

CSFI

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“Informal money transfers: Economic links between UK diaspora groups and recipients ‘back home’”. A round-table discussion on the recent CSFI paper, with the author, David Seddon (Critical Faculty and University of East Anglia), Roger Ballard (University of Manchester) and Leon Isaacs (Developing Markets Associates Ltd) held on Tuesday, January 29, 2008 at Bakers’ Hall, Harp Lane, London, EC3R 6DP, from 12:30-2:15pm.

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Remittance payments - money sent by migrant workers to their home country – should be big business for big business. Yes they are not. Annual payments flows are estimated at \$500bn a year of which \$300bn goes to developing countries. Of that latter figure as much half goes through informal channels, such as high street brokers, rather than mainstream banks. Flows from the UK, which has a large, diverse and well-established migrant population, is some £2.7bn (\$5.4bn) and growing at 8% a year.

The first speaker said one reason for the large share of informal payments was the paradox of a large aggregate sum made up of individuals payments often of less than £100, which was uneconomic for established banks. Growth has been phenomenal. A decade ago the global total was some \$100bn implying fivefold growth in 10 years. Even in the five years since 9/11 and its attendant money-laundering regime it was continued to grow. It has held up against competition from specialist operators such as Western Union and MoneyGram expanding their network; mainstream banks forging links with overseas banks; and the “staggering” growth in the use of smartcards and mobile phones particularly in Africa.

One major issue is the impact on the recipients. The flows outweigh the \$50bn global official aid budget. The first speaker said most went on basic needs such as paying debts and food bills. Other uses were special occasions, disasters and improving the standard of living. The speakers said accusations that this was just consumption were misplaced – it could lead to improved health and education levels. It was perhaps superior to government aid in not having any strings attached. However the speaker acknowledged there was a risk of creating a dependency culture in states such as Yemen where it made up 25% of GDP.

The second speaker said barriers to money transfer were not confined to migrants – tourists found it when they checked their credit card statements after a foreign jaunt. For those without access to the SWIFT system of interbank transfer, costs could be exceedingly high especially as banks tended to charge a minimum fee. Volatility of exchange rates also added to costs. The main reason was the absence of a global real-time payment system.

The solution may lie in learning lessons from *hawala*, the informal money transfer system used in the Middle East, Africa and Asia. The speaker explained *hawaladars* were brokers

rather than bankers; were able to move quickly; operated on trust rather bureaucracy; and were able to consolidate payments into multi-million pound transfers in a range of currencies to a range of countries. It was in effect a global payment system with a low failure rate at a small cost. He said the largest cause of problems was regulatory or criminal intervention particularly by the UK's HM Revenue & Customs

He said self-regulation was the right system as the *hawaladars* held the money for short periods of time and disputes were resolved swiftly and informally. Capital requirements and regulations would only inflate costs. Plans by the US Treasury and other bodies to drag into the formal sector were misguided by HMRC.

The last speaker said there was a question whether remittances could be a way of bringing the financially excluded into the mainstream. He agreed businesses that wanted to enter the market should learn from the informal sector. He said the exchange rate was often a more significant cost than the charge. A secret shopper survey for Nigeria showed that 13 out of 20 offered rates even lower than the central bank rate. It was difficult for new businesses to enter a market that was dominated by intra-community trust. This could be overcome by recruiting people with the relevant language and cultural knowledge as banks have done to move into the sharia market. The design of informal shops can be more attractive to migrant workers than traditional banks. Money laundering regulations that demanded identity for transfers of more than €1,000 or required a bank account propelled people into the informal sector.

One member said the HMRC was a light-touch regulator and often not the prosecuting authority in criminal cases. Another member said *hawala* was not based on trust but on good bookkeeping and efficiency. He said the vast majority of criminal cases ended in guilty pleas or convictions for large money transfers that were in fact money laundering or related to drug trafficking. *Hawala* was efficient but had to operate within British law.

Another member asked whether curbs on migration would have an impact. The first speaker said he doubted the curbs would be successful but would push more people into the informal sector. Another member said while phone-based transfers were effective it was more important to ensure that money could be transferred at a cheaper cost in more traditional ways – that's where business investment should go.

The first speaker highlighted a problem – capital rich but under-developed areas, such as parts of Pakistan where the flood of liquidity had led to the building of second homes but not functions such as irrigation. The third speaker said there was a trend towards donors wanting greater involvement in development in their home country and that this presented an opportunity. The first speaker said it was clear there were enormous potential resources that needed greater co-ordination in the recipient countries. There is a growing desire among migrant communities in the UK to play such a role. The question now was what they could do for development rather than what development could do for them!