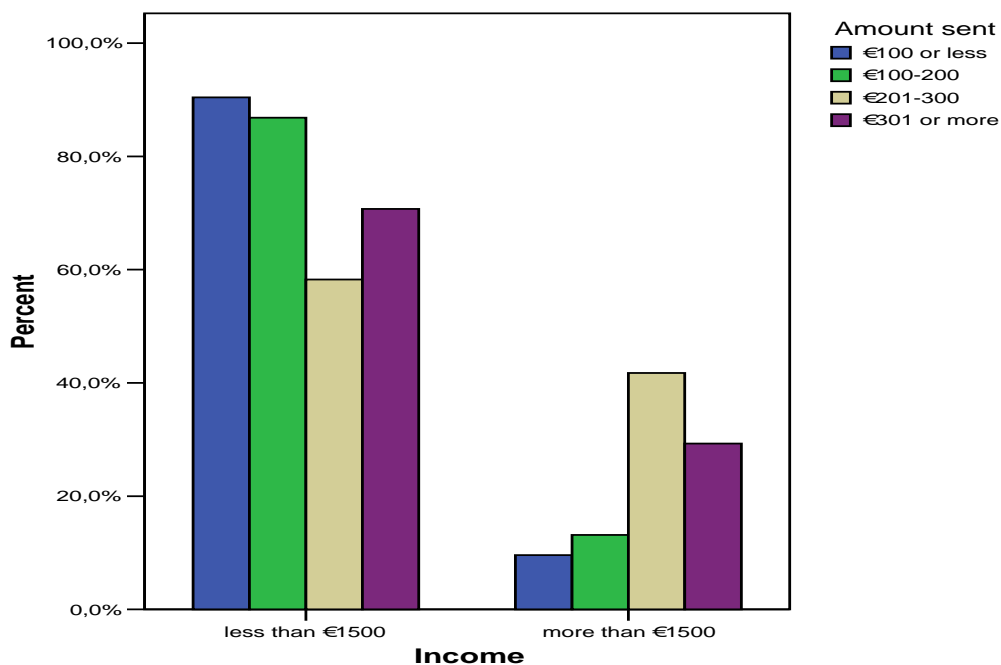
#### 2.1.1. Individual remittances

The sender can be an individual or an association or organisation. When the sender is an individual, the amount of money and the frequency with which transactions are made depends on his/her immigration status in the Netherlands. Immigration status influences the probability of remitting. Migrants with children remit less than migrants without children. This is seen most clearly among migrants whose spouses and children are resident in the Netherlands than those whose spouses and children are in Africa. The presence or absence of immediate family members influences the probability of remitting. Being in contact with fellow countrymen is a positive predictor of remitting. Immigrants with stronger ties to Africa (mostly short-term immigrants and those who have spent little of their lives in the Netherlands) are likely to remit more. The survey shows that migrants who recently arrived in the Netherlands remit more than those who arrived earlier because the relationship between recent migrants and their families back home is still strong and they have a greater sense of being expected to support other family members.

Migrants with stronger ties in the Netherlands remit less. Spending a higher percentage of one's life in the Netherlands between the first and most recent trip home reduces the likelihood of remitting. For many African immigrants in the Netherlands, age reduces the probability of remitting.

Another finding of the survey was that the educational background of migrants plays a role in remitting. Additional years of education reduce the likelihood of remitting. The survey also shows that migrants with higher salaries remit less than migrants on lower wages. A higher income does not impact positively on the probability of remitting. Senders with moderate incomes of more than €1500 a month are less likely to remit than those in the lowest income bracket (less than €1500 a month).

Figure 2. Income and amount sent



A migrant's attitude to his/her cultural background also changes as a result of contact with Dutch society. Adopting certain aspects of Dutch culture generally decreases the probability of remitting. This is most evident when the amount of time a migrant has spent in the Netherlands is considered. For example, Africans who identify themselves racially as "white" are less likely to remit than those who identify themselves racially as "other".

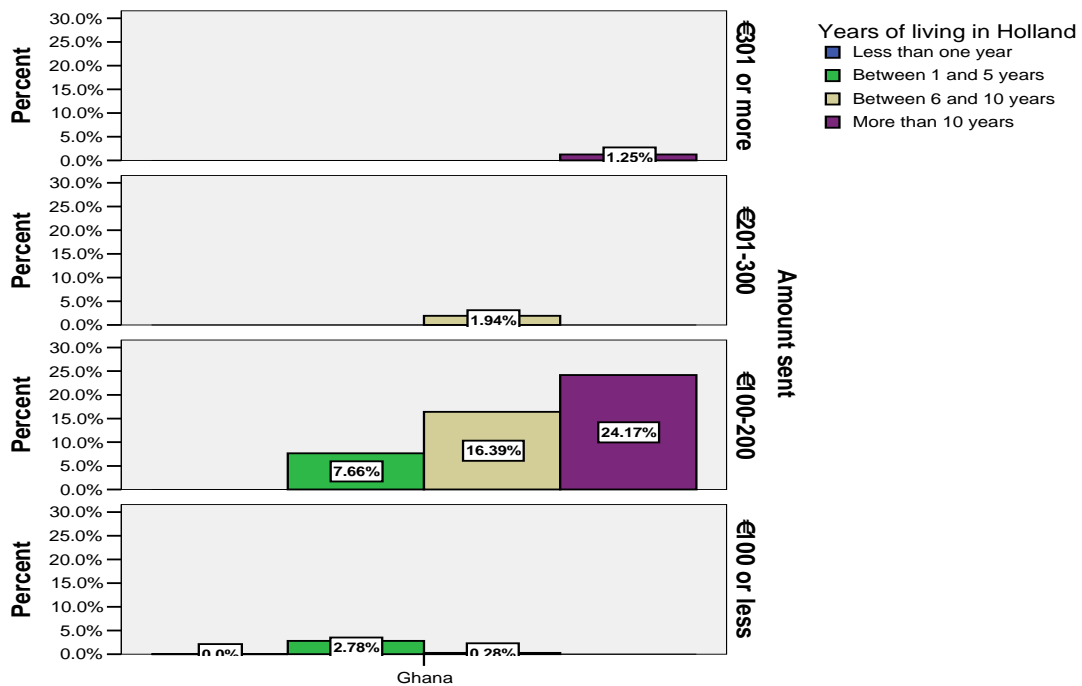
Having legal residency status or not in the Netherlands is an important factor that influences the amount of money sent to Africa. Many Africans have migrated to the Netherlands because of political instability and declining economic opportunities at home. They want to escape violence at home or to raise their standard of living and improve the lives of relatives or friends back home. Their expectations when moving to the

Netherlands are very high but, having arrived, they generally find themselves in a very precarious position due to the recent tightening of Dutch immigration policies.

There are currently large numbers of Africans without residence status in the Netherlands. Some have exhausted all possible legal channels following the rejection of their application for a residence permit, while others have never applied for a permit and reside in the Netherlands illegally. The restrictive immigration policies are hitting illegal migrants very hard and it is clear that these measures are having a direct impact on the volume of remittances, especially among the Ghanaian and Nigerian groups, which represent a larger percentage of the illegal African migrants in the Netherlands. These two groups send the highest amounts of money every month to their home countries.

The survey indicates that remittances to Africa in general tend to decline the longer the migrant stays in the Netherlands, but this is not the case with Ghanaian migrants. Unlike other groups, the longer Ghanaians stay in the Netherlands the more they remit to Ghana.

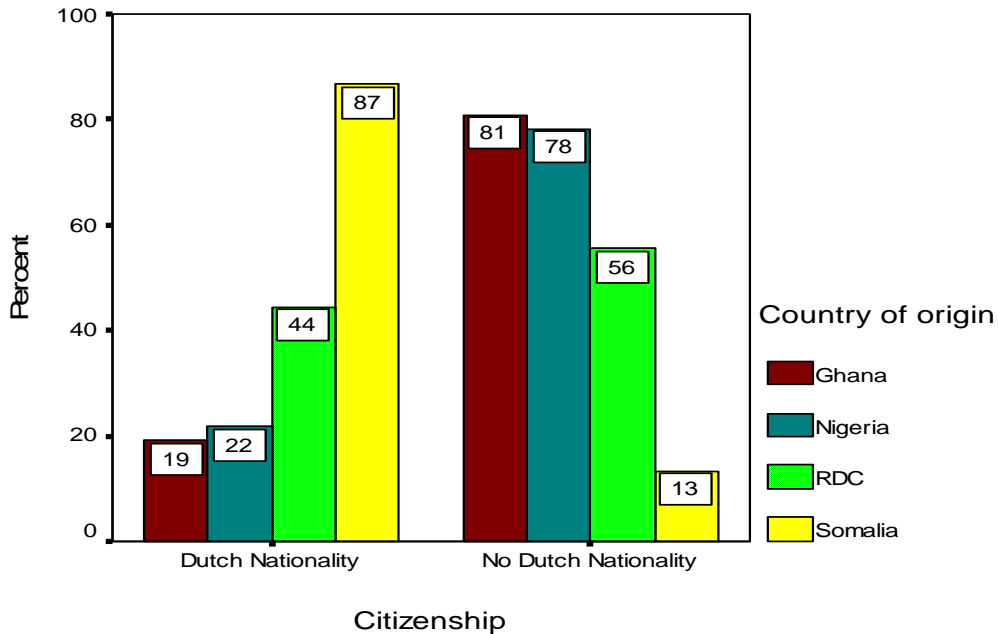
Figure 3. Ghanaian years of living in the Netherlands and amount sent



The survey shows that naturalised citizens remit less than immigrants without permanent resident status. In the Netherlands, being a Dutch national has become almost an obligation for many immigrants when they are granted a residence permit. The survey shows that more than 87% of Somalis in the Netherlands have Dutch nationality while a very small percentage of Ghanaians do. This can be related to their initial status in the Netherlands. The majority of Somalis have come to the Netherlands as asylum seekers

and most of them have had the chance to get a residence permit, which in turn leads them to apply for Dutch citizenship.

Figure 4. Citizenship by country of origin



Like most Somalis, many Congolese came to the Netherlands as asylum seekers, but the number granted a permit that allows them to stay is lower compared to those from Somalia. Unlike the Somalis and Congolese, most of the Ghanaians and Nigerians have not come to the Netherlands as asylum seekers. A wide variety of reasons explain their arrival and why they have stayed in the Netherlands and most of them do not have the documents required to allow them to stay in the country.

Among African immigrants in the Netherlands, men are more likely to remit than women. However when the percentage of their income sent to Africa is considered, women remit more of their income to their families than male migrants. Women always remember their relatives with the small money they can afford, while men are more careless and seem to forget their relatives in Africa, especially when they are married and have children. Whatever the status of women, they are a more reliable source of income for their families back home than men

Men and women have different goals when sending money to Africa. Women are keeping in touch with their relatives because of their position in society. They have always shared responsibilities with their mothers for the household budget when they were at home and they feel responsible for supporting family members when they are abroad. The money they send is generally used for education, health care and income-generating activities.

Among the pilot groups, the Nigerians and Ghanaians proved the most likely to remit. The Congolese were found to be no different statistically from the Somalis.

**Table 1. Frequency of sending money home**

	<b>RDC</b>	<b>Somalia</b>	<b>Ghana</b>	<b>Nigeria</b>
<b>once a month</b>	19.4%	<b>83.7%</b>	<b>39.3%</b>	23.9%
<b>every 3 months</b>	<b>40.3%</b>	7.4%	26.0%	<b>29.0%</b>
<b>every 6 months</b>	13.9%	0.0%	<b>34.7%</b>	25.6%
<b>at least once a year</b>	<b>16.7%</b>	8.9%	0.0%	18.8%
<b>once every few years</b>	<b>9.7%</b>	0.0%	0.0%	2.8%

The Somalis send small amounts relatively frequent compared to the Congolese, Nigerians and Ghanaians. However, despite the frequency with which they send money home, the Somalis and Congolese do not exceed the Ghanaians and Nigerians who send larger amounts of money each time they make a transaction.

The Ghanaians and Nigerians can be seen as the two communities that send the most money to their countries of origins out of the groups surveyed. About 45% of Nigerians send more than €300 to their relatives whereas more than 90% of Ghanaians send more €100 each time to their relatives in Africa.

**Table 2. Amount sent each time to Africa**

	<b>RDC</b>	<b>Somalia</b>	<b>Ghana</b>	<b>Nigeria</b>
<b>€100 or less</b>	<b>49.5%</b>	32,6%	7.5%	<b>33.8%</b>
<b>€100 – 200</b>	33.9%	<b>65.9%</b>	<b>86.7%</b>	31.1%
<b>€201 – 300</b>	7.3%	0.0%	4.0%	15.0%
<b>€301 or more</b>	9.2%	1.5%	1.7%	30.1%

But, having relatives in the Netherlands does not always mean that recipients will receive money monthly or even occasionally. Some migrants in the Netherlands do not have the means to assist their relatives back home, especially if they cannot work because they lack the necessary papers or are living in an asylum seekers' centre (AZC).

In general, many factors were identified that influence the remittance behaviour of migrants to send money home: income levels, sex, the marital status of the migrant, educational level and background, immigration status, the presence of immediate family members in the Netherlands, and the percentage of the migrant's life that has been spent in the Netherlands.

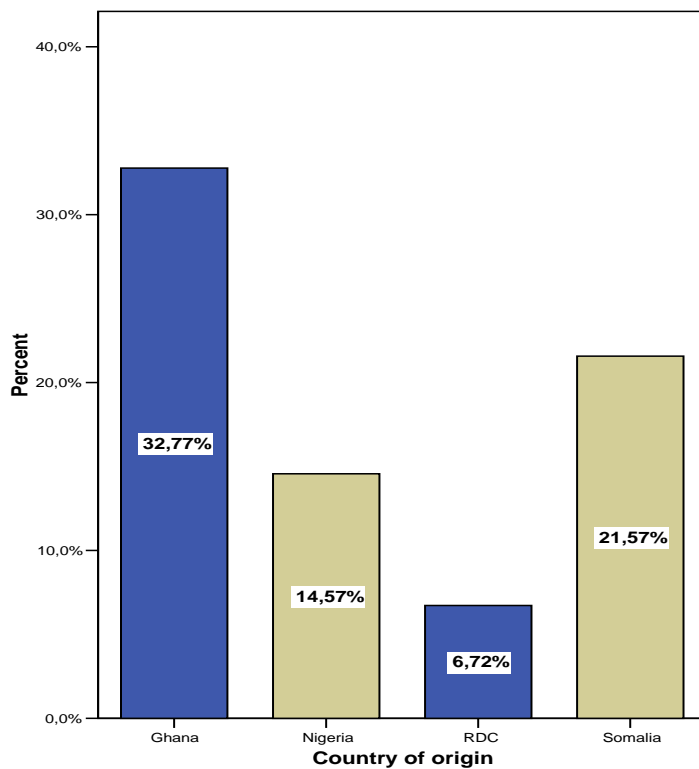
### 2.1.2. Collective remittances

Collective remittances are the sums of money sent by migrant associations or church groups to their home communities. Being communal or collective, these remittances are different from individual remittances and the amount usually is very low.

These remittances come from individuals who have joined migrant associations to support projects or other activities in their villages of origin back home. The associations raise important amounts of money every year to help their communities at home.

The survey shows that about 31% of African immigrants in the Netherlands contribute money to collective remittances. This money is used for projects such as paving roads, and installing electricity in neighbourhoods.

Figure 5. Migrants' contribution in collective remittances



About 15% of Nigerians and 7% of Congolese contribute to collective remittances. At 33%, the Ghanaians contribute the most to collective remittances followed by Somalis (22%). This figure illustrates the degree of organisation and collaboration within the Ghanaian community in the Netherlands. The Ghanaian community is organised in small ethnic groups or associations, which have a strong focus on community development at home. The large majority of these ethnic groups or associations operate in the countryside, the very places to which Ghanaians send their money.



These associations are based on social networks and members of these associations seek to promote the well-being of their home communities of origin (in Ghana) and residence (in the Netherlands) by raising money to fund public works and social projects. A small number of Congolese participate in group remittances. Most are organised in ethno-linguistic groups and fraternal organisations or have set up a kind of collective savings scheme in the form of Roscas (Rotating Savings and Credit Associations), called *likelemba*.

Nigerian migrants in the Netherlands transfer money through hometown associations (Igbo, Yoruba, Benin, etc.) to Nigeria to support works in their areas of origin. They channel funds for the construction of public infrastructure (e.g. roads, street and building repairs, etc.), equipment (medical equipment, and vehicles for social and non-profit purposes), and promoting education (school supplies). Nigerian immigrant organisations routinely send shipping containers to Nigeria filled with clothing and other goods. Their most successful fundraising activities include dance parties, raffles, beauty contests and other cultural events that take place throughout the year.

Similarly, Cameroonian migrants, through groups such as the *Bamiléké* association in The Hague, remit funds to Cameroon in cash and in the form of goods. They collect funds in various ways to help villages to build roads, to obtain water-cleansing equipment and

#### ***The Congolese Likelemba***

A Rosca's system when people agree to contribute to a common fund at regular intervals either weekly or monthly. The collected funds are given in its entirety to each member of the group in turn. The order of rotation is determined by negotiation or according to the participants' degree of solvency.

The *likelemba* is set up by people from the same geographic region in Congo-Kinshasa, same church and/or prayer groups in the Netherlands or from the same OC (Ontvangscentrum voor asielzoekers) or AZC (Asielzoekers Centrum). They adhere to this informal financial system with a clear and well-determined objective. The money received from the *likelemba* helps them to support family, to finance small-scale projects in Congo or to become involved in income-generating activities.

The system often brings Congolese together and they form close relationships. Depending on the specific objective of each group, the *likelemba* can serve as a means of social protection or mutual help among members, or as a mechanism for economic and social development of their local communities back home.

This kind of savings scheme can also be found in other African communities in the Netherlands but under different names: *Isusu* for Nigerians; *Susu* among the Ghanaians; *Hagbad* in the Somali community and *Shwa* for west Cameroonians.

irrigation systems, and to build dispensaries and schools. They regularly send funds through formal and informal channels. Recently through their website (<http://www.bamileke.com>) *Bamilékés* in Europe have initiated a project called *Camelia* to

provide digital assistance to schools in Cameroon. Through the *Bamiléké* organisations, migrants in the Netherlands can purchase goods and have them delivered to family members in Cameroon. Transactions are fairly rapid and accounts evaluation between the organisation in the Netherlands and in Cameroon are usually done two or three times a year. Those unable to cover the total cost of goods at one time, can pay in instalments over a maximum period of six months, incurring interest charges of between 10% and 50%.

At present, there is an increase in the number of charitable foundations (Dutch: *stichting*) in African communities in the Netherlands. They are active in the field of development and most have offices in Africa to liaise with local partners and assist in the transfer of development assistance and aid. Many receive a list of prioritised community building projects from their communities of origin and organise fundraising in the Netherlands around those projects. Over the last five years, these associations have flourished especially among Ghanaians, Congolese, Nigerians, Cameroonians and Somalis in the Netherlands. Previously, it was impossible to have regular contact with communities back home because of the expense and difficulty of long-distance communication and travel. Today, with cheaper air travel and the aid of modern telecommunications technology, many African immigrants in the Netherlands can travel home and communicate regularly with their own communities. Consequently, the level of communication with the country of origin has significantly increased.

### **2.1.3. *The purpose of transferring money home***

Money sent to family members to cover urgent needs represents a large proportion of the sender's income. African society has a culture of reciprocity and collectivity, and financial responsibility is often shared between families, extended families and even communities. These circumstances underlie a number of types of remittance based on specific needs. Money goes to families for subsistence. It may also help to pay off a loan repayment used to finance a son or cousin's travel to the Netherlands. Many such cases have been noted among Congolese migrants. Some travel to the Netherlands because parents or a member of the extended family bought his/her ticket after selling property, usually a house. For the migrant, it becomes a kind of obligation to send earnings back home to contribute to the family's livelihood. This contribution is the most common form of remittance. However, those who have settled in the Netherlands may also send money to their home country for business purposes. This is the case with many Ghanaians and Nigerians who send money through formal and informal channels to create a kind of identity in their communities. They can build schools, pave roads, supply running water

and electricity. The choice of channel for sending the money depends on many factors, which are explored in this study.

## 2.2 The intermediary scheme: Money transfer operators

The Netherlands has a large number of money transfer services, which give Africans living in the Netherlands a considerable range of operators to choose from in terms of price and convenience. Money transfer operators include large international money transfer agencies as well as smaller agencies, most of which are owned by Africans. In the Netherlands, there are three ways of sending remittances to Africa: the formal, semi-formal and informal.

Formal money transfers are offered by banks, post offices, money transfer companies (such as Western Union, MoneyGram and Moneytrans) and even Internet systems. Sending remittances through the formal system means very high charges, including receiving-country taxation. The formal money transfer operators in the Netherlands are more expensive than the informal ones. Remittances sent through formal channels are closely monitored by the Central Banks in both the sending and the receiving country.

Informal money transfer systems involve migrants carrying money themselves or sending it with relatives, friends or money couriers (usually friends and relatives) who collect and deliver the money from door to door. There are also a number of informal services operating as import-export businesses, retail shops or currency dealers. Most of them offer no or very little paper or electronic documentation but they are generally well organised, effective and inexpensive and the sender often does not need to provide identification. In many cases, these services are faster, cheaper and more flexible regarding time and proximity to dependents, especially in the urbanised areas of Africa.

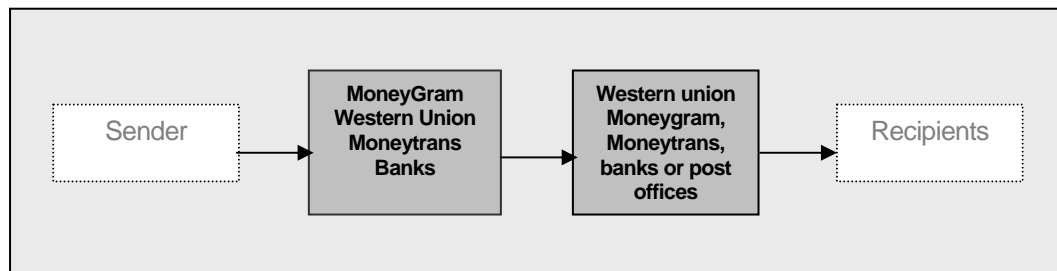
The semi-formal system uses both the systems described above to transfer money to Africa. The money is collected from the sender through the informal system and sent through the formal one; for example, the *Hawala* offices in the Netherlands and Dahashbiil in England. At the other end, the money is collected through a formal system and sent through the informal one; for example Ghanaian offices in the Netherlands with Forex bureaus in Ghana .

Having recently seen the importance of the remittance market and the amount of money being transferred, certain African transfer agencies and banks have begun to establish alliances with Western Union and MoneyGram. Western Union has powerful and reliable networks. The situation is gradually reducing the share of the informal market in the remittances business.

### 2.2.1. The formal money transfer operators

The best-known of the formal money transfer operators are Western Union, MoneyGram and the recently opened Moneytrans. Some African money transfer operators are also to be found in this formal market using Western Union or Moneygram networks.

Figure 6. Formal money transfer scheme



Western Union and MoneyGram are to be found everywhere in the Netherlands and can be reached easily. There are Western Union outlets all over the country but MoneyGram are usually at the main railway stations. Moneytrans has also recently opened offices in the Netherlands and now has five outlets – one in Amsterdam, two in The Hague and two in Rotterdam.

To send money home via Western Union, MoneyGram or Moneytrans, the sender needs a valid identification card or passport. This actively restricts those who can use this method of sending money to Africa. As a significant number of senders in the Netherlands do not have a residence permit, they are forced to depend on friends who do have an identification card or passport to send money to relatives back home.

The service of these money transfer companies works as follows: When a sender wants to send money to Africa, the company collects the commission and fixes the exchange rate before sending a message with all the information concerning the sender and recipient to their agents in Africa. The sender receives a printed receipt with the full details of his transaction. He/she can then phone the recipient with the details they will require to collect the money. In Africa, these types of services are carried out by commercial banks and post offices that operate as agents.

The costs of a formal money transfer range from 0.1% to 17% of the value of the money being sent. Among the formal money transfer operators, Western Union offers the most expensive services. To send €100 costs an extra 17% at Western Union, 9.99% with MoneyGram and 8% at Moneytrans ( and 0.1% banks). The fee for sending money to Africa through Western Union is almost double what the other companies charge. Most of

the people interviewed felt that transferring funds through the networks of the formal money transfer operators such as Western Union and MoneyGram, etc, was very expensive. But most of the respondents said they preferred to use these operators because the services are convenient, reliable and fast. Operations are carried out quickly and without too many administrative hitches, the funds are received almost immediately and there is no risk involved.

### **A. Western Union (WU)**

The Western Union network has many offices across the Netherlands. It is concentrated in areas where there is a strong immigrant presence. One of the main advantages of WU is the speed of the service: a transfer can take just ten minutes to reach the recipient in Africa (the time required to carry out the administrative formalities). An additional advantage is that with this system neither the sender nor the receiver has to have a bank account to carry out a transfer.

The money sent is received in local or foreign currency in accordance with the recipient country's regulations and the rate of commission charged by WU varies. The commission is divided between the following parties: the transmitting agent, the receiving agent, and the head office of Western Union. WU has the lion's share of the transfer market to Africa. Its comparative advantage lies mainly in safety but also in its speed and service thanks to its broad network in Africa. For the last two years, Western Union has had a competing advantage due to the density of its network and its visible presence in many localities in African countries. Western Union has begun providing its services even in small towns as well as in African capitals. Such a network ensures a competitive advantage for WU over its competitors.

To send money, the sender has to fill out a Send Money Form and pay the clerk in cash, including the amount to be sent and the appropriate fee(s). The sender must present valid identification. S/he then receives a receipt that includes a Money Transfer Control Number (MTCN). The sender has to contact the recipient in Africa and give him/her the MTCN to enable them to pick up the funds. A test question may be included to help Western Union identify the receiver of the funds in Africa. Agents will pay out on the test question with proof of identification. The maximum amount that can be sent is €10,000 per transaction at the Postbank and €2,240 per person, per transaction, per day at Ramesh Travel Service locations. Postbank, Ramesh Travel Service, etc work as agents for Western Union for money transfers.

## **B. MoneyGram (MG)**

MoneyGram has been selected as the money transfer service provider for GWK Bank NV. GWK is a bank that specialises in foreign currencies in the Netherlands and has extensive experience in the money transfer business. The MoneyGram service is available at all of the GWK's 65 locations, mostly at main railway stations. The system of transfer at MoneyGram is similar to that of Western Union. Like WU, MoneyGram also offers a fast and safe service, but at a lower cost. The difference is in the marketing policies of the two structures. According to a MoneyGram employee, Western Union has a marketing policy that promotes the giving of large gifts, which are naturally taken into account in the calculation of the price the customer is charged. But MoneyGram prefers to give small gifts (pens, for example) which does not necessitate charging the customer a significantly higher price. This difference explains why MG is less expensive than WU. But there has to be a reason why MG decided to adopt a policy of low rates to attract customers, bearing in mind the fact that their weak share of the market in the Netherlands is due to their limited network. MoneyGram is less well-known than Western Union.

MoneyGram has an online money transfer service but the sender must be a US resident and have a valid email address. With this online service, if the sender wants to transfer money to Africa, he has to pay either with a Visa card or Mastercard issued by a US-based financial institution, or from his/her own US-based bank account. If payment is made via a bank account, the sender will need to provide a Visa card or Mastercard number as a backup funding source.

## **C. Moneytrans (MT)**

Moneytrans is currently available in two countries, Belgium and the Netherlands. In Belgium, it runs a successful business among the African population. According to one of its staff, many Western Union clients in Belgium prefer to use Moneytrans now because of its lower charges for sending money around the world. Moneytrans has only five offices in the Netherlands but this small number of outlets does not necessarily affect its convenience. The company has outlets in the big cities like Amsterdam, Rotterdam and The Hague where its target audiences live, work and shop. The company has an important network in many African countries, such as Congo-Kinshasa, Morocco, Ghana, etc. To send money to Africa, the sender must show identification. The fee for sending money is very low compared to WU and MG. This fee is fixed regardless of the amount of money being sent. At present, Moneytrans is using the offices of the former British money transfer company, Chequepoint, which closed at the end of 2003.

#### **D. The international posts mandate**

This system was used extensively before the expansion of professional money transfer operators such as Western Union and MoneyGram. Their slow speed of transfer has meant people use professional money transfer operators instead.

#### **E. Banks**

Anyone who has a bank account in the Netherlands can transfer a certain amount of money from this account to any other account in his country by electronic transfers such as the SWIFT

( <http://www.swift.com>) or telex. These transfers are safe but not particularly fast; they are cheaper but relatively expensive, especially when the operation is carried out in two different monetary zones (Euro, US dollar, Cedi, Naira or FCFA). In general, banks stipulate that customers must hold an account with them in order to be able to send money to Africa.

Transfers through banks take an average of five days, varying from one or two weeks depending on such factors as the transfer mechanism used and the procedures of the receiving bank. It frequently takes less than 24 hours for a transfer through a money

transfer operator to take place, with some transfers taking place within 10 minutes. Compared to the banks, professional money transfer operators tend to offer better coverage in the receiving countries. They have varying numbers of outlets in Africa, though the largest companies, such as Western Union and MoneyGram, tend to have the most extensive networks. However banks are seen as more cost-effective when sending larger amounts of money due to the higher basic rate. Banks can also be useful on particular occasions. The lack of branch networks in receiving countries is one of the disadvantages for customers in terms of the speed, ease and cost of transfers.

##### ***Informal Remittances and Banks***

When a member of the diaspora in the Netherlands wants to return to his country, he travels with a small amount of money or without money to avoid hassle at customs. In his home country he can borrow money from a trader, mostly foreigners or expatriates. The trader knows this person or he will have been introduced by a third person who knows both of them. To carry out this operation, it is necessary for the trader to have a bank account in the Netherlands where his money can be transferred or paid back. The trader gives cash in exchange for a cheque in his name at a bank in the Netherlands. The trader then deposits the cheque into his own bank account abroad, sending it either by mail, through friends leaving for the Netherlands or with the client upon his return. This operation can also take place in the opposite direction. The transfer is done from the country of origin to the host country. These types of informal remittances moving from Africa to the Netherlands are well explained in the study. The operation is mostly used in a country where there is no confidence in the local currency to make financial transactions.



Only a few Dutch banks have a branch network in African countries, although most have partner banks. They work with various partners to remit money. In the Netherlands, banks have no policy for promoting remittances to African countries.

Most of the banking systems in African countries are underdeveloped and the delay in paying the receiver are not uncommon. Moreover, the receiver in Africa can be subject to extra-cost while the sender in the Netherlands has already paid all the fees to transfer money to his/her home country.

*How to send money through banks works? The case of AbmAmro Bank.*

To send money via a bank to Africa, the sender has two possibilities. He/she can transfer money through Internet banking system or to present him/herself to the bank office.

He/she must not only possess a bank account, but also all the bank references of the receiver in Africa, such as an IBAN (International Bank account Number) and BIC (Bank Identifier Code). When the money is sent through Internet banking system, the sender will pay a commission of 0.1% of the amount sent. The minimum cost of sending money is €4,50 and the maximum is 45€ (€7 and €70 by SNS bank). When the sender does not have access to the Internet banking system of AbmAmro, he/she can walk to the bank office and fill in a sending form. The cost is 0.1% with a minimum of €7 and a maximum of 70€ (€10 and €115 by SNS bank). The money can be sent within 5 working days.

The bank has the advantage of having a lower cost by sending money to African countries through Internet and by using the bank office. However, the sender and recipient must have a bank account. It is not always possible. A sender in the Netherlands who does not have a bank account can use the bank account of a friend to send money but this is not always possible for a receiver in Africa. First, most of the receivers do not have a bank account. Even for those who do have it, they are subject to the official exchange rates in the bank in Africa which are lower than in the black market. Secondly, it is not sure that the receiver will receive the money on time. The five working days fixed by a bank in the Netherlands can take one or two weeks, depending how the banking services are organised in the home country.

### **2.2.2. The informal<sup>3</sup> money transfer operators**

An important proportion of remittance flows in the Netherlands go unrecorded because the system is not able to capture transactions from the remittance markets or the remittances pass through informal channels that do not report data. The informal transfer system includes the personal carrying of cash or goods by friends, relatives or trusted persons, but they can be a business operating from small shops (for example, exotic food shops).

Sending money home with trusted people who frequently travel back to Africa is popular among African immigrants. These informal services are sometimes the only option in countries where there is political instability (such as Somalia) or an inefficient or non-existent traditional banking system, with the exception of countries such as Ghana where the political situation is stable and the financial institutions are efficient. Indeed, the survey shows that many Ghanaians prefer to send money home through trusted friends or relatives because by using their services no money is lost on a fee and the exchange rate. Ghanaians also use this method because they consider sending money via relatives shows the strength of the relationship between them and creates an atmosphere of trust in their community. However generally, people prefer to send money via relatives because there are no charges involved and there is a guarantee that the money will reach its destination safely. However, this system is not without risk. It often happens that relatives or friends, instead of taking the money directly to its destination, use it to buy goods in the Netherlands in the hope of selling them in Ghana. When the system works, the recipient receives his/her money without problem but when the system breaks down and the friend or relative cannot give the money to the recipient, it can create problems in the family or the community.

Money can be also sent through informal money transfer businesses operating from small shops that also offer other products and services, such as a travel agency, a shipping agency and import-export businesses. There is no specific requirement for sending money home, unless someone wants to withdraw money.

The number of small money transfer businesses in the Netherlands is important. It is not clear what proportion of the total are registered but it would seem that very few are actually registered as money transfer companies. Many of these businesses advertise their activities in the Netherlands African press, such as *The African Bulletin* or *The Voice*. While most of them are located in the main cities, others are in areas where there are

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<sup>3</sup> The informal term used in this study relates only to the money transfer business. Most of the so-called "informal" transfer agencies are registered with the Netherlands Chamber of Commerce but not as money transfer operators are. They are not illegal or informal businesses in the Netherlands.

substantial immigrant communities (such as the Bijlmer area of Amsterdam where there is a large Ghanaian community).

The informal money transfer operators specialise in specific home communities. Their fees are often lower than those of formal money transfer operators. Most charge 2% to 10%, although substantially higher rates are not uncommon. Some informal services charge no fees, realising revenue solely from gains on foreign exchange. Most of them take one to three days before the recipient receives the money. Some, such as *Hawala*, are fast, almost instantaneous, while formal money transfer operators are very quick or even instantaneous.

The informal operators usually offer services that banks and other formal agents have neglected or deliberately avoided by choosing to focus on more profitable businesses. For example, rural regions in Africa tend to be much better served by informal than formal agents. An important number of senders in the Netherlands send money to locations with poor financial infrastructure where formal operators have few or no contacts.

### **2.2.3. Money transfer operators and legislation**

Generally, all the formal money transfer services cited above are required to report cash transactions over €15,000 as well as any less substantial transaction that appears unusual, to the Office for Disclosure of Unusual Transactions, the Netherlands' Financial Intelligence Unit (FIU). Financial institutions are also required by law to maintain records necessary to reconstruct financial transactions for at least five years. The Money Transfer and Exchange Offices Act, which was passed in June 2001, requires money transfer offices, as well as exchange offices, to obtain a permit to operate, and they are subject to supervision by the Central Bank. Money transfer operators must comply with state licensing requirements and register with the Central Bank and pay a fee and a deposit. There are also capital requirements.

A money transaction office that intends to effect money transactions must have a bank guarantee that may only be drawn upon with the consent of the Central Bank. The amount of the cash equivalent that has been made available and has not been paid out or made payable shall not exceed the amount of the bank guarantee. The Central Bank shall draw up a model for the bank guarantee.

The application for registration shall contain, the identity and antecedents of the directors of the money transaction office; the identity and antecedents of those persons who determine or help the day-to-day policy of the money transaction office; the identity of those persons who have a qualifying holding in the money transaction office, and the size of the qualifying holding concerned; the name, address and place of business of the

money transaction office and, if applicable, the addresses and place of business of its branches; the envisaged management, including measures aimed at promoting and ensuring the proper conduct of business and the envisaged administrative organisation of the money transaction office; the registration number at the Chamber of Commerce; Other information and records are also required in order to assess the application.

Every money transfer by a client has to be identified. The Office for Disclosure reviews and analyses any unusual transactions and cash transactions filed by money transfer operators. All these processes make it difficult for small money transfer companies to operate in the Netherlands remittance markets. Some therefore work in an informal or semi-informal way. Others work in the formal market but under the umbrella of formal money transfer companies such as Western Union, MoneyGram or Moneytrans.

## **2.3. The African money transfer operators in the Netherlands**

Among the African money transfer systems in the Netherlands, we find the formal, informal and the semi-formal money transfer operators. The informal system relates totally to informal activities or services to transfer money. However, the semi-formal system works with informal and formal money transfer systems to send money. Despite their many similarities, there are important differences in their network activities, which are explored within the four African – Ghanaian, Congolese, Somali and Nigerian – communities in the Netherlands in this study.

### **2.3.1. The Congolese money transfer system in the Netherlands**

#### ***Informal Congolese money transfer operators***

The Congolese send money through formal and informal money transfer operators. The informal transfer of money is done by hand delivery, an appointed person or through an informal agency. Some Congolese businesses (exotic food shops, hairdressing salons, shipping agencies, etc) are involved in the informal transfer of money to Congo-Kinshasa. Hand delivery is when money is given to a friend or relative who is travelling to Congo-Kinshasa. In the case of death or a serious illness of a family member that requires everyone's presence, the members of the family living in the Netherlands and other countries in Europe appoint one person to represent them in Congo-Kinshasa. They contribute to the cost of the appointed person's ticket and they carry the money and goods collected. The minimum amount collected is usually €1,000 in the case of a funeral. Friends mostly take this opportunity to also send money for their own family or business activities. In these cases, the money collected is very rarely stolen out of respect for the dead person's soul. But this type of transfer is also not without risk because travellers can have problems at the border as laws require everyone to declare money being carried by a traveller in an attempt to combat black-market money exchanges and capital flight. The other risk is of losing money in a business activity. The traveller can spend the money by buying goods to sell in Kinshasa in the hope of making a profit and bringing the money back to the owner. Of course there is no guaranty that the business will work.

The other kind of informal money transfer business involves groups that are primarily engaged in commercial activities and that carry out transfers informally. It is difficult to assess how many business owners are involved in such activities but it can be assumed

that many Congolese are engaged in this sort of activity. The operation involves depositing money at one of the stores. Generally, the sender knows the owner well and he will only risk becoming involved in this type of transaction within a network of interpersonal relations. The sender receives a receipt with the address in Congo-Kinshasa where he must go to collect the money. After this transaction in the Netherlands, the owner of the shop will call, fax or email the person in charge of the other store in Congo-Kinshasa and ask him to give the money to the recipient. The business owner keeps a record of the transaction. The fees for the client are approximately 5% to 10% of the amount being sent. The rate varies depending on how close the relationship is between the owner and the client. Sometimes the client does not have to pay if the owner considers this operation as a personal favour.

#### ***The Congolese in the Netherlands***

Many Congolese have come to the Netherlands as asylum seekers because of the political and economic conditions in Congo-Kinshasa. Most come from the west of Congo, mainly from the capital city, Kinshasa. About a quarter of the Congolese in the Netherlands are under 10 years of age, and of these almost 90% are second generation.

The Congolese encounter difficulties accessing the Dutch labour market. About 65% of the Congolese working population is unemployed and only 35% work. Those who do have jobs work in unskilled positions and frequently on a temporary basis. They work in abattoirs, construction and security, with very few having their own businesses or positions of responsibility in private-sector enterprises. The Dutch language constitutes a serious barrier to finding a job. As a result of their position in the Dutch labour market, many of them have financial problems and debts. Some move from the Netherlands to another European country (usually to Belgium), leaving their debts behind. But in spite of their situation in the Netherlands, they are still helping family or relatives back home in Congo-Kinshasa.

The main types of assistance to family or relatives in Congo involves the transfer of money and material goods. Apart from this, other ways of providing assistance involve sending vehicles to relatives for their personal or commercial use. Family members at home depend on this help for survival. Assisting relatives back home is considered a moral obligation and is based on traditional reciprocity by members of the same family. Based on such relations, many parents in Congo-Kinshasa hope to have at least one child in the West. As the social security system does not work in Congo-Kinshasa, having a son or daughter in the West has become a kind of social security in itself for parents. The money sent helps them to survive.

Apart from sending regular money, the Congolese can help family once in a while with urgent situations, such as illness, funerals, etc.

Another well-used method of money transfer consists of a sender who wants to make a transaction and goes to the owner of a shop who contacts the correspondent in Kinshasa by telephone and gives him the information necessary to be able to identify the recipient, find him/her and give him/her the money. During this time the sender stays with the owner. When the recipient arrives at the business, the correspondent calls his/her

employer back in the Netherlands so that the recipient can confirm his/her identity with the sender. The recipient confirms that the transaction has taken place. These procedures take a few hours but it is a secure means of transfer as the recipient is identified. However, this service is expensive as 10% or more of the money transferred is kept as commission.

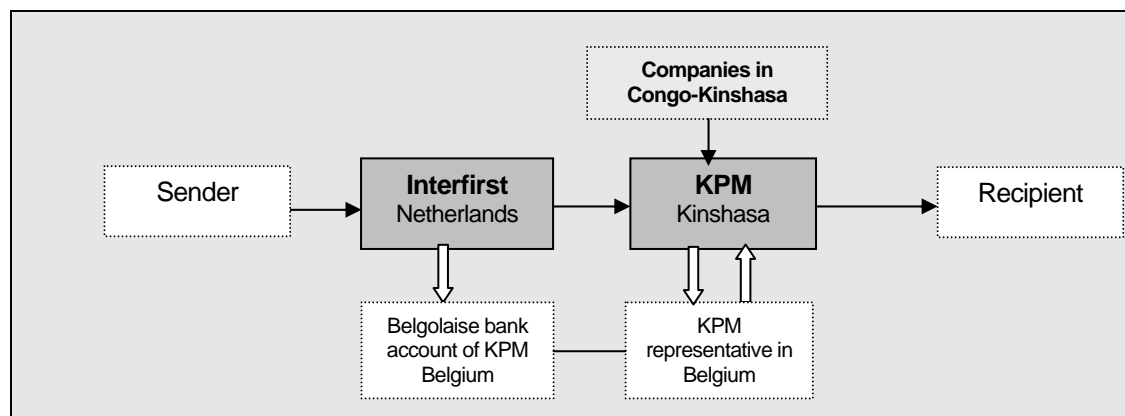
Informal transfers of money are not a shop owner's primary activity but they do provide an opportunity to transfer their own capital from their country of origin to the Netherlands without moving money but still reducing their assets in the country of origin. Transferring money to the Netherlands is attractive as it avoids insecurity due to the political and economical instability in Congo-Kinshasa. By transferring the value of a shop owner's assets from Congo-Kinshasa to the Netherlands, he moves the money that he has accumulated there in local currency through his business dealings and activities in Congo-Kinshasa into foreign currency. He thereby avoids any fluctuations in the exchange rate and also reduces the amount of money he has in his country of origin.

**Case study: Interfirst in Rotterdam**

Interfirst offers transfer and freight services for Congolese and other Africans living in the Netherlands. It works with KPM (Kinshasa Personal Mail), which is a privately owned Belgian company based in Congo-Kinshasa and has offices in Belgium, Angola, Congo-Brazzaville and South Africa.

When a sender in the Netherlands wants to transfer money to Congo-Kinshasa, he sends it through the Interfirst office, paying a commission fee of 10% of the amount sent. In most

**Figure 7. Informal Congolese money transfer scheme**



cases, the amount of commission depends on the importance of informal networks, relationship, aggregate volume and competition.

Having taken its commission, Interfirst will send an email to the KPM office closest to the recipient in Congo-Kinshasa, informing him about the amount of money sent, the identity

of the sender and recipient, and the reference number of the transaction. KPM Kinshasa will pay the recipient in dollars after receiving an email from Interfirst in the Netherlands. Transactions generally take a day. The total money collected by Interfirst is deposited in a KPM Belgian bank account. KPM Belgian will inform KPM Kinshasa about any bank transactions made by Interfirst. These reports are usually made on a weekly basis.

KPM's account in Kinshasa receives deposits regularly from Congolese and various (mainly import-export) foreign companies based in Congo. As local banks do not offer the opportunity of having a bank account in a foreign currency, they prefer to deposit their foreign currency with a company such as KPM. The money received by KPM is used to pay recipients or make other transactions. If these companies want to carry out any transactions in Europe, they can do so via KPM or use their own bank account in Belgium. KPM serves as a transaction channel for these Kinshasa-based companies. One important aspect of such money transfers with companies in Congo-Kinshasa is the money exchange that takes advantage of the difference in rates between the black market and the official market. In Kinshasa, foreign exchanges on the black market result in a profit margin of 12% to 13% compared to the official money market. Many businesses therefore prefer to use the services of companies such as KPM.

By using KPM, businesses are able to avoid unforeseen variations in exchange rates, and to send unspent money back without paying transfer fees. This type of operation is most profitable for foreign companies that are often looking to diversify their assets as it allows them to speculate on exchange rates. It proves to be more competitive because the movement of money, regardless of the amount, is not subject to any kind of control. The account can also be used to cover future trips and help meet expenses while out of the country. Apart from working with a company such as KPM, many companies in Kinshasa also use different forms of informal mechanisms to obtain foreign currency.

### **2.3.2. The Ghanaian money transfer system in the Netherlands**

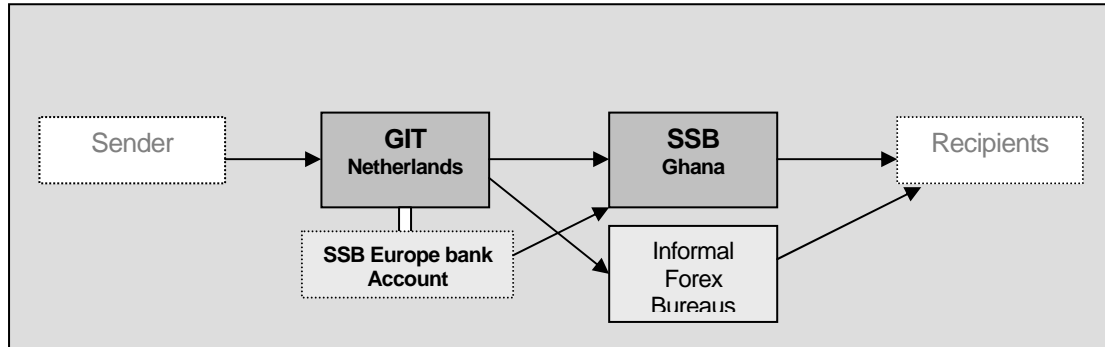
#### ***Semi-formal Ghanaian money transfer operators***

Unlike the Congolese money transfer business Interfirst, Ghana International Transfer (GIT) is registered with the Dutch Central Bank. (The company has ceased activities and the manager now lives in England) The cost of registration varies according to the size or importance of the business. The Dutch bank issues a licence, which is used as guarantee if the agency goes bankrupt or cannot pay its customers, and will refund clients. In addition to this registration in the Netherlands, GIT is also registered with the Security



Social Bank (SSB) in Ghana and GIT regularly deposits money in the SSB bank account in Europe. The SSB is responsible for paying GIT's customers in Ghana. When a

**Figure 8. Semi-formal Ghanaian money transfer business**



sender takes money to GIT, the latter, after taking its commission (around 10%), sends an email to SSB indicating the amount of money, the name of the sender and his address, and the name of the recipient. GIT will then deposit the money in SSB's European bank account and send an email to SSB in Ghana. SSB, via its network in the Netherlands, will be informed about the bank transaction in Europe. The recipient will collect his money in cedis at the nearest SSB office. GIT fixes the amount of money to be paid to the recipient in Ghana according to the exchange rates in Dutch banks or SSB uses the current exchange rate in Ghana. As well as its commission, which is charged on all money transfers, GIT takes advantage of the differences in the exchange rates in Ghana and the Netherlands. This way the operator benefits not only from the commission charged to customers for the transfer operation but also from differences in the exchange rate, as the recipient receives his money in the local currency.

This can be considered as formal system of money transfer because the agencies are formally registered in the Netherlands as money transfer businesses, but informal in that the transfer of funds to Ghana is not always made through formal channels, hence the use of semi-formal. Many Ghanaian agencies in the Netherlands are modelled on GIT and arrange formal and informal financial transfers.

The GG<sup>4</sup> based in Amsterdam is another semi-formal agency and shares certain similarities with GIT. Unlike the GIT model, GG is a partnership enterprise that provides a broader range of services such as money transfers, remittance credits combined with investment goods and financial advice, for example relating to investment possibilities in Ghana. For money transfers, GG works in a similar way to GIT, whilst additionally

<sup>4</sup> The real name of this business is not revealed in this paper. This was one of the conditions of being able to interview the manager.

providing the possibility for Ghanaians to send goods to the designated recipient in Ghana, equivalent to the amount of money paid at GG in Amsterdam.

These goods are sent in large quantities every year from the Netherlands to Ghana, where the recipient can also collect tools or the materials necessary to build, for example, a house. It is also possible to get credit from GG which allows the migrant to place an order for goods that he does not need to pay for immediately. He can instead get credit and repay the money over a certain period of time. The value of the goods will determine the interest rate and the repayment period. Repayment of a loan like this can be expensive but for many Ghanaians it is practically impossible to get the broad service and advice package provided by the GG from formal money operators or banking institutions in the Netherlands.

### ***Informal Ghanaian money transfer operators***

Many Ghanaian migrants in the Netherlands prefer to use the services of someone who is travelling to Ghana or the transfer services offered by Ghanaian-owned shops or small

#### ***The Ghanaian family and remittances***

Ghanaians are more likely to send remittances when family members influence the initial decision to migrate. Ghanaian family-influenced migrants remit more than Ghanaians whose decision to migrate was taken more independently of their families. Remittances are usually expected by the family and are the most important reason for the initial migration decision. Remittances are generally part of a family or household's economic strategy and they usually go to family members, especially parents.

Some Ghanaian migrants also remit in order to start a business on their return or for building a house, which is often a joint project undertaken with family members. Migrants planning to return to Ghana are more likely to use their remittances to finance such a project and also those for whom the decision to migrate was family-influenced are more likely to invest in projects back home. Family-influenced migrants stay longer in the country of destination on average than migrants who were less influenced by family in their initial decision to migrate.

Social networks and sustained contact with family members in Ghana increase the migrants' incentive to remit and also influence the amount and frequency of remittances. For as long as these contacts are maintained, the migrant feels obliged to send money home on a regular basis. Family networks are often the main social networks available to migrants and are likely to shape the form of remittances. The principal concerns of both the migrant and the family are to remit through the cheapest, most secure and efficient channels available. (Higazi, 2005)

businesses than the formal money transfer operators such as Western Union and MoneyGram. This may be as a result of the savings made by using informal transfer methods, but could also be linked to social and cultural ties that encourage Ghanaian migrants to use and support the services offered by fellow Ghanaians.

In the Netherlands money transfer operators have to be officially licensed but it is clear that many Ghanaian transfer operators, often operating from small shops or businesses,

***Group remittances and ethnic or hometown associations***

Social networks are well developed within the Ghanaian community in the Netherlands. They sometimes take the form of associations that offer community support and solidarity. They can be a result of people from the same church. These kinds of social networks have influenced the remittance patterns among the Ghanaian community in the Netherlands.

The Ghanaian diaspora and hometown associations support projects and communities in Ghana both materially and financially. However, it is not clear what methods of transfer are used to make remittances. It is possible that formal transfer agencies are used, but the extensive connections and networks that these associations have in the diaspora and in Ghana would also have the means to remit either money or goods informally.

The two main forms of Ghanaian associational life in the Netherlands are churches and ethnic associations, both providing support to Ghanaian migrants. The churches remain an important social reference point for many Ghanaians in the Netherlands and often assist new migrants. Networks between churches in Ghana and the Netherlands play a crucial role in communications between Ghanaians abroad and those at home.

Ethnic associations also promote active links with communities in Ghana and some raise funds for development projects. Ethnic identity tends to be more important in Amsterdam due to the large number of Ghanaians there, and associations are often formed on the basis of ethnicity rather than national identity. Ethnic associations usually define themselves in relation to a smaller geographical area and a group of people than nationally based associations.

do not have a licence. These small businesses are mostly called “African shops” and transfer money to an unregulated Forex bureau in Ghana. Forex (foreign exchange) bureaus are regulated by the Bank of Ghana and prohibited by law from being involved in money transfers. There may, however, be unlicensed shops or small businesses in Ghana that receive remittance transfers from similar operators in the Netherlands. Transactions typically go through within one working day, but the rate is set on the date of transfer. These unregulated systems are attractive to migrants because the transfer costs tend to be lower than those of formal money transfer operators. The exchange rates at Forex bureaus are also frequently more favourable than money transfer operators. Another advantage of Forex bureaus is that they have a much more extensive network than formal operators. Most of the formal operators are principally based in the main commercial areas of towns and cities, whereas Forex bureaus are found outside the main cities too and appeal to people who do not normally use formal operators such as Western Union, MoneyGram or Moneytrans.

Other Ghanaian groups prefer to engage a courier to carry funds to Ghana and take them directly to the recipient. The survey shows that about 31% of Ghanaians send money

through friends or relatives who are travelling to Ghana. Money is carried to Ghana by returning or visiting migrants and by couriers who offer direct money transfer services as a business. Courier and cash-in-hand systems involve either paying a trusted person who offers the service, or are used during trips back by migrants themselves. Hard currency that is carried into Ghana will most likely be exchanged at forex bureaus, which are licensed and therefore formal, but tend to have a better exchange rate than banks.

Using informal systems to send money is not without risk. Some are reported to cheat by offering fewer cedis than they should. This is possible due to the relatively low value of the cedi, which means that large wads of money are usually handed over in each transaction. It would take a long time to count the money and therefore the system tends to work on trust.

Some companies are set up as formal shipping businesses in accordance with Dutch regulations but they also provide informal money transfer services. The sender does not have to fill out forms or sign anything, and he is not required to identify himself. He just specifies the sum he wants to send and, upon receipt of this sum, the agent puts in his computer all the information provided by the customer. On the printout given to the client are the names and addresses of the sender and recipient, the sum being remitted, and a summary of the information provided by the sender.

After the necessary arrangements have been made, the sender leaves the office and the agency will fax or email the request with all the necessary information to their partner office in Ghana. The sender has to ensure that the recipient will be able to collect the money at the local office using the identification code that was issued by the agency in the Netherlands. These agencies generally charge commission on their transactions. The partner agency in Ghana is supplied with the necessary funds either through official channels, such as money transfer operators, bank transfer, or through other informal systems. Besides the services outlined above, these agencies also handle spare parts for cars and engines, second-hand cars, equipment and appliances of all types, as well as new and second-hand computers.

The broad service provided by the informal and semi-formal money transfer operators is one of the main reasons why some Ghanaians choose these companies when sending money home. This kind of activity is only possible when two agencies work together in partnership. Mostly it involves a migrant in the Netherlands and a trader in Ghana. Normally, it is the partner in Ghana who will place an order by telephone, fax or email. However, it can also be the migrant who places an order with his partner in Ghana. After receiving the order, the partner in the Netherlands will arrange for container transport and

make all the necessary arrangements relating to the delivery, such as customs formalities. Payment for the merchandise is arranged in Ghana.

### ***Formal Ghanaian money transfer operators***

The transfer of money can also be made through a formal Ghanaian money transfer company, such as operators working under the umbrella of Western Union. One of these companies is Global Financial Networks (GFN) in Amsterdam. Global Financial Networks (GFN) is a financial company which facilitates easy transfer of money or funds to invest in Ghana. GFN is officially registered by Chambers of Commerce (Kamer van Koophandel) in Amsterdam and has a licence from Dutch Central Bank to transfer money. The company began operation in March 2002 under the auspices of its director, Kwame Addo.

Money transfer to Ghana was paid out by Social Security Bank (SSB) from March 2002 till October 31, 2003. Presently GFN is using the network of Western Union to send money. The company uses the name, form, related documents and the Western Union network to transfer money. For using these services, the company has to have a bank guaranty from the Dutch Central Bank depending on the importance of the daily transaction of the company. From the profits earned, the company will receive only 17%. The profit would seem to be insignificant, but this company prefers to work in this way rather than to work with the Security Social Bank in Ghana. Delays in paying recipients and money being lost on occasions in the past have meant that many Ghanaian money transfer companies such as GIT, GG and GFN have become less enthusiastic about working with SSB.

### **2.3.3. The Somali money transfer system in the Netherlands**

#### ***Informal Somali money transfer operators***

The dependence of many households in Somalia on remittances sent by fellow Somalis in the Netherlands is very high. Most Somalis remit money to their brothers, sisters, sons, daughters, fathers, husbands, wives and mothers. Very few remit money to extended family members.

Money is mostly sent to Somalia through informal channels. The survey has shown that about 73% of remittances are sent through the informal channel, mostly through the *Hawala*.

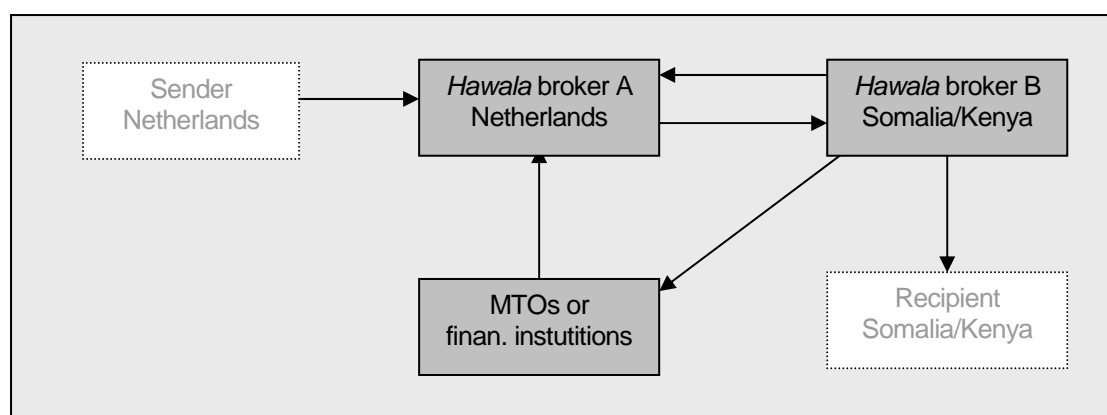
Most Somali shops and phone offices in the big cities such as Rotterdam, The Hague, Amsterdam and Nijmegen are outlets for money transfer businesses. The informal remittance companies, *Hawala*, have an extensive network of agents who are able to provide services to almost all Somalis regardless of where they live, and they are cheaper than formal money transfer operators and banks.

The *Hawala* is a well-established informal method of money transfer that was developed in India before the introduction of Western banking practices. It is currently a major remittance system used around the world, operating outside or parallel with traditional banking or financial channels. The *Hawala* system is informal in the sense of not being under government control and of managing transfers between people who know or are related to each other.

The element of trust distinguishes the system from other remittance methods, as does its extensive use of connections, such as family relationships or regional affiliations. Transfers of money are based on contacts between members of a network of brokers, called *Hawaladars*, who charge a fee from the total amount being transferred.

The *Hawala* system is simple and uses a *Hawala* broker who accepts the money at one end of the payment chain, and others who deliver it at the other end. Typically, a customer contacts a broker in his/her country and gives them the money to be transferred. The broker then contacts another broker in the recipient's country and the recipient contacts the local *Hawala* broker about collecting the money. The system can be more complex, as illustrated in the following figure.

**Figure 9. The informal Somali money transfer system**



*Hawaladar* A in the Netherlands receives money in euros from a sender and gives the sender a code for authentication purposes. *Hawaladar* A then sends instructions to deliver an equivalent amount in dollars to a designated recipient in Somalia, who needs to

disclose the code to receive the money. In many cases, the payment will be made by the counterpart *Hawaladar B* to the designated recipient within hours of the request to remit money being placed by the client in the Netherlands. *Hawaladar B* in Somalia gives the

***The Somalis in the Netherlands***

More than 27,000 Somalis live in the Netherlands, the majority of whom are under 25 years of age. Because of the continuing conflicts and wars in their home country, most of them came to the Netherlands as refugees but many have experienced problems integrating in Dutch society. This limited participation in society has created a kind of “no man’s land” between the two cultures and the Somali community is often perceived negatively by the Dutch people. However many Somalis have their own reasons to explain their limited participation in Dutch society. As business-oriented people, Somalis do not want to depend on social benefits and they feel frustrated by a system that they claim keeps them dependent on welfare because Dutch rules make it difficult for new arrivals to work during their early years in the country or to start up business activities. “You must have a certificate just to clean houses,” said one Somali. Over the past five years, an increasing number of Dutch Somalis have left the Netherlands for Britain where all the facilities are present to allow them to set up a business such as a restaurant or a shop. From their business activities, they can help their families in Somalia or Kenya to survive.

money to the recipient out of his own cash reserves. The *Hawaladar’s* income charges a commission ranging from 3% to 10% of the amount involved and is paid in dollars. Because of the low operating costs, the *Hawalas* can offer attractive exchange rate to their clients to use their services. The exchange rates offered by *Hawalas* are more attractive than the official rate available through formal operators or conventional banking institutions.

After the remittance, *Hawaladar A* in the Netherlands is liable to *Hawaladar B* in Somalia. The settlement of the liability position of *Hawaladar A vis-à-vis Hawaladar B* that was created by the initial transaction can be made through the import of goods or “reverse *Hawala*”. In this case the roles of the sender and the recipient are reversed. The transfer of money is made from Somalia to the Netherlands. A reverse *Hawala* transaction is often used for investment purposes or to cover travel, medical, or educational expenses from Somalia. It does not necessarily imply that the settlement transaction has to involve the same *Hawaladars*; it could involve others or be tied to a different transaction. Therefore, it can be simple or complex, or the settlement could take place through import transactions. For instance, a *Hawaladar* in the Netherlands would settle his debt by financing exports to Somalia, where a *Hawaladar* in Somalia would be the importer or an intermediary. Transfers of cash into the country through imports of foodstuffs, medicines or spare parts are important. *Hawalars* receive money from their agents in the Netherlands by selling these goods for cash.

The debt between two *Hawaladars* is secured by a bond of trust. In case of default by *Hawaladar A*, *Hawaladar B* has no legal means to seek redress on payment of the debt. Moreover, the trust between client and *Hawaladar A* in the Netherlands enables money to be delivered to the recipient party in Somalia even before the sending *Hawaladar A* has received the money from the client in the Netherlands. The success of the *Hawala* is based on the transnational links between Somalis and deeper transnational relations are facilitated by such business deals.

For business purchases, such as cars or automotive parts in the Netherlands, informal arrangements through business people at both ends are still common. Thus, for instance, a trader will deposit funds with the owner of a shop in Somalia prior to travelling to the Netherlands. Upon arrival, the trader will visit the designated shop owner in the Netherlands and be able to pick up money equivalent to what he deposited in Somalia and make purchases elsewhere in the Netherlands or in other European countries.

### ***Semi-formal Somali money transfer systems***

Sometimes high technology and international banking systems are used to transfer money to Somalia. Al-Barakaat, Dahabshiil and Amal are the largest formal money transfer companies used for such transfers of money to Somalia. But Al-Barakat offices around the world were closed down and all their assets confiscated because their offices were suspected of having links with the Al-Qaeda Network.

Amal agents in the Netherlands can illustrate how these companies work. When a sender presents money to an Amal agent in The Hague or Utrecht, he/she will pay a fee and supply the agent with information about the recipient. In addition to the recipient's name, this information will contain information about the individual's clan identity. The agent then deposits the cash in a local bank account in the Netherlands and asks for a transfer to the remittance company's bank account in Nairobi or Dubai. At the same time, the agent emails or faxes details of the amount and information about the recipient to Amal's headquarters in Dubai or the Nairobi office where all transfers are controlled and distributed to their respective destinations. Depending on the size and formality of the money transfer company in the Netherlands, this agent may have an office or take care of the transfer through the use of a mobile telephone and a computer with Internet access. Amal's headquarters or office in Nairobi will contact the agent closest to where the recipient lives in Somalia or Kenya. The recipient has to provide the office with full details of the sender and proof of his own identity. If the identity corresponds with what the sender has given, the recipient will receive his money in US dollars. The transfer is then complete. In most cases, money transferred through remittance companies reaches the



recipient within 48 hours. The system used by these companies to transfer money relies overwhelmingly on telecommunications so these companies have invested heavily in telecommunication systems (telephones, mobile radio systems, computer networks) and even satellite facilities.

Dahabshiil uses the same system as Amal. When a Somali wants to send money home through Dahabshiil, he has to deposit it at one of their offices in the Netherlands, mostly a food or phone shop. The agent will take all the sender's details; name, telephone number and address and details about the recipient, his name and telephone number. If the person does not have a telephone, the agent uses his tribal details, which constitute a kind of address. The agents then pass the information to a Dahabshiil office in England and the funds are remitted to Somalia.

It is important to note that these informal money transfer operators, mostly food or phone shops working with Dahabshiil and Amal, are not informal businesses in the Netherlands. They are officially registered as companies but not as money transfer operators. This is why they are considered informal. The systems are called semi-formal because of the informal status of Somali money transfer operators in the Netherlands working with formal money transfer operators (Amal & Dahabshiil) to transfer money to Somalia or Kenya.

### ***Formal Somali money transfer operators***

Somalis currently living in the Netherlands who want to send money home can do so officially by using the new MoneyGram, which is working on behalf of the Travelex Money Transfer (TMT) service and in partnership with Dahabshiil, which provides money transfer services to the Horn of Africa – Somalia, Djibouti and Ethiopia.

Travelex is one of the world's largest foreign exchange specialists. GWK Travelex is the result of the takeover of the Dutch GWK Bank by Travelex Money Transfer at the end of 2004. GWK Travelex specialises in payments and cash funds and securities for private clients and businesses. GWK Travelex can be found at all the main Dutch railway stations, at Schiphol Airport, in the centre of major cities and along the Dutch borders. The GWK Travelex branches are open 7 days a week as well as in the evenings.

MoneyGram's services to Somalia work as follows: If a Somali wants to send money to Somalia, he has to present himself at one of the MoneyGram offices with identification. The fees for sending money to Somalia start from €8. After filling out the form with the name, address and telephone number of the recipient, he receives an identification code. This code will ensure the recipient can collect the money at one of the Dahabshiil offices in Somalia. Dahabshiil is one of the leading financial institutions in Somalia and their

agents are to be found in various places in Djibouti and Ethiopia. Apart from money transfer services, Dahabshiil also offers banking services, including savings and cheque accounts to individuals, businesses and international organisations in Somalia.

The services of TMT do not function regularly. At the office of GWK, forms are given to Somalis interested in transferring money through TMT to fill out. They will be informed when the service will restart. At the moment, the service is not working and Somalis still use the services of *Hawaladars* for sending money to their home country.

A formal Somali money agency called **Kaah Express** is currently working under the umbrella of MoneyGram to provide a money transfer service to Somalia in particular, but also around the world. Kaah Express is officially registered at the Chamber of Commerce (Kamer van Koophandel) in Rotterdam. To work as a money transfer operator, the company has to have a bank guarantee to cover the company's transactions. Kaah Express has a licence from the Dutch Central Bank allowing it to transfer money. The company began operations in 2001.

Kaah Express uses the MoneyGram network to send money to countries other than to those such as Somali and Ethiopia where its network is already well developed. By working with Moneygram, the company uses its name, related documents and the Moneygram network to transfer money. From any profits made, Kaah receives 30%, with 70% going to Moneygram. From the 70%, MoneyGram has to keep 50% and 20% goes to its partner in the recipient country. In addition to the 30%, Kaah Express also receives fees and can benefit from exchanging foreign currency when money is sent to a country where the company has its network. When money is sent via the Kaah network to Somalia, for example, a message is sent to Dubai and the office in Dubai uses its network in Somalia to pay the recipient.

The main problem for Kaah, as with other African money transfer agencies working under the umbrella of professional money transfer companies, is that they have to pay high administrative costs in order to provide their services. Kaah Express, for example, has to pay about €20,000 a year to accountants. Beside this cost, Kaah Express has to pay taxes, wages and other administrative costs.

#### **2.3.4. The Nigerian money transfer system in the Netherlands**

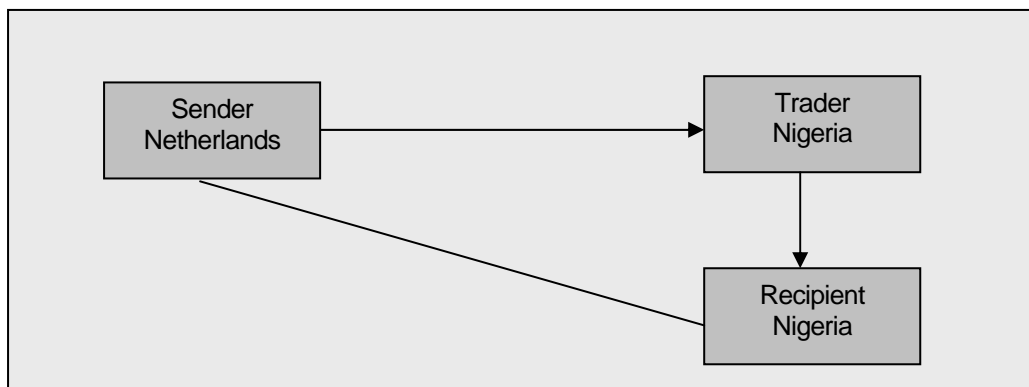
Money transfers have become the most important banking activity in Nigeria. The Western Union franchise is presently profitable for the First Bank in Nigeria, prompting

other banks to follow suit and benefit from the growing money transfer industry. The United Bank for Africa, another major Nigerian bank, has bought a MoneyGram franchise. These banks provide the recipient with a choice of receiving money in dollars or local currency. The services of banks have become more attractive to recipients in Nigeria. Western Union and MoneyGram have become the money transfer companies most used by Nigerian migrants in the Netherlands to send money home. But there are still migrants who prefer the informal services. The survey shows that 16% of Nigerians in the Netherlands prefer to use people travelling to send money home, usually a relative or friends. Nigerian migrants use this mode of remittance whenever they can find someone returning to Nigeria. Returning migrants or traders often carry remittances and the sender does not need to pay any transfer charges (commission or exchange rate).

In contrast to this system for sending individual informal remittance payments, the trade-based systems are broader. In the Netherlands, the systems are run by private businesses, mostly food shops and travel or shipping agencies, which simply involve payment to a businessman in Nigeria who will then pay the equivalent in local currency to a recipient in Nigeria.

Another mode of transfer consists of the **credit system**, which involves a migrant in the Netherlands phoning or sending a fax or email to a trader in Nigeria to request credit, providing him with all the details of the remittance payment to be made. If the trader agrees, he will extend credit to the emigrant and pay the designated recipient. Money can thus be remitted within a very short period of time. Loans taken out will be repaid during the trader's next business trip to the Netherlands. The advantage for the trader is that he does not have to exchange currency in Nigeria before travelling as he knows that he will be paid when he arrives in the Netherlands.

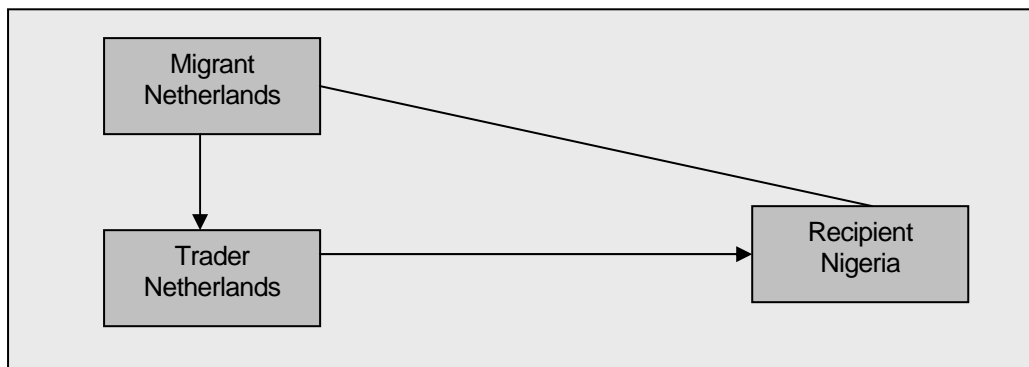
**Figure 10. The informal Nigerian money transfer: the credit system**



It means that the trader does not need local currency for his next business trip to the Netherlands because he can collect money from the migrant. Alternatively, the credit can

be repaid in Nigeria while the sender is on holiday. In addition to the two systems described above, another system involving the migrant and a trader works by means of an advance deposit. During his business trip to the Netherlands, the trader will receive an amount of money from a sender, which he wants to remit within a certain period of time. Specific instructions will be given to the trader regarding exchange rates and the recipient's details.

**Figure 11. The Nigerian informal money transfer: the deposit system**



The trader will use this money to purchase merchandise in the Netherlands and elsewhere in Europe. Upon his return to Nigeria, he will sell the merchandise and make the payment to the designated recipient. The trader makes a profit when exchanging the money in the countries he travels through. By creating such instruments for money transfer, the senders and traders are outside the constraints and administrative formalities of formal transfers.

In the Nigerian community in the Netherlands, there is also another kind of informal money transfer business. It works as follows: a man living in Nigeria has a brother in the Netherlands. Together they decide to create an informal network of money transfers. Initially the brother in the Netherlands sends to his brother in Nigeria an amount of €10,000 as his contribution to the business. When a migrant in the Netherlands wants to send money home, the brother in the Netherlands collects the funds and sends a fax or email to Nigeria indicating the amounts, names and address. In Nigeria, the payments are made from the €10,000 to the recipient. Every week, the brother in the Netherlands reports on the transfers done during the week including the profits from each transfer. In addition to this transfer service, the brother in Nigeria opens food and building materials stores in Nigeria. Sometimes, instead of sending money, the sender gives money to the brother in the Netherlands indicating the quantity of foods or materials the recipient needs to collect from the shop in Nigeria.

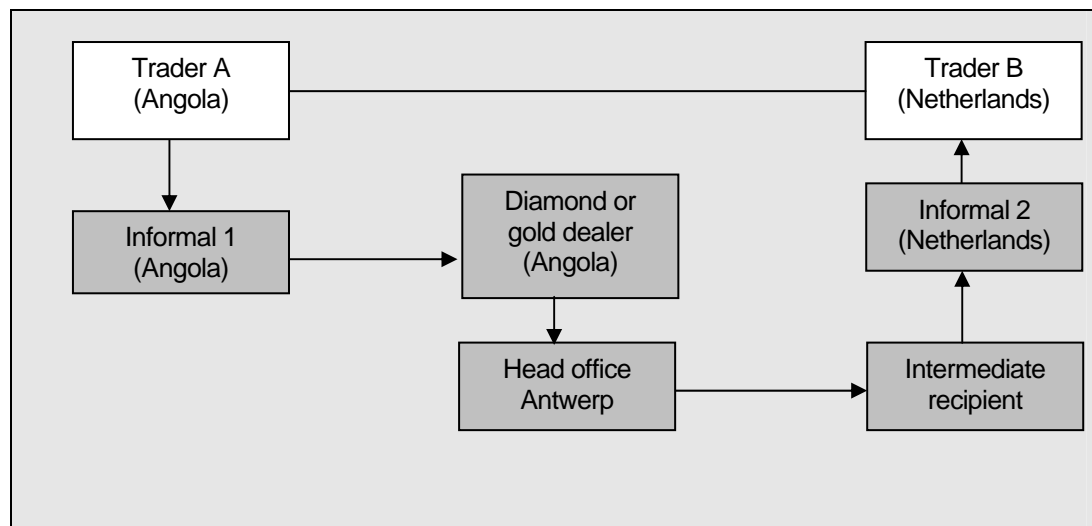
Compared to the Ghanaian, Congolese and Somali communities, the informal money transfer operators are not very visible in the Nigerian community. People travelling to Nigeria and trade-based and credit systems are all likely to be significant informal remittance channels in this community and although they are only made occasionally, Nigerians in the Netherlands remit daily a lot of money through formal channels. Generally, the informal ways of sending money home are becoming increasingly less viable and most of the Nigerians in the Netherlands are using the formal services because they are affordable, reliable and convenient. Safety and speed are two important factors for using formal money transfer operators.

### 2.3.5. The informal money transfer from Africa to the Netherlands

The system described below relates to a transfer coming from Africa to the Netherlands. The most recorded cases are to be found in the Congolese and Angolan communities in the Netherlands. The initiating trader A in Angola who wants to transfer money will contact an informal agent 1 in Angola and give him the money (mostly in dollars).

The latter deposits the funds to a diamond or gold office dealer, which gives orders to the head office in Antwerp to give the equivalent amount to the intermediate recipient in dollars or euros according to the wishes of the initiating trader who sent the money.

Figure 12. Money transfer from Africa to the Netherlands



The intermediate recipient communicates to informal (2) and orders him to give the final recipient the amount of the transfer (minus commission) according to the instructions of the initiating customer of the transfer. These instructions can be to give a person the total

amount in euros or dollars. The trader B needs will have to have some indication of identification transmitted by the initiating customer.

The trader B is informed by the informal (2) of the cash sent to Europe and is asked to collect the funds. This type of transfer is used in central African and Portuguese-speaking countries and is based on the trade in precious stones (diamonds, gold, etc.).

Tradesman B uses the funds to purchase products in the Netherlands or elsewhere in Europe. The order for the initial transfer deals with the sale of precious stones in the capitals where they are traded and the money does not in fact ever physically leave any country. It acts as a local collection of funds and a process of provision of funds for tradesmen or businessmen who want to have money with them wherever they go without having to pay the costs of any banking transactions or run risks related to transporting liquidities.

### 3. The choice of channels and services

A wide range of factors influences a migrant's choice of remittance channels. These include foreign exchange fluctuations and controls in the home countries, and factors, such as a personal preference for a service that shares a person's cultural values. Other factors include accessibility to the service at the sending and receiving ends, speed and safety, anonymity, reliability, and a concept that involves awareness, familiarity and trust as well as physical proximity. All of these factors can be as important as the cost of the service itself.

The survey found that most African immigrants in the Netherlands send remittances to their families through formal money transfer companies such as Western Union and MoneyGram. These companies dominate the remittance markets in the Netherlands, with about 65% of African immigrants using them to send money home. Only 31% use other informal money mechanisms, 2,5% via banks and 1,7% by mail or money order.

**Table 3. How money is sent to migrants' home countries**

	RDC	Somalia	Ghana	Nigeria
<b>Western Union</b>	<b>59.2%</b>	14.1%	24.9%	<b>60.6%</b>
<b>MoneyGram</b>	23.4%	5.2%	16.8%	3.6%
<b>Bank</b>	0.5%	8.1%	5.2%	0%
<b>Mail or money order</b>	2.3%	0%	0%	0%
<b>People travelling</b>	0.9%	6.7%	<b>31.2%</b>	16.1%
<b>African transfer agencies</b>	13.8%	<b>65.9%</b>	22%	19.7%

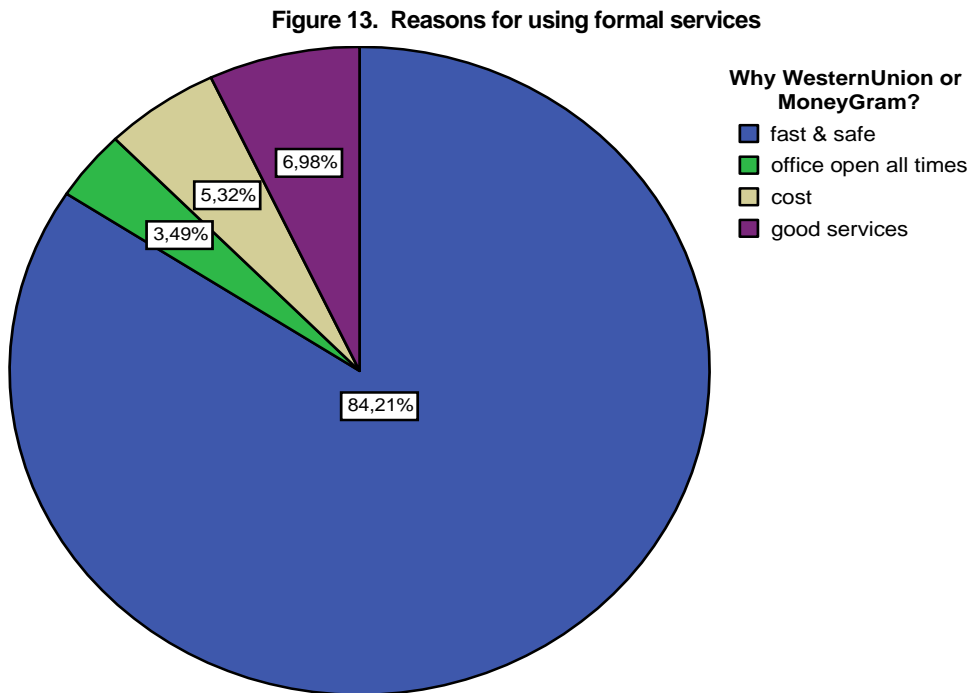
The infrastructure of the receiving country, the volume and demand for money transfers, and the presence of a regulatory environment all influence the sender's decision as to whether to use a money transfer operator. According to the survey, the Congolese tend to use a wide range of formal money transfer mechanisms, such as Western Union and MoneyGram, and only a few (14.7%) use informal mechanisms such as African travel agencies and people travelling.

**Table 4. Why money is sent through Western Union and MoneyGram**

	RDC	Somalia	Ghana	Nigeria
<b>Speed &amp; safety</b>	94.8%	100%	62.4%	89.9%
<b>Office open all the times</b>	0%	0	0.0%	3.2%
<b>Cost</b>	2.6%	0	12.7%	6.0%
<b>Good services</b>	2.6%	0	24.9%	0.9%

Banks in Netherlands are not used to transfer money excepted small group of Somalis following by Ghanaians (5.2%).

Cost and safety are the main reasons for using banks to send money to Ghana and Somalia. Banks are usually used when the amount of money is significant.



Remittances to countries like Somali and Ghana are usually sent more informally. As the above tables shows, more than half of Ghanaian migrants send remittances through travellers and formal money transfer operators. The reason is simple. With the formal money transfer operators, recipients in Ghana are paid in the local currency. Money is therefore lost due to the exchange rate and commission. However, with a traveller, there is no loss involved. In the Ghanaian community, the exchange rates determine the decision as to whether to use formal or informal money transfer operators.

Due to political instability and the lack of financial infrastructure, many formal money transfer operators do not have offices in Somalia. At present, MoneyGram – through GWK Travelex and in collaboration with Dahabshiil – transfers money to Somalia although this service would seem to be less than operational. During interviews in this survey, it appeared that MoneyGram could not transfer money to Somalia on two occasions because of technical problems with GWK Travelex (TMT).

### 3.1. Cost

One of the major costs associated with transfers of funds is the cost related to the amount sent. As many senders typically do not have sufficient funds to send everything at one



time, the cost of each remittance therefore becomes very high for small amounts. For example, if a person sends €100 per month over a period of five months (at €17 per time) through Western Union, the total remittance cost would be €85. If, on the other hand, the person could send the entire €500 in one transaction, the remittance cost would fall to €32.

Sending small amounts of money is very expensive. This is because fixed charges are much higher in percentage terms for smaller transfers. This illustrates the relatively high cost that can be faced by low-income migrants wanting to send small amounts of money back to families and friends.

**Table 5. Fees to send money through informal channels**

Countries	Operators interviewed	Lowest % cost	Highest % cost
Ghana	8	3%	5%
Nigeria	3	2%	5%
DR Congo	7	5%	10%
Somalia	4	3%	10%

An other costs associated with transfers is the exchange rate, which is set by the distributing agents in Africa (at least in the case of Ghana) such as commercial banks and post offices. The exchange rate applied (the differential between the interbank exchange rates and the one set by the business) averages 3% and is higher than other foreign currency transactions. And the cost of remittance transfers becomes even more important when the local currency of the country of origin is overvalued. These costs directly affect remittance-receiving households because they receive less than what their relative sends.

The fees for informal services are often lower than those of the formal money transfer operators. Most informal services charge 2% to 10% regardless of the amount sent. Also the exchange rates offered to clients are much lower than the exchange rates offered by formal operators.

Although substantially higher rates are not uncommon, some informal services in fact charge no fees at all. The low overheads and limited expenses of the informal operators allow them to reduce their charges to a minimum. They realise their revenue solely from gains on foreign exchange and take advantage of cases where there are differences in exchange rates by offering an attractive rate to their customers but managing to make a profit at the same time. To remain attractive to senders, informal operators can cover the cost of sending money by other financial and commercial activities. Most have one or more business activities.

Table 6 shows that the fees for sending money to Africa are high with formal money operators, excepted banks. Compared to WU and MG, Moneytrans can be considered as the cheapest of the formal operators. However, the informal operators are cheaper than all of them.

**Table 6. Fees for transferring money through informal and formal operators**

Amount	Ghana		DR Congo		Nigeria		Somalia	
	100	500	100	500	100	500	100	500
Western Union	17%	6.5%	17%	6.5%	17%	6.5%		
MoneyGram	9.99%	2.99%	9.99%	2.99%	9.99%	2.99%	8%	4.8%
Moneytrans	6%	2.4%	8%	1.6%				
Banks	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Informal	3%	0.6%	10%	10%	5%	2%	0%	0%

But the figures in the table hide the reality. Indeed, the operators that do not charge commission are expensive when it comes to changing currencies and this is where they make their profit. The case of **Al-Mustagbal** (a *Hawala* office) in Rotterdam illustrates this well. They charge no fee to send money to Somalia but they get their profit from the exchange rate. For example, when a migrant sends €91, the recipient in Somalia will receive \$100 instead of \$109. When an amount of €455 is sent, the recipient will receive \$500 instead of \$545. A recipient in fact receives less than 10% of the amount sent.

The choice of service depends not only on the fee required in the host country but also the exchange rate when choosing an operator. From the interviews, it appeared that Ghanaians and Somalis were the two groups most interested in exchange rates.

In the case of Ghana, the exchange rate charged on money transfers that are collected in local currency can be a significant additional cost that is often not obvious to those sending money. Money transfer operators tend to guarantee the exchange rate they offer but not the amount that will be paid out to the receiver, as additional charges may be added at the recipient's end.

Moreover, in the recipient countries, significant amounts of the money sent can get lost in the transfer, due not only to formal or informal operators commissions and exchange rates but also to the travel costs involved in collecting the money. As commercial banks or post offices are generally located in the commercial areas of the big cities, the receiver usually has to travel a certain distance to collect his money.

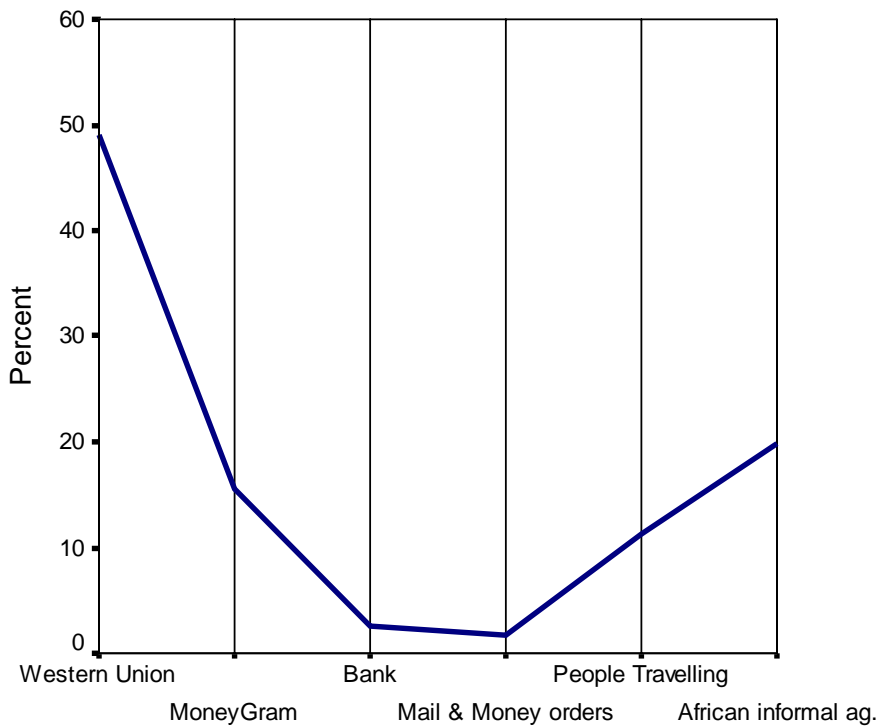
### 3.2. Speed and safety

Due to the speed and the safety, Africans in the Netherlands prefer professional money transfer operators such as Western Union, MoneyGram or Moneytrans. The survey shows that only 2.5% sent remittances through banks and 65% through professional money transfer operators, while 31% remitted using informal transfers.

According to the survey, for most Africans in the Netherlands, security and speed are the overriding concerns when sending remittances through Western Union and MoneyGram. Only the Ghanaians were concerned about the service they received and the cost. From the interviews carried out, it was unclear what Ghanaians consider as good service. Most of their answers revolved around cost, mainly exchange rates. Exchange rates seem to be the determining factor for a Ghanaian when choosing an operator to send money to Ghana.

The use of informal operators is primarily based on the recommendation of friends or relatives who have used this service to send money home in the past. The formal operators use flyers or brochures to explain their procedures and policies about sending money.

Figure 14. The choice of channels and services



Speed and safety are considered as the most important reasons for using formal transfer companies. People are ready to pay more for a service when a transfer needs to be made quickly. Some informal systems are fast, almost instantaneous even, but most take one to three days. The formal money transfer operators are seen to offer a consistently better service to customers as they are focused on money transfer products rather than offering the wide range of services that informal operators do.

**Table 7. Speed of transfer through formal and informal money transfer operators**

Money transfer operator	Speed of transfer
Western Union	10 minutes/instant
MoneyGram	10 minutes/instant
Moneytrans	24 hours/instant
Banks	5 days/up to two weeks
Informal operators	Up to 3 days/instant

Products and services of WU and MG are definitely the fastest, surest and most reliable. Indeed, it is possible to effect a transfer from the Netherlands within 10 minutes, the time it takes for the formalities of transmitting the information to the computers. The recipient receives the funds almost immediately, as soon as their sender can get the deposit to the counter and communicate the details of the operation to the recipient. In this way, the system is unbeatable. Moreover, recipients receive the exact amount sent by the sender. But some informal systems, such as *Hawala*, are also fast. Sometimes they are almost instantaneous or take only one to three days.

### **3.3. Accessibility**

The distribution of the network in the sending and receiving countries is another factor that influences people's decisions about which method to choose. Accessibility can include geographic proximity, an institution's hours of operation or even cultural identity. On the sending side, many money transfer companies are more accessible in cities such as Amsterdam, Utrecht, Rotterdam and The Hague with their high densities of African senders, but they are not always geographically or physically accessible to those in the home country.

**Table 8. Money transfer operators' opening hours**

Operators	Weekdays	Weekends
Western Union	08.00–21.00	08.00–20.00/21.00 open Sundays
MoneyGram	08.00–22.00	08.00–20.00/22.00 open Sundays
Moneytrans	From Tuesday 10.30 –17.30 Closed on Mondays	Saturday 10.30 –17.30 Closed on Sundays
Banks	From 9:00-17:00	Closed
Informal operators	08.00 –20.00/21.00 (anytime)	08.00 –20.00/21.00 (anytime)

The opening times for most of the formal money transfer operators are standardised although in some areas MoneyGram offers longer opening hours on Saturdays and Sundays.

MoneyGram and Western Union have the competitive advantage in the field of opening hours, proximity, facility of use, and convenience. Western Union products are more accessible to the majority of Africans in the Netherlands if their wide network in all the significant localities in the Netherlands and the recipient countries are taken into account. Western Union has the other advantage of being well integrated in the community, which constitutes an undeniable advantage.

The informal money transfer systems operate from small businesses, shops or their own homes. They are open until late and the transactions can take place anytime a sender wishes. Even if the business or shop is closed, the sender can contact the owner by phone and visit his home to send money. Sometimes it can just be arranged by phone and the money is sent to Africa, with the sender bringing the equivalent amount of money to the shop the next day.

The accessibility of informal systems at the receiving end has become an important factor for senders and their families back home. To avoid bureaucratic procedures and the demands for identification, some senders prefer to send their money through informal money transfer operators. The informal systems are less complicated, person-to-person transfer services and the recipient does not have to struggle to gain access to the money sent. Unlike formal money transfer operators, neither the sender nor the receiver needs to have documents to prove their identity.

Cultural accessibility is another factor. Many people prefer to use services where the environment is friendly and relaxed, and where they share a cultural bond with the person with whom they are dealing. Social networks can determine loyalty to a particular money transfer operator, as the Ghanaian remittance networks above showed.

Access to the transfer service at both the sending and the receiving ends is a critical factor. On the sending side, many informal money transfer operators and informal services are successful because they provide service points in the right neighbourhoods. On the receiving side, accessibility is even more important and nothing is more accessible than home delivery. Many capitals and other urban centres offer fairly good access to financial services but the rural areas are much less well served. Many senders, however, need to send money to locations with a poor financial infrastructure where formal money transfer operators in the host country have few or no contacts. The geographic proximity

of a branch or the possibility to pick up a remittance from a local office can determine an operator's ability to compete in the remittance market. Western Union and MoneyGram are concentrated in the most populated and commercially active areas. Interviews with Ghanaians have shown that most of them send money to rural regions that are lacking good financial infrastructure. These locations are not well served by formal agents and it is in these areas that informal operators take over. The informal operators offer services in the areas where the formal ones cannot work or which they have neglected. The survey revealed that Ghanaian migrants send about half of their remittances with a trusted person and informal operators. The distance between the recipient's home and the location of the money transfer operator can have an impact on the intermediary system, which leads to extra costs for the recipient.

Informal operators are easy to use and demand little or no bureaucracy. They are accessible and a migrant can send the amount of money he/she wants to. No restrictions or limits are imposed by external rules and regulations, which is not the case with the formal operators. Besides transfers of money, the informal operators offer a broad range of non-financial services such as arranging the delivery of foodstuffs or other services for the senders. In some cases, the sender requests that not money but food or building materials be delivered to the recipients. The services of the formal operators are limited strictly to the transfer of money.

### ***3.4. Reliability***

The formal operators – Western Union and MoneyGram – are considered expensive but many people use their services for two key reasons: security and speed. Other formal providers such as Moneytrans are cheaper but they are popular only among a particular group of people and their services are tailored to specific African countries. Compared to the formal operators, informal operators can offer a wider range of services but they are seen as less trustworthy and trust is crucial in these sorts of operations.

The formal operators are highly trusted because of the simplicity of their services. However, the informal transfer agencies have difficulty proving their trustworthiness since for most of them, the money transfer business is a secondary activity. Although there are known cases where the transfer has gone wrong in some way, many Ghanaian and Somali respondents agree on the high level of reliability of the informal systems. The reason is that the key agents involved in the operations are generally closely linked through ties of kinship and marriage, ethnic affiliation, friendship or long association.

Most of the formal money transfer operators pay out money as cash over the counter and completion of the transaction is confirmed with the sender. However, informal

operators sometimes do not have the opportunity to carry out payments of transfers if they have little liquidity available for this type of operation. In addition, these informal operators do not have international networks unless they are Western Union agents. The recipients and senders can find themselves in a risky situation and in certain cases have problems withdrawing their money.

The formal money transfer operators and their agents often advertise extensively. They reach their client groups by advertising in community papers or shops in migrant communities. Informal systems, however, tend to operate by word of mouth and the operators are very discrete because they work illegally.

### **3.5. Anonymity**

In the informal system, the person sending the remittances is under no obligation to provide details of his/her identity, business or the source of the funds being sent abroad. Increasing demands within the formal system regarding identification tends to impose constraints on potential senders, even if their papers and activities are perfectly legal. The reasons for asking people to present identification before sending money are unclear. The typical ID documents required to send any amount of money are a passport and a residence permit. With informal transfer operators, the sender does not even need to disclose his identity, a fact which is particularly attractive to clandestine migrants who can remain anonymous.

## 4. Summary and recommendations

The aim of this study has been to gain a general overview of the variables involved in African remittance markets in the Netherlands, such as the status of migrants, and the methods and costs of sending money back home. The main goal, however, was to see how the transfer of money can be made easier and cheaper.

In the African community in the Netherlands, there are two forms of remittances; individual and collective remittances. Individual remittances form the bulk of the total remittances and are used for household expenses and improving the lives of family members. Collective remittances fund basic infrastructure and communications projects, public service infrastructure, and other community projects.

The amount and frequency of remittances depends on factors such as age, education, income, gender, marital status, immigration status, citizenship and level of integration in Dutch society. Immigrants with closer ties to the Netherlands or those taking greater advantage of opportunities in the Netherlands remit less. This is seen most clearly among respondents who have their immediate family in the Netherlands and among immigrants with more education and/or long periods of residence in the Netherlands. Less-skilled migrants tend to send money more often than skilled workers and migrants earning higher salaries. Unlike men, women regularly remit small amounts of money and are more reliable in sending remittances. The purpose of migration and the role of the family in facilitating migration also influence the amount of money sent and the frequency with which it is sent. In most cases, the money being sent is to close family members, usually parents and relatives.

It is, however, difficult to establish a systematic correlation between the above-mentioned variables and the behaviour of those sending remittances because these variables (wages, immigration status, citizenship, age, gender, education) do not prove to be significant predictors of remitting.

The transfer systems (informal, semi-formal and formal) described are well known in the African community in the Netherlands. However, the majority of Africans in the Netherlands generally send money through the formal system (Western Union, MoneyGram and Moneytrans) due to its speed, reliability and the wide networks in the Netherlands and in many African countries. The use of informal remittance systems is related to the background and the status of the migrant, and the frequency with which remittances are sent. In the Netherlands, the informal services transferring money to Africa are mostly used by ethnic groups and nationalities whose cultural codes are based



on trust. The informal or semi-formal agents can provide better services but they are hampered by regulations.

Informal channels are also used with particular frequency wherever the financial sector is weak, mistrusted or missing altogether (as in Somalia and other conflict zones or in areas emerging from conflict). Strict controls on foreign exchange in the home countries also tend to stimulate the use of informal channels. But formal money transfer operators are already popular in many countries. For example, the rapid expansion of Western Union and its competing services throughout the African continent demonstrates its ability to compete in the African remittance market in the Netherlands. Banks are slow to address this market directly.

In all the informal and semi-formal transactions, money is transferred between two parties living in two different countries but cash does not cross any borders. These transfers of money are made without entering the conventional banking system. The systems of money transfer are facilitated by the use of communications technology – telephones, email and faxes. Information technology has created means of modifying the formal and informal remittance markets both in the Netherlands and in African countries. The transactions are based on a single communication and are usually not recorded or guaranteed by written contract.

The total cost of remitting funds to the consumer is a combination of the exchange rate the provider uses and the fees he charges. There is a direct correlation between, on the one hand, safety, speed and reliability and, on the other hand, cost. Indeed, the formal operators such as WU and MG have higher costs than the informal operators. It is easier for recipients to get their money from WU or MG when taking into account the speed, reliability and safety of the service these organisations offer; whereas for certain senders, the question revolves more around the cost of the services.

Costs vary according to the amount being remitted, the service used, the money's destination, and its origin. They range from a low of 0% to about 17%. The costs tend to be highest for small transactions, as most of the transfer services charge a minimum fee. The difference in cost between formal and informal money transfer operators is particularly noticeable on small transactions.

While certain migrant groups (especially the Ghanaians) are very conscious of the costs involved, others feel that familiarity with the system or operator and convenience are more important, even though this may mean a more expensive service.

On average, transfers through formal money transfer operators cost more than transfers through informal ones, such as the *Hawala* system. At the same time, formal money

transfer operators have a more demand-oriented network of points of sale, and speed and reliability are part of their service.

**Table 9. Summary of the choice of channels and services**

Sectors	Providers	Speed	Cost	Reliability	Accessibility	Anonymity
Formal	<b>Banks</b>	Slow	Low for a large transfer	High	Low: More accessible in NL than Africa	Low. Passport or identity card
	<b>Post offices</b>	Slow	Low	High	High: In NL and Africa. Good network	Medium. Passport, identity card, driving licence or no requirement
	<b>MTO</b>	High	High, especially for small transactions	High	Low	Low
Informal	<b>African money transfer agencies</b> (businesses & shops, <i>Hawala</i> , etc.)	Medium. Sometimes transactions are very fast	Medium/low Mostly lower than formal services	Based on trust	High. Operates in areas with limited financial institutions	High
	<b>People, friends and relatives travelling to Africa</b>	Medium/high	No fee, no commission. Mostly, indirect costs	Based on trust. Risk of loss	High. Home delivery	High

The cost of sending money has begun to drop because of the competition among service providers. This trend has been observed in the Africa remittance markets in the Netherlands, notably when moving funds from the Netherlands to Africa. Remittances from and to high-volume and competitive markets are often cheaper. MoneyGram, for example, offers lower rates for money transfers to high-volume destinations.

Some informal services (such as *Hawala*) charge no fee, realising revenue solely from gains on foreign exchange. The exchange rates used are set based on the country's financial situation. Some countries have an official rate designed to keep exchange rates between two limits, while others allow the exchange rate to float depending on the market.

Overall, the key factors when choosing a company to remit are the security and speed of transfer. For this reason Western Union and MoneyGram dominate the Dutch market. The transfer of money varies between 10-15 minutes and collecting the money is also

easy because of the locations of their outlets in Africa. Western Union has strong coverage in the Netherlands and Africa. In the Netherlands, there are generally fewer MoneyGram outlets, and MoneyGram has concentrated or having offices at main railway stations. Western Union is the best known, with its prominent advertising and strong urban presence. Western Union's services are also available via post offices and other shops. For the Congolese, Nigerians and Ghanaians, Western Union is highly visible in the cities in the receiving countries.

Generally, many factors play an important role in the African remittance markets in the Netherlands such as, the transmission charges, particularly the exchange rate and the commission charged, the reliability, the status of the sender, and the immigration policy in the Netherlands. In order to make the transfer of money to Africa more easier and cheaper, therefore, nine areas of intervention are to be considered.

1. Promoting information about money transfer products and providers;
2. Improving data on remittances and migration;
3. Reducing the cost and strengthening the financial infrastructure;
4. Encouraging the participation of informal money transfer operators;
5. Immigration policy;
6. The crucial role of the banks;
7. Access to financial services for unregistered migrants;
8. Promoting prepaid credit cards;
9. Promoting hometown associations as agents of development.

#### ***4.1. Promoting information about money transfer products and providers***

Concerns have been expressed about how difficult it is for consumers to compare the total cost of the wide range of remittance services on the market. Senders do not have enough information about money transfer products, providers or the documents required, and they do not know where to find the information they need. However, before using a service, senders need comparative and independent information about the remittance services that are available in the Netherlands. For example, one provider can offer a better exchange rate but charges the sender a higher fee. In addition, the recipient in Africa may face additional fees depending on the distribution channel. Two groups should be responsible for providing more comprehensive information: the Dutch government and the money transfer operators.

Money transfer operators: These companies should provide regular information about their transactions between the Netherlands and African countries, especially the cost of the various services they offer.

The Dutch government ought to finance a survey on money transfer products and services including their convenience, price, speed and security. Based on the information provided by the money transfer operators, the government could create a way of providing a potential sender with information about the different remittance products and services available in the Netherlands. For wide accessibility, the information could be provided on a website. This information would help senders to compare different money transfer services. It would increase pricing transparency and enable consumers to more accurately compare the costs of the various products and also encourage competition between money transfer operators. At present, such a service is being provided in the UK via the website [www.sendmoneyhome.org](http://www.sendmoneyhome.org). The information on the website is the result of a survey undertaken in the UK of money transfer services. The website gives not only a range of money transfer products and services to senders in the UK but also includes a number of country-specific leaflets.

#### ***4.2. Improving data on remittances and migration***

To have an appropriate policy on remittances to Africa, it is important to have a good understanding of the remittance activities in the Netherlands. However, the data currently available seem inadequate. Even when remittance data are available, they are often incorrectly classified.

To improve remittance data would require an initiative by the Dutch government. Therefore the Dutch government should encourage a systematic study of the relationship between migration and remittances. It has to stimulate research by finding individuals and research institutions to do more research on the remittance behaviour of migrants, and how remittances respond to changes in the source and destination economies. In other words, it is necessary to finance regular surveys of remittance senders and recipients to establish the size of remittance flows, their sources and destinations, the channels used, migrant motivations, and the uses the remittances are put to in Africa.

#### ***4.3. Reducing the cost and strengthening the financial infrastructure***

Remittances from Africans generally consist of many small transactions and the cost of each transfer is relatively high compared to the amount being transmitted. The exorbitant fees charged by money transfer operators affect most migrants, as they often remit small amounts of money. Reducing remittance fees would significantly increase annual

remittances flows to African countries, especially to poor recipients and particularly through formal money transfer operators, who are seen as trustworthy but more expensive. It is important to introduce a charging structure that does not penalise low-value transfers.

Money transfer companies in the Netherlands charge high fees because of lack of competition in remittance markets. The money transfer companies such as MoneyGram and Western Union appear to be protected by Dutch laws and regulations, and the situation has discouraged many small agents, who do not have enough money to pay taxes and bank guarantee or deposits, from entering the remittance markets and competing effectively. Banks in the Netherlands could play a role in reducing the effective cost of remittances but unfortunately they are not interested in the remittance business and many migrants, especially those without a residence permit, do not have bank accounts.

To resolve the problem, the Dutch government has to set the right policy and competition framework to ensure that money transfer operators can provide cheap and better services. This would be possible by promoting competition between money transfer providers, reducing legal or tax obstacles, fostering new technologies, and even offering tax incentives.

The government could introduce a policy to encourage banks to become more active in the remittance market and improve migrant workers' access to banking facilities in the Netherlands. The government could also support migrants' access to the banking system by providing them with identification tools (as banks are now doing for Mexican migrants in the US). This would not only reduce the costs of sending remittances but would also improve the savings and investment climate. It would be also useful to find ways to harmonise payment systems and increase access to existing payment systems. This would be possible through the use of electronic card-based products (a prepaid credit card, see below).

#### ***4.4. Encouraging the participation of informal money transfer operators***

There are a variety of channels through which remittances can be sent outside the formal money transfer system. This is not necessarily a bad thing since most of the money goes directly to households or is used by migrants for investing in businesses or property. The participation of informal operators has become a form of financial democracy. These institutions provide access and outreach to lower income communities and isolated illegal immigrants who the formal operators cannot help. Restricting informal money transfer

operators in the Netherlands will reduce the volume of remittances and many illegal migrants will lack appropriate services for sending money to their home countries. As a consequence, their families in Africa will be the first to suffer from this repressive measure because they depend on the money sent from the Netherlands. But institutionalising informal money transfer operators will require imagination.

It is important to understand that the reason there are now so many informal money transfer operators in the Netherlands is due to the Dutch rules and regulations on money transfer providers and also the inefficiencies in the formal system<sup>5</sup>. Interviews with informal money transfer operators have shown that the majority would like to work in the Netherlands as formal money transfer operators but they are discouraged by the amount of money they would first need to deposit with the Dutch Central Bank and the taxes they would have to pay to the government. Money laundering and the financing of terrorist operations have been two of the main reasons why the Dutch policy on money transfer providers have been so restrictive. However, it is not entirely clear why personal remittances (which are typically small in size) would be an efficient way of laundering or illegally transferring sizeable amounts of funds.

The Dutch rules and regulations on money transfer operators create barriers to the flow of remittances from the Netherlands and tend to treat the non-bank systems of money transmission themselves as the enemy. The measures limit financial services to a very narrow group of providers, to the exclusion of newer models of informal financial services and innovations in delivery service. Indeed, some informal remittance companies are highly efficient and offer competitive rates in comparison with other services to African countries, and their investors have a good track record of reinvesting any profits in Africa. But they cannot operate officially as money transfers operators because the initial deposit and the fees required are too high for them. Changes in the following areas could assist the remittance market in the Netherlands and would boost remittance flows and raise the impact of development. Any policy which aims to influence informal remittances should not restrict their flow but enhance their reliability and competitiveness.

To address this problem, the Dutch government has to:

- review the current rules and tax legislation that prevent African companies from operating as money transfer agents in the Netherlands. A comprehensive effort to support senders and recipients should foster an environment in which remittances are less costly and can also have some degree of developmental leverage; and

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<sup>5</sup> The informal operators are cheaper and work longer hours. They operate in the smaller places where there are no formal channels, and they often speak their customers' own language.

- review all the business models that make money transfer services attractive to the various client sectors in the market, and reconsider how those models are licensed and regulated.

#### ***4.5. Immigration policy***

The Dutch immigration policy has recently become much stricter than it used to be. Individuals admitted to the Netherlands receive a residence permit and are expected to integrate into Dutch society. Those who are no longer entitled to stay are considered to be residing illegally in the Netherlands and are not allowed to work, nor are they entitled to housing or social benefits, and are required to leave the country. To curb the flow of would-be immigrants, returning illegal migrants to their country of origin and various new restrictive measures have become a high priority for the Netherlands. The government believes that without them the integrity of the migration policy will be not safeguarded.

These measures can be effective for a while but the price to be paid by both sides will be very high. First, as the strict measures shut off the official labour market to illegal immigrants, many Africans will not be able to work, and the immediate direct consequence will be a reduction in the amount of money sent home. Secondly, they will become marginalised and find that they have no option but to be further exploited in increasingly appalling conditions in order to survive and to help their families back home. The probability of these migrants committing criminal activities is high and migratory channels will be targeted by organised crime.

The restrictive immigration policies in the Netherlands have become a matter of serious concern in Africa because of the impact they are having on the volume of remittances. Although it is not easy to establish a correlation between migration and remittance trends, it is clear that immigration policies and the immigration status of a migrant in his/her country of residence can influence remittances. The Dutch government could play an important role in remittances to Africa by:

- maintaining flexible migration and resettlement policies. It is extremely important that the Dutch government establish consultations with migrants and the organisations that represent them so that the voices of migrants and their families can be heard in debates about the development of immigration policies. Steps could also be taken to generalise the discussion on migration in order to develop a policy that would have an impact on the volume of remittances;
- introducing dual or flexible citizenship to allow migrants to return to their home countries without prejudicing their right to stay in the Netherlands;

- allocating temporary work permits to workers from African countries to meet labour shortages (if any) in the Netherlands and to enhance remittances to their homelands;
- making entry criteria flexible enough to allow migrants to adjust to the prevailing labour market and social conditions in the Netherlands, and for their personal migration projects to be realised;
- establishing a comprehensive support and education system for migrants on their arrival in the Netherlands, aimed at educating migrants about the Dutch labour market, their legal rights and obligations as workers, and offering advice and support on finding a job, how to access services, and general social and cultural information about the Netherlands. The *Inburgeringsprogramma* is successful in helping migrants to integrate in Dutch society, but the present programme is too long (sometimes a year). It should be a short intensive course which would keep migrants motivated;
- providing migrant workers with the opportunity to settle in the Netherlands and integrate fully into Dutch society after a reasonable period in line with other managed migration schemes in the Netherlands; and
- considering a solution to the problem of workers without any legal status who are currently in the Netherlands by regularising their status and granting them permission to work for one year. There might also be the possibility of giving African migrants without any legal status in the Netherlands the right to have an identity card. (Cfr.7. Access of unregistered migrants to the financial services)
- launching an experimental training programme for returning migrants by retraining them in new skills so that they could move to other industries or establish their own business. They could also benefit from small loans from a bank if they have a good savings record.

#### **4.6. The crucial role of the banks**

Transferring money through money transfer operators is a complex system. For example, the commission fee charged for sending money through Western Union is distributed between the transmitting agent, the receiving agent, and the head office of Western Union. This makes the cost of sending money to Africa higher. Using appropriate financial institutions such as banks would break this cycle. Banks have the advantage not only of providing many financial services but also of breaking the money transfer circle. This would make the transaction simple and reduce the cost of sending money.

In addition to making money transfers simple and less expensive, there are also other reasons to lobby for the greater use of banks in the remittance markets in the



Netherlands. Banks are particularly well placed to develop their market presence in response to the needs of African diaspora groups. Africans in the Netherlands may need savings, loans and other financial services in addition to being able to transfer money back home. Money transfer operators do not offer loans and they do not accept deposits. But these services are all offered by banks. However, banks in the Netherlands have not yet shown much interest in remittance activities and there are no policies to make remittance activities attractive for banks.

The role of Dutch banks: As a result of the rapidly growing African population in the Netherlands, banks have to develop new products and services to meet the needs of the remittance market. For banks to become leading providers of remittances to Africa, the percentage of Africans with bank accounts must increase. Banks will need to develop appropriated remittance products in the hope of capturing African clients in the Netherlands. Dutch banks could also offer services related to remittance products, such as savings, loans and other investment products, most with the goal of establishing better customer relations with those sending remittances. This will help migrants to access and use the banking services, especially for sending funds to families back home. Such policies are likely to benefit the home countries.

Dutch banks could develop joint arrangements with African banks without acquiring interests in those institutions. Working in collaboration with African banks would reduce the internal costs of bank-to-bank transfers and give Dutch banks a committed distribution channel. This joint arrangement would give migrants the opportunity to manage their finances in the Netherlands as well as their remittances in their home countries. Currently, it is not possible to send money home with instructions that some of the money be credited to a savings account and the rest be paid out to a specific individual.

The role of African governments: African governments need to create conditions that will encourage the mobilisation of migrant savings to build up their financial assets in their home countries. This would be possible by providing a favourable exchange rate and the chance of depositing savings in foreign currency accounts, and especially bank accounts that guarantee a good interest rate. The responsibility of African governments is to pursue an active interest rate policy for these accounts. Rates for foreign currency accounts in African countries must be adjusted in line with the movements in the euro-dollar deposit rates on the international financial markets. The significant resources of the diaspora that are currently invested or being saved abroad would be mobilised. Deposits made in foreign or even local currency at favourable rates would certainly represent an attractive

alternative for migrants and have beneficial effects on the home country's economy. Some governments and private institutions are already engaged in such efforts and could target a strategy linking remittance transfers with banking and credit union options as a way of attracting migrants into the financial system.

Saving would enhance the income effect of remittances as well as their contribution to domestic savings and capital formation. This service would be possible in the host and home countries. The Internet is a potentially useful tool to facilitate this service. The following example is taken from many online services. WatuWetu LLC (<http://www.watuwetu.com>)<sup>6</sup> is an online money transfer, goods and services provider for Kenyans living abroad. The service helps migrants to save and send money to Kenya, or send gifts to friends and family in Kenya. A sender can open a savings account in Kenya with this institution by downloading an application and authorisation form. The forms are then sent to the United States and WatuWetu sends information about the savings account by email within 2 days. Savings accounts in Kenya give Kenyans abroad an easy, safe and reasonable way of opening and operating an account. The account gives the sender the flexibility to save, pay out cash, bill or pay anyone in Kenya using a banker's cheque. The savings account can be funded online.

The role of the Dutch government: The Dutch government could work with partner financial institutions in Africa to assist in facilitating cheaper, safer and more efficient money transfers by using their unique relationship with their banks. This could be made possible by developing efficient official transfer mechanisms by offering a special transfer scheme at low rates. The most successful example comes from the French government in partnership with some African countries. French banks have developed parallel, formal and cheap remittance schemes. The experiences of three banks in Paris – the **Banque de l'Habitat du Sénégal**, the Banque de l'Habitat du Mali, and the recently opened Banque des Ivoiriens de France – show the potential of innovative official transfer mechanisms. These banks, created by the French government for Senegalese and Malian migrants in France, offer a special transfer scheme to Senegal and Mali. As their fees are significantly lower, these banks currently make more transfers a day than other private money transfer operators such as MoneyGram and Western Union.

The advantage of this scheme is that sending money through the Banque de l'Habitat corresponds to opening a bank account. The recipient will receive his money from a bank account. He has the right to save part of the money and use the rest. It means that when a migrant remits money home using Banque de l'Habitat, money that is not immediately

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<sup>6</sup> Watuwetu LLC will close down its Money Transfer and other businesses on April 15, 2006.

used to accommodate the consumption needs of the recipient would be channelled from savings to investments as banking institutions perform the role of financial intermediaries. It is also possible for a sender to begin the process of finding a mortgage to buy a house in Mali or Senegal. As there are limitations because of a lack of financial institutions in rural areas in Africa, it is necessary to work with micro-credit organisations that already have a developed network.

#### **4.7. Access to financial services for unregistered migrants**

Rules and regulations in the Netherlands demand that all financial service providers identify their customers and keep records of all financial operations. This means that money transfers through banks and other operators are only possible for migrants with identification and a bank account. Migrants without legal status in the Netherlands are therefore more likely to rely on the services of a friend or to use informal channels to send money home. The fact that migrants without legal status cannot freely use formal channels to send money home has a negative impact on the volume of remittances.

In order to resolve this situation, which will increase the volume of remittances, the Dutch government needs to work in partnership with African governments in documenting African migrants without legal status in the Netherlands and enabling them to obtain a legal document for identification purposes. The Dutch government could consider one of the innovative policies introduced by the US government, namely a consular identification card for Mexicans residing illegal in the US. This consular identification card is issued by Mexican consulates and known as the *matricula consular*. The US Treasury has given banks permission to accept this *matricula consular* card as a form of identification. This has proven useful in attracting immigrants to financial institutions.

An alternative form of personal documentation would attract migrants who lack other forms of government-issued identification. The consular identification could provide basic information certifying that a person is an immigrant from an African country. This card could be accepted at banking institutions throughout the Netherlands and show the holder's name, date and place of birth, a Dutch address, a current photograph, and signature. A Dutch address would be required to open a bank account and obtain local social services and access to community facilities. The telephone number of the local migrant's consulate would be required for local police or officials to verify the card's authenticity but also so that a migrant in trouble could call his/her consular office for assistance.

The policy would encourage illegal migrants to hold savings in financial assets in the Netherlands and facilitate investments in self-employment and enterprise creation in the Netherlands as well as in their home countries. For example, there are a number of

undocumented African migrants who are doing business in the Netherlands by using the documents of relatives or friends. This service is not free of charges and the migrant sometimes has to pay a considerable amount of money every month for using such a service. Having a consular identification card would help the migrant to access financial services and other important services. The direct consequence would be that a greater volume of funds would be channelled to their home countries. However the danger of the system is that the government could use this information to track down illegal migrants. Genuine cooperation between the Dutch and African governments on the practicalities and realities of such a policy would be required.

#### ***4.8. Promoting prepaid credit cards***

Credit cards may have the advantages of speed and convenience when sending money to Africa but in the Netherlands, except for those who have a residence permit, only a very few Africans use credit cards. Many potential customers do not like to share their information over the Internet because of the fear of card or account details being used fraudulently.

The alternative payment system that seems particularly appropriate for Africans in the Netherlands is the Prepaid Credit Card. It helps users to complete their transactions over the Internet securely and conveniently. Presently, many Africans in the Netherlands use the same system to pay for telephone access, with a unique set of numbers concealed beneath an area that has to be scratched off. The prepaid credit cards can be used for online payments. In addition, just as phone users have to open an account with a phone company, users of prepaid credit cards for online payments have to open an account with their online payment service provider. Once this has been done, users are then able to engage in transactions using the payment service provider's system.

The example of a company in the Netherlands ( [www.wallie-card.nl](http://www.wallie-card.nl) or [www.wallie.com](http://www.wallie.com) ) illustrates how the system works. Wallie Card is used like a prepaid telephone card but the difference is that with Wallie Card the operation is carried out over the Internet. A sender buys a Wallie Card in the shop for €5, €10, €20 or €50 on which there is a code of 16 digits and 3 characters. He/she then goes to the website where he/she wants to make a purchase and pays by Wallie Card using the Wallie Card code number. After clicking on "pay" the payment is completed. If the balance credit of the Wallie Card is too low, a new card can be purchased in a shop. Paying with a Wallie Card is easy and safe because the customer does not need to disclose their name, bank account number or other personal details. This prepaid credit card can prevent even the most advanced fraud.

The prepaid system has a number of features that may encourage customer interest:

- customers using the prepaid system do not need to have a bank or credit card account;
- there is no need to transmit any details of bank or credit card accounts across open networks that might be vulnerable to interception;
- users do not have to invest in any kind of technology or download special software; and
- prepaid scratch cards work in the same way as telephone cards thus cutting the customer learning curve.

The sender does not need a credit card to make a transfer online as the prepaid card is enough to send money in Africa. However, bankers and Internet experts have to study all the possibilities and present a product adapted to transferring money and the needs of the African community in the Netherlands. The number of people using Wallie Cards to purchase products on the Internet is increasing as the system appears to be both useful and effective.

However, there is here an additional element to be considered when setting up such a system of payment. With a prepaid phone card, the user uses a network operator only for phone calls. This is outside banking legislation. But when the operator uses the prepaid credit card to send money, the operation could be viewed as deposits, in which case the system could then possibly fall within the confines of banking legislation.

To address this problem, it is necessary to reconsider banking regulations and legislation. Dutch banks would be well placed to provide such financial services. Account activation fees, account maintenance fees, transaction fees and periodic settlement fees could provide potential income sources for the banks as service providers. But for the prepaid system to succeed, prepaid cards must be made widely available and more online money transfer operators have to support them as a method of payment because without merchant support there is little incentive for consumers to adopt them. To encourage the popularity of prepaid cards and the prepaid system as a whole, providers may have to offer discounts or other incentives to those who are thinking of using this method of payment.

#### ***4.9. Promoting hometown associations as agents of development***

The African diaspora and its organisations have become involved in the development of Africa through the livelihood strategies pursued by the African diaspora, the money and other remittances they send home, and the organisational and lobbying activities in which they engage. In partnership with African and diaspora organisations, the Dutch government and/or development agencies in the Netherlands could work towards:

- recognising the diaspora as an influential actor and partner (for ministries, associations, development agencies, business cooperation etc.);
- encouraging the diaspora to organise itself within larger umbrella organisations with the purpose of investing in community development initiatives;
- collecting quality data on specific diasporas (size, geographic mapping) as a basis for a targeted, specific diaspora policy;
- striking a balance between assisting those migrants wishing to return home and accommodating those who can contribute more by remaining in the Netherlands.

#### *Hometown associations*

The philanthropic activities of hometown associations have a development potential. Some of the infrastructure and economic development work performed by these associations represents a chance for development agents to find partners in local development. The case of the *Bamileké* associations from Cameroon in The Hague offers an important lesson in development partnerships. However, hometown associations in the Netherlands have a problem making their activities more effective in the field of development. First, they lack the capacity to make their activities more visible to the wider world. Second, their social organisation is weak and remains informal. Third, they lack the channels to access useful information and networks. Fourth, compared with other migrant organisations, such as those from the Philippines and others, African associations are only marginally linked with mainstream development agencies. These constraints need to be addressed so as to harness the potential of the African diaspora organisations more efficiently.

In partnership with African countries and diaspora organisations, the Dutch government or development agencies in the Netherlands could work towards:

- giving hometown associations technical assistance, training and institutional support to help increase their membership;
- developing leadership and managerial skills; and
- improving their fundraising, and developing a basic capacity for project management and promotion.

#### *African diaspora development funds*

Regarding remittances, it is clear that money transfers from abroad are crucial to the livelihoods of many people in Africa. But in understanding the correlation between migration, remittances and development, social remittances are also very important.

People come to Africa bringing money and human resources that are vital for its effective functioning and future. Africans living in the Netherlands could engage in local developmental processes without necessarily returning to Africa, for example by forming associations to collect funds and by securing additional funds for development projects in Africa by lobbying western donors. Such efforts should be encouraged, as should their consolidation into larger umbrella organisations. African associations could work with development agencies in the Netherlands on creating an African diaspora development fund (which would include a remittance organisation facilitating cheaper remittances). Some African organisations in the Netherlands are working to set up an African diaspora development fund. Unfortunately, these initiatives are not attractive to many Dutch NGOs.

## **5. Recommendations for further research**

This study has focused on the remittance markets in the Netherlands but has not yet been able to provide the levels of documentation and analysis shown in some studies of remittance markets, such as the case of Latin Americans. Remittance flows need to be better documented and synthesised in the African context. For example, as for many communities, it is a fact that having family or staying longer in the Netherlands results in the migrant remitting less and the amount of remittances decreasing. Although the survey has shown that African migrants who have settled in the Netherlands still remit money, the question is whether the next generation will continue to do so when the first generation is no longer able to. Like other population with a foreign background such as Suriname in the Netherlands, second-generation African in the Netherlands may be more focused on life in their host country and therefore stop sending remittances because sending money home depends on the relationship between sender and recipient. If this relationship becomes less close, the main reason for sending money home disappears. This can create a serious problem for recipients in Africa. The situation therefore needs an appropriate study on the real impact of remittances.

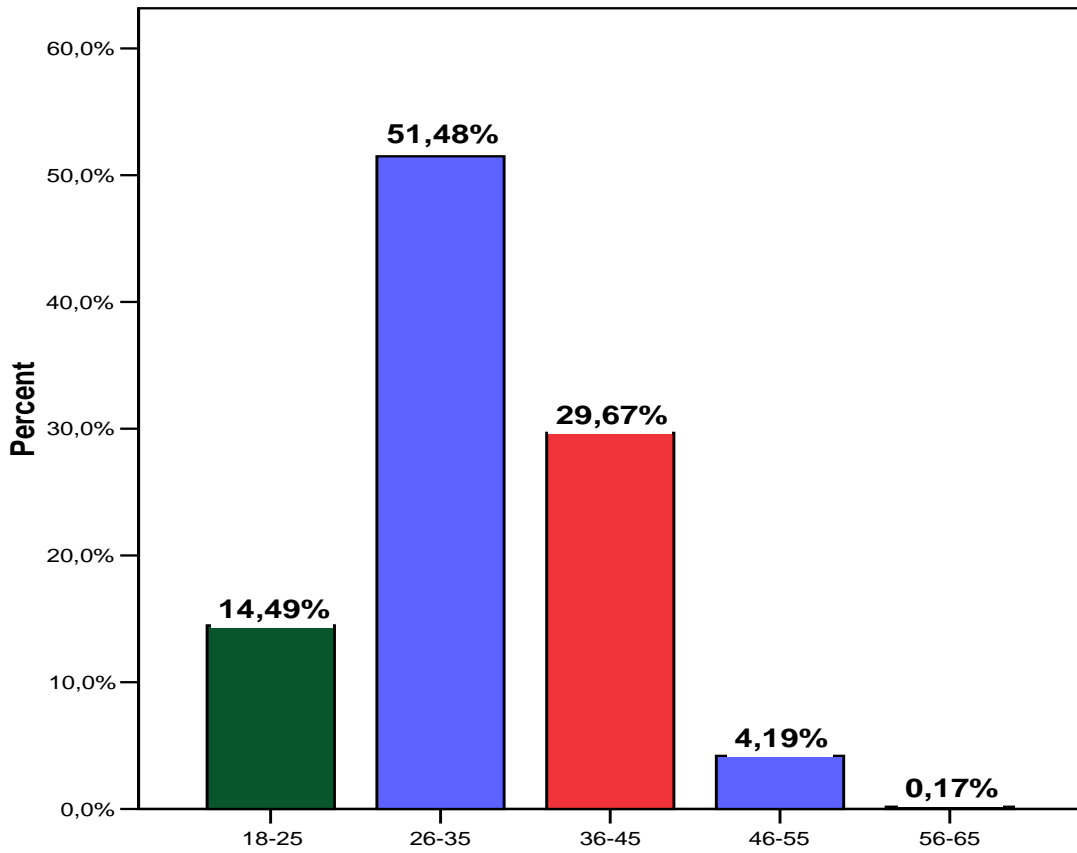
The role of technology in the transfer of remittances should be further explored. The impact of communication technologies on the banking and financial services has been for the last ten years considerable. *“Much more could be done to collect and analyse data and translate the findings into actions by bringing together key stakeholders from policymaking and regulatory bodies, financial service providers, and diaspora groups”*. Attempts to regulate remittances and comprehend their magnitude and implications –

including their contribution to development – cannot be expected to work without a full understanding of the inner workings of the remittance system.

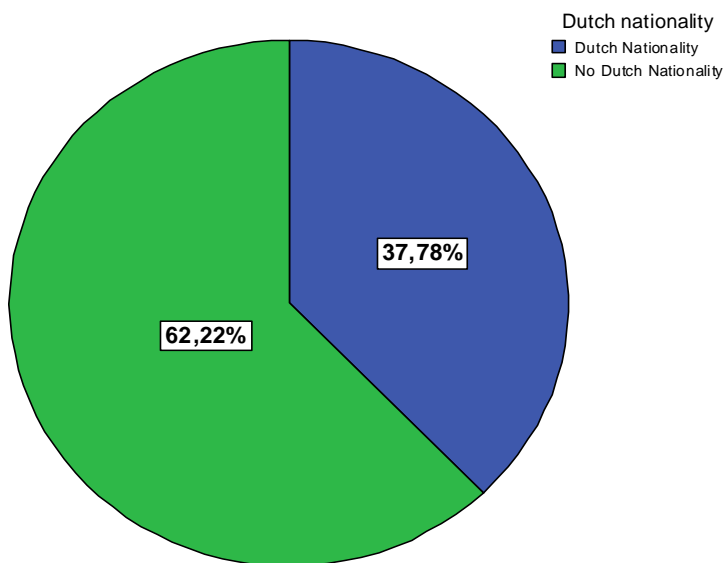


## **6. Annexes**

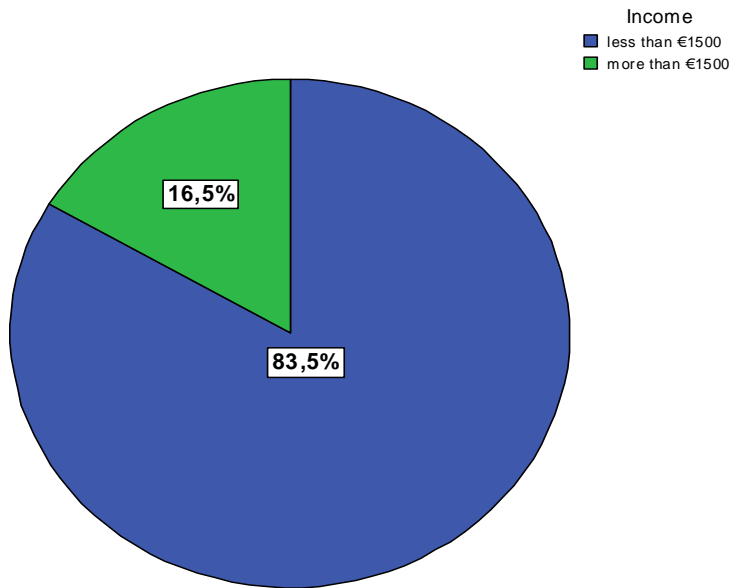
## 1. Respondent's age



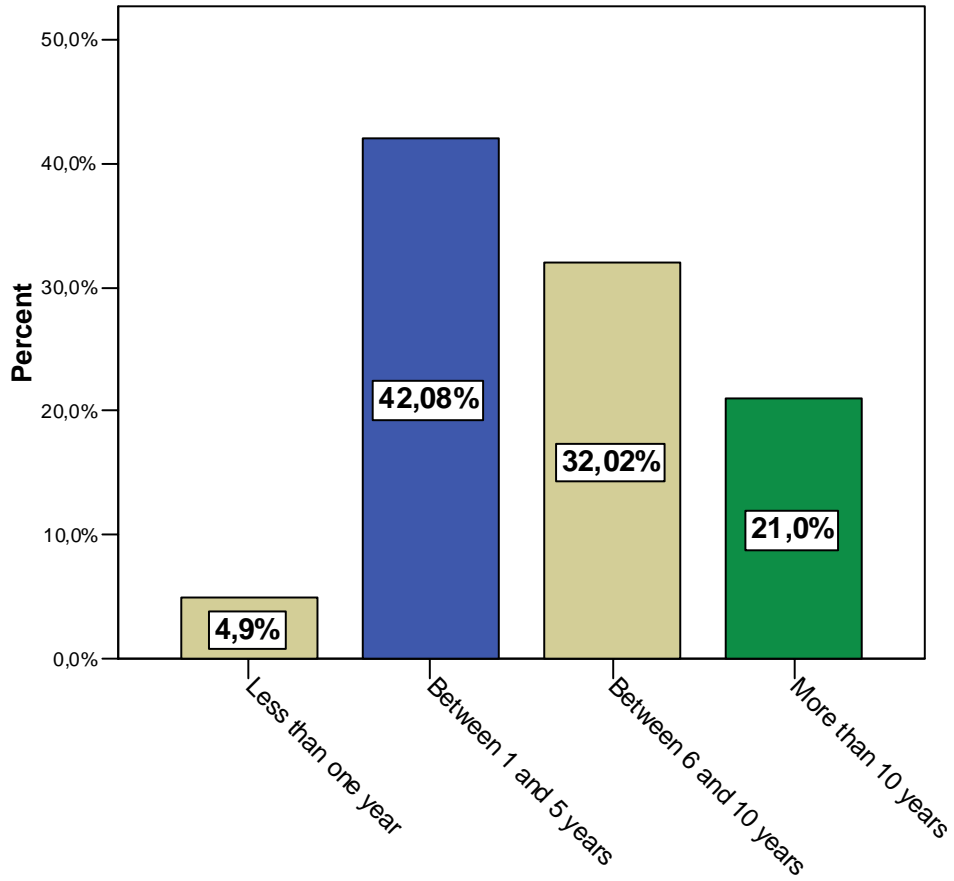
## 2. Citizenship



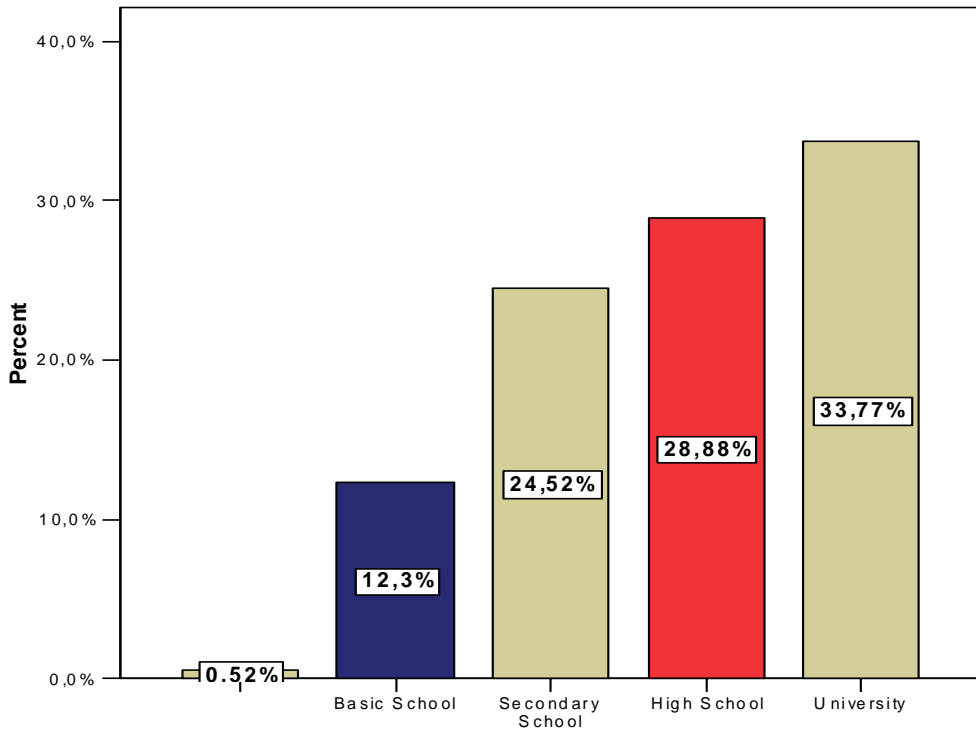
### 3. Monthly income



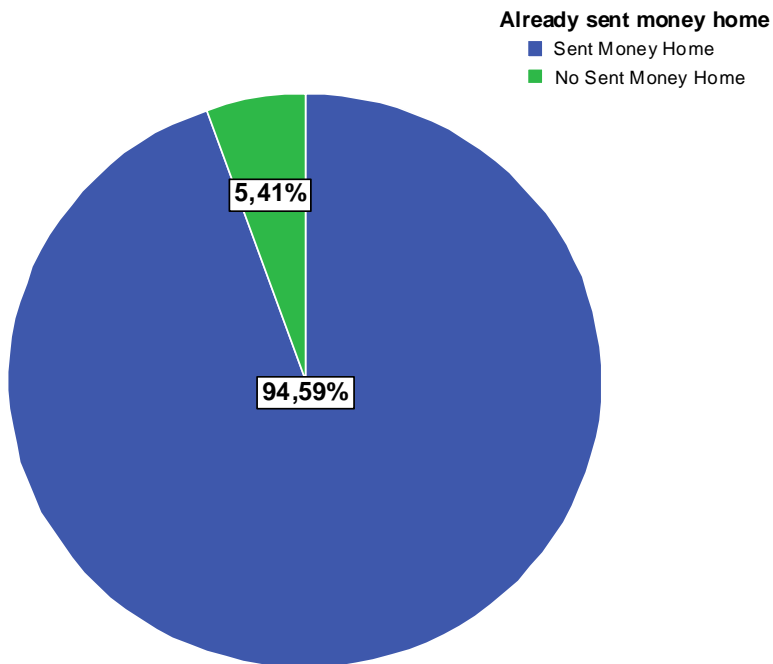
### 4. Years of living in Holland



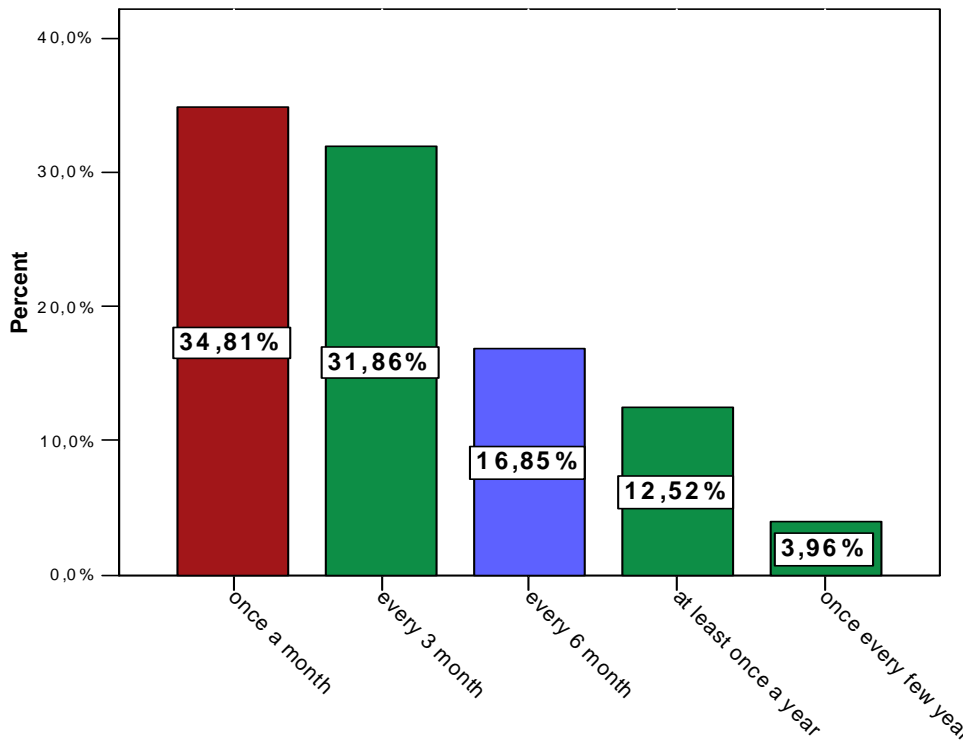
### 5. Educational background



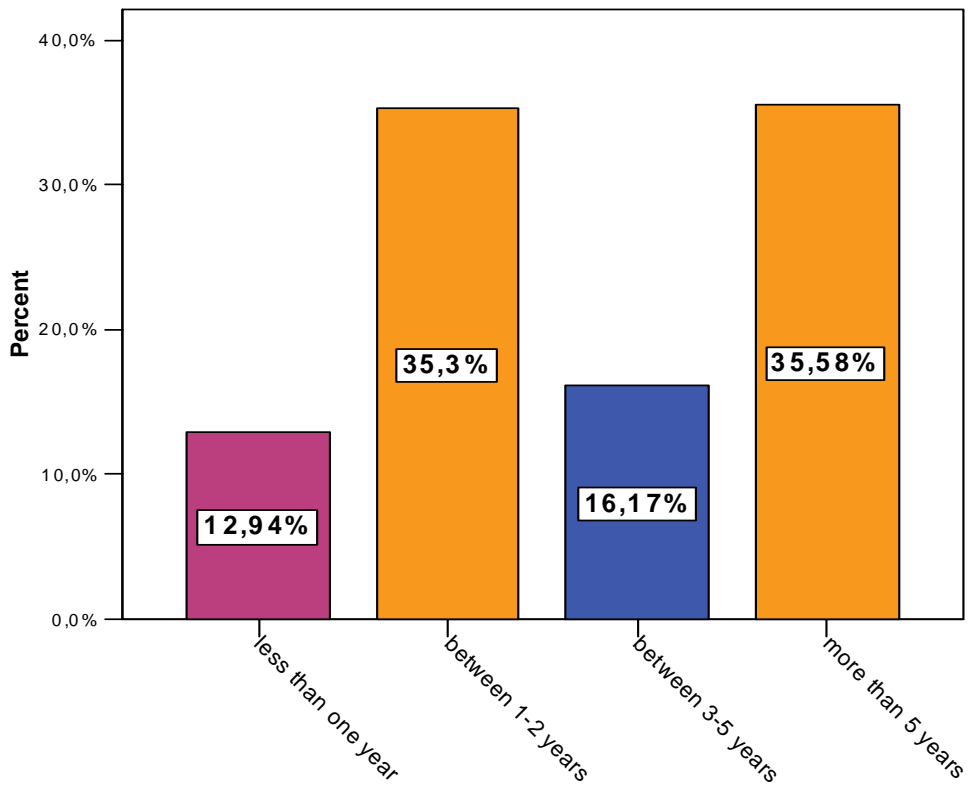
### 6. Have you ever sent money to your home country?



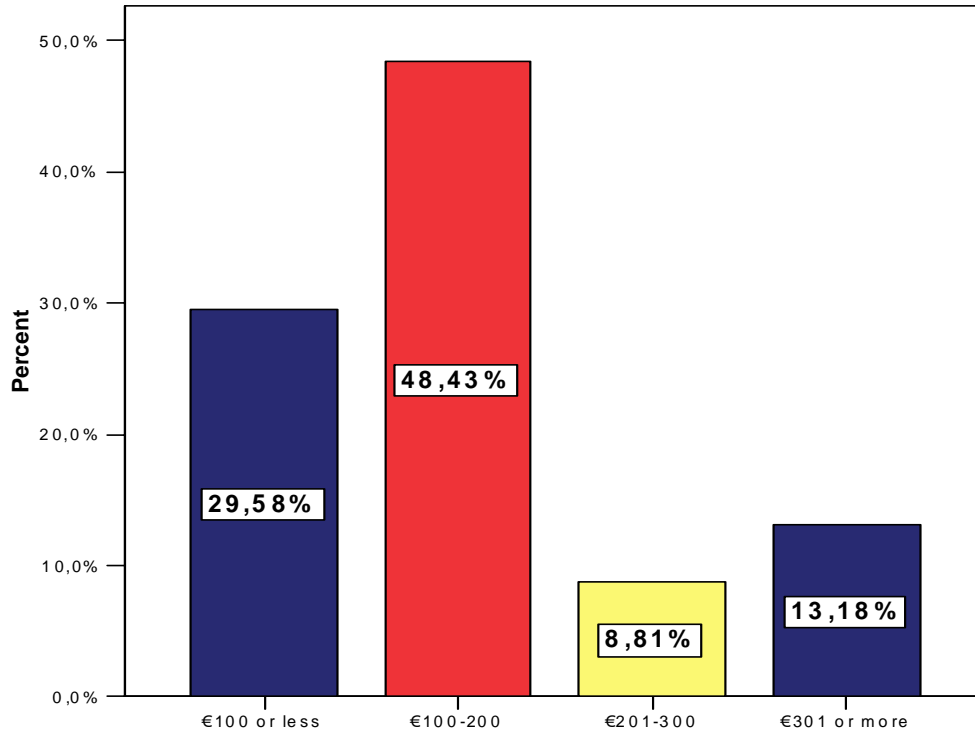
**7. How often do you send money to your home country?**



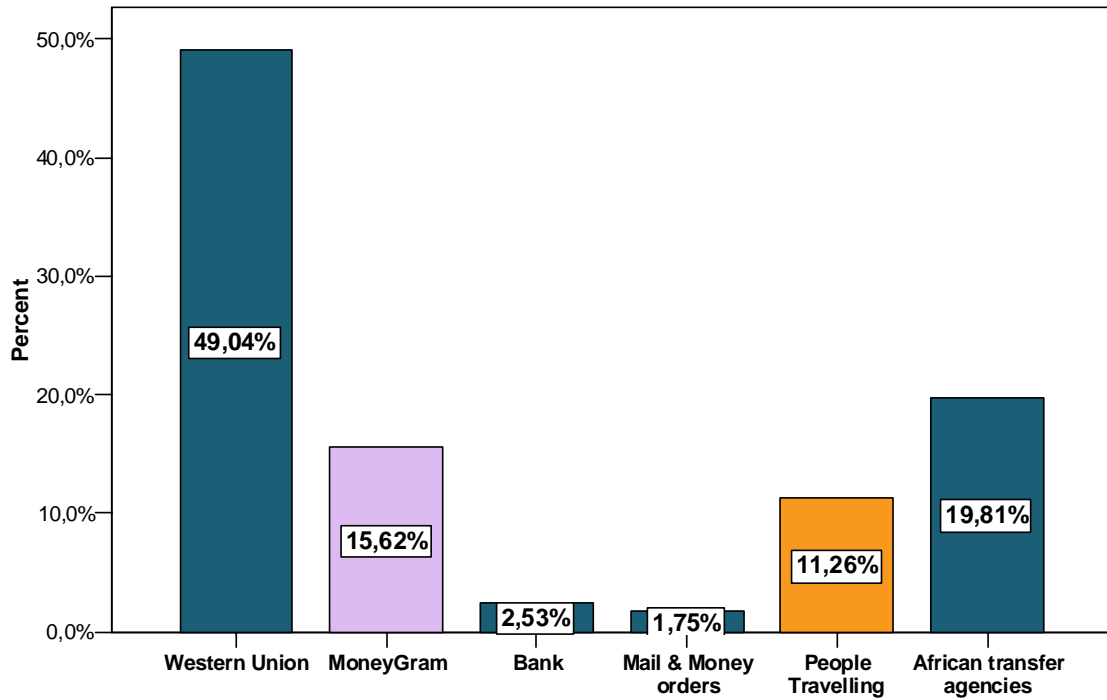
**8. How many years have you been sending money to you home country?**



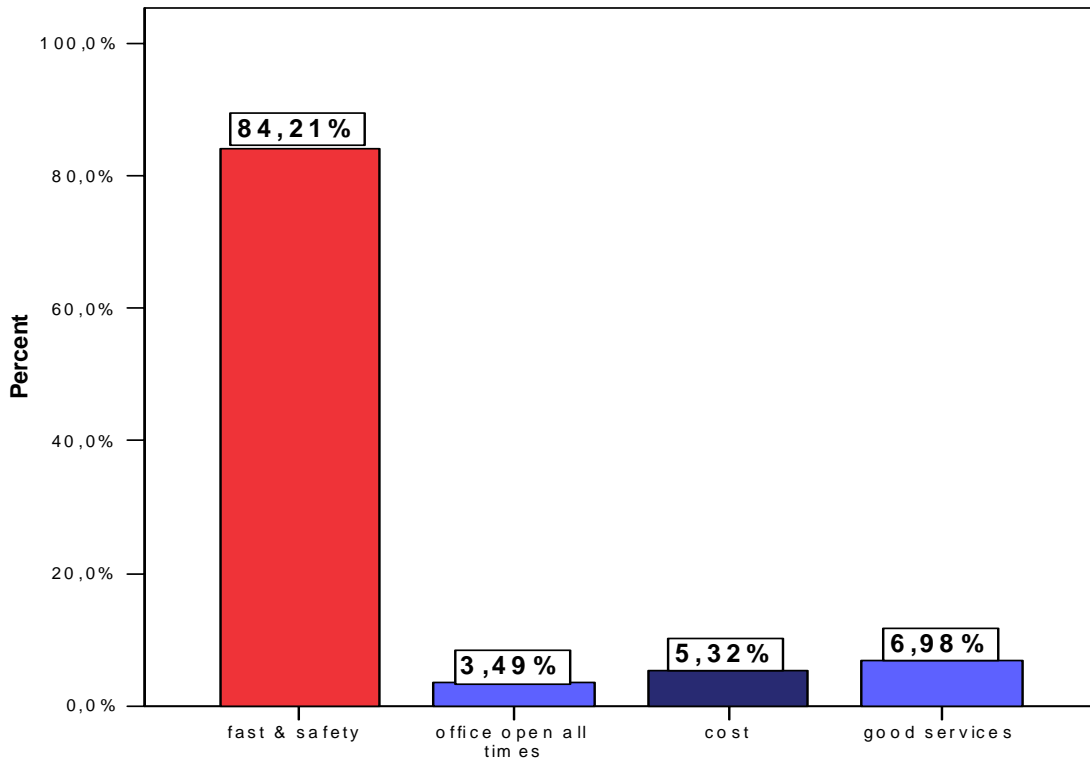
### 9. How much do you normally send each time?



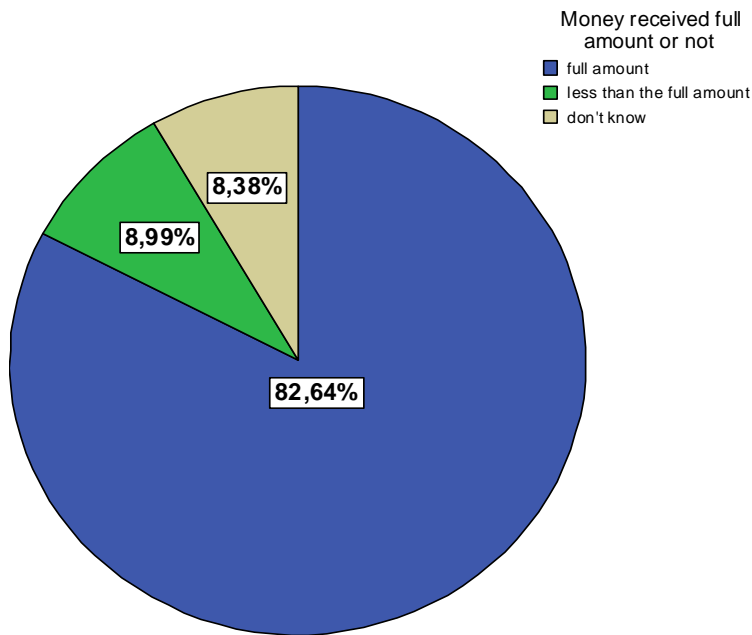
### 10. How do you usually send money to your country?



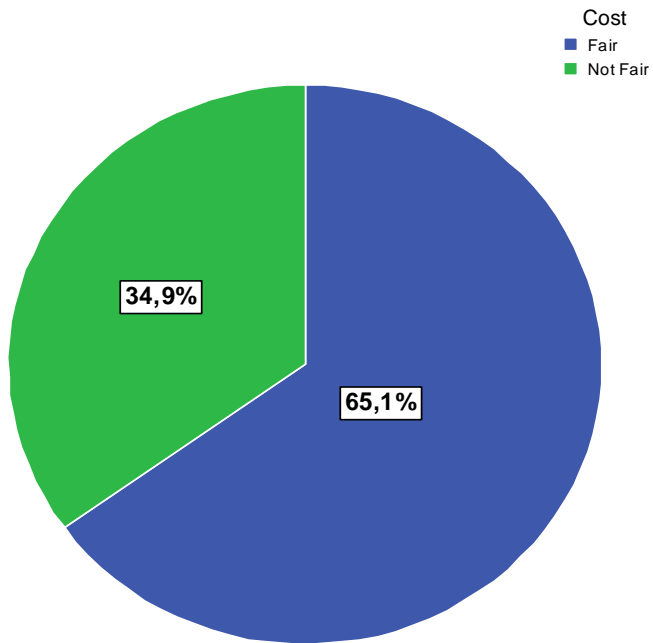
**11. Why do you send money through Western Union or MoneyGram?**



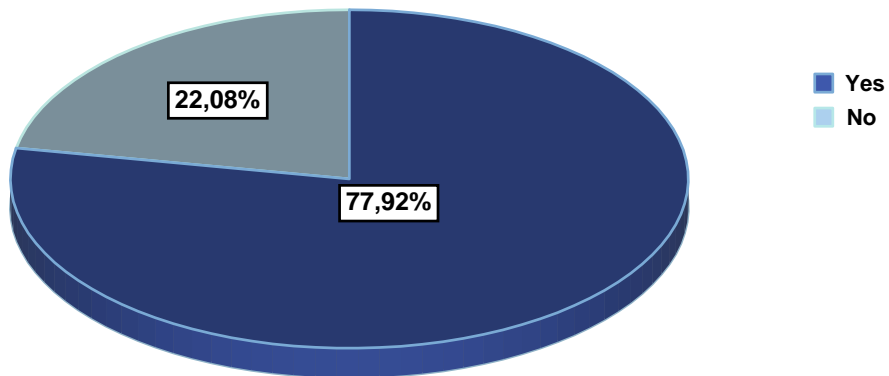
**12. Do you think that your family or relative in Africa get the full amount or less than what you sent?**



**13. What do you think about the cost of sending money to Africa?**

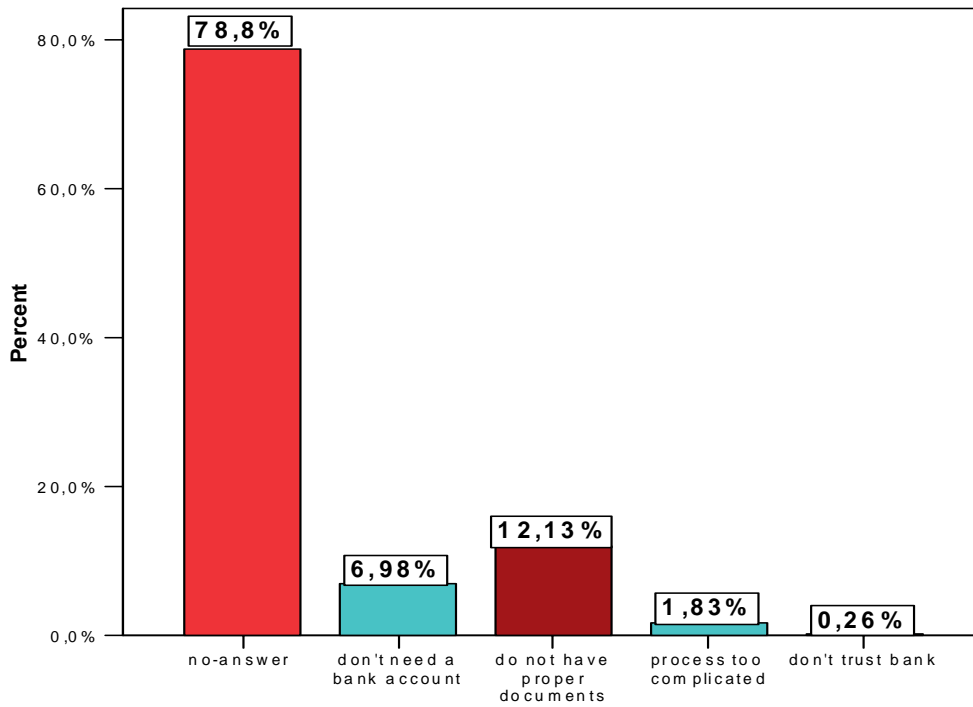


**14. Do you have bank account in the Netherlands?**

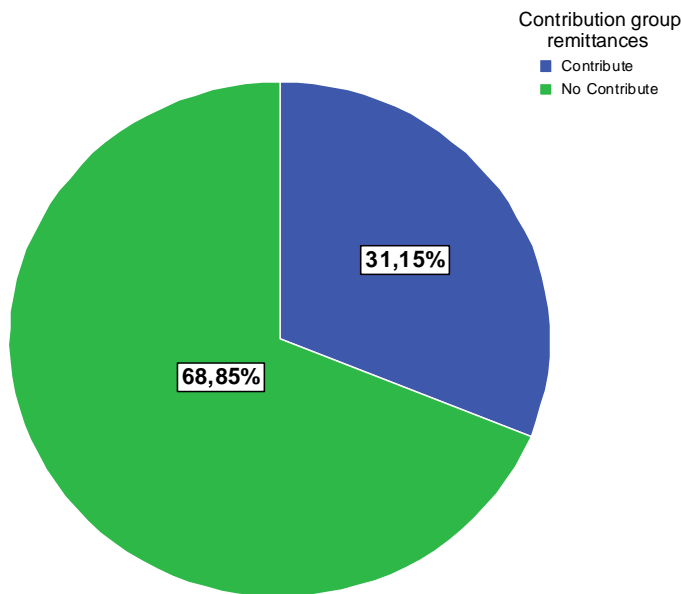




### 15. Why don't you have a bank account?



### 16. Have you ever contributed money to a group or home association remittances?



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