# Informal money transfers: Economic links between UK diaspora groups and recipients 'back home'

by David Seddon

November 2007

Esmée Fairbairn Foundation

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Published by
Centre for the Study of Financial Innovation (CSFI)

Email: info@csfi.org.uk
Web: www.csfi.org.uk



ISBN: 978-0-9551811-7-7

Printed in the United Kingdom by Heron, Dawson & Sawyer

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# C S F I

NUMBER SEVENTY NINE NOVEMBER 2007

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By David Seddon

## Preface

This report has been produced with support from the Esmée Fairbairn Foundation, for which we are very grateful. The author is David Seddon, Professor of Development Studies at the University of East Anglia, and one of this country's foremost experts on diaspora communities.

The study of such communities is a fairly recent discipline. However, it is one that is developing rapidly, primarily as the result of two very different sets of pressures.

It is increasingly coming to be understood that migrant remittances (ie. resource flows by diaspora communities back to their "place of origin") have been wildly underestimated by development specialists in the past – both in quantitative terms and in terms of their qualitative impact. It is now appreciated that such remittances may actually exceed official development assistance in many developing countries – in some cases, by several hundred percent. It is also coming to be appreciated that remittances are at the centre of an alternative "bottom-up" model of development assistance that contrasts strongly (and favourably) with the traditional "top-down" development model associated with the World Bank, the other multilateral development institutions and traditional ODA. Unlike, say, World Bank loans or IDA credits, the money transferred through remittances actually goes to those who want it and can use it – not to layer after layer of government bureaucracy which has its own agenda, and which siphons off a large proportion of the total transferred for its own benefit.

Unfortunately, while the positive developmental impact of migrant remittances is increasingly recognized, they have also come to be tarred with the brush of terrorism in the paranoid post-9/11 world of the USA PATRIOT Act, FATF etc. No matter that the 9/11 terrorists actually funded themselves via credit cards, there is a myth - assiduously promoted by those who know nothing of how migrants live – that the global remittance network is what keeps al-Qaeda and a dozen other varieties of Islamist bad guys in business. As a result, pressures to crack down on the remittance business are unremitting – and all too often successful.

This paper is an attempt to explain how the remittance business works in the UK, who it benefits and what the real downside is (if there is one at all). As becomes very clear, for many smaller and poorer communities, it is of enormous importance, and the authorities would do well to appreciate the costs of forcing small transactions (and small transactors) into the formal sector. Informal money transfer systems, run by first and second generation immigrants, are not perfect, and no one doubts that there is some loss to HMRC in terms of tax take. But it is important that these shortcomings should be kept in perspective. For the very poor and marginalized back home, the remittances from the UK (and other destination countries) can be the difference between life and death – as well as providing the occasional opportunity for those whose lives are narrow and mean to big it up for a family wedding or religious celebration.

Andrew Hilton
Director
CSFI

# 1. Framework

This study examines the significance of what have been widely referred to as 'informal' transfers of value by members of various immigrant/diaspora communities in the UK to relatives, friends and local communities in their 'country of origin'.

### What do we mean by "informal"?

One reason for the study is the changing structure of costs and benefits of various mechanisms, both to members of the diaspora communities and to the recipients 'back home', as a result of the changing environment in the UK (regulatory structures, exchange rates, black market profits, competition, etc.). Another is the extent to which 'informal' value transfers are linked to undesirable criminal and even terrorist activities and the ways in which increasing regulation of value transfers (particularly after 9/11) has affected the use of so-called 'informal' channels.

It was undertaken primarily as a desk study, but it has been supplemented by a limited number of interviews with key informants from the various disapora groups and their associations in the UK. Although the literature on 'informal' transfers has been growing rapidly in the last few years, the specific issues identified above have not been systematically addressed hitherto and are poorly documented. There are, as a result, limitations to the value of such a review without new primary information gathering and data collection.  Nevertheless, this review provides a basis on which more specific and more intensive studies, involving fieldwork and primary data collection, may be undertaken.

Although the literature frequently mentions  'informal' value transfer systems (IVTS), there is, unfortunately, no common understanding of what is meant by informal as opposed to formal channels for the transfer of remittances. The distinction is not made easier by the fact that many international transactions involve both supposedly 'formal' and 'informal' mechanisms. In this report, 'informal' transfers are in effect transfers undertaken by those money transfer operators (MTOs) whom it would be more revealing to describe as 'medium and small high street MTOs' and 'private MTOs'. The latter (and sometimes even the former) are often referred to in the context of Pakistani (and some other South Asian) remittance transfers as hawaladars or hundi wallahs and transfers by hand.

It is commonplace to find 'informal' transfer systems simply equated with 'hawala' systems, so we must explain very precisely what we mean.

Some have suggested that all MTOs outside the 'formal' banking (and post office) sector should be referred to as 'un-regulated', but regulatory frameworks differ from country to country. In the UK, the introduction in June 2003 of legislation making it obligatory for all MTOs to submit to a degree of regulation means that relatively few, even of the most 'informal', operators are now entirely 'un-regulated'. If they are, they are illegal.

I shall therefore use the terms banks and the post office to refer to what most agree unambiguously constitute the 'formal sector', and use the term 'big MTOs' to refer to the larger international and national operators (such as Moneygram, Western Union, Checkpoint etc.). 'High street MTOs' will refer to medium and small operators using business premises on the high street in both sending and receiving countries, and 'private MTOs' will refer to those still operating 'informally' out of their own homes or private premises. I shall avoid indiscriminate use of the terms 'hawala' and 'hawaladar', which are strictly associated with specific ethnic minority and diaspora communities (notably the 'Pakistani' community), although the term is often used by others more loosely.

# 2. Global money transfers and remittances

## Global flows

**Trillions of dollars…**

The global, cross-border flow of value now amounts to trillions of dollars a day. Much of this is official (registered, legal, 'above board') - recorded in national accounts and balance of payments statements and in statistics compiled by international agencies. Much of it, however, is not. Some of the un-registered or 'informal' flow of funds is, in a narrow sense, illegal, in that it may escape exchange controls and taxation; some is directly linked to criminal activities. And since 9/11 in particular, concern about the funding of 'terrorism' has become a major pre-occupation in some quarters.

In 1999, two years before 9/11, Michel Camdessus, the then-managing director of the IMF, estimated that the global volume/value of 'laundered' money amounted to between 2 and 5 per cent of world GDP, or approximately US$1 trillion. This estimate did not, however, take into account the volume of money laundered through the businesses, organisations and some so-called charitable associations linked to terrorist organisations. These funds were not at that time considered suspect to the degree they would be after 9/11. Since the 1980s, however, there had been concern about funds transferred for the support of political movements, military insurgencies and rebellions, as well as international terrorist operations. As a result of these concerns, particularly since 9/11, increased regulation has been introduced over money transfers in order to try to control (or at least keep track of) these flows.

# Global remittance flows

**No definition of "remittances"**

One of the largest increases in international money or value transfers in the last decade has been in the flow of funds associated with remittances in the narrower sense – money or funds sent 'back home' by migrant workers or immigrants and by diaspora communities living and working away from home. The usual definition of remittances is that they are transfers of money made by members of immigrant communities (or foreign nationals) from the country where they live and work back to relatives or other individuals in their country of origin. But this definition tends to ignore the important flows that are transferred back home on behalf of members of diaspora communities by religious, charitable or other forms of association to which they belong, for various purposes - including charitable, welfare or development activities. It is certain that these are important, and it is entirely possible that flows through associations differ significantly from flows resulting from individual or household remittance activity.

It is important to note that there is no commonly understood definition of remittances. In the same way that the IMF and World Bank use different interpretations, so too do different countries. This makes it extremely difficult to make valid comparisons between countries on the basis of official statistics. For example, in 2002, the Philippines, a country of 80 million people with a large number of overseas workers, recorded only a modest US$200m of inward remittances. By contrast, Yemen, with a population almost five times smaller than the Philippines, recorded inward remittances seven times higher at US$1.3 billion. The reason for this is that the Philippines government records the bulk of inflows from its citizens abroad (probably close to US$7 billion) under different headings.

Nevertheless, the most recent figures suggest a massive growth in trans-national migration over the last few decades – particularly in the last five years - and a corresponding increase in the value of money sent home as remittances. From 1970 to 1990, the number of countries employing significant amounts of foreign labour more than doubled, from 42 to 90. The ILO estimates that around 175 million people are now living outside their country of origin, of whom about 86 million are economically active. It is not clear whether this figure includes members of immigrant or diaspora communities now resident in countries to which they migrated, or whether this figure relates only to what we propose to term migrants. It is probable that it refers only to migrants. Twenty five million of these migrants are to be found living and working in Asia and the Middle East.

# Estimates of value

The UK Remittances Working Group notes that 'remittances constitute the second largest flow of resources to developing countries' (2005) after foreign direct investment – although in the case of many developing countries, particularly the poorer countries, remittances are now the major source of foreign exchange. Several sources have estimated the global value of remittances in the mid-1990s to have been over US$100 billion a year, with the proportion going to developing countries accounting for around US$75 billion. Already by the end of the decade, the estimates (and probably also the real flows) had increased. Stalker (1999), for example, suggested that 'allowing for the funds that pass through unofficial channels, the global flow of remittances to developing countries is probably more than US$100 billion'.

Recent World Bank figures (Global Economic Prospects 2006) suggest official global remittance flows to be 'nearly US$200 billion - with North-South flows accounting for the largest volume and value at US$72 billion, and South-South flows accounting for $59 billion'. North-North flows account for US$39 billion and South-North flows about $20 billion. According to the Global Development Finance Report 2005, an estimated US$126 billion was remitted to developing countries in 2004. Even more recent estimates suggest higher figures still. The Global Development Finance Report 2006 estimates that the total remittance flow in 2005 was around US$233 billion, of which US$167 billion was received in developing countries (noted in Passas 2006: 1). These figures, however, are estimates, as it is recognised that so-called 'informal' flows are seriously underreported – and might constitute anywhere from 25 per cent to 75 per cent of the total.

## Estimates of 'formal' and 'informal' flows

In November 2002, El Qorchi, Wilson & Maimbo published a path-breaking paper for the IMF on 'informal funds transfer systems' and developed a model which suggested that, in 15 selected developing countries, the share of what they called 'unrecorded private remittances' ranged from a low of 9.3 per cent in the Philippines to a high of 72 per cent in Algeria (2002: 43, appendix II).

Controversially, these authors argued that there was an identifiable tendency over time for the share of so-called informal remittances in the total to decline. They linked this to a general decline in black market premiums from the early 1980s to the late 1990s. They estimated a general decline in so-called 'informal' remittances to the 15 selected countries from highs of between 50 and 70 per cent in the 1980s to between 20 and 40 per cent in the 1990s, with a definite decline during the first half of the 1990s to a steady 20 per cent in the second half of the decade (see 2002: 44, Figure 4). In dollar terms, they identified a significant drop in the early 1980s from US$35 billion a year down to about US$15 billion, a recovery in the late 1980s up to around US$22 billion and then a steady decline downwards during the 1990s to level off at around US$10 billion.

These findings fly in the face of other work. As the authors explained, 'according to our assumptions, this evolution was driven mainly by the 'disappearance' of many black market exchange-rate premia for countries included in this investigation'. They remarked that the use of 'informal' channels appears to have been greater in countries where formal financial institutions were inefficient or financial policies repressive. The seeming downward trend in 'informal' remittances in the sample countries 'may be in response to the international move towards more liberal exchange rate policies and more free floating currencies. Between 1989 and 1995, for example, at least 53 countries moved towards more flexible (adjusted according to a set of indicators, or managed or independent float) exchange rate regimes'. They also noted, however, that 'a further decline…to even lower annual rates is not likely to occur so long as there are ethnic, geographic, cost, or other factors that influence people to stay away from official channels in favour of unofficial ones' (2002: 45).

**Huge development impact**

They also note that BoP-recorded private transfers during the 1980s and 1990s rose in total, for the selected 15 countries, from around US$15 billion to close to US$40 billion. If the share of 'informal' transfers in fact declined, then the share of official, 'recorded' transfers must have increased – so that the 20 year rise in recorded transfers might have been stronger than the background increase in total remittances. In other words, they identified a progressive shift – within a generally rising total – away from the 'informal' towards the 'formal', albeit with enormous variations from country to country and from 'corridor to corridor'. And this was before 9/11 and the resultant increase in regulation. It was also before the banks, the big MTOs and the financial services sector generally recognised the scale of remittances and the opportunities for profits to be made out of facilitating their transfer – and before competition began to grow.

## The significance of global remittance flows

The scale of remittance flows as a whole has undoubtedly increased dramatically over the last decade, and particularly over the last five years. In the mid 1990s, global estimates suggested annual totals of somewhere between US$75 billion and US$100 billion; only a short while ago, the World Bank and other sources were estimating the total flow of remittances to be of the order of US$200 billion, with official remittances accounting for two thirds of that and 'informal' or unrecorded remittances for one third. One of the most recent sources states that "remittance flows – defined as the sum of workers' remittances, compensation of employees, and migrant transfers in the balance-of-payments statistics collected by the IMF – are estimated to have exceeded US$233 billion worldwide, of which developing countries received US$167 billion". It also suggests that "unrecorded flows moving through informal channels …push the total far higher, as they are conservatively (sic) estimated to amount to at least 50 per cent of recorded flows" (cited in World Bank, Global Development Finance 2006: 3). In many regions, remittance flows now exceed those of foreign direct investment and foreign aid.

A recent report by the Inter-American Development Bank argues that migrant workers provide a life-line to Latin America. It estimates that a total of US$38 billion is sent back annually – more than the total of foreign direct investment in the region and greater than the amount of foreign aid. In the case of Mexico alone, migrant workers send back US$13 billion a year – the second largest flow of foreign exchange earnings to that country after oil exports. El Salvador receives almost US$2 billion – a smaller sum to be sure, but significantly more than the value of the country's exports. And these figures refer only to recorded or official flows; the real flows may total US$50 billion.

Many countries in East and South East Asia have become major recipients of remittances. China now probably receives the largest total value of funds transferred by expatriate migrant workers in the world – it was an estimated US$14.4 billion in 2002, already rivalling India. The Philippines, which has geared its economy specifically towards a massive export of labour across the world, received nearly US$8 billion in 2002 and, together with Thailand and Indonesia, places in the top 20 remittance-receiving countries. The net flow of official remittances in the region must be now at least US$30 billion, with perhaps as much as a further US$15 billion being transferred unofficially.

South Asia has also become a region heavily dependent on foreign exchange earnings from remittances. India, which was the largest receiving country in the late 1990s and early 2000s, with over US$11 billion a year, has now slipped behind China, but has increased its total inflow to somewhere around US$14 billion. Two other South Asian countries figure in the top 10 receiving countries – Bangladesh and Pakistan – and the region as a whole receives, on the basis of official figures, some US$25 billion. Together with 'informal' flows, through the hawala and hundi systems, South Asia may receive around US$35-$40 billion a year.

For some developing and transitional countries, the significance of remittances is even greater. The inflow of remittances sent by migrant workers back home is now larger than the value of merchandise exports in nine countries, larger than the value of the largest single commodity export in 24 countries, larger than net capital inflows in 36 countries and more than 10 per cent of GDP in 20 of the largest recipients of remittances. In the study by El Qorchi, Wilson and Maimbo (2002), it was suggested that in the case of Algeria, unrecorded remittances might account for 73 per cent of total flows; and in several other cases (Bangladesh, Iran, Pakistan, Sudan and Tanzania), unrecorded remittances were thought to exceed half of the total. For some countries, remittances are even more important. In Nepal, for example, it was estimated (Seddon et al, 2001) that workers' remittances accounted for between 13 per cent and 25 per cent of GDP, with unrecorded remittances accounting for 10 times official flows. In Mali, as long ago as 1991, remittances funded over 80 per cent of the trade gap and contributed the equivalent of 17 per cent of public aid to development; in the case of Lesotho, money sent from abroad represented three times the average amount provided by official aid.  In Cape Verde, funds sent home by the diaspora during the last decade were four times the value of international aid (Perouse de Montclos 2005: 2).

The most recent major source, the World Bank's Global Development Finance 2006 (which draws heavily on the Bank's Global Economic Prospects 2006), notes that 'recorded remittance flows to developing countries have doubled (sic) over the past

**What's the appropriate role for regulators?**

five years'. It cites several reasons. Increased scrutiny of financial transactions since the terrorist attacks of September 2001 has made remittances more visible. With the growth of competition in the remittance industry, costs have dropped in major corridors, while networks have expanded. Recently, high oil prices have swelled remittance flows from oil-exporting countries. "The depreciation of the US dollar and growth in the number of migrants and their incomes have contributed further to the increase" (p. 3). If this is generally true for global flows, it is also true for inter-regional flows, for intra-regional flows and for flows along particular remittance 'corridors'.

So, at a global level, there can be no doubt that the flow of remittances has increased enormously, over the last decade in particular and even more rapidly in the last five years. This development has been facilitated by a number of factors, including continuing population growth in developing countries beyond the capacity of their economies to absorb that labour, increased demand for labour in the more developed countries as the result of a long period of economic growth, rapidly declining costs of travel and transport (making migration much easier than previously), and new technologies and mechanisms for sending money back home.

At the same time, there are some indications – or suggestions – that the proportion of those remittances flowing through so-called 'informal' channels and mechanisms has declined for a variety of reasons over the last decade, in part as a result of the deregulation of exchange controls but particularly over the last five years as more regulations are introduced to control the flow of funds through 'informal' or 'alternative' systems of money or value transfer. Certainly, the regulatory framework has tightened considerably since 9/11.

# 3. Regulation

There has always been concern that informal mechanisms for transferring money abroad may be associated with money laundering and with other illegal activities. The international community generally accorded low priority to 'informal' value and money transfers before the 9/11 attacks, and relatively little was known about the hawala system of money transfers outside a relatively limited circle of academics and Middle East and South Asia experts.

## De-regulation

During the late 1970s and the 1980s, there was a prevailing belief that exchange controls and other forms of regulation on banking and international money transfers should be reduced. In the UK, the Thatcher government took steps to initiate a process of banking deregulation which led to a situation where even the Bank of

England was not fully cognisant of the flows of funds in and out of the country. During the 1980s, the tendency of governments in the developed world was to reduce or remove constraints on exchange controls and to de-regulate financial institutions. Particularly in the US and UK, where the commitment to the free market was greatest, policy-makers were not particularly concerned about funds transfers, unless money laundering or serious crimes were involved.

Countries with currency controls, usually in the developing world, did regulate (and usually prohibited) informal transfers; but they were constantly subject to the pressures of the IMF and the World Bank to liberalise their monetary and fiscal regimes. There is plenty of evidence to suggest that these pressures contributed to the progressive reduction in exchange controls across the world during the 1980s and into the 1990s, with a corresponding reduction in the black market profits that could be derived by money transfer operators ‘playing’ on the difference between official and unofficial exchange rates. However, as the free flow of funds across the globe began to increase dramatically as a result of widespread de-regulation,so too did the ‘scams’ and measures to avoid taxation and existing restrictions that the international banking and finance community adopted.

## Increasing concern with money laundering

Increasing concern during the early 1990s with the scale of money laundering led to increasing regulation in some areas. For instance, since 1994, all banks, building societies and other businesses providing financial services in the UK have been obliged to put procedures in place to restrict money laundering. The first step in laundering is usually to get the money into an account with a bank or building society, or to have it transferred, often using a false name and identity. To stop this, all financial businesses are now required by law to ask for proof of identity and address before accounts can be opened or money transferred. The details provided can then be checked electronically or by documents provided (eg birth certificate, driving licence, ID card or passport, etc.).

## Growing concern with funding of international terrorism

There has also been an increasing effort on the part of the United States in particular to introduce more rigorous controls on international money flows, particularly regarding informal transfers. In the 1980s, the ‘war’ against terrorism undertaken, in the US, by the Carter Administration targeted the funds of foreign ‘terrorist supporting’ states (eg Iran) and those of known or identified ‘terrorist’ groups (eg Hamas), freezing their bank accounts, watching transactions that involved them and generally patrolling the banking highways. In the 1990s, the growth of international terrorism continued, but under the Administration of President George W.H. Bush there was less attention paid to international networks. This worried some in the US Administration but they tended to be sidelined, under both Bush 1 and Clinton, until 2001.

## Pervasive fear of "terrorism"

In the immediate aftermath of 9/11, new rules were introduced by the UN (in November 2001), amending the UN Suppression of Terrorism Regulations. Many countries immediately responded with amendments and actions of their own. The US Administration and the Canadian government both moved swiftly to take action against a large number of companies and money transfer operators. In addition, the US Administration introduced the USA PATRIOT Act, which gave far-reaching powers to the government and to the security services to respond to 'the terrorist threat'. In particular, section 411 authorised the Secretary of State, in consultation with or upon the request of the Attorney General, to designate certain groups to be terrorist organisations.

Existing organisations could be so designated if they solicited funds or other things of value for an organisation on the Terrorist Exclusion List (TEL), or, if they, in other ways 'afforded material support' for such an organisation. Particular attention was paid to operators associated with the transfer of funds to Somalia. All companies and operators linked to Al-Barakaat, the main Somali money transfer business, were 'outlawed' and their funds frozen wherever possible. Barakaat's headquarters were in Dubai and Mogadishu, but there were branches and linked organisations and individual operators in the United Arab Emirates, Sweden, Switzerland, Austria, The Netherlands, Liechenstein, Italy, the Bahamas, Canada and the US (particularly in Massachusetts, Minnesota, Washington and Ohio). The example of Al-Barakaat is a telling case study of how 'informal' systems of money transfer (such as the Pakistani hawala system and the Somali hawildat system) came to be regarded with particular – largely misguided – suspicion, in the aftermath of 9/11, and how systems of this kind came to be associated with the funding of 'international terrorism' (see Appendix 2).

In 2006, five years after its introduction, the US Department of Homeland Security called for 're-authorisation' of the PATRIOT Act, arguing that it had encouraged more effective immigration and customs enforcement and resulted in large numbers of arrests, with substantial illicit profits seized and various 'unlicensed money transmittal businesses shut down'. It stated that 'The PATRIOT Act requires these businesses, or underground hawalas, to be registered with the federal government. ICE targets these illegal operations and their underlying financial systems because terrorist and criminal organisations have used these methods in the past to transfer illicit funds with no questions asked to countries like Afghanistan, Pakistan and Iran' (cited in Passas 2006: 14). Shortly after 9/11, 70 organisations were identified by the US State Department, as major terrorist organisations. Of these, 36 were designated Foreign Terrorist organisations and of those, 31 were 'Islamist'. Clearly, 'informal money transfer systems, hawala in particular, and the funding of Islamist terrorism were regarded in the US as virtually co-extensive.

The UN, the European Union and various agencies of the US government have since established and maintained 'designation lists' of individuals and institutions suspected to be associated with terrorism. This has led to efforts to identify and freeze the funds of such individuals and institutions and to close down suspected or identified channels of money transfer. It is widely recognised, however, and is acknowledged by the UN High Level Panel on Threats, Challenges and Change, that the impact on the operations of Islamist terrorist groups and networks linked to Al Qaeda has been limited. Nevertheless, restrictions continue to be imposed on any institutions thought to provide terrorist organisations with support, including mechanisms for the transfer of funds. Various initiatives have been undertaken on an international scale, in addition to UN Resolutions directed specifically against the Taliban, Al Qaeda and so-called terrorist groups and organisations.

## The Financial Action Task Force (FATF)

The Financial Action Task Force (FATF) is the key institution devising, promoting and implementing anti-money laundering (AML) measures and systems for the effective monitoring of flows of funds possibly intended for terrorist use. The FATF has a list of forty Recommendations. These constitute what Nikos Passas calls ‘soft laws’ (2006: 7), but they have been quite widely regarded as obligations on participating states, largely because of the changed geopolitical climate, and pressures on non-compliant countries – including the threat of being placed on the list of ‘non-co-operating countries and territories’.

Immediately after 9/11, the FATF assumed the responsibility of the standard-setter on terrorist finance, but had little time to produce an immediate well-considered response. Indeed, the nine Special Recommendations it produced added little to the already existing 40 AML recommendations, and in any case would not have identified the means and mechanisms by which the 9/11 attacks were funded. Since then, however, the FATF has produced another (third) money laundering directive that must be implemented by December 15, 2007.

Despite this attempt to provide global guidelines for public and private sector institutions, and for governments, not only is the international framework for regulation and monitoring of unrecorded financial flows patchy and ineffective, but national systems of regulation also vary considerably between different countries and are even mutually inconsistent. Some countries expressly forbid so-called informal remittance operations, while others apply registration and/or licensing or no regulatory regime at all. Rules range from no registration or licensing obligation (Canada) to a requirement to have a full banking license with mandated and expensive prudential measures (France). Thresholds for ‘due diligence’ and ‘know your customer’ procedures range from ‘all transactions’ to ‘over Can$10,000’ (Canada). The only common feature of national regimes is the requirement to complete a Suspicious Transaction Report (STR) or Suspicious Activity Report (SAR) for larger transactions. Quite a number of countries also require a Currency Transfer/Transaction report (CTR).

Even the US, which generally responded more quickly than most to the new 'global terrorist threat', was evaluated in 2006 by the FATF as only 'partly compliant' with regard to Special Recommendation VI – which covers what is called 'alternative remittances'. This lack of consistency increases the difficulty international money transfer operators face, as they seek to comply with the laws in all of their locations.

**The UK's "risk-based" approach…**

## Regulation in the UK

While 'formal' banking institutions are relatively tightly regulated, the UK is less strict as regards the 'informal' sector of MTOs than some other developed countries such as France or Germany - where it is necessary to hold a banking licence in order to offer money transfer services. The heritage of the Thatcher years and the strong civil liberties tradition may help explain these differences. Different branches of the UK government, however, have different attitudes. HM Revenue and Customs for example, is (understandably) more concerned about money laundering and potential links with criminal activities than some other branches of government.

In the UK, the main pieces of UK legislation for AML/CFT are:
- The Terrorism Act 2000;
- The Proceeds of Crime Act 2002;
- The Money Laundering Regulations 2003;
- The Terrorism Act 2006;
- The Bank of England's sanctions notices and news releases; and
- The FSA Handbook

Since June 1, 2003, HMRC has been responsible for maintaining a register of money service businesses (bureaux de change, cheque cashers and money transfer operators) under the Money Laundering Regulations. From this date, those businesses have been required to notify their details to HMRC, which maintains an electronic register of all the premises in the UK from which these businesses operate and the individuals responsible for them. In addition to maintaining the register, HMRC conducts assurance visits to these premises.

MTOs are now expected to adopt a 'risk based approach' to transactions, to ensure customer 'due diligence' (requiring customer ID - documentary verification of ID, electronic verification of ID or other forms of non- face to face identification and verification), to monitor customer activity (reporting suspicious activity) and to ensure staff awareness and training, as well as adopting other internal controls. This means taking steps to assess the most cost effective and proportionate way to mitigate the risk of being used in money laundering or financing of terrorism. Businesses must design and implement controls to manage and mitigate the risks identified - and must maintain and review these controls regularly.

There is no requirement that a 'risk-based approach' must involve a complex set of procedures. The procedures should be proportionate to the size of the business and the risks identified. Under a risk-based approach, businesses should start from the premise that most customers are not money launderers or terrorist financiers. Businesses then need to identify the risks within their business and 'flag up' customers who meet specific criteria.

**Different strokes for different folks…**

Other countries have also introduced broadly similar measures in the last five years. In Germany, for example, informal MTOs have been effectively squeezed into marginal places. In some receiving countries also, such as India, hundi wallahs have been proscribed since the time of Indira Gandhi and informal transfers have been reduced to a minimum. In other countries, such as Pakistan and Bangladesh, constant police and security surveillance and 'crackdowns' on so-called illegal money dealers are commonplace.

While the requirements on MTOs in the UK are not particularly onerous (and while MTOs are still definitely preferred to banks and postal services in the UK for sending remittances home), there is some anecdotal evidence that smaller MTOs are being squeezed out of business by the combination of regulation and competition. On the other hand, evidence generally suggests a massive increase overall, over the last decade, and particularly in the last five years, in the number of MTOs operating and in the number of premises offering money transfer and other services. Presumably, they offer something that diaspora communities, households and individuals value.

According to the report produced by HMRC, 'the number of new registrations for money transmitters between January 1 and January 28, 2005 was 25 - this is approximately one new registration per working day, which is in line with what is normally expected per month'. Drop-out rates are not known. So, it would appear that, even if UK regulations have tightened and registration is now required of all legal operators, there has been an overall expansion in the number of MTOs over the past decade and particularly over the last five years.

# 4. Classification of MTOs

## Beyond the 'formal' and 'informal'

Individuals send money back home in a variety of ways. These can be classified in various ways, but it is common to make a distinction between 'formal' and 'informal' mechanisms or channels, in which the formal usually includes the banks and the postal system and the informal system includes money transfer operators (MTOs) and the channels they use.

This distinction is not particularly helpful, however, and there is continuing debate over what constitutes ‘formal’ - whether, for example, the big money transfer operators, such as Western Union and Moneygram are included in the ‘formal’ sector’ or not.

Some suggest that it is more useful to distinguish between channels that enable government and other agencies to record and track transactions in such a way that official statistics may be established (official or recorded), and channels that escape this kind of effective surveillance (unofficial and not recorded) – that is, ‘official’ and ‘unofficial’. However, even the Bank of England does not track all transactions that take place within the ‘formal’ sector and is able to make estimates for the flow of funds through formal channels only on the basis of BoP data recorded by countries receiving remittances. Nevertheless, the distinction between ‘official’ and ‘unofficial’ is useful for indicating a difference between those transfers that should be captured in the official statistics and those which will not.

Some have suggested that a distinction between ‘regulated’ and ‘unregulated’ would be helpful, but given the different ‘degrees’ of regulation, this also is not particularly useful. The introduction in recent years of specific regulation for MTOs in the UK, generally regarded internationally as relatively ‘light touch’, means that in principle all money transfer operators in the UK are now registered and bound by certain obligations, essentially linked to the idea of ‘due diligence’ with respect to customers and transactions and an obligation to report anything suspicious. Most MTOs in the UK are now registered and even the most ‘informal’ and ‘unofficial’ are in some way ‘regulated’. Those that are not are, by definition, strictly illegal.

Although there has been a clear erosion of distinctions, there remain important distinctions between the different systems, channels, mechanisms and kinds of operators, which should be specified.

## Banks and postal services

‘Formal’ remittance channels are those that are (or that only use) licensed banking systems or the postal services. The banks involved may be banks in the ‘host’ country from which money transfers are being made and remittances sent. Or they may be ‘foreign’ banks located mainly in the ‘receiving’ countries: eg Bank of India, Bank of Baroda, ICICI Bank, Remit2India, State Bank of India, Sonali Bank (Bangladesh), Bank of China and Ghana International Bank. In some cases, international banks may establish facilities in countries other than their ‘own’, whether in ‘host’ countries (eg Sonali Bank in Italy) or in the ‘receiving’ country (eg Bank of Baroda in Kenya).

Transfers through banks are made generally by electronic transfer, usually through SWIFT or bankers’ drafts. For the former to take place, the sender is generally required to have a bank account with the sending bank, and the recipient also to have a bank account. This is supposedly the 'most secure' way, but is also expensive. It is possible to arrange a 'telegraphic transfer' to be collected; under such an arrangement, the recipient will be able to collect cash at the receiving bank branch on production of acceptable proof of identity. For a bankers' draft, this is not strictly necessary, but the transaction has to take place through the banks. The banker's draft is mailed directly to the beneficiary in the receiving country. The transaction relies on paper and is by far the slowest means of payment. It also carries risks of delay and loss, and is also expensive. It is on the way out.

Banks are now beginning to experiment with card-based systems for transferring funds. With the massive increase in the use of debit and credit cards, 'plastic' systems – together with mobile phones - are likely to be the predominant means of making international transfers in the near future. Competition between MTOs is already increasing significantly, and the growing use of smart cards - and, particularly, mobile phones - is likely to hit the MTOs further in the near future.

National and international postal services are still widely used for sending and receiving remittances; they are particularly widely used in developing countries, where the 'reach' of the post office is greater than that of most banks and other financial institutions. These also fall within the 'formal' banking sector, although in many countries the postal and other services previously provided by the national postal service have been progressively privatised and broken up. If new card-based systems come into operation more widely, the post office – with its relatively widespread presence even in rural communities (despite cuts in these services in recent years) – may become more attractive as a service provider.

## Non-government organisations

Over the last few decades, non-government organisations (NGOs) have been set up in many developing countries to provide loans to those who find access to such loans from the 'formal' sector banks and financial institutions limited. A classic example is Grameen Bank in Bangladesh. These are not strictly part of the 'formal' banking sector, although they provide broadly similar services. Recently, such institutions have begun to operate as channels for the distribution of remittances in receiving countries. In the developed countries from which such a large proportion of global remittances are sent, there are also NGOs – usually religious or charitable or community-based associations – which increasingly draw on gifts and donations from local diaspora groups to send funds back home for a variety of purposes. They have tended to receive much less attention than have individual or household remittance senders and more conventional MTOs used by such individuals and households.

# Money Transfer Operators (MTOs)

Distinct from the so-called 'formal sector' of the banks and postal services are the private money transfer operators (MTOs), which can arrange for funds to be transferred internationally in much the same way as can the banks or postal services but often without the same constraints and bureaucratic procedures. MTOs specialise in the movement of money across borders and do not generally offer other banking services. In June 2003/4, it became mandatory for all UK MTOs to register with HMRC and submit to a 'light touch' system of regulation. The process of registration has proved slow, but probably the majority of MTOs are now registered - and are at least in theory, subject to the approved regulation. A UK Money Transfer Operators Association (UKMTA) has now been established, and numbers joining it are rapidly increasing.

The MTO sector is dominated by a number of larger operators, such as Western Union, Moneygram, Chequepoint, Travelex, First Remit, etc., which operate nationally and internationally on a relatively large scale. These are 'the big MTOs'. Although most of these are US or Europe-based trans-national financial operations, there are also relatively big operators working in particular countries (eg Ghana International, Samba International, Express Funds etc in Ghana). It may be worth distinguishing trans-national and national level 'big MTOs'. It is important to recognise that these operators may – and indeed usually do - use 'formal' or 'official' sector services as part of their operation. In the UK, Moneygram, for example, uses the post office as its cash collecting agent, thereby gaining itself some 3,600 collecting points. The would-be remittance sender visits the post office, pays by cash or card and issues his/her instructions for the transfer (in some countries the instructions can be submitted by telephone or through the Internet). It is this that has enabled Moneygram to create the largest collection/distribution network in the UK (the Post Office provides 3,100 of Moneygram's 4,000 locations).

The MTO sends the payment details through its own internal network to an office in the 'receiving' country as specified. Settlement usually takes place through banking channels or through other money transmitters. In some receiving countries (eg Ghana), only banks are officially permitted to act as distribution agents for MTOs, but there is evidence that in practice even there distribution is undertaken by the MTOs themselves, often by couriers. In many other countries, retail outlets (shops, hairdressers, and micro-finance institutions), are permitted to distribute remittances.

# High street MTOs

The big MTOs in the UK are Moneygram (with 4,000 locations), Western Union (with 2,688) and Chequepoint (with 700). Somewhat smaller operators, but still in the 'big' league, are First Remit (with 250 branches), Travelex (125) and Express Funds (37). The majority of MTOs in the UK, however, are not big operators in the sense of having global operations and numerous branches linked to an overall central HQ; they all nevertheless operate internationally and are perfectly able to transfer funds from country to country relatively safely, quickly, and efficiently. These operators are also, on the whole, cheaper for their clients and much more accessible, being essentially 'high street operators'. These are 'the high street MTOs'. They are distinguished, among other things, by having premises easily accessible on the high street, operating as MTOs either as the sole business, or else combining it (as frequently occurs) with other, related businesses – commonly, international telephone centres (from which it is possible to make international telephone calls) and/or travel agencies, but sometimes also general stores and other businesses.

It would seem that there are also 'market operators', who do not have permanent rented premises in the high street, but who operate from the many local markets that thrive in parts of the UK's cities. These generally deal in the smallest value transfers, and are not usually able to guarantee immediate transfer, as they have no facilities and are obliged to make use of high street MTOs in this regard.

## Private operators

Finally, there are MTOs which may facilitate international money transfers, but which tend to do so from private or less visible premises. These are usually one-man, partnership or family businesses. These are the operators typically associated with the well-known hawala or hundi system frequently used by Pakistani, Nepali and Somali migrants and diaspora groups in the UK, Europe and the US to send money back home.

Many of these private operators, however, are not part of the hawala system per se and are of different national origins. It is misleading, we would suggest, to equate 'informal' or 'unofficial' money transfer operations wholly with the hawala system, for while many smaller MTOs – particularly those serving the Pakistani diaspora communities and the Somalis - are undoubtedly part of what is referred to by participants as the hawala system, even more (of other ethnic and national origins) probably are not. Furthermore, while many hawaladars (the actual MTOs) operate from private premises, probably even more these days do so from registered business premises and serve a range of clients from different diaspora groups.

Other migrant and diaspora communities besides the Pakistanis have similar, albeit sometimes significantly different, 'private' mechanisms for transferring funds. The Somali communities, for example, make extensive use of money transfer systems through what they call hawildat, which are often high street MTOs, themselves operating as branches or franchises of Dahabshili, the main Somali MTO in operation in the UK. The fei ch'ien (or so-called 'flying money') system originated in China during the T'ang dynasty around 650 AD as a form of draft used by merchants. The hundi system (used by the Nepali community and, in earlier periods by the Indian community) is also of considerable antiquity in South Asia and the Middle East.

The extent to which these informal private operators are used varies considerable. However, Valsa Shah gives some indication of the range in the scale of informal transfers in her sector analysis of the UK remittances market (2005).

**Hawala is only one of many approaches**

## The hawala system

The hawala system is one of many so-called 'informal' or 'alternative' methods of transferring money from one country to another, without any cash or kind actually being physically transferred. It is in effect a system of international accounting in which the funds are subject to a 'book' transfer only. Classically, a person in the UK wishing to send money to a relative in Pakistan will agree with a hawaladar (a MTO) in the UK the value of the transfer to the recipient (ie if the desired amount to be received is x rupees, then the amount of sterling required must be sufficient to cover that amount of rupees, at an agreed exchange rate, plus a modest 'transfer fee'). The hawaladar in the UK contacts a counterpart hawaladar in Pakistan and requests that the agreed amount in rupees be paid to an identifiable recipient. The transaction is now complete, and the hawaladar in Pakistan is obliged to pay the identifiable recipient the agreed amount in rupees. At some point, and somehow, the two hawaladars need to 'settle up', and the UK hawaladar to pay what he effectively 'owes' the Pakistan hawaladar on this transaction.

The advantages of this system are manifold. Firstly, the transaction may be completed rapidly and without cumbersome bureaucratic or documentary requirements, or the setting up of accounts that are part of any transaction normally between corresponding banks. Secondly, because overheads are generally low (because of the integration of the money transfer service with other business activities and/or because the cost of renting premises is low or non-existent), the charges are minimal. When exchange controls were more widespread, the difference between official exchange rates and black market rates enabled hawaladars to offer attractive exchange rates to customers and still make profits. Thirdly, the transaction is swift by comparison with banks and even larger MTOs, which tend to take significantly longer for 'clearance' Finally, the transaction is very secure as no funds actually move internationally, and the hawaladar is usually a respected and respectable person within a local community whose financial reputation is crucial both for his long term viability as a MTO and for his status within the local community.

The system is classically associated with Pakistani communities in which social bonds and reputation are as important as anything else and in which 'trust' is a crucial lubricant of the financial services system. But for other groups the term hawala has become inappropriately generalised, to refer to a wide range of different systems used by different diaspora communities. Because the term is derived from the Arabic and is often associated with diasporas with countries of origin in the Islamic countries of the Middle East, South Asia or northern Africa, it has come to be associated strongly in the minds of many with Muslim communities - and by extension with Islamist groups and terrorists. It is time to recognise that the hawala system is specific to certain historical and cultural contexts and that many different diaspora communities make use of broadly similar mechanisms for transferring funds internationally for a variety of purposes, including sending money back home.

In recent decades, as the flow of migrants from Pakistan to the Arabian Gulf has increased, there has been an increasing tendency for the hawala system to operate with the Gulf as a major 'hub' for transactions involving Pakistani diaspora communities in the US, the UK and the Gulf states and local Pakistani communities 'back home'. Not only has the volume of transactions increased as more migrants have become involved, but the scale and value of the total flow has increased out of all proportion. In many cases, large hawaladars or MTOs have emerged, dealing not only with funds sent as remittances by migrant workers and members of the immigrant diasporas, but also with business deals, involving larger investments, payments and flows of funds. The links between 'the West', the Middle East and South Asia (particularly Pakistan) have grown enormously. Since 9/11, these kinds of links in particular have come under enormous suspicion as possible conduits for terrorist financing.

The focus on so-called 'alternative remittances' and the 'informal' channels or mechanisms (including hawala) used to send them has been considerable in the aftermath of 9/11, and almost entirely misplaced. The 9/11 hijackers moved their funds through formal financial channels, using for the most part banks, credit card accounts and wire transfers. Although it is certainly the case that significant financial support for the 9/11 operations derived from the Arab world and passed through the United Arab Emirates, less attention was paid to the fact that US and British banks and wire transfer providers were also used to transfer the funds.

As Nikos Passas asks, rhetorically: 'If rule-compliant and experienced international giants, who devote significant resources to AML (could not) detect such a serious terrorist operation, how could it be expected that the same monitoring and due diligence standards can yield better results if applied by informal operators (novice to these rules)?' (Passas 2006: 10). There is evidence to suggest, moreover, that the heavier-handed the regulatory framework, the more it creates its own difficulties, mainly by increasing the cost of undertaking legitimate money or value transfers. This adversely affects both money transfer operators (MTOs) and their clients.

# 5. Value of Remittance Flows from the UK

The UK is a significant player in the international economy, in part because of the large flows of capital that go through London. The presence in the UK of numerous ethnic minorities and diaspora groups, and of foreign migrants more generally, ensures that the UK also has a significant presence in the global remittance economy.

Estimates of the value of remittances sent from the UK are, however, fraught with difficulties. Deregulation means that there is no record kept of international money flows out of, or indeed into, the UK. Recent attempts to estimate the scale of 'informal' remittances from the UK, undertaken in 2004, revealed just how difficult a task this is. The study, commissioned by the DFID Financial Sector Team, was able only to come up with a 'ball-park figure' - and that was more of a range of values than a single estimated value.

**UK is major source of remittances…**

Blackwell and Seddon (2004) attempted to estimate the value of remittance flows from the UK. On the basis of the available figures and their contacts within the remitting communities, the authors estimated at £1.4 billion the total remittances flowing out of the UK towards developing countries, and of this amount £0.5 billion flowing out through informal mechanisms (p. 3). Data from official 'top down' sources pointed to a level of outward remittances closer to £3.5 billion a year; while data from household surveys suggested lower levels, of £1.1 billion or less. It was felt that 'the amount of remittances from immigrant households in the UK to households in their home countries is likely to be closer to amounts revealed by household surveys, but there are reasons for believing that remittances are under-reported in these surveys' (p. 3).

All of the evidence suggests that for the UK, as for virtually all developed countries, the total flow of remittances has increased significantly over recent years. But if total flows have increased, it is still unclear how far the balance between funds sent through official and unofficial channels has changed, if at all. In their study, Blackwell and Seddon tentatively estimated that about 20 per cent flowed through so-called 'informal channels'.

Why?

Firstly, the share of informal transfers in total transfers is declining, as competition and coverage of the 'formal' sector has increased, and as transaction costs have fallen (for which there is some evidence). While remittances to some countries, such as Somalia, still pass almost 100 per cent through 'informal' channels, those to India (by far the largest diaspora community in the UK) now pass 90 per cent through formal banking channels. Second, the informal sector has shrunk in a number of recipient countries, where regulation directed against 'informal' (hawala-type) operations and MTOs has been increased and tightened, and more actively enforced. It is likely to have shrunk in the UK as well, as a result of the enforcement of registration for all money transfer businesses by HM Revenue and Customs over the past year. This is consistent with the El Qorchi, Wilson & Maimbo study in 2002, that the share of the 'informal' sector is in long-term decline.

This is not, however, to say that the evidence for a reduction in the use of 'informal' channels by diaspora groups in the UK is strong. Indeed, the evidence suggests that informal channels remain of considerable importance, particularly for certain diaspora groups. Furthermore, while the figure of £220 million – derived from the assumption of 20 per cent – flowing out through 'informal' channels can be defended, it is quite possibly more. The reasons are:

- First, households remitting large sums of money through 'informal' sources may not have wanted to reveal this in household survey questionnaires. It is possible that this reticence masks, for some respondents, relatively high remittance payments through ‘informal’ mechanisms.

- Second, field research has indicated that informal remittances to some countries are in fact multiples of officially measured remittances – that is, considerably more than official figures indicate.

**…but accurate figures are hard to come by**

- Finally, household surveys of remittances tend to ignore flows of value through other channels (ie through charities or associations or else taken back home – as money or in kind – in person or by trusted friends and/or relatives).

The authors conclude that ‘the total figure of informal remittances from the UK probably falls close to the top end of a range from £220 million to £630 million, say at £500 million’. They qualify this by adding that this figure does not relate to other flows for trade and investment that might go through informal mechanisms, which may be considerably larger. Nor does it include money that might be flowing out through informal mechanisms for purposes of money laundering. So, on the basis of available figures, estimates and interviews with representatives of several of the diaspora communities in the UK, Blackwell and Seddon estimated the total annual outflow of remittances from the UK at around £1.4 billion, with £0.5 billion flowing out through informal mechanisms (2004: 3). It was recognised in their study that a substantial proportion of funds flows through charities and associations of various kinds organised by diaspora groups in the UK. It is quite possible that the inclusion of ‘remittances made through charities’ would have increased the estimates of the total flow, and of the flow through ‘informal channels’, by up to 25 per cent.

Estimates based on official Balance of Payments data tend to generate higher estimates, even if remittances sent through charities are excluded, even though these figures are supposed to include only official flows of funds. They suggest flows of somewhere between £2.8 billion and £3.5 billion (2004: 7). But it could well be that these official BoP figures inflate the amount of true remittances because they include flows that should be classified elsewhere. The data from the Office of National Statistics (ONS) Expenditure and Food Survey, for example, pointed to an annual total of outward remittances of ‘only’ around £1.1 billion. A Summary Note produced by Douglas Pearce and Victoria Seymour of DFID (n.d. but presumably 2005) on ‘Sending Money Home – Remittances to Developing Countries from the UK, suggests that ‘estimates for total remittances sent from the UK to developing countries range from £463 million to £2.8 billion, with the most reliable estimate being £2.3 billion (for 2001)’. No detailed justification is given for this statement, but this is currently taken as a guideline for DFID’s assessment of total value of remittances sent to developing countries from the UK.

There are various ways in which the issue of total remittance flows from the UK might be better estimated. But all of them will depend, to some extent at least, on a clearer understanding of who is responsible for the remittances. Those sending remittances ‘back home’ do not constitute a single homogenous social group or category, but comprise numerous groups and categories, whose boundaries often overlap and whose definition is fraught with difficulties.

# 6. Migrants, immigrants and diaspora communities

## Definitions

By definition, those sending money 'back home' from the UK are members of the UK population who have significant links with one or more countries overseas, which they identify as 'home' in some sense. In some cases, that country will be the country of birth. In other cases – for those who are 'second generation' (or even third and fourth generation) immigrants and members of a recognisable diaspora community in the UK – it will be the country of origin.

These are not necessarily the same. For example, part of the so-called 'Asian community' in the UK comprises people who were born in East Africa, but are of Indian or Pakistani origin (East African Asians). It is assumed that many members of the various diaspora groups send money 'back home' in various forms and by various mechanisms. It is also assumed – and there is ample evidence of this (see below) – that different groups show different 'remittance behaviour'. But the differences are complex and cannot be broken down into simple 'either-or' categories.

Leaving aside short term visitors, who are unlikely to wish to send money home, a wide range of those living and working in the UK may be involved in sending remittances 'back home'. Those who are not earning find it difficult to send money home. But the evidence suggests that even those who are not employed often send money back home, even if only in small amounts. For those in full time study (students), however, the flow is sometimes the other way (to support the student living 'abroad').

## Census definitions

The census data divides the population living and working in the UK into a number of different categories, based on self-identified place of origin, place of birth, so-called 'ethnic affiliation' and nationality. There is often some confusion. A person may regard his or her place of origin as India and yet have been born in the UK, or some other country; a person may be classified as 'Indian' under the label 'ethnic minorities', and yet have British residence and even nationality.

The 2001 census gives the total of 'ethnic minorities' in the UK as 4.6 million. Major groups include Indian, Pakistani, Caribbean, African, Bangladeshi, Chinese and

…not quite a "melting pot"

'other Asian' origin (see Table 1). These data include immigrants holding British passports and are thus not based on nationality but on self-defined 'ethnic origin'.

**Table 1:**

| UK Ethnic Minorities (2001 Census) | |
|---|---|
| Ethnic origin | Number of individuals |
| Indian | 1,053,411 |
| Bangladeshi | 283,063 |
| Pakistani | 747,285 |
| Other Asian | 247,664 |
| Irish | 691,000 |
| Chinese | 247,403 |
| Mixed | 677,117 |
| Other | 230,615 |
| Black Carribean | 565,876 |
| Black African | 485,277 |
| Black Other | 97,585 |
| Total | 4,635,296 |

## Foreign nationals

Foreign nationals in the UK who entered legally can be relatively easily identified and are recorded separately from nationals. Many of the largest groups of foreign nationals are those from 'other countries' in Western Europe, from Ireland, and from Eastern Europe. Many of these send money back home, but they are little discussed in most studies of remittances. Foreign nationals working in the UK totalled 2,784,722 in 2002. The largest group was from the Republic of Ireland. The next largest group was from India. The third largest group was from the US (see Table 2).

**Table 2:**

| **UK Foreign Nationals (2002)** | | | |
|---|---|---|---|
| Country of origin of individuals | Number of individuals | Country of origin of individuals | Number of individuals |
| Republic of Ireland | 404,203 | Germany | 73,504 |
| India | 170,679 | Somalia | 64,638 |
| US | 121,828 | Bangladesh | 54,293 |
| France | 99,717 | Other Africa | 54,274 |
| Italy | 96,420 | China | 52,664 |
| Pakistan | 92,258 | Jamaica | 52,663 |
| Portugal | 83,407 | Turkey | 52,499 |
| South Africa | 79,323 | Spain | 51,411 |
| Australia | 75,273 | Former Yugoslavia | 50,072 |
| Total | | | 2,784,722 |

From 1991 to 2004, the top sending countries generally included Pakistan, India, the US, Nigeria and Bangladesh. But whereas, in 1991, the five other countries in the top ten included Japan, Hong Kong, Ghana, Australia and Jamaica, in 1994, Sri Lanka and Turkey were in the top ten, but Hong Kong and Jamaica were not. In 2001, Somalia was the top sending country, and South Africa and Uganda were both in the top ten. In 2004, the top ten included Serbia and Montenegro, the Philippines, South Africa, Turkey, Sri Lanka, and Somalia; India, Pakistan, the US and Nigeria were all there, but Bangladesh was not. So the pattern has shifted, even if the five top sending countries have remained more or less the same. At the same time, the overall number increased from 53,900 in 1991 to 75,965 in 2004.

Those who entered illegally and those whose status is irregular (visitors or students who have outstayed their visa period, failed asylum seekers who have nevertheless stayed on, etc.) may not be so easily identifiable. In the UK, in addition to the recorded population, it is recognised that there is a small but significant minority of persons living and working unofficially and often illegally. The Home Office published a report in 2005, which included an estimate of the unauthorised (illegal) migrant population in the UK in 2001. The figure given was 430,000, although this was recognised not to be definitive.

This total included failed asylum seekers staying on. However, it did not include those awaiting a decision on their asylum applications or on their appeals. At the end of June 2005, 7,300 people (excluding dependents) were awaiting initial decisions and at the end of March 2005, just over 20,000 people (excluding dependents) were awaiting appeal outcomes. The illegally resident population falls into three categories:

- over-stayers;
- terminally' failed asylum seekers; and
- illegal entrants.

### Who sends money "home"?

Between 25 and 75 per cent of these might be sending money home, largely through informal channels.

In the case of the UK, a significant minority of the population living and working in the country 'regularly' are considered to be, and consider themselves to be, of 'alien' origin, even if they may be permanently settled in the UK or even holding British nationality. The categories offered in the census include: White, Mixed, Indian, Pakistani, Bangladeshi, Other Asian, Black Caribbean, Black African, Other Black, Chinese, Other Ethnic Groups. It is this that allows the census to identify so-called 'black and ethnic minority' (BME) groups.

The largest group in the 2001 census was White (53.2 million), followed by Mixed (554,000), Indian (486,000), Pakistani (414,000), Black Caribbean (329,000), Black African (169,000), Bangladeshi (132,000), Other Asian (79,000), Other Black (78,000), Chinese (73,000), and other Groups (39,000). Among the White population, 812,000 came from other countries in Western Europe, 530,000 from the Republic of Ireland, and 240,000 from Eastern Europe. But it is not as simple as that. The census uses five main categories: place of birth, place of origin, colour and 'ethnicity/ nationality', and nationality. These are not always straightforward - and in fact this classification leads to a degree of uncertainty regarding the numbers and statistics that are derived from the data. For example, we find 'white', 'black' and 'mixed' Zimbabweans living and working in the UK, most of whom have Zimbabwe as their place of birth. Most of these are Zimbabwean citizens (and passport holders) but some of them were born in the UK and have Zimbabwe as their 'place of origin'. A few may have claimed British nationality. All of these may or may not be involved in sending money 'back home'.

## Major sources of remittances

If remittances are defined as "value transfers from any given country, by individuals living and working in that country but whose origins are elsewhere, to that other country ('back home')", then it becomes clear that they involve, for the most part, people who are temporary migrants or members of immigrant (diaspora) communities in the country concerned. This identifies two different groups: those currently living outside their home countries (on a temporary basis) and those now settled outside their home country but constituting an immigrant or diaspora community.

According to the OECD, the total number of people living outside their home countries worldwide is estimated to be 175 million. It is usually suggested that 'these people form the core market for remittances sent back to their home countries' (UK Remittance Working Group Report, p.4) - the assumption being that as people settle in the country to which they migrated, their ties to their 'home country' diminish and remittances are reduced to a trickle. There is some evidence to support this assumption, but the reality is by no means as simple as this 'model' suggests.

It is known that significant flows of remittances derive from immigrant, expatriate or diaspora communities, whose members may have settled more or less permanently, and may have official residence and even nationality in the 'new country'. In some countries, including the UK, the children born to immigrants (so-called 'second generation' immigrants) and even grandchildren ('third generation immigrants') still retain important ties to the 'old country' and may also send remittances back 'home'.

So, there are at least three categories involved:

- migrants;
- first generation immigrants; and
- second, third and even fourth generation members of the diaspora.

The UK Remittances Working Group Report identifies a 'core group' of remittance senders from among all these – totalling 2.72 million people – essentially from groups (1) and (2). It then also identifies a 'secondary set of users', comprising second generation immigrants and returning expatriates totalling 2.78 million people. A Summary Note produced by Douglas Pearce and Victoria Seymour (n.d. but probably 2005) remarks that 'the primary developing country recipients of UK remittances are India, Pakistan, the Caribbean (particularly Jamaica), China, Bangladesh, Nigeria and Ghana.

Until recently, when it appears China overtook India as the largest recipient of remittances in the developing world, India (with around US$23 billion a year) was the top of the 'big remittance receivers' list. Even today, India is probably the largest recipient of remittances from the UK. Pakistan probably comes second, with Bangladesh third. Outside Asia, it is probably the Caribbean that receives the largest transfer of funds from the UK through remittances, final transfers and pensions. Of the African countries, Nigeria must be the largest recipient of remittances from the UK. According to a presentation in 2005 by AfricaRecruit at 'The Best of Nigeria', it was estimated that Nigerians in the diaspora remitted at least US$28 billion within the last eight years (US$3.5 billion a year). It was suggested that the amount sent through 'informal' channels was probably four times that amount, giving a total figure of $112 billion (or $14 billion a year). Official remittances accounted for approximately 5 per cent of Nigeria's GDP – and this does not include the 'informal' flows.

As we shall see, when we consider the different patterns of remittance behaviour by individuals, households and local associations of the different disapora communities, in general, the so-called hawala system is most widely used by members of communities for whom it is an established tradition. It is particularly prevalent among Pakistani, Sri Lankan, Bangladeshi, Afghan and Nepali communities, for the hawala system has long been used in South Asia and the Middle East as a mechanism for transferring funds internationally. Those of Indian origin now use the system less commonly, particularly since the government of Indira Gandhi outlawed hundi wallahs (the money transfer operators) and made such transfers illegal. Although informal money transfer operators are regarded with considerable suspicion in Bangladesh and Pakistan, and are often subject to police and security service raids and arrests, they continue to operate.

The Afro-Caribbean communities make use of a variety of informal mechanisms, but there has been relatively little research done in this regard among such communities. Equally, the Indonesian, Turkish and Sudanese communities are quite heavily involved in 'informal transfers' through private as well as through NGO operators, and the Somali diaspora relies very heavily on informal mechanisms and various kinds of operator (hawalidat), to transfer funds to a country whose formal banking system has effectively collapsed. It is also known that the Filipino diaspora community makes considerable use of informal transfer mechanisms. But so far, little research has been undertaken on this topic.

African communities generally (including North African communities) appear not to have developed such informal money transfer systems to the same degree, and a greater proportion of the funds going 'back home' from Africans living and working in the UK appears to be taken 'by hand' – in suitcases or in the form of re-saleable commodities – than among other communities. A survey by AfricaRecruit (reported in Blackwell & Seddon 2004: 13) suggested that 42 per cent of Africans surveyed took cash or goods in kind back home with them on visits, 30 per cent made use of international money transfer companies, 5 per cent used banking services and 23 per cent used 'other methods'. It is unclear what these 'other methods' would be.

That said, Ghanaian businessmen have managed to develop informal mechanisms to provide services that are, apparently, increasingly made use of by the Ghanaian diaspora. These operate in exactly the same way as the hawala system, with key dealers or agents at either end responsible for the transaction, and for settling up at some point.

Valsa Shah (2005) provides an example: a Ghanaian living in London went to a Ghanaian shop in London, with the contact details of her brother in Accra, and handed over £200 plus £10 commission. An hour later, her brother received a phone call and was told to wait on a certain street corner near to his office. A man on a motorbike approached and handed him an envelope containing the US dollar equivalent of £200. Unconstrained by Bank of Ghana regulations, it appears that the cash is usually paid in hard currency, usually US dollars. It is said that the risk is 'high', but many of the businesses involved are run by respected members of the local community and are generally trusted. Anecdotal evidence suggests that Akkan businessmen particularly tend to be associated with the Ghanaian informal money transfer system. The more recently established Congolese community in the UK has also begun to discover 'informal' methods for the transfer of funds, through businessmen - although the majority continue to transfer their money back home through Western Union, although this is not the preferred mechanism

It is clear from this that different communities tend to prefer different mechanisms for money transfers, just as individuals also have different preferences.

The picture regarding remittance behaviour is, however, changing fast, and what was the case even ten years ago may not be so today. In part this is a function of increasing competitiveness of the 'formal' sector and – even more so - within the MTO sector itself, as all players have come to recognise the scale of this market and the need to move more effectively to increase access both at the sending and at the receiving ends. The technologies involved are also changing rapidly, making the market even more competitive. Recent primary fieldwork in Islington suggests that competition is now beginning to squeeze some of the smaller high street MTOs out of business, while the big MTOs, particularly Western Union, are definitely feeling the pressure. This is generally benefiting the clients wishing to send and receive money. Finally, there is the part played by the changing regulatory framework, which many suggest has squeezed the MTOs, and particularly the smaller 'informal' MTOs, although the evidence for this is limited and largely anecdotal.

One conclusion of the recent study undertaken by HM Revenue and Customs (discussed below) is that:

> 'it may be useful to consider future research into the subject of money transmitting to keep abreast of what is a rapidly changing business, dependant on global trends and technological developments. For example, events like the war on Iraq can have a significant effect on the amount of money being transmitted out of the UK. The tsunami disaster in December 2005 also had consequences for the destination trends of money leaving the UK. The earthquake in Pakistan resulted in massive transfer of funds back home by Pakistanis in the UK (and elsewhere), largely through charitable associations, often set up specifically for the purpose. And over the last 12 months it appears that some banks have closed bank accounts belonging to money transmitters, which may mean money transmitters will have to find alternative methods to provide their services'

(HM Revenue & Customs 2006).

# 7. MTOs in the UK – structure and operations

The registration of British MTOs has proved slow and arduous, but probably the majority are now registered and 'logged'. This is the first time that such statistics have become available. Certainly, there has been tremendous growth over the last ten years, and the last five years in particular. It would seem that, despite increasing regulation of the MTOs, in line with the Money Laundering Regulations of 2001 and subsequent legal requirements to register MTOs, there has been an increase in the number of businesses operating as MTOs.

## Money transfer in the UK…

Statistics obtained from the register of Money Service Businesses showed the total of registered Money Service Businesses (MSBs) in January 2005 as 2,923, with the total of registered Money Service Business Premises as 31, 622. This suggests that at least some businesses operated more than one set of premises. Of these, 40 per cent were cheque cashers, 33 per cent were Bureaux de Change, and 27 per cent were money transfer operators. Some, however, were two or even three of these. Only a sixth of the entire MSB register carry out money transmitting.

**Table 3:**

| **Breakdown of all registered MSBs as at January 2005** | | |
|---|---|---|
| Type of Business | Registered principals | Registered premises |
| Cheque Casher only | 1,087 | 8,531 |
| Money Transmitter only | 515 | 1,315 |
| Bureau de Change only | 765 | 3,960 |
| BDC/Cheque Casher | 68 | 154 |
| BDC/Money Transmitter | 178 | 320 |
| Cheque Casher/Money Transmitter | 102 | 370 |
| Money Transmitter/ Cheque Casher/BDC | 208 | 16,972 |
| Total | 2,923 | 31,622 |

According to the survey undertaken by HMRC (HMRC 2005), there were 1,003 MSBs on the official register, operating through 18,978 premises. Most of these were involved in money exchange, while just under a third were carrying out money transmitting activity. Around 45 per cent of businesses had another main business activity, apart from money transfers, but often one closely related (eg travel agency), while roughly half carried out additional money services, cashing cheques, undertaking currency exchange, etc. Almost half of such businesses were concentrated in London. These figures seem surprisingly low. Analysis of the data suggests that businesses offering multiple financial services had the largest number of premises per registered principal (eight times as many), suggesting large operators with multiple outlets. Those providing only one or two of the services had a much lower ratio of outlets/premises to registered principals, and were clearly different types of operation.

Between April and December 2004, HMRC began collating information about the business of money transmitting. This was taken from standard visit reports completed by

HMRC assurance officers during routine visits to these money transmitters. The purpose was to build up a profile of the trade, which would help in our understanding of how these businesses operate. The sample was intended to be random, but and may involve some un-intended bias. Of the sample of 395 operators, 48% were based in London, with Central and North having 24% and 21% of the money transmitter population respectively. The South, Scotland and Wales have very few money transmitters, and it appears that Northern Ireland only has one registered money transmitter operating.

**Table 4:**

| Survey of registered money transactions (2004) | | |
|---|---|---|
| UK Regions | Number of Traders | % of Total No. of Traders |
| London | 190 | 48.1% |
| Central | 94 | 23.8% |
| North | 81 | 20.5% |
| South | 21 | 5.3% |
| Scotland | 6 | 1.5% |
| Wales | 3 | 0.8% |
| Northern Ireland | 0 | 0% |
| Total | 395 | 100% |

Although there were 395 operators in the sample, 104 of these had registered more than one set of premises, meaning that the remaining 291 operators functioned with only one set of premises from which they operated their money transmitting business. Of the 518 premises, the majority (84 per cent) were business premises (ie high street MTOs), but 16 per cent were domestic or private. It is these latter that are often identified as 'hawaladars', but in reality their function may be little different from those which operate from business premises.

More than half the operators in the sample did not carry out money transmission as their main business activity. This may be because most money transmitters who operate small businesses only carry out money transmission on a small scale as a service to the local community and make little or no money themselves from offering the service; but it may just be that other businesses prove more lucrative. The number of money transmitters with no other stated business activity was 218 (55 per cent); the number of money transmitters with another main business activity was 177 (45 per cent). This cannot be taken as a truly accurate split, as some of the operators in the sample did carry out other business activities, but not at the premises visited, and some of the money transmitters were in full time employment rather than running their own business.

The majority of the respondents (95 per cent) were operators whose average transaction size was less than £3,000 – well below the current limit for being obliged to confirm

## How it really works…

the identity of their customers (for single transactions) under the Money Laundering Regulations. But a minority were operators whose average transaction size was substantially larger. Blackwell and Seddon (2004) suggest a hierarchy of operators within the so-called informal MTO sector, with local operators passing on their business to a more restricted number of major operators, whose 'bulked up' business may be very considerable. Investigations among the Nepali diaspora community confirmed this picture of a hierarchy or pyramid, with a large number of small operators 'bulking up' to a few larger operators, who then operate internationally on a significant scale, usually combining the money transfer business with other international operations.

Anecdotal evidence suggests that the majority of smaller money transmitters (eg those with fewer than five premises) have another main source of income and make little money from providing the money transmitting service. The traders who carried out other 'main business activity' covered a range of activities, the most common being travel agencies, accountancy businesses, international telephone service providers, local grocery services and restaurants/takeaways. The fact that some of the MTOs were in full time employment indicates that the business is not just run by businessmen and traders. Members of a diaspora with a good job and reliable income will have status and probably the confidence of other members of their community – these are the kinds of people who operate to provide a service as much as to make money.

Conventional wisdom suggests that the business of money transmitting mainly operates outside the formal banking system. One of the major findings of this research is that the majority of the transactions carried out by money transmitters do at some stage cross over into the formal banking system - and in many cases actually rely on this cross-over to make the transaction possible. Although there can be many variations in the way money transmitters operate, it has been possible to identify three main methods that are favoured by MTOs:

- bank to bank transfers;
- transfers through other MTOs; and
- swapping financial liabilities (netting off) with a counterpart in the destination country who wants to make purchases internationally (ie effectively providing a form of working capital).

All of these systems involve 'virtual' money transfers, in which the MTO at the sending end takes cash from the remittance sender (having agreed a fee and exchange rate), contacts a counterpart MTO in the receiving country and agrees that the latter will make a payment to an identifiable individual (on confirmation of identity). The second MTO is then responsible for paying out cash to the identified recipient. At some point and in some way, the two MTOs will eventually have to settle up (as the first is accumulating a cash surplus and the second a cash deficit, which needs to be dealt with). The arrangement depends on trust between the MTOs above everything. Often, the two will be relatives or members of the same clan or tribe, or business partners.

Three methods appear to be popular:

- Method 1 - Bank-to-bank transfer: This is the most straightforward method. The money transmitter in the UK (A) collects the money from his customers and keeps a record of the individual transaction amounts and the intended recipient. He then deposits the money into his own bank account and arranges for a bank transfer to be made to a bank account in the destination country. The bank account in the destination country either belongs to the intended recipient of the customer in the UK or a business associate of (A) who can distribute the money to the recipient.

- Method 2 - Transfer through another money transmitter: Many smaller money transmitters use the services of other medium sized money transmitters to send money abroad. Money transmitters who use this method often have their own customer accounts set up with 2-3 other money transmitters. This enables them to choose on any given day which one can offer the best exchange rate The UK customer pays money to Money Transmitter A in the UK, who deposits the money into his bank account and arranges a bank transfer from his account to an account belonging to Money Transmitter B. Once the money has cleared in B's bank account, A instructs B of the details of A's business partner, C (usually a friend or relative), in the destination country. A then faxes C a list of the details of his customer's recipients. Meanwhile, B arranges for the money to be transferred to B's counterpart (D) in the destination country, by whatever his favoured method of transfer is. C can then collect and distribute the money in the local currency as appropriate.

- Method 3 - Netting off with foreign counterparts: This is another popular and effective way of transmitting money. It involves swapping financial liabilities with a counterpart in the destination country wanting to make purchases internationally. In general, it appears this method only occurs where the money transmitter is sending money to countries with a weak currency. Businessman A is based in country X and wants to import goods from abroad. Because the local currency is weak, he is unwilling to pay for goods on the international market. He needs to obtain currency accepted on the international market, usually US$. In order to do this, he may open a bank account in, say, America. He then needs to find a way to get dollars into this account. An easy way to do this is to set up a business relationship with a money transmitter (B) in the UK. The relationship works in this way – A has a bank account in his own country in which he has local currency. The money transmitter (B) will have sterling from his UK customers which he is able to transfer to A's dollar account in America. B deposits his customer's money into his own bank account and arranges for it to be transferred to A's account in the US. He then contacts A and informs him of his customer's recipients. A then distributes the funds in local currency from his own money, but in return has money being sent to his dollar account enabling him to trade on the international market.

The three methods described above appear to be the most popular ways to transmit money overseas. However, from the traders in the sample, there were occasional examples of other ways in which money could be sent from country A to country B. These included the following:

- The setting up of a centralised computer accounting network similar to that of banks, with outlets in a number of countries where money can be picked up. Each outlet is a branch/franchise of the same company and is linked into this computer system.

- A system where customers pay cash to the money transmitter, who writes out a cheque for a bank account in the destination country which can then be either posted or physically taken abroad and cashed.

It is clear from the data that, for those who stated which mechanism was used, Method 2 – transfer through another money transmitter - is the most popular, accounting for about half of all transactions. It is not clear what 'other' methods are used. But it is striking that a quarter of the responses did not specify which method was used. This remains a sensitive area in which enquiries and investigations often receive a high proportion of 'don't knows'.

**Table 5:**

| **Popularity of Method of Transfer** | | |
|---|---|---|
| Money Transfer Method | Number of money transmitters in sample | Percentage |
| Method 1 | 51 | 12.9% |
| Method 2 | 195 | 49.4% |
| Method 3 | 30 | 7.6% |
| Other methods | 6 | 1.5% |
| Combination of methods | 13 | 3.3% |
| Not specified | 100 | 25.3% |
| Total | 395 | 100% |

Key: Method 1: Bank to bank transfer
Method 2: Transfer through another money transmitter
Method 3: Netting Off

In addition to establishing the main methods for transmitting money abroad, the research also looked at the flow of money out of the UK and at its destinations. The table below shows the destination of funds by Continent. The bottom half of the table displays continents grouped together - this is because some traders transmitted to more than one country on different continents. It is clear from this that, in this sample at least, Asia is the main destination region for outward flows of funds from the UK passing through MTOs:

**Table 6:**

## Where does it go?

| **Destination of funds by continent** | | |
|---|---|---|
| Destination of Funds | Number of traders in sample | % of sample |
| *Asia | 214 | 54% |
| *Africa | 65 | 17% |
| *Middle East | 8 | 5% |
| *South America | 12 | 3% |
| *Europe | 7 | 2% |
| *Caribbean | 1 | 0.2% |
| Africa, Asia | 6 | 1% |
| Africa and other | 2 | 0.4% |
| Asia and other | 4 | 1% |
| Europe and other | 4 | 1% |
| South America and other | 8 | 2% |
| Worldwide | 3 | 0.75% |
| Not specified | 51 | 13% |
| Total | 395 | 100% |

* = Transmission takes place to a single continent

The size of the 'Asian' diaspora population (Indian, Pakistani, Bangladeshi) provides part of the explanation for the disproportionate importance of Asia in this sample. In the UK, 'those of Indian origin' amount to well over 1 million (according to the 2001 census), with the number of 'Pakistanis' amounting to nearly 750,000 and those from Bangladesh accounting for over 280,000. Whether higher or lower estimates are taken, the Indian, Pakistani and Bangladeshi communities account for the lion's share of outward remittance. This is even more striking when only flows through MTOs are included. The second largest destination – but well down on the first - is Africa.

The 10 most popular destination countries can be broken down as follows:

**Table 7:**

| Top 10 destination countries | |
|---|---|
| Country | Number of traders in sample |
| Pakistan | 135 |
| India | 48 |
| Nigeria | 26 |
| Bangladesh | 23 |
| Philippines | 21 |
| Zimbabwe | 17 |
| Sri Lanka | 12 |
| Colombia | 11 |
| Iran | 10 |
| The Gambia | 9 |
| Total | 312 |

This table shows that 78% of traders were transmitting to these top 10 destinations – with nearly half (46%) going to India and Pakistan alone.

It is perhaps surprising at first sight that China does not feature in the top 10. In fact, very few money transmitters in the sample were transmitting there at all. This was unexpected considering that the Chinese now constitute one of the largest diaspora groups in the UK. It may be because much of the money transmitting business is controlled by particular groups and associations. There is some anecdotal evidence for this in London at least, where highly secretive associations effectively control the transfer of funds to Hong Kong and also to China. Again, this emphasises the need for research on collective transfers through groups and associations.

Analysis of preferred MTO methods of transfer by destination country suggests some interesting patterns. For example, 80% of traders transmitting to Pakistan preferred going through other MTOs. This fits with information from other sources suggesting that the existence of a long-established hawala system enables those from the Pakistani diaspora to send money in this way with confidence. MTOs sending to India also tend to favour this method of transfer – suggesting that the traditions of the hundi system continue to play a part, despite the restrictions in India on hundi wallahs.

**Table 8:**

| Preferred method of transfer for top 5 destination countries | | | | | | | |
|---|---|---|---|---|---|---|---|
| Destination Country | Bank to Bank | Transfer via another MTO | Netting off | Other 4 | Combination | Unspecified | Total |
| Pakistan | 3 | 80 | 5 | 0 | 1 | 11 | 100% |
| India | 10 | 69 | 8 | 0 | 4 | 9 | 100% |
| Bangladesh | 26 | 48 | 4 | 0 | 0 | 22 | 100% |
| Philippines | 38 | 43 | 0 | 0 | 0 | 19 | 100% |
| Nigeria | 27 | 8 | 23 | 4 | 0 | 38 | 100% |

From the chart above it is clear that, in general terms, the preferred method for transmitting money abroad is informal transfer for four out of the top five countries. A significant proportion (38 per cent) of those transmitting to Nigeria, however, did not specify how they transferred funds - appreciably higher than for other destinations. It may be that Nigerian traders were less keen to disclose their methods. This fits well with the limited information already available, which suggests that African diaspora members as a whole tend to take home cash or kind as gifts (42 per cent) or to use 'other methods' (23 per cent) (see Blackwell & Seddon 2004: 13).

# Average transaction value

Another important factor addressed in this research was the average transaction size by customers. Many of the traders investigated did not have this information, but it proved possible to calculate the average transaction value for many by looking at the amount the MTOs were transmitting out of the UK annually and the number of transactions they were accepting per week:

**Table 9:**

## How much gets sent?

| Average transaction value | |
|---|---|
| Average value | Percentage of traders with average transaction value of this size |
| £1 - £100 | 8% |
| £101 - £250 | 23% |
| £251 - £500 | 32% |
| £501 - £1,000 | 17% |
| £1,001 - £3,000 | 15% |
| £3,001 - £10,000 | 3% |
| £10,000+ | 2% |
| Total | 100% |

From this, over half of the traders handle transactions whose average size is between £100 and £500, and nearly a third were £250 or below. Most of the remittances of this size were probably being transmitted to India and Pakistan. This generally fits in with other research, which suggests that the average transaction value for India and Pakistan is around £250.

**Table 10:**

| Breakdown of transaction value by channel type | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Average Transaction Value bands (by category - see key) | | | | | | | | |
| Method | A | B | C | D | E | F | G | Total |
| Bank/ bank transfer | 2.5% | 27.5% | 30% | 5% | 22.5% | 7.5% | 5% | 100% |
| MTO/ MTO transfer | 5.8% | 24.4% | 37.3% | 19.2% | 12.1% | 0.6% | 0% | 100% |
| Netting Off | 10% | 15% | 25% | 15% | 15% | 15% | 5% | 100% |
| Other | 50% | 0% | 0% | 50% | 0% | 0% | 0% | 100% |
| Combination | 37.5% | 0% | 0% | 12.5% | 50% | 0% | 0% | 100% |

Key:

| | | | | |
|---|---|---|---|---|
| Value Band A | = | £1 | - | £100 |
| Value Band B | = | £101 | - | £250 |
| Value Band C | = | £251 | - | £500 |
| Value Band D | = | £501 | - | £1,000 |
| Value Band E | = | £1,001 | - | £3,000 |
| Value Band F | = | £3,001 | - | £10,000 |
| Value Band G | = | £10,000+ | | |

The 2006 BME remittance survey suggests that average value for 'last remittance made' was £324 – but notes that 21 per cent of 'household remittances' were within the low remittance value threshold of £200, rising to 27 per cent of 'respondent remittances' and 49 per cent of 'most recent remittances'. This makes sense: 'most recent remittances' tend to be less than 'annual remittances' (if remittances are sent several times a year) and individual annual remittances tend to be less than household annual remittances. A quarter (24 per cent) of 'most recent remittances' in the BME survey were £100 or less. The average value of the 'last remittance' was skewed upwards by relatively large amounts being sent by a minority of remitters, and by those remitting through foreign banks. If the average value of the 'last remittance sent' by different service providers was £324 in the BME survey, an average of £401 was sent through foreign banks, £308 through high street providers, £305 through high street banks, and £192 through the Post Office.

The majority of bank-to-bank transfers fall within the £100 - £500 bracket. However, 22.5% of those using this method also have a significant number of transactions between £1,000 and £3,000. So, there is a bimodal pattern. For transfers through another money transmitter, it is clear that most transactions are between £250 and £500, with very few transactions over £3,000. In the case of 'netting off', the average individual transaction value spread is much more evenly spread than the other two methods, but with proportionately more transactions of more than £3,000. So the medium and small amounts tend to go through the MTOs. The very small amounts, however, tend to go through 'other methods' – which might well mean hand carrying – or by a combination of methods. At the other extreme, very large amounts (over £10,000) tend to go through banks or by netting off – not through the MTOs.

<u>**Table 11:**</u>

| Average amount transmitted out of the country per year by UK region | | |
|---|---|---|
| UK Region | Total value transferred from the UK annually (by 288 MTOs) | Average annual value transferred from the UK (per MTO) |
| Central | £264,325,593 | £3,571,967 |
| London | £1,130,713,872 | £8,438,163 |
| North | £92,512,900 | £1,492,144 |
| Scotland | - | - |
| South | £105,619,648 | £7,544,251 |
| Wales | - | - |
| Northern Ireland | - | - |
| Not matched to a region | £1,800,000 | £600,000 |
| Total | £1,595,102,013 | |

It is clear from the survey that the bulk of the money being transmitted out of the UK by the 288 money transmitters for which there was information is from London - £1.1. billion out of £1.6 billion. This to some extent reflects the numerical concentration of MTOs in London. As regards the average amount being transmitted out of the UK annually per money transmitter, although London has the highest average amount of £8.4 million, the South as a whole is not far behind with an average amount of £7.5 million. Bearing in mind that the total being transmitted out of the UK annually by the Southern region is significantly lower than London and Central, and that there are far fewer money transmitters in this region, it seems that money transmitters in the South have a significantly higher average transaction size than any other region. It is in the South, outside London, that the 'big boys' tend to operate.

The following table provides a breakdown of the number of traders by category according to their annual transmitting activity. 61.7% of the 288 money transmitters who provided this information are transmitting under £500,000 out of the UK per year, and 10 per cent between £5,000 and £1 million, while 28% are transmitting over £1 million per year. It seems that there is a relatively large number of smaller MTOs and a good minority of big operators.

**Table 11:**

SAR rules

| Annual Transmitting activity | | |
|---|---|---|
| Annual Transmitting activity | Number of traders | Percentage of sample |
| £0 - 500,000 | 179 | 61.7% |
| £500,000 – 1m | 29 | 10.3% |
| £1m - 10m | 61 | 21.0% |
| £10m - 100m | 16 | 5.9% |
| £100m+ | 3 | 1.0% |
| Total | 288 | 100.0% |

This fits with the data on numbers of operators and number of premises – some of the big operators have numerous premises (these are the big MTOs and national MTOs). Here, it seems that about 20 out of 288 could be termed big operators (although the range between £10 m and £100 m is considerable), with an intermediate category of middle level operators consisting of 61 operators (or 90 operators depending on classification), and a majority (179) of smaller operators.

# Suspicious activity reporting

From the total sample of 395, 27 money transmitters had made reports of suspicious activity to NCIS.

Under the Proceeds of Crime Act, it is a primary money laundering offence if a person conducting 'relevant business' under the Money Laundering Regulations fails to report to NCIS any activity that he or she has reasonable grounds for believing to be suspicious. As supervisors for MSBs, HMRC officers check for any suspicious transactions. Initially, 6.8% appears to be a very low percentage for reporting suspicious transactions. However, we need to take into consideration the reasons why this is the case and whether the risk is as serious as it first appears.

HMRC suggests that the majority of small money transmitters generally only provide their service to members of their local community. In many cases, there are strong personal ties between the customers and the money transmitter. This is the essential feature of the hawala and hundi systems - that they are embedded in social institutions and structures that encourage a high level of trust. As a result, they are generally reliable and secure.

Of course, another factor may be the trusting relationship between the money transmitter and the customer, leading to the turning of a blind eye.

The 395 traders in the sample operated their businesses from 518 premises. 84% of these premises were business premises – that is to say shops and offices from which other business activity is also likely to take place - whilst the remaining 16% were domestic premises. The HMRC report suggests that most small or independent money transmitters offer their service as a favour to the local community and make little profit from offering it. There is anecdotal evidence to support this – that the small private (and even maybe some of the high street) MTOs offer the service primarily as just that, a 'service'. However, a service is not a favour and it may make a profit – combining financial services with other services makes good business sense and also provides utility to the local community and users. Profits may not be great for small financial enterprises, but they may be important. This may prove to be a good example of the compatibility of social service and private enterprise when the two are in alignment.

In terms of average transaction value, 95% of the traders who provided this information had an average transaction size of less than £3,000, which is well below the limit for confirming the identity of their customers (for single transactions) under the Money Laundering Regulations 2003. These are evidently the smaller MTOs. However, because money transmitters tend to serve the local community it is thought likely that most transactions are linked (that is, the same clients/customers are involved in multiple transactions over time). Only 2% said that their average transaction value was £10,000 or more. A personal observation made during the research was that in these cases, the money appeared to be being transmitted to Spain, where it was to be used to purchase property. One conclusion of major importance is that there is no evidence in this report to suggest that the business of money transmitting through MTOs is either any more or any less at risk of being used by money launderers than other types of money service business.

Of the total amount of money being transmitted out of the UK annually by the 288 money transmitters in the sample who disclosed this information, 71% was sent from London, with the average annual amount being transmitted out of the UK from this region totaling £8.5m. However, when taking into consideration the number of premises by region, money transmitters in the South revealed a far higher average annual amount being transmitted out of the UK than any other region, which indicates that average transaction value in this region is significantly higher than anywhere else.

# 8. The remittance behaviour of individuals and households

In general, it is thought that the majority of remittances are cash payments transferred by individuals or households. Funds may be transferred through banks and the postal services, or through larger MTOs or high street MTOs, through private channels, including MTOs operating from their own private premises (including so-called hawaladars or hundi wallahs) or informally by carriers or family and friends. Remittances sent by individuals or households are generally considered to constitute the most sizeable and tangible form of diaspora contribution to development and poverty reduction. But it is entirely possible that flows through community organisations and charities are larger still – these funds may not, however, be recorded as remittances (and arguably are not considered as remittances by some).

Remittances sent through official channels enter the national financial system and contribute to the balance of payments and foreign exchange reserves; informally transmitted remittances remain largely unrecorded,.

But patterns of individual behaviour are highly heterogeneous – and are strongly determined by a range of factors, including:

- economic status of the individuals and household sending money;

- economic status of the individuals and households receiving money; the ‘traditions and culture' of those involved;

- the objective range of alternative MTOs and informal money transfer mechanisms;

- the degree of confidence in the different mechanisms; and the banking and financial regimes in the recipient countries.

One of the major concerns is the extent to which existing channels, both formal and informal, facilitate or constrain the flows of remittances ‘back home'. Insofar as costs are higher than they ‘need' be, so the benefits to those remitting and receiving funds are reduced (Sander & Maimbo 2003) and the potential impact on poverty alleviation and development in the receiving country are also reduced (HCIDC 2004). Many studies suggest that, generally, the cost of transferring funds through the formal banking channels is higher than through so-called ‘informal' channels, although the situation is changing as competition increases. What might have been the case in 1996 or 2001 is not necessarily the case in 2007.

Until recently, the information regarding the remittance behaviour of various diaspora groups in the UK was scattered, partial and largely anecdotal. Best documented was the Pakistani diaspora, which has been studied intensively by Ballard and others for many years. Over the last five years, however, there have been numerous studies undertaken from a wide range of different perspectives. The study by Blackwell and Seddon (2004) was an attempt to synthesise what was known about remittances from the UK, but this work was able only to undertake a very preliminary investigation of remittance behaviour and focused more on the value and volume of flows of remittances from the UK. Since then, DFID has commissioned a number of pieces of research on a range of related topics. The most recent of these to produce systematic results relating to remittance behaviour was the BME Remittance Survey, undertaken by ICM for DFID and completed during 2006 (ICM/DFID 2006).

**A major piece of survey work**

# 9. The BME survey

The BME Survey was based on 1,778 self-completed questionnaires from individuals and household members across the country. It claims to be representative, presumably for the UK as a whole. It should be emphasised, however, that not all diaspora communities were represented, but only those from the so-called 'black and ethnic minority' communities. Its conclusions are also, for the most part, strikingly obvious.

## Characteristics of sample in terms of community or diaspora group

In terms of the ethnic origin of those remitting, 'Indians' (ie persons of Indian origin, and the most numerous ethnic minority group in the UK population at large – 23 per cent) were the second ranking group as regards sending remittances (14 per cent of the sample). That is, the Indian diaspora is under-represented in the sample, suggesting a lower level of remittance sending than some other communities. The first ranked, constituting nearly one third of the total were those of Black African origin Those of Pakistani origin ranked only third equal with Black Caribbean, despite being the second largest ethnic minority population (16.2 per cent of the total as compared with Black Caribbean at 12.2 per cent and Black African at 10.5 per cent). This suggests that the Pakistani community, like the Indian community is under-represented. Bangladeshis came fifth (with 5 per cent). Other groups accounted for smaller percentages of the total sending remittances.

Four in ten remitting households send money to Africa, with Nigeria (17 per cent) the leading recipient country by some distance. India received 14 per cent of all remittances in the last year, with Pakistan (10 per cent) and Jamaica (7 per cent) following behind. The top three recipient countries also received relatively high annual remittance values, with Nigeria (£1,022), India (£1,031) and Pakistan (£1,060) all receiving considerably more than the average annual value of £875.

The authors of the survey seem surprised at this. But the Indians and Pakistanis are relatively long established in the UK, while the Black African diasporas are generally more recent. There is a strongly held conventional wisdom that remittance sending declines as migrants become immigrants, settling in the country where they now live and work, bringing their families and establishing a more permanent residence.

In fact, a quarter of remitters were born in the UK, and thus constitute ‘second generation’ or even ‘third generation’ immigrants. Over four in 10 have been in the UK since 1990. Those of Chinese or ‘other’ ethnic origin have mainly been in the UK since 1990. Overall, one in seven arrived between 1980 and 1989, with 13 per cent having come before 1979. But, important though this information is, there is little scope through the sample to investigate the extent to which the remittance behaviour of different ‘cohorts’ of migrants/ immigrants differs.

‘Country of origin’ data generally confirms the findings by ‘ethnic origin’. Thus, Nigerians are the most prevalent group (15 per cent of the sample), followed by people from India (10 per cent) and Pakistan (8 per cent). But while those identifying themselves by ethnic origin may include long established residents and even British citizens, it is not so clear whether ‘country of origin’ here refers actually to country of origin or country of birth (not the same thing). The report also does not specify what other countries of origin are well represented.

## Characteristics of customers

The majority of those transferring funds are, not surprisingly, male – but, interestingly, not by a great margin. Men constitute 55 per cent of remitters; women 44 per cent. But some interesting differences emerge across groups. Black African women are much more likely to be responsible for remitting than Black African men (38 per cent versus 31 per cent), while the reverse is the case for Asian men and women.

Most remitters (95 per cent) are aged 16 to 54, with nearly 40 per cent between 25 and 34, and 68 per cent between 25 and 44. Average age tends to be associated with higher remittance values – those who remitted more than £1,000 a year were aged on average 39 years as compared with 37 for medium-high remitters and 26 years among medium to low remitters But those who remit less than £200 a year average 35 years. The oldest average age of remitters was among Indians (39 years) and Black Caribbeans (38 years).

There is no doubt that income affects the capacity to send money back home – high remitters’ average monthly income (£2,565) is more than twice that of low remitters (£1,243). But even low earners do send remittances. The total gross monthly income of remitters amounted to £1,835 on average (approximating to £22,000 a year – above the national average wage). It should be recognised, however, that the average could be skewed by a few high earners, and it is significant that the median income is £1,324, nearer £16,000 a year.

Broken down by diaspora group, the Chinese tend to have the highest mean incomes (£2,349) and the second highest median incomes (£1,556). Indians have the second highest mean incomes (£2,010) and the highest median incomes (£1,579).

Black Caribbeans come next, with Pakistanis and Black Africans close behind. Bangladeshis are among the lowest, with mean incomes of £1,615 and median incomes of £1,214.

Generally, the main points are that individuals from the Black African communities are as strongly represented in the sample as remitters (34 per cent), despite accounting for only 11 per cent of the UK BME population. Also, one in four of those sending money back was actually born in Britain, so the ties to the country of origin clearly remain strong in second or third generation immigrants.

## Remittance values

The total amount sent home by survey respondent households in the previous 12 months was estimated to be over £1.5 million, at an average annual household value of £874. Around half of the 'last remittances sent' were worth £200 or less, and a quarter were £100 or less. The average value of the 'last remittance' sent by different service providers was £324, with £401 sent through foreign banks, £308 through high street providers, £305 through high street banks, and £192 through the Post Office.

Regarding the amount sent 'over the year', the distribution was less concentrated on the smallest value. Even so, of household remitters, 48 per cent had sent £500 or less and of individual respondents, 55 per cent had sent £500 or less. But just under a quarter of both had sent remittances worth between £900 and £3,000 in the last 12 months – suggesting a bi-modal distribution. A small percentage of households and of individual respondents sent more than £5,000 in the last 12 months.

The highest remitters on average were Pakistanis, with £1,103 per household sent home in the last 12 months. Bangladeshis were next, with an average of £1,050 and then other Asians, with £1,006. Indians (£1,001) and those of 'other' origin (£951) sent the next most. Black Africans were only sending £910 a year on average – despite being the most frequent remitters and more likely to remit than other groups. More Black Africans send money more often, but the amounts are smaller. Even so, this was above the average for all groups. Chinese sent on average £682, Black Caribbeans £558, mixed Caribbeans £477 and mixed Africans £451.

## Use of remittance services

Those in the sample involved in sending remittances back home were less likely to have current bank accounts, credit cards, bank savings accounts, mortgages, private pensions, health insurance and stocks and shares than the average person in the UK.

Four out of five knew they could use a high street MTO, and two in three said that they were familiar with the practice of friends and relatives taking money back home. Six out of ten were aware of the Post Office as a channel for sending remittances, with a similar but slightly lower percentage aware that money could be sent by means of high street banks. Only four in ten were aware they could use foreign banks.

Awareness of high street MTOs was particularly high among the Black community – 93 per cent of Black Caribbean and 87 per cent of Black African people were aware of this channel. These percentages are significantly higher than among Pakistanis (80 per cent), Indians (78 per cent), or Bangladeshis (67 per cent) – the last being strikingly lower than other groups.

Awareness of banks seems higher among the Asian communities (65 per cent as regards UK banks among Asians in general, and 70 per cent for Indians specifically). For foreign-based banks, about which generally less is known awareness is still relatively high among Asian groups (51 per cent), with Indians (53 per cent) and Bangladeshis (54 per cent) particularly aware of this channel. This may well be a result of the active efforts in recent years by various Indian banks and the Sonali Bank of Bangladesh to make services more easily available.

As to actual use of different channels or mechanisms for sending funds back home, friends and relatives are widely used as a channel for remittances (66 per cent), although the Chinese tended to cite this more often than others (77 per cent). Those remitting the highest values were more likely to cite friends and family (71 per cent) than those sending less money. The more affluent are more likely to have friends and relatives making frequent visits to the home country, and they clearly take advantage of that to ask them to take money or goods back for them. Funds sent in this way will not have passed through MTOs or banks and will certainly not have been formally recorded. This implies that large remittance volumes (and value) must escape any form of reporting.

Anecdotal evidence suggests that several communities make considerable use of friends and relatives to take cash or goods in kind with them on flights back home; there are even stories of members of certain communities asking ‘strangers’ from the same community at the airport to take cash with them. The importance of this method is clearly high and depends on strong confidence regarding the trustworthiness of those engaged to take the funds back home. In the case of Zimbabweans in the UK, for example, Bloch (2005: 66) shows that making use of family and friends is a popular way of transferring funds back home, with 32 per cent of respondents (out of 397) reporting they used this method – although nearly double this (63 per cent) reported using MTOs and 54 per cent reported using banking channels and official financial services.

Almost two in three in all have used high street MTOs within the last 12 months, with high-level remitters and Black people (African and Caribbean) most likely to have done so. The proliferation of high street MTOs in densely populated urban areas with high levels of ethnic representation in recent years is striking – particularly in London, where over two-thirds of all BMEs make use of them.

Other channels are less frequently used – high street banks (24 per cent), the Post Office (23 per cent) and foreign banks (12 per cent). High street banks are most widely used by those of 'mixed' ethnic origin (41 per cent), particularly Africans (43 per cent), and Asians (53 per cent). The Post Office is most likely to be used by the unemployed (35 per cent), 'other ethnic groups' (24 per cent), those sending low/medium value remittances (16 per cent) and, most specifically, by the Chinese community (42 per cent).

In terms of stated preferences, high street MTOs get the highest vote: with 40 per cent saying this is the service they prefer. This rises to 50 per cent among the Black community – 52 per cent among Black African, and 47 per cent among Black Caribbean people. Chinese people in striking contrast tend to stay away from the high street MTOs (only 11 per cent prefer them). One in four say their preferred channel is friends and family, with higher levels among the unemployed (35 per cent), homemakers (38 per cent) and sick and disabled (59 per cent). Lower remitters also tend to prefer this method (29 per cent). High street providers are preferable particularly to those who make frequent use of them for multiple remittances: high street providers are preferred by 35 per cent among those who used them once within the last 12 months, but by 42 per cent of those remitting two or three times and by 43 per cent among those remitting four or more times. As regards family and friends, the reverse is the case: one in three managed to send money via friends once, but the proportion falls to 24 per cent for those sending money two or three times and to 19 per cent among the most frequent remitters.

In actual fact, as reported by the sample, high street services are used most, with two in three recent users of such services saying it is the best way of conducting money transfer. The next most preferred method would be through family and friends travelling to the country of origin (16 per cent). Family and friends (25 per cent) is generally the second most preferred option. But of people who actually did send money with those travelling abroad, it fell to third place of preference, with only 54 per cent of those who actually used it saying it was the preferred method. One quarter would rather have used a high street provider. UK banks replace family and friends as the second preference on this basis, with 57 per cent of recent users saying it was the method they preferred to use. The Post Office performs badly, with only 38 per cent of those who actually used it saying they preferring to do so; quite a few (25 per cent) would rather have used a high street provider; 19 per cent would have preferred family or friends. This implies that the post office is seen as a mechanism 'of last resort' for those who find other means less accessible or possible.

## Reasons for use

Many reasons are given why people value a particular money transfer service, in particular:

- ease of use (38 per cent);
- fast transfer (34 per cent);
- security (32 per cent); and
- low charges (26 per cent).

**Informal mechanisms are cheaper**

Those who prefer UK banks are most likely to cite ease of use (51 per cent), followed by the relatively small number of people who preferred the Post Office (46 per cent). High street services rank highly (46 per cent), but those who prefer family and friends recognise that this method is less easy to organise (24 per cent). Fast transfer is most valued by those who prefer high street services (52 per cent), with UK banks less valued for this reason (37 per cent). Foreign banks and the Post Office received lower numbers of mentions (24 per cent and 22 per cent respectively), while only 12 per cent of those who prefer family and friends considered that this method provides a fast transfer. Security is mentioned most by those who prefer banks (43 per cent) and high street providers (42 per cent), but foreign banks (26 per cent, the Post Office (21 per cent) and family and friends get a lower rate of mention. Ease of use (46 per cent) and low charges (44 per cent) attract people to the Post Office, but they are put off for other reasons. Use of family and friends is seen as cost-free (70 per cent of those who preferred this method said that it was because it did not involve any cost).

These factors all influence choice of channel, but a ranked assessment suggests that those who really value their specific factor put security highest, with ease of recipient collection, ease of use for sender, speed of transfer and cost lower down the list. This is interesting, given the overwhelming concern of agencies such as the World Bank and DFID with reducing cost.

# Transaction costs

Cost is a consideration for remittance senders as well as for development agencies, and the survey provided valuable information on transaction costs for different service providers. As noted, however, this reveals that cost is by no means the most significant factor determining use of any particular mechanism or channel. On the last occasion they sent money, 38 percent used a high street provider and almost a quarter (23 per cent) used friends and relatives. So 61 per cent used so-called ‘informal channels’. In contrast, only one in seven (14 per cent) used a high street bank, 10 per cent the Post Office and 6 per cent a foreign bank.

The high street banks charged the most (average charge £15.47), with the Post Office next at £13.88. High street providers charged on average £13.31, with foreign banks £8.39 and ‘other’ £7.86. It would be interesting to know what ‘other’ covered. Even leaving friends and family out of the analysis (assuming, as do many senders, that these are cost free), one in twenty (5 per cent) managed to avoid charges altogether.

One in seven (14 per cent) paid up to £5, with a roughly similar number and proportion (12 per cent) paying between £6 and £9. A quarter were charged between £10 and £15, with 16 per cent paying between £16 and £20, and 21 per cent paying over £20. Obviously, those sending larger amounts paid higher absolute charges.

Around a third of high level remitters paid over £20 on the last occasion, compared with 21 per cent of medium/high and low-medium value remitters and 5 per cent of low value remitters. The Chinese paid on average £16.53 on the last occasions, which is significantly higher than the average for all (£12.80), Black Caribbeans (£12.64), Africans (£12.17) and all Asians. Pakistanis paid the lowest of all, at £11.85, despite sending the highest amount across the course of the year (£1,103). It is possible that many of the Asians, and particularly the Pakistanis, were using informal money transfer operators asking lower charges than even most high street operators – this is where the hawala system may be operating, enabling even substantial amounts to be sent at relatively low cost and with great security and speed.

Given the interest of the agencies in the issue of cost, the BME survey tried to assess the impact on remittance values of reduced charges and increased income. Almost half of the remitters appear to have had in mind a fixed amount that they could afford to remit - and would remit no more, even if they saved half of the transaction costs involved. Indeed, a small proportion would keep the presumed cost savings for themselves rather than send an additional amount. A further 20 per cent did not know how a cost reduction would affect the amount sent, which implies that the remaining 31 per cent would vary the amount sent according to the cost. In general it was estimated that if costs were cut by half, the average amount sent would be £970, rather than the present £874; and if income increased by half, they would increase the amount sent to £1,023. So the impact of increased income would be greater than that of reduced cost of money transfer. But these rather conservative ‘supposed reactions’ are really based only on what people said they thought they would do if costs were reduced or income increased. Other evidence suggests that if income increases, average values remitted also increase by more than this exercise suggests.

## Possible improvements in service

It is widely believed by formal sector players that improvements in services can be achieved within the formal sector to increase competition with the MTOs and the informal sector. Governments also tend to believe, as do the international financial institutions and development agencies, that improvements can be achieved which will increase security, the ease of sending and receiving, and the speed of transfer - and that will, above all, reduce transaction costs.

One important card held by the banks is that they are generally considered among the safest ways of sending funds. But on other counts they score relatively poorly, and are considered inaccessible, slow, and expensive. The Post Office is clearly considered relatively accessible and secure (although it is not cheap), but it is seen as slow. The main channels used are the big and medium high street operators and the small and 'informal' MTOs, with friends and relatives providing a different alternative.

### How does the money get spent?

The impact of new technologies is already being experienced. Already, transaction times have speeded up with improved methods of communications and electronic transfers. One in three remittances now takes less than a day to reach its destination. Slightly more (37 per cent) take between one and two days, and about one in four take 3-7 days. The average length of time taken is 2.15 days. Chinese people experience transfers on average of 3.9 days. Black Caribbeans appear to enjoy the most rapid transfers (1.6 days). In general, the lowest value remittances get 'home' fastest (2 days), while the large value remittances take longer (2.3 days).

## Recipients and uses 'back home'

In almost half (47 per cent) of the cases reviewed, the parents of those remitting the money receive it. Other relatives accounted for 24 per cent of all receipts and one in five went to siblings. Friends (8 per cent) and children (8 per cent) also received funds. Spouses and other less immediate relatives received just 7 per cent.

The remittances are generally intended to put food in the mouths of recipients (31 per cent). This is particularly the case for Black African senders (39 per cent) and Pakistanis (37 per cent). However, the survey was undertaken in the aftermath of the Pakistani earthquake and may reflect that particular occurrence. Medical expenses are the second most cited use (21 per cent), with Pakistanis and Indians sending money very much for this purpose (29 per cent and 25 per cent respectively). Clothing purchases are generally important (19 per cent), particularly for Chinese people (29 per cent). Education is the fourth most common (17 per cent), particularly among Black Africans (24 per cent) and mixed Africans (26 per cent). After that, accommodation (14 per cent) and durable goods (13 per cent) are of significance.

All those sending money back home clearly hope that it will help the recipients, but a good 10 per cent feel that the money will in fact not do a great deal to improve well-being and a small minority feel it will do nothing to help. This is felt particularly among those from an Asian background, or mixed Caribbean. But 81 per cent feel it will make a difference, with slightly more (45 per cent) saying a great deal rather than (36 per cent) a fair amount. Black Africans (87 per cent) and mixed Africans (86 per cent) are more likely to say that every little helps than Asians (79 per cent) or Chinese and others (76 per cent).

Those who remit more are not necessarily likely to say that the transfer of funds will help, but those who remit more frequently are likely to say so. Of those who send once a year, only 75 per cent said the transfer of funds would make a great deal of difference, but 81 per cent of those sending two or three times a year said so, and 86 per cent of those sending four or more times a year.

**Collecting the money…**

Many of those sending funds back home do so, not only as individuals or as households, but also as members of diaspora or local community groups and associations. There is anecdotal evidence to suggest that, even as the total value of individual and household remittances appears to grow, an increasing proportion of the total value sent back home is sent through forms of collective donation. This means that we need to pay attention to these diaspora groups and associations and their role in the sending of remittances.

# 9. Diaspora groups and collective remittances

As the COMPAS report indicated in 2004, "private remittances by individuals constitute the most sizeable and tangible form of diaspora contribution to development and poverty reduction". But the report also draws attention to the importance of various kinds of collective transfers by diasporic associations for development and/or welfare purposes, as well as to broader forms of collective support among diaspora non-governmental organisations, churches and other bodies, such as social and political lobbying groups. The report also touches on commercial investments in the homeland by diaspora members.

There have grown up, over the last decades, in the UK, large numbers of diaspora groups and associations, serving a wide variety of purposes, usually linked to maintaining identity and solidarity but also to maintaining links with the 'home country' and promoting the transfer of funds (and other resources) back home. In fact these are now so numerous that it is difficult to provide a comprehensive list.

It is important to recognise that there are several different kinds of organisations, and it is possible that they adopt different mechanisms for the transfer of funds back home. There are, for example, charitable or welfare associations, broadly involved in welfare and development activities 'back home', which tend to collect funds from members or donors and transfer the funds for some collective welfare or development objective. Many of the diaspora community associations are of this kind. There are religious organisations, foundations or entities (often structured around the church, mosque or temple), which collect funds for religious and charitable purposes both in the 'host' country and 'back home'. There are also more explicitly political associations, concerned to raise funds for a particular political party or movement.

Currently, in the UK (as elsewhere), and possibly more than in the past, diasporas are formed from and include complex mixes of people who have arrived at different times, through different channels (e.g. labour migration, asylum, family union, for education, for professional advancement), through different means (legal entry, illegal entry, smuggling, overstaying etc), and with very different statuses (citizen, resident, student, visitor, work permit holder, refugee, asylum seeker, exceptional leave to remain, humanitarian protection, indefinite leave to remain etc.).

From one point of view, these groups and associations provide a strong community base for a range of activities, including the transfer of funds overseas, usually 'back home'. When divisions within the country of origin are also taken into account, however, such diasporas can be highly fissiparous, which can give rise to problems of coherence when mobilising for development and other purposes. The COMPAS report noted that, "in much literature and policy debate, diasporas are approached as rather homogeneous social or ethnic groups. We contend that this line of thinking can be misleading and can lead to inappropriate policy choices when seeking to mesh diasporas and development". The study – with its case studies of individual diasporas – was extremely revealing:

The different backgrounds, routes, means of migration and statuses outlined in the case studies translate into great diversity within diasporas along many different axes, such as class, caste, clan, gender, generation, religion and ethnicity. There is of course nothing peculiar to diaspora groups about this, since civil society generally is subject to many internal cleavages. Such internal divisions are reflected in the diversity of diaspora organisations.

All the cases studied manifest a great number of organisations, though the bona fides and actual activity of some of these organisations need careful scrutiny.
The cases show rather different balances of civil society and business engagement, the latter featuring more strongly among the Chinese and Indian diasporas than among the other groups reviewed.

The balance of individual and collective transfers also varies case by case, with significant implications for development and poverty reduction.

Another feature of note, which also has development implications, is the importance of diaspora links across diaspora groups, such as 'pan-African' associations: AFFORD is a good example of the forging of links between Ghanaians, Nigerians and other African diaspora groups in the UK. The African Families Foundation is another example of an attempt to work across national groups and to promote a pan-African awareness. It is perhaps significant that the 'Harman survey' in Peckham took 'the African community' as a whole, even though this tended to obscure the differences between the various African diaspora communities.

Finally, there are associations which provide links and relationships across destination/host countries, such as among Somalis in Scandinavia, The Netherlands and the UK, among Ghanaians in Germany, the Netherlands and the UK, and among Tamils in Canada, Switzerland, Norway and the UK. The report remarks that, "modifying Mohan (2002) we might term this potential for development within such networks development across diaspora".

**How important are remittances back home?**

# 10. The contribution of remittances 'back home'

The final test of the value of remittances is the contribution they make to welfare and development 'back home' in the countries to which they are sent. After all, the main reason for sending money home is to support family members – 85 per cent of Zimbabweans sending remittances cited this as their main reason (according to Bloch). What do we know about the way in which remittances are used and their contribution to welfare and development in the remittance recipient countries?

Surprisingly little, it appears, from a quick review of the main secondary literature, from which we can generalise. There is in fact a wealth of literature relating to the uses to which remittances are put, but this has not been systematically reviewed. To complete such a task is beyond the scope of this research – although it is badly needed to substantiate or contradict some of the more general assertions so freely made and conclusions so freely drawn. It is, however, worth providing a brief overview of some of the more 'generalised' views on the use of remittances, and indicating some of the empirical support (or lack of it) for these views.

Before we do that, however, it is important to draw attention to the fact that not only are there far greater numbers of households across the developing world, in the rural as well as in the urban areas, that have members working abroad today than even ten years ago, but also that the scale and value in total of remittances flowing back has also increased significantly in the last few decades, and particularly in the last decade. This means that findings and generalisations that may have been valid in the 1970s, the 1980s, or even the 1990s, may no longer be so. Nevertheless, let us summarise some general findings.

## Household welfare, production and consumption

First, one view suggests that remittances tend to be used for household consumption rather than for 'productive' investment and enterprise and sees this as a negative feature. This view has been expressed by a variety of authors, over a considerable period of time, from the 1970s to the 1990s, and even more recently. For instance, Castles and Kosack in their 1973 study on immigrants in Europe referred to the use of remittances for 'conspicuous consumption, which does nothing to raise living standards in the long run'. Hermele (1997) and Massey (1998) say much the same thing for a wider range of cases; while the same thesis is repeated by Newland (2003) and Nyberg Sorensen et al (2003) for the most recent period. It is true that much of the empirical data that I have been able to access on the use of remittances in developing countries by households receiving them in Africa, Asia and Latin America supports the assertion that the bulk of remittances do go to 'consumption' – that is, to repay debts and increase daily food consumption, to improve standards of living and to improve social status within the local community (Orzoco 2003). This is not, however, necessarily a bad thing – it means remittances may be improving quality of life and living standards.

Many studies, however, explicitly contrast 'consumption' with an alternative (which they clearly identify as 'better') – that is 'productive' investment. A USAID report in 2006, for example, surveyed Ghanaian recipient households and found that the majority (56%) reported that remittances were used for 'immediate' consumption where as only 12% was used for direct investment. This impression of the 'primacy' of consumption among Ghanaian remittance receivers is also supported by data relating to Ghanaian remittance senders extracted from the BME survey by Seddon-Daines (2007). However, not all of what goes on consumption is devoted to 'immediate' consumption; often money is spent on household furniture and house improvement. The most frequently mentioned additional reason among the Ghanaians in the BME survey was to build a house. This is common elsewhere, as is expenditure on family life-cycle ceremonies (births, weddings and funerals). Roberts (1997: 265-6) for example, notes that both Mexican international and Chinese internal migrants 'invest little in agriculture', and devote remittances mainly to 'family maintenance', improving housing, and to weddings and dowries.

This generally 'negative' view appears to overlook the benefits that increased consumption can provide, in terms of poverty alleviation and improvements in household welfare and standard of living. It also ignores the multiplier effects: some forms of so-called 'conspicuous consumption' (for example building and housing improvements) can create local employment and improve the quality of life, while some forms of 'consumption' (eg education, health care) can also be seen as human resource development and investment in the future.

## Investment for the future

In fact, from as far back as 1969 (Caldwell), some have pointed out that the distinction between consumption and investment ignores the contribution of remittances to financing long term investment in human capital through education and nutrition (Ammassari and Black 2001). It also seems to overlook the multiplicity of small businesses that are often established in the service sector as a result of the investment of remittances.

An initial survey undertaken by AfricaRecruit in the UK (2003) suggested that remittances went largely to consumption, but a follow up survey of the Nigerian diaspora in 2005 indicated that 92 per cent of the remittances was invested (based on the AfricaRecruit presentation at 'The Best of Nigeria' 2005). It was reported that 61 per cent of those surveyed send remittances home for 'subsistence' purposes, but 41 per cent also sent money back home for investment purposes. Apparently, over 30 per cent of this investment went into the capital market (stocks and shares) with 'real estate' (26 per cent) another popular investment option. Investment in small businesses belonging to family and friends accounted for 19 per cent, and 25 per cent went into 'other' forms of investment. Adams (1991) argues that migrants' families in Egypt do not 'fritter away' but invest the remittances, for example to increase agricultural productivity. Although they do also invest in housing, the migrants' households have a higher propensity to invest than households without migrants.

Some sources suggest that patterns of use of remittances change over time.

Helwig (1983) shows that at first remittances are spent on family maintenance and improving land productivity; in a second stage, spending tends to be on 'conspicuous' consumption and symbolic purposes (resulting in tensions, inflation and the worsening of the position of the poorest); and in a third phase remittance are also invested to start commercial, non-agricutural activities (cf de Haan 1998). Islam (19: 586-7) describes the effects of migration to the Gulf from villages in Chittagong in Bangladesh and lists the variety of ways the remittances are spent, moving up from basic needs to luxury consumption and 'buying social status'. He also notes that some buy land. Brown & Connell (1993) suggest that policy recommendations tend to assume that remittances are used only to bolster the recipients' consumption. Their article presents a detailed study of a shift in remittance behaviour by Tongan remitters, from money to goods, which the recipients can sell on. These goods have advantages over cash: they can be sold over a period and the income generated is significantly higher than the cost of goods to their senders (thereby resulting in added value).

## Effects on inequality

A second major concern expressed by those who focus on the negative aspects of remittance flows, is that remittances can increase inequalities, both spatial and social. International migrants tend not to come from the very poorest sections of society, who find the cost (and even more importantly the risks) associated with foreign migration too great to bear, and who are often also locked into local social relationships (eg various forms of 'tied' or 'bonded' labour). There is certainly evidence to support the notion that the very poorest find it hard to migrate and thus do not benefit directly from any of the benefits derived from remittances, both in general and from specific country case studies (eg Seddon, Adhikari & Gurung 2001 on Nepal). But the evidence regarding the implication of migration and remittance flows for inequality is contradictory.

Even in Nepal, where the case for remittance flows increasing both spatial and social inequality is strong, the very poor who generally do not migrate can benefit from the increased flow of funds within the local community, and may find that a local scarcity of labour (resulting from the absence of significant numbers of men abroad) also tends to push up local wages. Growing inequalities between regions sending migrants and those not so involved have been identified in many developing countries. In Ghana and in Nepal certainly, those who migrate abroad tend to come from certain regions and not others, and the flows of remittances back to regions that tend to be already relatively privileged contribute to an improvement in living standards in those regions relative to others, usually already less well-off. Large numbers of foreign migrants from particular regions gives those regions a distinctive profile – whether Sylhet, from where many Bangladeshis migrating to the UK originally came, or Mirpur, from where so many Pakistanis now living and working in the UK came originally, or Fujien, from where a disproportionate number of foreign Chinese migrants have come. The remittances flowing back into those regions had undoubtedly contributed to their rapid transformation, although, a Ballard remarks for Mirpur, this is not necessarily ‘a good thing’ and certainly does not necessarily equate to ‘development’. Migration and remittances flows can also accentuate urban-rural differences.

But there is also evidence to suggest that labour migration and sending remittances back home can reduce inequalities and contribute to poverty alleviation. It is often the case that migration takes place not from the better-off regions but from those that are relatively disadvantaged, in which case spatial inequalities may actually be reduced. Furthermore, it is rarely the wealthy who migrate, as they tend to have more income generating opportunities at home than others. Where it is mainly the less well off and the poor who migrate, income and wealth distribution may become less unequal.

As regards poverty reduction – a major concern these days in ‘development circles’, as Rigg remarks - it is no longer possible to identify the roots of rural poverty unambiguously, let alone exclusively, in patterns of landownership and the structure of agriculture as once it was in most developing countries. He notes ‘the rapid diversification of rural livelihoods, a marked increase in mobility, and a proliferation in opportunities outside farming’ (Rigg 2005: 192), and argues that ‘the production and therefore the reproduction of poverty are becoming de-linked from land and from agricultural resources more widely’. In Vietnam, Kabeer and Tran Thi Van Anh (2000: 30, 35) conclude that ‘.. it is clear that the ability of household members, whether male or female, to diversify out of farming is a key factor in determining the levels of household income and wellbeing’. Migration and a flow of remittances back into the rural areas clearly can make a major contribution to relieving poverty and increasing well being. Where, however, it involves those who are already better off, it can also increase local inequalities – although even here, if the remittances circulate within the local economy, in the form of wages to local labourers employed in agriculture, house construction or other activities stimulated by the flow of remittances, even those who are unable to leave the locality may benefit, as Adhikari (1996) suggests for villages near Pokhara in Nepal.

**Major policy lessons**

# 12. Conclusion

The literature we have briefly reviewed provides patchy evidence regarding the implications for local people of foreign migration and remittance flows. In general, however, the message is broadly positive. In any case, it seems, more people are migrating, more people are migrating abroad and more remittances are flowing back into the countries from which the migrants come. Even in cases where immigrant and diaspora communities have become well established abroad, money continues to be sent back home to relatives and to local communities. The impact of this flow of remittances is increasing - for better or for worse. The importance of understanding who sends money home, in what ways, and with what effect, is undoubted. More research is required, and also more involvement of local communities at both ends of the transfer process, so that we may understand better this crucial but relatively little explored aspect of globalisation, and contribute to making it a more effective mechanism for improving well being at the household and local community level, and beyond that for poverty alleviation and for development.

# 13. Recommendations

The main finding of this report is that we still need to know more about the ways in which diaspora communities in the UK send money home and, even more importantly now, about the impact remittances have on the lives and livelihoods of households and local communities back home, and on broader issues such as the impact on poverty reduction, on inequality, and, most broadly of all, on development at the local, regional and national level.

The findings of this report strongly support the following proposals made earlier by the African Foundation for Development (AFFORD):

- Acknowledge that the diaspora groups - as investors in, welfare providers to, and knowledge communities about developing regions - merit as serious an engagement as the private sector with DfID and other government departments with a development brief.

- Draw UK-based diaspora groups into the formulation of country strategy or assistance plans, poverty reduction strategy planning, and other instruments of UK development policy.

- Make greater efforts to bridge the UK's two parallel development and relief efforts, one mainstream-led (DfID plus UK-based NGOs engaged in development and relief) and the other diaspora-led. DfID might consider creating incentives such as a partnership fund (akin to its Civil Society Challenge Fund) to encourage 'mainstream' development and diaspora groups to engage constructively with each other.

- Establish a dedicated unit within DfID (along the lines of the Private Sector Unit) to engage with UK-based diaspora groups, and to assess the different strengths, weaknesses and potential of different groups (and of sections within particular diaspora groups).

Other policy lessons drawn from the findings of the report include the need to:

- recognise diversity within diasporas;

- acknowlede that migrant/diaspora source areas are not necessarily the most - poverty-prone, and to identify 'pro-poor' drivers of change within them;

- recognise and build on linkages across diasporas;

- foster markets within and beyond the diaspora for homeland products and services;

- connect asylum-seekers/refugees with development initiatives;

- encourage transfer of diaspora expertise;

- develop new partnership projects;

- work with different levels of homeland government;

- promoting coordination between diaspora and aid agency initiatives;

- participate actively in the UN Global Commission on International Migration; and

- explore constructive 'conversation' with the diasporas to realise their potential in development, poverty reduction and peace building.

All sorts of initiatives are possible. For instance, banks and other financial institutions could issue loans for enterprise in the developing world based on a percentage of the payments that flow through them. With the migrant community organisations serving as credit guarantors, loans could be provided to local entrepreneurs. Obviously, technical backing would be required for the design of investment portfolios, business plans, marketing and sales. Indeed to this end, the African Families Foundation is working with African and Caribbean diaspora organisations to set up The African Diaspora Development Trust (ADD Trust) with the aim of match-funding development projects in Africa and the Caribbean, initiated by diaspora organisations.

Finally, it is also important that the major institutions – both public and private sector - concerned with promoting the welfare and development of diaspora communities in the UK and that of the linked families, households and local communities back home in the many and various ‘developing countries’ from which the UK diaspora originates find new and better ways of developing ‘joined up’ policy initiatives and practices. The justified concerns of the Home Office, HM Revenue and Customs, and the various ‘security agencies’ regarding possible links between immigration, asylum seeking, and terrorism, and between remittance sending, money laundering, crime and terrorism need to be balanced against the interests (and indeed the rights) of the various diaspora communities and their families, friends and local communities back home.

# Appendix 1: Introduction to selected diaspora groups

## The Indian diaspora

People of Indian origin constitute the largest ethnic minority in Britain, totalling around 1.2 million (2.11 per cent of the total UK population). The greatest proportion of people of Indian origin (45 per cent) originate from the Punjab, followed by those from Gujarat. Most Indian states, however, are represented in the British Indian population, and so are the followers of the main religions - Hindus, Muslims, Christians, Sikhs and Parsis. It is estimated that one in four of the Indians and Pakistanis in Britain have East African as well as Indian (or Pakistani) origins. This wave was dominated by Gujaratis, who primarily entered the small and medium business sector as well as the medical professions.

Of the 1.2 million, 40 per cent live in Greater London, concentrated in the boroughs of Brent, Ealing, Hounslow, Newham, Redbridge and Wandsworth. A recent Greater London Authority study showed that Indians own 4.4% of London's businesses and employ over 51,000 people (Dewani 2004). UK-resident Indians feature the highest levels of owner-occupation, the highest educational performance at schools, and occupy senior positions in the NHS among BME groups.

Although there is a concerted overall effort to achieve a unified identity (with legal and tax status) as 'Non-Resident Indians', the Indian diaspora remains highly diverse. There are over 1,000 listed UK-based Indian organisations, although perhaps only a quarter of these are active. Religion, caste and linguistic identities find significant space in associations and networks, and cleavages occur along these lines. Religious and caste conflicts in India have been echoed amongst the diaspora groups, especially in the UK and the US. UK-based Indian associations can be broadly grouped as:

- religion-based organisations (e.g. the Hindu Cultural Society, Indian Muslim Federation, Ahmadiya Muslim Association, Indian Christian Organisation);

- organisations based on regional or ethnic alignments (e.g. the Confederation of Gujarati Organisations, Punjab Unity Forum and the Bengali Association);

- professional organisations (e.g., the British International Doctors Association, which has had a long-standing interest in Postgraduate Medical Education in India);

- commercial organisations (e.g., the Indian Development Group [UK] Ltd, the Indian Forum for Business and the India Group at the London Business School);

- alumni organisations (e.g. Indianreunited.com was established in the UK by two NRIs while studying in England, and medical school- and state-oriented organisations such as the Manipal Alumni and Tamil Nadu Doctors' Association); and

- organisations with a political orientation (e.g. branches of the main Indian political parties in the UK, such as the Indian Overseas Congress and the Friends of the Bharatiya Janata Party.

Once perceived as a 'brain drain' from India, non-resident Indians (NRIs) have come to be recognised within India as a significant external resource. Indians abroad have traditionally supported their families through remittances and improved the status of their families in the sending communities by investing in the village and improving social or religious infrastructure.

Recently, the Government of India has moved in various ways formally to harness and acknowledge the expertise, wealth and contacts of the diaspora. A recent report by the Singhvi Commission on the Indian diaspora (Government of India 2002) observed that many wealthy Persons of Indian Origin (PIOs, that is people of Indian origin who now hold other nationalities) individually and collectively support projects addressing basic needs such as health, education and infrastructure in their home states and villages in India. For example, many ophthalmologists run mobile eye clinics in India. During times of acute crisis (such as the Gujarat earthquake), community and religious organisations have mobilised significant funds and expertise to help in relief efforts.

There are, however, other aspects of diaspora engagement, which are more controversial. For example, The UK Charities Commission has been looking into allegations that the Hindu Swayamsevak Sangh (HSS) – a registered charity that operates from Leicester – has, since November 2002, been raising and sending to India funds not for welfare work but to fuel communal violence. Sewa International is also alleged to have raised millions of pounds from the British public for humanitarian causes in Gujarat at the time of the earthquake, only to divert these funds to its Indian counterpart, Sewa Bharati. In turn, this is suspected of being a front for the National Volunteer Corps (RSS)-which supports India's nationalist Bharatia Janata Party (BJP), which promotes Hindu fundamentalism and encourages religious sectarianism.

# The Pakistani diaspora

After the Indians, the next largest 'ethnic minority' group in the UK is the Pakistani community. In Britain, the number of registered people of Pakistani origin in 2002 was 742,285, but most of these were British residents, if not nationals. In the same year, there were 92,258 registered Pakistani nationals living and working in the UK. Pakistanis in Britain, whether British nationals, British residents or Pakistani migrant workers, continue to maintain links with the home country. Survey data in 1994 indicated that 58 per cent of Pakistanis living in Britain had returned to the home country during the last five years and that of these many had gone twice or more. Many took funds back with them, in monetary form or as consumer goods.

It was estimated that in 2001, on the basis of household survey data, Pakistanis in Britain transferred somewhere between £54 million and £217 million back to Pakistan. IMF Balance of Payments data, however suggested a significantly higher figure, of £570 million, of which £456 million involved essentially household transfers and the remainder (£114 million) went through charities. Not all of those sending money home are sending their own savings: the survey data suggested that 13 out of 15 Pakistanis interviewed had actually borrowed money from local unofficial foreign exchange agents in Britain to enable them to send or take money back home.

In 1980, the total value of remittances from abroad was around US$1.5 billion and in 1983-84; Pakistan received an estimated US$2.7 billion in remittances. The ILO suggests that Pakistan received around US$2.3 billion a year between 1983 and 1986 and another source suggests that, over the period between 1978 and 1987, Pakistan received over US$22 billion in remittances through official banking channels. These figures do not include the earnings sent home through informal channels or in the form of commodities purchased abroad. By the mid-1980s, these remittances (averaging over US$2 billion a year) were paying for half of Pakistan's total import bill and accounted for over half of Pakistan's foreign exchange earnings. At the beginning of the 1980s, the government of Pakistan established a Bureau of Emigration, which, together with private manpower agencies, began recruiting and channeling Pakistanis in ever larger numbers westwards to the Gulf.

By the late 1980s, although the majority of Pakistanis working overseas were still in the Gulf, the diaspora had become more widespread as Pakistanis (and their government) actively sought new opportunities for employment abroad in an increasingly competitive labour market. By the mid-1990s, it is estimated that the total number of Pakistanis living and working abroad amounted to around 7.2 million. IMF BOP data suggested that total inflows of remittances from across the world to Pakistan amounted to just over US$6 billion in 2001, suggesting an average remittance value of roughly US$1,000 a year for each Pakistani living and working abroad.

Much of the flow of remittances passed through the ‘informal’ hawala system. El Qorchi, Wilson & Maimbo (2002: 43) estimate that from1981 to 2000 a total of around US$136 billion in private remittances had flowed into Pakistan, with some 55 per cent of the total (US$55 billion) through ‘unrecorded’ channels. At that period at least, the hawala system was clearly working well. It is highly likely that, in the last five years, the proportion of total remittance flows transmitted to Pakistan through the hawala system has declined. Blackwell & Seddon (2004: 38) estimated the total flow of remittances from the UK to Pakistan as being somewhere around £183 million, although BOP data suggested a higher figure, of £570 million, if remittances going through charities were included, and £456 million, if not. This was based on an assumed 20 per cent proportion going through charities.

As we have noted above, many ‘informal’ money transfer operators (MTOs) have come in recent years to be referred to as hawaladar – associated with the hawala system used by Pakistanis and other diaspora groups. Other groups make use of similar systems, but some of these have their own distinctive characteristics. The indiscriminate use of the terms hawala system and hawaladar is both inappropriate and misleading.

In the 1980s, of the 300,000 or so Pakistanis then living and working in Britain, over three quarters could trace their origins to an area no more than 20 miles by 30, lying mostly in what is now Azhad Kashmir, and particularly focused on Mirpur District. In many Mirpuri villages, especially those lying close to those from which seamen were recruited, half or more of the population lived in Britain. Throughout much of the post-war period, before they had brought their families to Britain, these migrant workers sent the greater part of their savings straight back home as remittances since they expected eventually to return home to live in comfortable retirement on their accumulated savings.  Over the years, Mipuris living and working in Britain sent back millions of pounds, with dramatic effects on the local economy back in the villages from which they came.

There was a building boom in Mirpur in the late 1960s and early 1970s, with wider consequences for the whole local economy. For a time, the construction boom sustained dramatic growth in other associated sectors of the economy and in business activity of various kinds. Little, however, was invested in agriculture, local manufacturing or other longer term productive enterprises which offered less in the way of immediate financial returns. By the 1980s, even the returns from business were diminishing as competition increased, and the economy stagnated.

According to Roger Ballard, writing in the mid-1980s:
"Following the initial remittance-driven boom, Mirpur's economy has gradually slipped backwards, and is now heavily dependent on the continued flow of remittances. This unhealthy condition, which is far from being the inevitable outcome of overseas emigration, is primarily a consequence of the way in which Pakistan's whole economy is structured. It is no fault of the Mirpuris themselves…The issues here are structural."

Pakistan had long experienced a deteriorating balance of trade. Since the 1960s, however, the rapidly rising flow of remittances, at first from Britain and later from the Gulf, had covered this deficit.

Valuable though this was in the short and even medium term, it left the Pakistani economy highly vulnerable to changes in the overseas labour market. In Mirpur, it tended to undermine the domestic economy, reducing the propensity of both private capital and the government itself to make longer term investments in infrastructure, agriculture or industry, fuelling expenditure on consumption (particularly on luxury consumer goods) and encouraging capital export. For several decades, migrant workers poured billions of dollars into rural Pakistan. But although in all the areas into which remittances had flowed, the capital resources needed to build new roads and irrigation systems, to finance electrification and agricultural extension programmes and so forth were most certainly available, private investment remained unprofitable. Local savings were spent on conspicuous consumption. Little went into the much needed long term investment in infrastructure and production.

## The Bangladeshi diaspora

The Bangladeshi diaspora in the UK is one of the largest, after the Indian, Irish and Pakistani diasporas.

It is not clear how many people now resident in the UK migrated originally before partition in India from east Bengal, or from East Pakistan before Bangladesh achieved independence in 1971. Presumably, the majority of those now referred to as Bangladeshis migrated after 1971. At that time, the UK was almost certainly one of the prime destinations, given the historical links through the British Raj and then through enduring Pakistani ties to the UK. More than 4 million Bangladeshi migrant workers have been employed abroad through regular channels since independence in 1971.

As the oil discoveries in the Gulf increased the demand for cheap labour in the Middle East, so Bangladeshis began increasingly to migrate to the

Gulf. In 2003, a total of 254,000 migrants went to work abroad, the majority of them through individual arrangements; only a relatively small number (officially a total of 166) went to the UK, although the UK statistics suggest that in 2001 there were some 54,293 Bangladeshi nationals living and working in the UK. The majority of these would appear to have migrated from the Sylhet region.

Remittances from Bangladeshis living and working abroad contribute substantially to Bangladesh's balance of payments. In 2003, migrant workers sent back over US$ 3 billion in remittances – more than Bangladesh received in foreign aid and a significant increase on previous years. In 2003-2004, remittances were equivalent to about 85 per cent of the country's net export earnings. According to BOP data, the total value of remittances sent back by Bangladeshis in the UK was £216 million (including funds sent back through charities) or £173 million if charitable funds were not included. Using recipient country data, it was at least £153 million, possibly more.

According to El Qorchi, Wilson & Maimbo, nearly 60 per cent (59 per cent) of remittances to Bangladesh in the period 1981 to 2000 went through 'informal' channels - US$49.6 billion out of a total of US$84.2 billion. Yet, according to Blackwell & Seddon (2004: 13) Bangladeshis appear to be somewhat suspicious of the 'informal' money transmitting systems and of money transmitters and money lenders in general. Anecdotal evidence suggested that they often prefer to make use of a courier, or to take funds home themselves, if possible.

## African Diasporas

The Shadow Commission for Africa notes that 'run and managed in the main by volunteers, many African disapora organisations have been established for decades. They are largely unacknowledged and yet as our case studies demonstrate, they diligently continue to support their communities 'back home'' (section 1.3). The United States is one of the largest foreign investors and sources of official development aid (ODA) to Africa, providing more than US$2 billion in overall development, humanitarian and security assistance. Significantly, a large proportion of over US$3 billion in remittances that Africa receives from the diaspora each year originates in the US (section 2.6). There are now roughly 35 million citizens of African descent in the US with a collective purchasing power of about US$450 billion a year - a sum that if represented by a single country would make it one of the 15 largest economies in the world. Indeed, it was in recognition of the enormous economic strength of the African diaspora worldwide that the African Union (AU) at its meeting in Addis Ababa in February 2003, called the diaspora

'Africa's sixth region' (2.6.). In 2001, people of Black African origin living and working in the UK totalled 485,000 people. Of these, 164,000 were born in the UK and 304,000 were born in Africa. The largest group (168,000) was from Central and West Africa – of which 77,000 were from Nigeria; the next largest group (126,000) was from South and Eastern Africa – of which 18,000 were from Zimbabwe, 14,000 from Kenya and 4,000 from South Africa. A total of 10,000 'black Africans' originated from North Africa.

There was also a significant 'white' African population – 257,000. These included 128,000 white South Africans, 36,000 so-called 'white' North Africans, 27,000 white Zimbabweans, 18,000 white Kenyans, 6,000 white Nigerians (sic), 34,000 'other' white East and South Africans and 8,000 'other' white people from Central and Western Africa. According to the 2001 census, there were 130,000 'Kenyans' (people born in Kenya) in the UK - including 18,000 'white', 14,000 'black' and 83,000 'of Indian origin' (in all a total of 112,000 Kenyans from 'minority ethnic groups'). There were 141,000 'South Africans', of whom 128,000 were 'white' and 14,000 were from all 'ethnic minority groups' (including 'black', 'mixed' and 'Indian').

## Pan-African associations

There are various pan-African associations, attempting to bring together all of the different ethnic, regional and national associations and groups under one umbrella.

One example is the African Foundation for Development (AFFORD), whose mission is 'to engage Africans and their organisations in the diaspora directly with organisations involved in the processes of development on the continent; and to develop the skills and abilities of African peoples, either temporarily or permanently away from Africa, in ways that will contribute to Africa's development and enhance Africa's contribution to global development' (http://www.afford-uk.org/).

In its response to the UK government's White Paper on Globalisation and Development in 2000, AFFORD (2000) usefully identified a number of different diaspora actors and the different ways in which they could influence the homeland. Among the kinds of actors identified by AFFORD were individuals, hometown associations, ethnic associations, alumni associations, religious associations, professional associations, development NGOs, investment/business groups, political groups, national development groups, welfare/refugee groups, supplementary schools, and virtual organisations. Among the activities AFFORD pointed to were:

- person-to-person transfers of money (remittances) and consumer goods, mainly to the immediate and extended family;

- community-to-community transfers for constructive (but also destructive) purposes;

- identity building/awareness raising in the current home about the ancestral home, either with members of the same groups or with the wider society;

- lobbying in the current home on issues relating to the ancestral home, targeting politicians in the country of residence or politicians in the country of origin;

- trade with and investment in the ancestral home, including electronic commerce;

- transfer of knowledge, values and ideas;

- professional support for development; and

- payment of taxes in ancestral home.

## The Nigerian diaspora

Nigeria is today the African country with the largest number of people in the UK after South Africa. As one of Britain's major African colonial territories, there have been important links between Nigeria and the UK for many decades – and as we shall see, one of the oldest Nigerian diaspora associations, what is now known as the Egba United Society (UK), was established in 1949. With regard to the UK, the first large scale emigration and search for refuge derived from the civil war in the late 1960s. By 1971, almost 27,700 Nigerians lived in England and Wales (UK Census 1971). This number did not substantially increase until the mid 1980s, after Nigeria's oil-based economy had taken a downturn.

Political oppression, the introduction of structural adjustment policies under the aegis of the IMF, and related socio-economic disruption contributed to large scale emigration in the late 1980s: whereas in 1981 only 30,045 Nigerians were recorded as living in UK, the number had increased to 46,231 by 1991 (UK Census 1981 and 1991). In the 1990s, Nigerians continued to leave Nigeria in response to ongoing economic and political mismanagement and poor living conditions.

Currently, a total of 87,000 'Nigerians' (people born in Nigeria) are recorded as living and working in the UK (2001), of whom 77,000 described themselves as ‘Black African’, 6,000 ‘white’, and the remainder from other ‘ethnic minorities’. The majority of those recorded -- 68,907 -- live in Greater London. Of these, 45,508 live in Inner London, with the highest degrees of concentration in Southwark (10,673), Hackney (6,633), Lambeth (6,121), and Newham (5,423). 23,399 Nigerians live in Outer London, concentrated in Greenwich (3,918), Brent (3,070), and Barnet (2,753) (UK Census 2001). As with all other ‘ethnic minority groups’, there are significant divisions of ethnicity, religion and region in the diaspora, so that it is perhaps misleading to speak of the ‘Nigerian diaspora’ or the ‘Nigerian community’.

UK-based Nigerian diaspora organisations draw on a variety of constituents. Some are interest groups with a national catchment, such as business associations; others are associations of particular ethnic groups; others draw their members from and direct their activities towards some of Nigeria’s 36 constituent states; some are regionally based; and still others are based on gender, religion, political and cultural activities.

Nigeria has suffered from the loss of thousands of highly educated professionals, but the Nigerian diaspora provides a substantial contribution, especially by way of remittances, to the homeland (Interview, Nigerian High Commission 2004). The country is one of the Top 20 developing countries receiving remittances, estimated at over US$1.2 billion in 1999 (World Bank World Development Report 2000) and around US$3.5 billion a year more recently (according to AfricaRecruit 2005). AfricaRecruit estimates that official remittances now account for about 5 per cent of Nigeria’s GDP, but this does not include funds transferred through ‘informal’ channels. Nearly 30 per cent of remittances sent ‘for subsistence purposes’ are very small and average up to US$50 a month, some 35 per cent range between US$100 and US$300 a month, while just over 35 per cent average more than US$300. Remittances sent for investment purposes show about 45 per cent averaging more than US$300 a month. In addition to these transfers, there are several other ways in which members of the Nigerian diaspora(s) contribute to their homeland.

## The Zimbabwean diaspora

After South Africa and Nigeria, Zimbabwe is the country from which the largest number of expatriates (people born in Zimbabwe) are to be found in the UK – a total, officially, of 50,000 in 2001, of which 27,000 described themselves as ‘white’, 18,000 as ‘black’ and the remainder (5,000) as being ‘mixed’ or from other ‘ethnic minority groups’. In fact, the total population of Zimbabwean origin currently in the UK may be as much as one million – of which a large majority are in exile, having left within the last decade and particularly within the last five years to escape the regime of Robert Mugabe.

A high proportion of those in exile are middle class professionals and their families, but many are currently working in the informal sector, often taking more than one job to maintain families both in the UK and back home.

Around 80 per cent of Zimbabweans living in the UK send remittances back home. Men tended to send remittances slightly more than women. A greater proportion of those working or self-employed sent remittances back to Zimbabwe than those who were unemployed. 81 per cent of those working sent money, compared with 46 per cent of those who were unemployed or looking for work, or not working for other reasons (eg immigration status). The main reason was to support family members – 85 per cent of those sending remittances cited this as their main reason. The most frequently mentioned additional reason was to build a house.

The regularity with which remittances were sent varied. About three-quarters of those sending remittances sent them every two months or more frequently – a third of these sent remittances at least every four weeks and 41 per cent sent them every two months. A further 19 per cent sent remittances every three to six months, 6 per cent every seven to 12 months and only 1 per cent less than once a year.

The mechanism and channels used varied. Most of the Zimbabweans in the UK used independent money brokers (MTOs) and financial institutions more often than other informal methods, like taking the money themselves on visits, or using family and friends. Sending money through informal MTOs was the most widely used method of sending money home (63 per cent) but over half used formal financial institutions; 32 per cent made use of family and friends and 22 per cent made use of a personal visit. Other methods used less included using a carrier.

The amounts sent from the UK to Zimbabwe per month was most usually (37 per cent) between £100 and £199, with 27 per cent sending less than £100. 18 per cent sent between £200 and £299 and 18 per cent sent £300 or ore a month.

There was clearly a relationship between earnings and remittances. In the UK, 60 per cent of those earning less than £500 a month sent less than £100 to Zimbabwe. At the other end of the scale, only 17 per cent of those in the highest earnings bracket of £2,500 or more a month sent less than £100 a month. A third sent back £300 or more. For some, particularly those on lower incomes, remittances accounted for a large proportion of their monthly income Three quarters of those whose main activity is studying, however, managed to send back money, as did half of those who were unemployed and looking for work. The imperative to send money home is strong, but the amount sent depends on income.

In addition to monetary remittances, more than two thirds sent back non-monetary gifts or provided other assistance. In the UK, some 74 per cent said they sent back non-monetary gifts – mainly clothes, but also food, books, electrical goods, used cars and trucks, and used machinery. An additional

3 per cent sent items including recorded music, stationery and jewellery. Other assistance provided included actions likely to encourage migration to the UK – advice about moving, assistance obtaining visas, financial help moving, helping arrange jobs or education or business links, providing accommodation in the UK and letting others live in their home in Zimbabwe.

## The Ghanaian diaspora

Particularly over the last three decades, Ghanaians have migrated abroad in search of opportunities not available at home and have spread to many countries. Ghanaians abroad sent over US$1 billion back home in 2004 and have been identified as major catalysts of small business development in their own country. It is estimated that some two million Ghanaians left the country between 1974 and 1981, their primary destinations being Nigeria and the Ivory Coast. When the oil boom burst in the late 1970s and early 1980s in Nigeria and the Nigerian government decided to expel all immigrants without proper papers, Ghanaians began to go further afield.

After Nigerians and Zimbabweans, Ghanaians form one of the largest African communities in the UK. At independence in 1957, the Ghanaian population resident in the UK was relatively small. According to the 1961 Census, only around 10,000 people born in Ghana lived in the UK. However, as in other African countries, soon after independence, Ghana descended into longstanding political turmoil and unrest. Economic dislocation and political oppression drove thousands of Ghanaians to seek refuge abroad, and the number of Ghanaians living in UK and elsewhere steadily increased. By 1991 more than 32,000 Ghanaians were living in the UK.

Most Ghanaians live in Greater London, concentrated in the boroughs of Southwark, Lambeth, Newham, Hackney, Haringey, Lewisham, Croydon and Brent, with much smaller populations in Birmingham and Manchester.

Despite their possible differences with the various regimes in power in Ghana, Ghanaians living in the UK have maintained close political, social, cultural and economic links to their country of origin. They sustain contacts with family and local communities and send money back home. The Central Bank of Ghana estimates that some US $ 1.2 billion flowed into the country in 2004, but analysts believe that approximately half of the total flows enter through informal channels and that this figure should therefore be roughly doubled. Remittances constitute the second most important source of foreign exchange after exports.

They appear to have an important redistributive effect, in that flows reach the Upper West, Upper East and Northern regions, and are mostly received by women

A recent study of Ghanaians in the US, UK and Germany (by Manuel Orozco, Rachel Fadewa, Micah Bump and Katya Sienkiewicz, 2005) suggests that Ghanaian remitters are similar to those from other diasporas in the frequency of sending, the rationales for sending and the choice of beneficiaries, but are unique in that they tend to send money over a longer period of time. This hardly varies between the different Ghanaian diaspora communities in the US, UK and Germany.

Recognising the importance of the disapora, the government of Ghana has sought to facilitate the situation of Ghanaians abroad. In 2002, it passed the Ghana Dual Citizenship Regulation Act, which made it possible for Ghanaians to keep their Ghanaian citizenship even after having obtained citizenship of another country. The government also organised a Homecoming Summit in 2001, which invited members of the disapora to Accra to promote their efforts in national development. The Resident Ghanaians Secretariat (NRGS) was instituted in May 2003 to promote further links for Ghanaians abroad and to encourage return. These initiatives have undoubtedly had a significant impact.

## The Somali diaspora

Migration has been a long-standing feature in Somali society – from traditional nomadic movements in the Horn of Africa, to merchant navy sailors working in British ports from the 1800s, to Gulf migrant workers, to elite students studying in the UK and Italy.

People from North West Somalia (formerly the British Protectorate of Somaliland) of the Issac and Darood clans had settled in the United Kingdom, Yemen and Saudi Arabia prior to the outbreak of war in the 1980s (El-Solh 1991). Many lived in port cities – London’s East End, Liverpool, Bristol and Cardiff. Other Somalis, some made redundant by the declining Merchant Navy and some newly arrived in the UK, found work in industrial cities, for example in Sheffield’s steel industry. From the 1960s, families began to join this group, which was originally composed of male migrants (El-Solh 1991). With persecution in North West Somalia in the 1980s, and the outbreak of civil war between the Somali National Movement (SNM), which sought secession of former Somaliland, and the government of Siyad Barre in 1988, Somalis began to arrive in the UK under family reunion provision or as asylum seekers. Not surprisingly, these people tended to settle in areas where a Somali community already existed.

With the collapse of the Somali Republic in 1991, more refugees arrived in the UK from Southern and Central Somalia. Somalian nationals granted permanent settlement in the UK totalled 43,050 in the period 1992-2002. The Census 2001 found 43,373 people in England and Wales born in

Somalia, but estimates of the ‘Somali community’ range up to 95,000 (Cole and Robinson 2003). Most of the Somali-born population lives in London, concentrated in Brent, Ealing and Newham, with the largest provincial populations in Sheffield and Manchester (UK Census, 2001).

The Somali diaspora in the UK today is far from homogenous, and includes people from many clans and parts of Somalia. Clan networks have been important in mobilizing support for members in the diaspora and in Somalia (Pérouse de Montclos 2003). Accordingly, there is a range of Somali diasporic organisations in the UK that maintain important kinds of connection with homeland issues and localities. These include Somali community organisations in UK that collect donations for projects in Somalia.

Somali money transfer companies, known as hawilad, are the only international financial services that provide a way for money to be transferred to Somalia from abroad. The hawilad are themselves involved in both charitable and commercial development activities.

Shortly after 9/11, the US Administration froze the assets of the one Somali organisation, Barakat, which had hitherto provided money transfer services for Somalis living outside the country- on the grounds that it was thought to be associated with international terrorist activity, notably by Al Qaeda. This was catastrophic for the Somali community at home and abroad, for there were no formal banking channels available to act instead, and Somalis inside the country relied almost exclusively on money transferred through the hawilad (of which Barakat was the largest and best known) or on carrying cash or commodities back home when visits were possible.

The Somali Financial Services Association (SFSA) was launched in London in December 2003: it is based in Dubai and aims to build self-regulation in this sector (UNDP (Somalia) 2003). In the UK and elsewhere, there has been evidence of Somali clan ‘collectors’ who extract donations from diaspora members to support clan militia and warlords in Somalia. This practice is thought to have declined greatly since the mid-1990s, but the current incidence of clan collections for factions and the impact of such transfers remain under-researched (Bradbury 2002).

## The Sudanese diaspora

There were very few Sudanese in Europe before the early 1980s. Most of those who came to the UK, for example, came for further education or vocational training, taking advantage of quotas that enabled a certain number of Sudanese annually to take up a period of study or training in the UK. It also seems that remittances had not come by that time to be as important in the livelihoods of Sudanese households back home as they were to become later. The situation in Sudan worsened during the 1980s and 1990s and more people left, either temporarily or more permanently, both to seek employment and to seek refuge.

There were some early attempts by migrants to establish their own money transfer systems. In 1992, a Nuer in exile in the UK tried to help other refugees send funds home. He established a small money transfer operation with a close friend located in Khartoum, who agreed to act as an intermediary for the distribution of funds. Together, they devised a system in which funds did not travel physically between locations. The cash remittances were given to the Nuer partner in the UK, who deposited the funds in his friend's UK bank account. A fax would then be sent to the Khartoum colleague with the recipient's details and the amounts to be disbursed. The Khartoum colleague used his local funds for distribution. The Khartoum associate travelled once or twice a year to the UK and would use the money accumulated in his UK bank account to pay for his stay and conduct other business, sometimes transporting additional cash back to Khartoum on his return. Neither the remitters nor the receivers incurred any charges for the assistance provided. Unfortunately, within two years, the system broke down because some recipients in Khartoum began pre-empting the process by demanding money from the businessman in Khartoum prior to their relative in the UK having authorised the remittance. Out of frustration, the Khartoum colleague decided to stop all services (case described in Akuei 2005).

The economic and employment status of Sudanese in the UK varies from professionals and academics to teachers, factory workers, bus drivers, small shop owners, including travel agencies and general food stores and money transfer businesses.

Sudanese in the UK remit funds with great frequency and regularity, at a minimum on a monthly basis. The mechanisms used vary considerably. Some Sudanese travel to Sudan and hand deliver money to their kin; asking friends and/or relatives to take money in this way to give to named recipients is also common. Arrangements are usually made on a personal basis. Northerners apparently are prepared to go to the airport and ask someone flying to Khartoum to deliver money for them – "you just check the schedule in departures, go to the airport and wait to find someone leaving to ask to take the money for you. This is very common. You can give the money to practically anyone", stated one informant (Akuei 2005: 10).

Southerners were not aware of this apparently quite casual way of organising matters; indeed it would be most impractical for them to make use of such a system – although some southerners do travel to Khartoum to request or receive remittances sent by other means. The costs of travelling are high and there are taxes to be paid – only persons with a passport from another country or students studying abroad with a valid student ID are exempt.

# Appendix 2: Money transfer mechanisms and new technology

It is sometimes suggested that ‘informal’ money transfer operators use relatively simple technology - and it is consequently implied that these operators are technically unsophisticated. This is far from the case. On the contrary, they are usually extremely well equipped with fax, e-mail, telephone and other international communication devices. One of the essential features of the hawala or hundi systems is that they make use of the most modern techniques and technologies.

In a recent paper to the UN, Nana Ama has argued that, in order to facilitate remittance sending and more generally the transfer of funds to developing countries, “banking technology should not be limited to the use of ATMs but could extend to the use of payment terminals, wireless internet transfers and mobile telephony. These relatively simple technologies will enable individuals and communities with limited or no access to banking facilities, to have electronic acces to funds to pay for goods and services, establish a credit history and have access to credit” (Nana Ama 2006). But in fact, the technology for money transfer within and between countries is rapidly evolving.

Most of the transfers of funds made internationally today depend on new technologies of various kinds. They are ‘virtual’ in the sense that no money actually travels from place to place; instead, a system of credits and debits is established which enables transfer to be made in effect. But there is still an important proportion of ‘money transfers’ which takes place more directly; in these instances, the cash, bullion, jewellery or commodities are taken by land, sea or air to the recipient in ‘the home country’.

Among the technologies, the use of which is now relatively common among informal money transmitters are:

- Computers: The dramatic improvement in the capacity and flexibility of computers, PCs and laptops in recent years has revolutionised the capacity of money transfer operators (and others) to communicate internationally. The use of e-mail in particular has been made possible by the developments in computer technology. But the most recent developments, Skype etc, which make possible direct ‘telephone’-style communication via computers – obviating the need for landlines and telephones – are now rapidly becoming more widely used.

- E-mail: E-mail has revolutionised international communication, providing almost instant transfer of information while at the same time maintaining a ‘trail’ if needed - or allowing for its disappearance (except to the most expert of computer specialists, who can often ‘find’ or ‘re-construct’ e mail messages long after they have been ‘wiped’).

- Cards: Many new and experimental systems making use of cards are developing. The larger operators have had the capacity to issue debit and credit cards, which can be used to send money abroad, without the involvement of an intermediary. Most banks enable customers who hold accounts with them to make use of ATMs and credit and debit cards abroad – this in effect transferring money automatically. But these are international transfers from and to the same account holder. What is needed is a system that allows the money holder to send funds without necessarily having ‘an account’ and without the recipient having to have ‘an account’.

- Several companies are now developing card systems that enable a card holder in one country to ‘load up’ his or her card and transfer the funds on the card via an ATM-like system to someone in another country who also holds a ‘matched’ card, allowing them to draw on the ‘account’ thus set up by the individual sender. Neither party will need to hold an account in the normal fashion required by the banks; the ‘account’ will be set up simply by ‘loading’ – rather as many mobile or cell phones may be ‘topped up’ at present and the ‘account’ held by the mobile or cell phone ‘server’. The recipient will simply ‘download’ at the other end, assuming the existence of an appropriate mechanism or service provider (like an ATM machine).

- Cell phones: There is every reason to believe that the future for money transfer systems – which increasingly will reduce the need for intermediaries – lies with mobile or cell phones. In receiving countries, particularly in Africa, the rapid expansion in the use of mobile or cell phone technology is already having a dramatic effect. Worldwide, there are more than 2.4 billion cell phone users; about 59 per cent of these are in developing countries. Usage in Africa has jumped from 63 million users about two years ago to about 152 million today (2006), according to David Pringle, for the GSM Association, a trade group. Even the ‘least developed’ countries have demonstrated a rapid growth in mobile phones in recent years.

In the DR Congo for example, there are only about 20,000 conventional land lines, but the number of cell phone customers is estimated at around 3.2 million – and at least 8,000 sign up every day. About 25,000 Congolese subscribe to Celpay, which offers internet banking through cell phones. Customers make a cash deposit into their Celpay account and then transfer money or pay bills with it. Dozens of businesses, including gas stations and grocery stores, allow customers to pay for goods through Celpay. The company that distributes Coca Cola and Heineken beer also uses the system to collect payments, which means that drivers no longer have to carry a box full of money on their trucks and constantly worry about being robbed.

Cell phones of course also allow for direct communication between individuals in different countries. With only a small premium (which is coming down all the time), cell phone users can communicate directly. They do not even have to own a cell phone themselves. There are intermediaries who own cell phones whose business it is to transfer 'airtime' to paying customers. They give the owner cash and he transfers the minutes from the phone to wherever the customer wants them sent – a friend, relative or business partner. The transfer takes only a few seconds: cell phone companies have added that function in the past year. Text messaging has also become more common. Even people who are illiterate can learn key words to text, such as 'call me'. The incentive is the low cost: five cents for a text message versus 26 cents for a one-minute call. Gilbert Nkuli of Vodafone Congo estimates that 70 per cent of the country's estimated 60 million population now live in areas with cell phone coverage The potential is enormous.

Increasingly the systems for international communication and for the transfer of funds are becoming more sophisticated and accessible. Their flexibility is also increasing. Individuals, households, and diaspora groups, wishing to make the most of available technology, need to be properly informed about what is available and how to obtain access to it. One of the major constraints on the widespread usage of these new technologies – and indeed on the use of the older ones - is the perceived need for regulation and surveillance, both to ensure that the money transfers are not taking undue advantage of the client or customer and also to ensure they are not part of a money laundering exercise or other forms of criminal activity.

One major restriction on the use of 'formal' channels is the obligation to open an 'account' (a fixed mechanism, in the 'name' of the persons concerned for sending and receiving money transfers). Increasingly, new technologies and the demand for rapid transfer imply that opening 'an account' and passing the transfer of funds through 'named accounts' is unnecessary. On the other hand, efforts to regulate the transfer of funds place a premium on being able to identify and 'fix' the senders and receivers of remittances, as well as other money transfers. Flexibility and anonymity versus stability and identification: these two are in contradiction.

Some efforts are being made to respond to new demands with the opening of new kinds of 'accounts' – including, recently (by Lloyds TSB) 'Muslim accounts', which in accordance with shari'a law do not charge or allocate interest but make other arrangements to make opening accounts attractive.

# Appendix 3: The case of Al Barakaat

The example of the Somali financial network, Al Barakaat, reveals the heavy-handed approach to the regulation of so-called informal or alternative money transfer systems to be misguided and inappropriate.

Al Barakaat used to be a major channel for remittances sent back to Somalia by Somalis living and working abroad. In November 2001, the US government accused Al Barakaat of funnelling millions of dollars to Osama bin Laden and the Al Qaeda network. The US Treasury Department claimed that it had funnelled about US$25 million a year from customer fees to bin Laden's network. On November 7, 2001, police raided Al Barakaat offices in five US states, seizing their records and freezing their assets. Similar actions took place all around the world, including the United Arab Emirates, where Al Barakaat had its headquarters and where 10 executives were arrested.

The accusations were made by high level US officials speaking at press conferences. President Bush, for example, stated: 'Acting on solid and credible evidence, the Treasury Department of the United States today blocked the US assets of 62 individuals and organisations connected with two terror-supporting financial networks – Al Taqua and Al Barakaat. Their offices have been shut down in four US states; and our G8 partners and other friends, including the United Arab Emirates, have joined us in blocking assets and coordinating enforcement action' (cited in Passas 2006: 32).

On November 26, 2001, the UN Security Council included Al Barakaat in a revised list of suspected terrorist supporters. The names of nationals from Canada and Sweden were removed only after strong initiatives taken by their respective governments. Despite the lack of evidence and formal charges, the names of the owner and the company in Somalia remain on that list and on the European Union list.
Furthermore, there has developed a virtual industry of reportage and journalism linking Al Barakaat with international Islamist terrorism in general and with Al Qaeda in particular. Just to cite two examples, Jeffrey Robinson in 'The Sink' describes how:

'In four US cities, a Somalian-based wire remitter was shut down in dawn raids in November 2001 by US Customs officers who suspected that the Al Barakaat network was funding terrorist cells. Among the evidence [sic] uncovered was a connection with an Islamic charity whose money was in the Channel Islands. The jury remains out on just how much money moved through these offices, but it took 9/11 for someone to act, even though Al

Barakaat had been suspected of moving money illegally for at least two years prior to 9/11' (2003: 8).

With even less evidence but even more 'hype', Loretta Napoleoni writes, in her 'Modern Jihad', how:

'Armed organisations also benefit from multi-million dollar legitimate businesses, like the ones managed by Al Barakaat and Al-Taqwa/Nada Management Group. These international financial institutions run hawala exchanges all over the world. Al-Barakaat is a Somali-based international financial conglomerate with branches in 40 countries, including the US. Every year, until September 2001 (sic) when its funds were frozen by the US authorities, the US office wired at least US$500 million in international profits (sic) to the central exchange office located in the United Aab Emirates. Of these revenues, bin Laden's network received a flat 5 per cent, equivalent to about US$25 million' (2003: 160).

Almost five years have passed, and there has still been no formal indictment or charge relative to terrorism brought against the owner or operatives of this, the most intensively investigated money transmitter in the world. The only charges (and convictions) – in a few cases in the US – were for transferring funds without licence. The 9/11 Commission noted that 'notwithstanding the unprecedented co-operation of the UAE, significant FBI interviews of the principal players involved in Al Barakaat (including its founder) and complete and unfettered access to its financial records, the FBI could not substantiate any links between Al Barakaat and terrorism' (cited by Passas).

The impact of the crackdown on Al Barakaat was devastating to Somalis at both the sending and the receiving end. Somalia had no functioning formal banking system and was hugely reliant on the remittances sent home through so-called informal channels. The major MTOs did not operate in Somalia, and it was a 'home grown' operation that provided the bulk of the financial services needed. Randolph Kent, UN Humanitarian Representative in Somalia, stated at the time that the action taken against Al Barakaat 'is having a very, very serious effect'. He remarked that 'we are at a point where we have to start anticipating a crisis that could be unique in the modern state system – the collapse of an entire national economy'. In fact, the impact was mitigated by the intervention of other companies, according to Omer & El Khoury (2004). But the effect was nevertheless far-reaching and generally adverse, affecting an economy already in deep trouble and the lives and livelihoods of thousands of people.

On the basis of his recent study (2006) – which includes a consideration of the case of Al Barakaat - Nikos Passas concludes, among other things, that regulation of money transfer systems is necessary but that it should be done in a fashion proportionate to the risk and appropriate to particular socio-economic and cultural environments. The present approaches and mechanisms adopted in the US at least, are ineffective against terrorism and have undesirable negative effects.

He suggests, for example, that, in the US, remittance flows have been driven underground, as indicated by the large number of cases of unlicensed money transmissions operations detected by the authorities. Also there has been unnecessary disruption and damage to innocent parties, as illustrated by the actions taken against the Somali Al Barakaat and the closing of bank accounts of legitimately operating money service businesses in North America. Few who are reasonably informed are happy with the current regulatory regime. He has a number of recommendations for improvements, and he notes that ‘in many parts of the world the only way to remit funds is through informal networks; this is the conventional and traditional method’ (Passas 2006: 30).

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