



# FEMIP

Facility for Euro-Mediterranean  
Investment and Partnership

Study on improving the efficiency of workers' remittances  
in Mediterranean countries



## A word from the Vice-President

*This study on remittances to their countries of origin made by Mediterranean workers who have emigrated to the European Union is a first in more ways than one.*

*It is the first study financed by the FEMIP Trust Fund. This Fund, which was established in 2004 and has been financed – to date – by 15 EU Member States and the European Commission, is intended to support the development of the private sector via the financing of studies and technical assistance measures and the provision of private equity.*

*This study also illustrates FEMIP's desire to make available to all those involved in the Euro-Mediterranean Partnership the analytical data required to increase understanding of the economic and financial issues associated with the development of the partner countries and, in particular, of the factors that can help towards strengthening the financial and banking sector of the countries in question. With that in mind, FEMIP has already undertaken a survey of the sovereign debt markets in the Mediterranean countries (published in December 2005<sup>1</sup>) and defined an ambitious programme of work on access to credit for businesses.*

*This document is the first detailed analysis of financial flows from Mediterranean migrants in Europe, an overlooked subject that has not yet been fully measured. It shows, first, the extent of the phenomenon – some EUR 7 billion is “officially” transferred every year from Europe to eight Mediterranean countries – and, secondly, that the methods of transfer used do not enable this money to be put to sufficiently good use in order to finance productive investment. The range of questions raised and recommendations made leads me to believe that this document provides a solid basis for engaging in a process of information and consultation on improving both the terms offered to migrant workers for transferring funds and the efficiency of such remittances.*

*With that in mind I look forward to receiving your reactions and ideas that could contribute to the discussion of the issues in question following this report, which I hope that you will enjoy reading.*



**Philippe  
de Fontaine Vive Curtaz**

Member of the EIB's Management  
Committee responsible for FEMIP

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1. Available on the EIB's website at: [www.eib.org/publications/publication.asp?publ=242](http://www.eib.org/publications/publication.asp?publ=242)



# Study on improving the efficiency of workers' remittances in Mediterranean countries

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Final Report

*The authors take full responsibility for the contents of this report. The opinions expressed do not necessarily reflect the view of the European Investment Bank.*

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## Preface

The project team would like to thank all representatives of migrant organisations, financial institutions, Money Transfer Operators (MTOs) and other organisations and experts that contributed to this study through responding to specific questions and providing us with relevant documents and information.

We are grateful for the cooperation with the European Investment Bank and Peter Künzel in particular for the constructive comments during the study. We also like to thank our partners in the Mediterranean Partner Countries who provided valuable input: CEGEP in Algeria; Renova, Economics & Investment Consulting Ltd. in Turkey; Fidunion in Tunisia; Consultation & Research Institute (CRI) in Lebanon; North South Consultants (NSCE) in Egypt; Al Jidara in Jordan; Allied Management Consultants (AMC) in Syria; Dr El Ghanjou in Morocco, Karine Hermans in France, Hedi Ammari in Italy, Herman Janszen in the Netherlands and Antje Kangiesser in Germany.

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And last but not least we express our appreciation to the participants of the workshop discussing the preliminary findings and recommendations for their comments and suggestions: Andy Sundberg (World Diaspora Forum), Dominic Thorncroft (representative of Chequepoint and of the UK Money Transmitters Association), Peter van Roosmalen (CEO Inclusion Group), Peter van Dijk (Inclusion Group) and Peter Künzel (European Investment Bank).

We want to stress that the authors take full responsibility for the contents of this report and that the opinions expressed do not necessarily reflect the view of the European Investment Bank.



## Executive summary

With a few qualifications, the potential beneficial impact of workers' remittances on the development of recipient countries is now widely accepted. However, there is evidence in the existing literature that workers' remittances are generally hampered by high transfer costs and that the efficiency of their use in recipient countries is constrained.

The European Investment Bank has asked ECORYS to analyze the remittance market between Europe and eight Mediterranean Partner Countries (MPCs)<sup>1</sup>, and, to come up with concrete recommendations for improving the efficiency of remittance flows.

With this aim in mind, the study has been conducted in two stages. The first stage has been dedicated at taking stock of the existing situation, notably regarding:

- The origin of remittance flows for each MPC.
- The channels of transmission of remittances (banks, post offices, money transfer operators, informal networks) and associated costs.
- The impact of market imperfections in host and recipient countries on costs.
- The use of funds in recipient countries and impediments to their efficient allocation.

The second stage of the study provides recommendations based on the analysis and addresses which priority issues are needed to improve the efficiency of remittance flows between Europe and MPCs and how priority actions can feasibly be implemented.

While impediments to efficient remittance flows and ensuing recommendations tend to be corridor specific (i.e. country to country), the following general conclusions from the analysis stage of the study can be drawn:

- Remittances are of considerable economic importance to MPCs, although more for some countries than others. Remittances through formal channels to individual MPCs can vary between 2 to over 20 percent of GDP.
- The EU is by far the main source of remittance flows to Turkey, Morocco, Algeria, and Tunisia. In other MPC countries, the majority of remittance flows come from outside the EU.
- Inward flows are not as stable as perhaps could be expected in a number of countries in the region, as some MPCs receive a substantial share of their remittance flows from oil exporting countries and flows are thus dependent on oil market conditions. In other countries, inward flows have been impacted by changes in the number of new migrants.

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<sup>1</sup> Turkey, Morocco, Tunisia, Algeria, Egypt, Lebanon, Jordan, and Syria.

- The channels of transmission predominantly go through the informal sector, with the notable exception of the German-Turkish corridor, which relies heavily on Turkish banks operating out of Germany. Money Transfer Operators (MTOs) are often a dominant formal channel, despite higher costs, because they provide speed, reliability, do not require an account, and usually have good distribution networks.
- A number of market imperfections and information deficiencies have been identified. These include exclusivity contracts for MTOs in post offices; lack of transparency on transfer costs (particularly as regards exchange rate fees); inadequate information regarding available transfer mechanisms and associated costs, speed and reliability; and inadequate payment systems and limited usage of bank accounts in Mediterranean countries. Accessibility to banking accounts for emigrants residing in the EU is also limited and banking products are not sufficiently tailored for remitters, with few exceptions. These imperfections have resulted in high transactions costs, which vary widely according to transfer operator and corridor, but can exceed 16 percent of capital sent.
- In terms of use of funds in recipient countries, it appears that remittances are primarily aimed at consumption, and can enhance education, health and housing conditions. Little evidence is found of remittances being used for immediate productive investment, although some interesting examples exist.

In order to improve the efficiency of workers remittances it is necessary to both remove existing impediments identified throughout this study to lower transactions costs, and at the same time devise means to maximise the developmental impact of remittances. With this aim in mind, a number of recommendations have emerged, both of general nature and more specifically related to the various corridors:

- Payment systems in MPCs need to be improved and links with EU countries need to be strengthened in order to reduce transaction costs and provide better services. MPC governments and the EU should take the initiative to develop an effective mass payments system, including determining funding and technical assistance requirements.
- The banking system is an effective way for channeling remittances into productive investments. Banking services specifically targeted at migrants—including mortgage products, remittance-tailored bank accounts, and investments funds—should be encouraged to attract remittance funds through the banking sector.
- Banks in MPCs and the EU should try to forge alliances with a view to reducing transaction costs and attracting remittances. Alternatively banking services could be linked to post office networks, when the latter enjoy a dominant network market position. Exclusivity contracts for MTOs in post offices should be removed to open the sector up to competition.
- Migrant access to bank accounts in the EU should be improved by recognizing simple ID cards issued by embassies.
- Banks and communication companies in the EU and MPCs need to start developing new technologies for remitting funds (i.e. telephone or internet transfers), similar to those that have already taken off in Asia.
- MPCs banks that receive substantial amounts of remittance flows should be encouraged to tap international capital markets by issuing remittance-backed bonds. This would not only mobilize additional foreign savings that can be used for

productive investments, but reduce banks' financing costs and contribute to financial market development.

- In relatively capital-rich MPCs, where remittance-backed savings may be underutilized, the pooling of resources domestically through local associations should be envisaged. The purpose would be to pool resources to finance local infrastructure projects (the absence of which may impede productive regional investments), as well as local entrepreneurial activities and productive investments. Local infrastructure projects could be enhanced by matching government or donor funds.
- While local pooling schemes tend to be small in scale, larger cooperative pooling schemes could also be devised, whereby the NGOs (i.e. diaspora organizations) in host and recipient countries could help pool resources and work with banks and multilateral organizations to finance projects and develop financial services to the remittance industry.
- MPC governments, in conjunction with the EU, could help sponsor the transfer of knowledge and know-how of migrants and help establish and recognize diaspora organizations in order to stimulate business development.
- The development of a think tank to deal with remittance issues (i.e. policies, products and efficiency) should be considered.
- A website to improve information transparency on transactions costs should be developed. Preferably the website should be managed by migrant organisations themselves.
- Where present, capital controls should be removed to provide an incentive for migrants to remitt additional funds.
- Incentives schemes—including special training schemes for migrants to open small businesses back home, special import privileges, and offering premium interest rates on remittance funds—have been met with varying degrees of success. They could be envisaged to complement other instruments described above.

Strengthening the remittance links between the EU and MPCs is only a part of improving the efficiency of the remittance market for MPCs; additional efforts for strengthening remittance flows from other parts of the world will also be required for MPCs to reap the economic benefits of improved remittance flows and utilization.





# 1 Introduction

The European Investment Bank has asked ECORYS to come up with practical recommendations to improve the efficiency of workers' remittance from Europe to eight Mediterranean Partner Countries (MPCs): Turkey, Morocco, Tunisia, Algeria, Egypt, Lebanon, Jordan, Syria.

In order to provide specific recommendations, this study focuses on eight corridors: the remittance flows from an EU country to one of the eight MPCs. For each corridor, information and data was gathered from the existing literature, Central Banks in the host and the home countries, and (telephone) interviews. In addition, mini-surveys and a money-transfer experiment were carried out.

As the project was being carried out, it became apparent that the data on remittances for the studied corridors is often outdated, poorly defined, inconsistent with other sources or simply did not exist. We also noticed that our own surveys, initially intended for illustration and not designed to be representative per se, became increasingly important to understand the remittance mechanisms in various corridors. Despite the methodological caveats, the report is as accurate as possible. Lack or inconsistency of data has been duly reported.

The research team hopes that the discussion this report may raise will result in the further development of a knowledge base on remittance flows in the corridor "European Union - Mediterranean Partner Countries". That, in itself, would likely help to improve the efficiency of workers' remittances.

## 1.1 Objective of the study

This report is the result of a study that has been carried out for the European Investment Bank by ECORYS Nederland BV in cooperation with Inclusion Group (the Netherlands) and Federico Caffè Centre, Department of Social Sciences, Roskilde University (Denmark) from June 2005 to November 2005.

The Terms of Reference for this study mention the following objectives and main results that should be achieved by the Contractor:

The objective of the study is to determine ways by which the efficiency of workers' remittances in Mediterranean countries can be improved. The study will result in recommendations that are feasible, can be implemented and that are based on a sound understanding of existing flows and channels of

remittances, their usages and on the mechanisms in the financial markets in EU and Mediterranean countries.

The objective of the study is based on the assumption that workers' remittances have a potential beneficial impact on the development of recipient countries and that this impact is reduced due to imperfections that hamper the flow of remittances and their productive usage.

The EIB has indicated that it could play a pro-active role in improving the efficiency of the financial markets. In addition, the EIB can play a role in building and sharing knowledge on remittances originating in Europe. The results of the study should therefore indicate areas for potential EIB involvement and an associated action plan.

## 1.2 Policy context

The Euro-Mediterranean Conference of Ministers of Foreign Affairs in Barcelona in November 1995 marked the starting point of the Euro-Mediterranean Partnership (Barcelona Process), a wide framework of political, economic and social relations between the Member States of the European Union and Partners of the Southern Mediterranean and Eastern Mediterranean Basin. The recent intergovernmental summit celebrating the 10 years anniversary of the Partnership, and the qualified comments that followed, have clearly shown the need of a stronger financial and political commitment of the EU in the region to reduce the existing economic gaps and support the process of economic reform.

The Euro-Mediterranean Partnership comprises 35 members, 25 EU Member States and ten Mediterranean Partners (MP). Eight out of these Mediterranean Partner Countries (MPCs) are the focus of this study: Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Turkey.<sup>2</sup> The main sources for funding of activities for the Euro-Mediterranean Partnership are the MEDA programme from 1995 to 2003 (MEDA committed € 5.458 million) and the EIB (lent € 14 billion to the MPCs since 1974).<sup>3</sup>

A recent political development affecting the Mediterranean countries is the 'European Neighbourhood Policy' (ENP). The Bilateral Action Plans developed under the ENP will replace the multilateral approach devised previously under the Barcelona Process and will focus on the harmonisation of policies towards EU standards and regulations. This bilateral approach in the ENP may provide opportunities for devising joint projects in the management of migration and remittances in a "corridor" perspective. This study will provide suggestions within the context of the ENP for further actions that could be implemented and financed by the EIB.

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<sup>2</sup> The study focussed on the developing MPCs where an improvement in the efficiency of remittances is expected to generate a development impact. Israel and the West Bank and Gaza (WBG) are MPCs, but are not included in the study, as Israel is an advanced economy and data and information for the WBG are scarce.

<sup>3</sup> [Http://europa.eu.int/comm/external\\_relations/euromed](http://europa.eu.int/comm/external_relations/euromed).

## 1.3 Improving the efficiency of workers' remittances

### *Assignment*

In order to make an assessment concerning the efficiency of workers' remittances, we have looked at efficiency on two levels:

- As concerns the flows of remittances, we analyzed transaction costs (i.e. fees, speed) in relation to the amount of remittances received.
- In relation to the development impact of remittances:
  - We analysed the usage of remittances (consumption or production);
  - And, the channels through which remittances flow (formal, informal, giro or cash).

### *Transaction costs*

The key questions here is: "Can the transaction cost of remittances be considered reasonable for the services delivered?"

To assess transaction costs, we have not only looked at the most important indicator for 'transaction costs', namely the direct fees paid for money transfers, but also at other characteristics of transactions that indirectly influence costs: speed, proximity and accessibility. In summary transactions costs are made up of the following:

- Direct costs paid: fees and commissions, costs for foreign currency exchange;
- Speed of the transfer: the longer a transfer takes, the costlier the transaction. Remitters may be willing to pay extra for speed;
- Proximity: the more extensive the network of the provider of the remittance service in both home and host country, the less costs the remitter has to bear to send or to pick up the funds. Remitters may be willing to pay extra for proximity;
- Accessibility: measures the requirements to access a service, i.e. for a transfer through a bank, a bank account is often needed. Remitters may be willing to pay extra for accessibility.

We assume that an improvement in efficiency, i.e. reduction of the transaction costs, will increase remittance flows.

### *Impact of usage of remittances on development*

The key question here is: Are the remittances used in a way that they generate a maximum developmental impact?"

Indicators for developmental impact include improvement in infrastructure (roads, electricity, communications, transit systems) and health systems, and increase in the number of affordable housing, number of employed persons, number of children that go to school. While increased consumption emanating from remittance flows may stimulate the local economy, the productive use of remittances through investment generates a stronger development impact as a result of the multiplier effect.

### *Impact of channels used on development*

The key question here is: Do the channels used for remittances contribute to a maximum developmental impact?"

The usage of remittances is not the only consideration for development impact. The channel used is important. In particular, remittances transferred through giro systems and bank accounts (to the extent that accounts are maintained) can generate positive externalities for development, as banks can leverage these funds for on-lending. From this perspective, where cash-based channels are used (MTOs and informal channels), we will recommend the encouragement of the usage of bank channels.

## 1.4 Sources of information and activities undertaken

### *Existing body of knowledge*

We have conducted our research based on varied sources, including existing academic literature, various reports and publications from national authorities and international organizations, and other sources (the internet). Whereas many studies on remittances have been conducted in recent years, most of these have a focus on the USA – Latin America or Asian corridors. Few in-depth studies have been conducted on specific remittance corridors from Europe to Mediterranean countries.

### *Collecting data*

We have made a quick scan of the migrant patterns and remittance flows from the EU-25 to the MPCs and identified the largest remittance streams. To ensure that each MPC would be included in this study, we have defined a *corridor* as:

“The largest remittance stream to a Mediterranean Partner Country originating in a European Country.”

For the eight corridors these remittance streams originate in Germany, France, Spain and Italy. These four EU countries are the ‘host’ countries in this study. The disadvantage of this selection criterion is that some European countries (for instance the Netherlands) with relatively large, but evenly distributed, groups of Mediterranean immigrants are not included.

Data for each corridor was gathered on:

- The number of migrants and the remittance flows. As the main source of information for the remittance flows we have used the Balance of Payments statistics of the Central Banks or other statistical institutions in both host and recipient countries;
- Market mechanisms. As a context for understanding the remittance channels, we have collected information on the financial sector in host and recipient countries, mostly through desk research. Information on channels (number of MTOs and banks, market shares, costs) was collected by telephone interviews with representatives from migrant organisations, MTOs, banks and Central Banks in the host countries;
- The characteristics of the remitters and the receivers, their motivation to remit and the usage of the received funds. This was done through desk research and mini-surveys. The mini-surveys (15-minutes household interviews in recipient countries) are used as an illustration of our findings and do not allow for deriving statistically justified conclusions;
- Exchange rates used by various operators (MTOs, banks). These are most often not clearly specified, nor are they revealed during telephone interviews. To obtain a

better understanding of exchange rates used, we conducted a small transfer exercise by sending € 400 through different channels from the EU host countries to the MPCs. Like the mini-surveys, the information obtained is used primarily for illustration.

It is important to note that it is beyond the scope of the present study to present a full and encompassing picture of the current remittance flows and mechanisms between the EU as a whole and the MPCs. However, we hope that the recommendations provided in this study will trigger further research and debates and help develop concrete actions that can improve the functioning of the remittance market more generally.

### *Workshop*

To test our findings and obtain feedback on our recommendations, we invited a small group of key informants (from migrant organisations, the financial sector, MTOs and other organisations) for a one-day workshop on 28 October 2005. During the workshop we received useful comments and new ideas. These are included in this report. Also the participants expressed their appreciation to the EIB initiative for taking the initiative to fund this study and stressed the importance of continuation: “make it a process, not a project.”

## 1.5 Usage of definitions

### 1.5.1 Introduction

In order to come up with recommendations on improving the efficiency of remittance flows, an understanding of the magnitude of these flows and the characteristics of the migrants is required. To this end, we have used the definitions, as published in fifth edition of IMF’s ‘Balance of Payments Manual’ as a starting point for the retrieval of data on remittances. However, when reviewing the data, we found that the definitions were interpreted in many different ways in different countries, thus making it nearly impossible to compare them in a meaningful way. An international working group, lead by the World Bank, was set up in 2004 to study and recommend improvements on data quality.<sup>4</sup>

This section describes our approach to the data collection given the existing limitations. In light of the limitations to existing data, it should be noted at the outset that the data is not well suited for making comparisons between corridors or for specific calculations, i.e. on the amount of remittances per migrant.

### 1.5.2 Definitions

#### *Workers’ remittances*

Many different definitions for workers’ remittances are used, and can include workers’ remittances per se as defined by the IMF Balance of Payments Manual (i.e. current

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<sup>4</sup> During the G8 Summit in December 2004 the importance of remittances was recognised by the Finance Ministers and a working group was established with the task of solving the problems concerning remittances data quality and consistency of data collection. The working group is led by the World Bank and collaborates with IMF, the European Central Bank, the International Bank for Development, the OECD, United Nations and representatives from top remittance sending and receiving countries. Results are expected by December 2006.

transfers by migrants who are employed in new economies and considered residents there), but can also be understood as including compensation of short-term migrant workers and transfers resulting from migration back to the home country. Furthermore, different countries record remittances differently. Whereas most MPC countries only record giro flows through the financial sector, a few countries also register goods purchased in host countries that are subsequently imported (i.e. cars) or cash carries as remittances. These flows are typically considered informal remittance flows. Differences in treatment and definitions are outlined in tables 1.1 and 1.2.

For the purpose of this study, we define "workers' remittances" as the amount of migrants' earnings sent back to related persons or into personal (bank) accounts from the migration destination (host country) to the place of origin (home country). This definition is more in line with the narrow IMF definition of "workers' remittances" and fits in better with the objective of improving the efficiency of remittance flows, since other categorization, including compensation of employees or migrant transfers, are either of a more irregular, or short-term, nature.

#### *Informal remittances*

While the focus of the study is on recorded flows, information on informal remittances is also presented, if available, to provide an indication of the *total* remittance flows in a given corridor. As noted above, informal remittances are usually unrecorded, and include carriage of cash or goods and transfers through unlicensed money transfer operators. The inclusion of informal flows is of interest since they form a potential 'market' to be tapped for inclusion in the formal sector. In terms of efficiency, we assume that the formal remittance market is more efficient if informal flows are small.

Table 1.1 Registration of formal and informal remittances in MPCs and selected EU countries

	Formal			Informal			Countries
	Banks	MTO	Postoffice	Goods	Cash carry	Unoff. MTO	
Registered							Germany, Spain, Italy, France, Jordan, Turkey, Egypt, Lebanon, Syria
Registered							Tunisia, Algeria, Morocco

#### *Migrant data*

We consider all persons living outside their home country as a migrant. A home country is the country where the migrant has its roots, i.e. they are born there or their ancestors were born there. The host country is the country where the migrant is living. Migrants may have the nationality of the home country, the host country or have dual citizenship.

As with remittance data the differences between migrant data reported by various sources may be large.<sup>5</sup> In this report we have mainly used numbers on 'foreign nationals' or 'foreign born nationals'. However, these figures do not include illegal migrants, who

<sup>5</sup> It is beyond the scope of this study to research and explain these differences.

often are remitting a large portion of their earnings. Where available, estimates on illegal or irregular immigrants are presented.

Table 1.2 IMF definitions<sup>6</sup>

	Term	Definition
<b>A</b>	<b>Current Transfers</b>	Current transfers is further subdivided in two categories: <ol style="list-style-type: none"> <li>1) General Government</li> <li>2) Other sector transfers (often also called 'Private Current transfers')</li> </ol>
<b>A1</b>	<b>General Government (not relevant for remittances)</b>	
<b>A2</b>	<b>Other sector transfers (often also called 'Private Current transfers')</b>	Transfers between other sectors of an economy and non-residents comprise those occurring between individuals, between nongovernmental institutions or organizations (or between 2 groups), or between nonresident governmental institutions and individuals or nongovernmental institutions. It is divided in 2 subcategories: <ol style="list-style-type: none"> <li>1) Workers' remittances</li> <li>2) Other current transfers</li> </ol>
<b>A2.1</b>	<b>Workers' remittances</b>	Current transfers by migrants who are employed in new economies and considered residents there. Workers' remittances often involve related persons. Persons who work for and stay in new economies for less than a year are considered non-residents; their transactions are appropriate mainly to the component for compensation of employees.
<b>A2.2</b>	<b>Other current transfers (not relevant for remittances)</b>	
<b>B</b>	<b>Compensation of employees</b>	Comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals – in economies other than those in which they are residents – for work performed for and paid by residents of those economies. Included are contributions paid by employers, on behalf of employees, to social security schemes or to private insurance or pensions funds (whether funded or unfunded) to secure benefits for employees. Employees, in this context, include seasonal or other short-term workers (less than one year) and border workers who have centers of economic interest in their own economies.
<b>C</b>	<b>Migrant transfers</b>	In the strictest sense, these transfers are not transactions between two parties but contra-entries to flows of goods and changes in financial items that arise from the migration (change of residence for at least a year) of individuals from one economy to another. The transfers to be recorded are thus equal to the net worth of the migrants.

<sup>6</sup> IMF, Balance of Payments Manual, fifth edition.

### 1.5.3 Collecting data based on the definitions

All countries, both within the EU and in the MPCs, use the IMF Balance of Payments Manual as the guide for registering workers' remittances. As noted above, the definition 'workers' remittances' is closest to the focus of our research and, to the extent that it was available, we collected this data from the national Balance of Payments statistics in the various countries.

However, the narrow definition of workers' remittances was not always clearly identifiable as in some countries this data was only available in combination with 'migrant compensation' and 'migrant transfers', i.e. in Turkey, Tunisia en Egypt (Table 1.3). If neither 'workers' remittances' nor a broader combination of remittance flows was available, we used the data on 'private current transfers' as a proxy. While not ideal, this second best solution should not be far off the mark in estimating workers' remittances since in countries where all data was available, 'workers remittances' account for 80 – 90% of 'private current transfers'.

In addition to the differences in categorization, it should be noted that differences in the methodology of collecting data and definitions may also give rise to differences in what is reported as workers' remittances. Thus, for example, in some countries it is unclear if MTO tranfers are recorded and informal remittances are sometimes also included in the official figures. Furthermore, definitions and methodologies change, as has been the case for Turkey recently. Thus, whereas migrant transfers to Turkey or migrant spendings in Turkey used to be considered remittances, these spendings are now classified as tourist spendings.

A further complication for the purpose of this study was that a geographical breakdown of remittances flows from the national authorities in recipient countries was not always available. In these cases, estimates were made based either on data available from host countries, migrant data or interviews.

For all these reasons, data should be interpreted and compared with great care. It is hoped that the World Bank working group will provide the basis for better data compilation and harmonization of definitions across countries.



Table 1.3 Overview of definitions and data collection methods in different countries

	Remittances as included in the Balance of Payments				Method of collection per country				Remarks
	Private current transfers (A2)	Workers' remittances (A2.1)	Migrant compensation(B)	Migrant Transfer (C)	Banks	MTO	Post office	Informal	
Germany		X			Records	Estimates	Records	Estimates	Total remittances based on estimates
Spain		X			Records	Records	Records	-	No geographical breakdown available
Italy		X			Records	Unclear <sup>7</sup>	Records	-	Records of cross border transactions. A portion of flow of remittances is allocated to Migrant compensation
France		X			Records	Records	Records	-	
Jordan		X			Records	Records	Records	-	No geographical breakdown available
Turkey			X		Records	-	-	-	Transactions of Turkish citizens residing abroad. No geographical breakdown available
Tunisia			X		Records	Records	Records	Partly recorded	Imports of goods declared by Tunisian Citizens. Cash exchange at the border
Egypt			X		X	unclear	-	-	Cash transfers transmitted by migrant workers to families and communities back home.
Lebanon	X <sup>8</sup>				Records	Records	Records		No geographical breakdown available
Morocco	X				Records	unclear	Records	Partly recorded	Private current transfers consists of workers' remittances, pensions and social security and other private transfers. Money exchange at the border is included (partly informal).

<sup>7</sup> According to Caritas the flows of workers remittances are about twice the ones reported by the official data because of an extensive use of 'informal channels' of transfers (e.g. "money transfer companies"). Statement from a power point presentation by Banca d'Italia on a UN meeting of a technical subgroup of movement of natural persons, 31 january – 1 february 2005, <http://unstats.un.org/unsd/tradeserv/TSG%2002-05-Paris/tsg0502-2.htm>

<sup>8</sup> See paragraph 10.2. We have used data from IMF Balance of Payments Statistical Yearbook, workers' remittances.

	Remittances as included in the Balance of Payments				Method of collection per country				Remarks
	Private current transfers (A2)	Workers' remittances (A2.1)	Migrant compensation (B)	Migrant Transfer (C)	Banks	MTO	Post office	Informal	
Algeria	X				X	X	X	Partly recorded	Includes also money declared in airports and ports. No geographical breakdown available.
Syria	X				X	X	-	-	

## 1.6 Outline of the report

This report consists of 14 chapters. Chapter 2-4 provide some background information on remittances, the EU-MPC corridor, and the payments infrastructure in the EU. Chapters 5-12 present our analysis for each corridor. These chapters are structured in a similar manner and include, for each corridor, an overview of the remittance flows, the migrants and their characteristics, the channels used for remittances, the financial sector in the recipient country and the usage of the remittances. At the end of each chapter an overview of the key characteristics is provided and corridor-specific recommendations are spelled out. Chapter 13 addresses the question of relative efficiency of remittances in MPCs based on the findings of the previous chapters; Chapter 14 summarizes recommendations per corridor and suggests general approaches and specific instruments for improving the efficiency of workers' remittances between the EU and its MPCs.



## 2 General background on remittances

### 2.1 Introduction

This chapter provides a general background on remittances. It includes an overview of global remittance trends and describes characteristics associated with remittances, including how remittances are used and transmitted, as well as their potential economic impact. This chapter is in no way exhaustive, since the literature on remittances is quite vast, but it aims to provide some notions of the characteristics associated with remittances that can be found in the existing literature. As will be seen later in the study, some of these preconceived notions on remittances also appear to apply to specific EU-MPC corridors, whereas others do not.

### 2.2 Remittance trends, usage and economic impact

#### 2.2.1 Global remittance trends

According to the latest Global Economic Prospects (GEP) published by the World Bank<sup>9</sup>, officially recorded remittance-related flows worldwide—including workers' remittances, compensation of employees, and migrant transfers—are estimated at \$232 billion in 2005, up from \$131 billion in 2000. Some \$167 billion were officially received by developing countries last year, although it is estimated that informal channels account for 50 percent of total remittances sent, making remittances the largest source of external capital in many developing countries. While India, China and Mexico are the biggest recipients in absolute terms, remittances equal or exceed a quarter of GDP in countries such as Tonga, Moldova, Lesotho or Haiti. At the same time, global remittances are surging, with growth largely outpacing that of private capital flows and Official Development Assistance (ODA). These trends are expected to continue as the number of migrants grows.

#### 2.2.2 Use of remittances

In general it is estimated that only a small share of the remitted money is used for productive investments. Thus, for example a study by Orozco on Mexico shows that between 6% and 7% of remittances are used in productive investments.<sup>10</sup> It should be noted that investing remittances in productive activities does not occur overnight in circumstances where basic conditions for investments are lacking. The use of remittances

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<sup>9</sup> Worldbank, 2006

<sup>10</sup> Orozco, 2000.

for productive investments depends upon the context and on the opportunity for small-scale investments and the social and financial capital needed for a new business. Lack of infrastructure, poor access to credit and under-developed markets can hinder efforts to invest remittances. Studies have also shown that large remittance funds remain unutilised and migrant households' investments, if they occur, remain primarily within the housing sector.

### 2.2.3 Economic impact

The economic impact of workers' remittances are a widely debated issue and the role of remittances is an important issue for governments in both sending and receiving countries. Household surveys and studies generally support the notion that remittances reduce poverty, smoothen consumption when hit by shocks, and increase investment in education and health. Remittances are also considered stable relative to other flows and may be countercyclical in relation to recipient countries' economic performance as migrants may be driven to send more money home in the event of adverse economic conditions in their home country. The recent GEP report also points out that remittances can improve a country's creditworthiness as traditional indicators of vulnerability, such as debt to export ratios, would rise significantly in the absence of remittance inflows. Furthermore, the securitization of remittance flows can raise a country's external access to finance and reduce financing costs (see for example, chapter 5).

While there is ample evidence in the literature in support of the positive effects of remittances on economic development, there is also ambiguity in the literature for example concerning the effects of remittances on growth, and some adverse consequences of remittances are to be found in the literature as well. The latter includes notably the Dutch disease effect, as a high inflow of remittances can lead to an appreciation in the real exchange rate and weaken the recipient countries' external competitiveness.<sup>11</sup> Also remittances may lead to a situation of capital-rich underdevelopment as households rely on remittances and are encouraged to substitute effort for leisure.<sup>12</sup> Other studies, notably Haas (1998) in his study on the impact of remittances in Morocco, find that remittances can contribute to the abandonment of large agricultural areas.

## 2.3 Channels of transmission

### 2.3.1 Introduction

Monetary remittances are transferred both through formal and informal channels. *Formal remittances* are sent through banks, post offices, exchange houses and MTOs, such as Western Union and Money Gram. Formal remittances are registered by the Central Bank or other national institutions and can also be obtained through the IMF Balance of Payments Statistic publications and other country reports. As remittances through

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<sup>11</sup> Solimano, 2003, p. 14.

<sup>12</sup> Gubert, 2002.

informal channels are by definition not registered, we have as noted previously, included estimations of the size of the informal remittance flows for all MPCs.

Broadly speaking, there are four main categories of transfer channels used for sending remittances: banks, post offices, Money Transfer Organisations (MTOs) and informal money transfer services (including cash and commodities carriers).

### 2.3.2 Formal remittances

#### *Banks*

*Banks* offer money transfer services through their network of correspondent banks. The transfer itself is handled through the electronic wire transfer system SWIFT, to which all (international) banks are connected. To transfer via a bank, in most cases the remittance sender must have a current account with the bank in the host country and the recipient an account in the home country.

#### *Post offices*

*Post offices* in Europe are Eurogiro members, an organization whose purpose it is to strengthen electronic payment solutions. The Eurogiro product range, alliances and service level agreements intends to enable its members to offer competitive cross-border payment products for meeting customers' demands.<sup>13</sup> Services offered by Eurogiro include:

- Business day standard transfer, from debiting of the sender's account to crediting of the recipient's account. Money orders for low-cost, cash payments in maximum 5 banking days;
- Semi-urgent cash payments (Tele Money Orders), cash payments in maximum 2 banking days;
- Urgent cash payments (Western Union) if the recipient needs the money within minutes;
- Bulking of large number of transactions, e.g. pensions, to enable low cost handling.

A number of banks and the Post in four MPCs are members of Eurogiro: Egypt (Commercial International Bank), Tunisia (Post), Morocco (Banque Centrale Populaire, Post), and Turkey (Post). Since 1998 Eurogiro has been in partnership with Western Union and offers urgent cash transfers to their 150.000 locations around the world.

#### *Money Transfer Organisation (MTOs)*

The largest worldwide operating MTOs are Western Union and Money Gram. As both Western Union and Money Gram have networks in the MPCs, they have been included in this study. It is important to note that although most members of Eurogiro also offer Western Union services<sup>14</sup>, Western Union services are considered separate from the Post office for the purpose of this study. Thus, if post office services are mentioned in the report, these refer to the Eurogiro services without the Western Union service. Western

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<sup>13</sup> <http://www.eurogiro.com>.

<sup>14</sup> In Italy the post office cooperates with Money Gram.

Union services are always discussed separately under the category of MTOs. MTOs require no account for the use of their services.

### 2.3.3 Informal remittances

There is widespread recognition that an important part of the money remitted back home by migrant workers flow through *informal* channels. Informal remittances are not regulated or reported. Informal remittances are generally transferred through hand-carriage (when going home to visit) or by family, friends, networks of transfer agencies or money couriers, via call shops, 'ethnic stores' or travel agencies.

Reasons for the use of informal transfer systems are numerous and include: underdeveloped banking networks, costs involved with formal remittance channels, the inability to open bank accounts in host countries due to lack of proof of identity and/or lack of regular status, poor knowledge of alternative products arising from weak marketing by the formal institutions and/or because of illiteracy or financial illiteracy among potential clients, consumer inertia, lack of confidence in official transfer systems, unfavourable exchange rates through official channels, familiarity with informal services, and proximity.

The US Treasury, the World Bank, regional financial institutions and national governments have over the past few years focused their attention on the linkage between informal remittance systems and terrorist financing and money laundering. The consensus strategy is to ensure that informal remittances are not further driven underground, but to regulate them according to formal sector standards as much as possible and to channel a much higher percentage of remittances through the formal sector.



## 3 The EU – MPC Corridor

### 3.1 Introduction

The core of this study are the eight individual corridors described in later chapters. Here we provide a broader context and discuss issues on the EU – MPC level. This chapter therefore includes a description of the total amounts remitted by MPC migrants living in Europe, the origin of flows within the EU, the importance of remittances from the EU compared to remittances from other parts of the world, and finally we identify the most important remittance corridors between the EU and the MPCs.

### 3.2 Remittances in the EU-MPC corridor

The existing literature provides no consistent estimates of remittances sent from the EU to MPCs reflecting primarily differences in definition and categorization that have already been mentioned previously. In addition, the compilation of data for the EU –MPC corridor is made difficult as data collected by national authorities do not necessarily include a geographical breakdown.

Notwithstanding these caveats, we have attempted to provide an order of magnitude of formal remittances flowing from the EU to MPCs. Two approaches to estimating remittances data for the EU –MPC corridor were used. The first approach either compiled recorded remittances from the EU from the receiving countries when available (i.e. Tunisia) or identified the principal remitters on the sending end, and then used the data provided by their national authorities. The second approach used total remittance flows recorded by individual MPCs and then estimated the share received by the EU based on migrant data.

Table 3.1 shows the results of the estimation of remittances received by MPCs from the EU in 2003 based on both approaches. Estimates using both approaches show that some €6 billion was received by MPCs from the EU in 2003. While this figure provides an order of magnitude, it is likely somewhat lower than actual remittance flows from the EU to MPCs given the large informal flows as well as the lack of comprehensive data from reporting and receiving countries.

In terms of trends, an estimation of remittance flows from the EU to MPCs based on migrant data was replicated for the years 1999 and 2001. These estimations show that remittances from the EU to MPCs amounted to €6.9 billion and €8 billion in 1999 and 2001, respectively. While the €6 billion figure for 2003 may lead one to conclude that remittances are on a decline in the EU-MPC corridor, this is not strictly speaking the case.

In fact the nearly €2 billion decline in remittance flows to MPCs from the EU between 2001 and 2003 reflects a significant decline in remittances to Turkey (over €2 billion), following the reclassification of a large share of remittances as tourism receipts in 2003. Excluding Turkey, remittance flows from the EU to MPCs have been increasing from an estimated €3.3 billion in 1999 to an estimated €5.6 billion in 2003.

Table 3.1 Estimates of workers' remittances received by MPC countries originating from Europe in 2003 (€ million) <sup>15</sup>

Country	Total recorded workers' remittances received (A)	Recorded remittances from Europe (or some EU countries) (B)	Estimate of workers' remittances from Europe (based on % migrants in Europe) (A*C)	% of migrants in Europe of total migrants worldwide (C)
Turkey	645	1.300 <sup>16</sup>	548	85%
Morocco	3.182	2.850 <sup>17</sup>	2705	85%
Algeria	1.547 <sup>18</sup>	288 <sup>19</sup>	1470	95%
Tunisia	1.099	950 <sup>20</sup>	934	85%
Jordan	1.929	22 <sup>21</sup>	96	5%
Egypt	2.651	444 <sup>22</sup>	133	5%
Lebanon	2.210	17 <sup>23</sup>	221	10%
Syria	447 <sup>24</sup>	8 <sup>25</sup>	22	5%
<b>Total</b>	<b>Appr. € 13 billion</b>	<b>Appr. € 6 billion</b>	<b>Appr. € 6 billion</b>	

### 3.3 Importance of remittances for MPC countries

Remittances are of considerable economic importance for most of the MPC countries. Table 3.2 shows total remittances as a share of GDP for MPC countries. Remittances are particularly important in Lebanon and Jordan, accounting for between 9-15% of GDP and 20-22% of GDP, respectively between 1998 and 2003. However, only a small portion of remittances to these two countries originates in the EU (10% or less). For Morocco and Tunisia remittances are also substantial in relation to GDP and most of the remittances for these two countries originate in Europe (85–90%). Overall recorded remittance flows to the MPC region have remained relatively stable as a share of GDP. They have averaged 3 percent of GDP per annum between 1999 and 2003, and have remained at close to 3 percent of GDP in 2003 despite the decline in recorded remittances to Turkey mentioned earlier.

<sup>15</sup> From the perspective of remittances to MPCs not all European countries were relevant. We have studied the most relevant country which provide a good representation for the whole of Europe.

<sup>16</sup> Sent from and recorded in: Austria, Germany, Italy, Netherlands, United Kingdom.

<sup>17</sup> Received from and recorded in Morocco: France, Italy, Netherlands, Belgium, Luxembourg, Spain, United Kingdom, Switzerland, Denmark, Sweden, Austria, Norway.

<sup>18</sup> Here net current transfer data is used from the BoP, since workers' remittances is not available.

<sup>19</sup> Sent from and recorded in: France, Germany, Italy.

<sup>20</sup> Received from EU recorded in Tunisia.

<sup>21</sup> Sent from and recorded in: Germany, Italy, Netherlands, UK.

<sup>22</sup> Received from and recorded in Egypt: France, Germany, Spain, Italy, Netherlands, UK.

<sup>23</sup> Sent from and recorded in: Germany, Italy, The Netherlands.

<sup>24</sup> Here net current transfer data is used from the BoP, since workers' remittances is not available.

<sup>25</sup> Sent from and recorded in: Germany, Italy, The Netherlands.

Table 3.2 Total remittances as share of GDP (range constructed on data 1998-2003)

	Total remittances as% of GDP	Estimate percentage EU of total remittances
Turkey	1 – 2%	85% <sup>26</sup>
Morocco	6 – 9%	90%
Algeria	2 – 3%	90% <sup>27</sup>
Tunisia	4 – 5%	85%
Jordan	20 – 22%	5% <sup>28</sup>
Egypt	3 – 4%	5% <sup>29</sup>
Lebanon	9 – 15%	10% <sup>30</sup>
Syria	≈ 2%	5% <sup>31</sup>

### 3.4 Important EU countries within the EU–MPC corridor

Within the EU–MPC corridor, Germany, France and the Netherlands, are home to large MPC migrant communities, where the potential for remittances are substantial. Host countries Spain and Italy are countries of new migration in which the migrant communities are growing. Table 3.3 presents figures on the number of MPC migrants in twelve EU countries.

Table 3.3 MPC migrants<sup>32</sup> (in thousands) in EU-12 in 2003

EU-12	MPC migrants	% of total MPC migrants
Germany	1.961	35,9
France	1.367	25,0
Netherlands	645	11,8
Spain	423	7,8
Italy	348	6,4
Belgium	278	5,1
UK	159	2,9
Austria	143	2,6
Sweden	84	1,5
Denmark	53	1,0
Finland	6	0,1
Portugal	1	0,0
	<b>5.470</b>	<b>100</b>

<sup>26</sup> Based on migrant share, see paragraph 5.7.1

<sup>27</sup> Based on migrant share, see paragraph 7.7.1

<sup>28</sup> Based on migrant share, see paragraph 11.7.1

<sup>29</sup> Based on migrant share, see paragraph 10.7.1

<sup>30</sup> Based on migrant share, see paragraph 9.7.1

<sup>31</sup> Based on migrant share, see paragraph 12.7.1

<sup>32</sup> For France, Italy, Spain, UK, the Netherlands, Belgium, Austria and Portugal the migrants are defined as foreign nationals. For Germany and Sweden migrants are defined as foreign nationals which also are foreign born. For Denmark migrants are defined as foreign born. Source: European University Institute.

### 3.5 Important corridors within the EU–MPC corridor

In the EU, most MPC migrants live in Germany, France, the Netherlands, Spain and Italy, with Turkey, Algeria, Tunisia and Morocco as the most important countries of origin. Our research confirmed the assumption that the number of migrants in an EU country correlates with the remittance flows to the home country. Flows from the top-5 remittance corridors, which represent approximately 60% of all remittances sent from the EU to MPCs, also originate in the EU countries with the largest share of MPC migrants.

Table 3.4 Top-5 corridors based on remittances sent (based on available data from sending countries, 2003)

Top 5 corridors based on remittances	
1	Germany – Turkey
2	France – Morocco
3	France – Algeria
4	Netherlands – Turkey
5	Netherlands – Morocco

### 3.6 Selection of corridors for this study

For the remaining part of the study we have selected eight corridors, based on the following criteria:

- All eight MPCs must be represented in the selection;
- The EU selection should include a variety of corridors with both ‘old’ (such as Germany and France) and ‘new’ migrant countries (Spain, Italy);
- The selection should include large remittance streams as we expect that within the larger corridors the markets are better developed and a greater variety of services is offered.

Considering the above criteria, we decided to select the corridors that have the largest potential remittance streams flowing into an MPC. As remittance flows appear to be correlated with the size of the migrant community, the corridor was selected by looking for the EU country with the largest migrant community from a particular MPC. We have made one exception. Instead of selecting the France-Morocco corridor, we have selected the Spain-Morocco corridor. The number of Moroccan migrants in Spain is growing rapidly and approaches the size of the Moroccan community in France. Apart from this, we were interested in a closer investigation of the corridor Spain–Morocco as Spain is a new migrant country.

The selected corridors are presented in table 3.5 and in figure 3.1. In the remainder of this report we will discuss each of these corridors in more detail.

Table 3.5 Selected corridors in this study

Corridor	Host Country	Recipient Country
GT	Germany	Turkey
SM	Spain	Morocco
FT	France	Tunisia
FA	France	Algeria
IE	Italy	Egypt
GJ	Germany	Jordan
GL	Germany	Lebanon
GS	Germany	Syria

Figure 3.1 Graphical representation of selected corridors in this study



Whenever possible, we have narrowed down these corridors by looking at the geographical concentration of the migrant population in the host country: the ‘corridor’ within the corridor (for example most Turkish immigrants live in Rheinland Westfalen and come from Anatolia). Although we have not explored the linkages of the respective communities within these specific regions in the host and recipient country in depth, we found that these ‘corridors within corridors’ are important as it is on this level that direct linkages between communities arise (such as Home Town Associations).



## 4 Payment infrastructure in the EU

### 4.1 Introduction

An intense process of harmonisation of payment systems is underway in the European Union, also affecting, and ultimately replacing, the national systems that currently exist. Therefore we will only discuss the EU developments and not the national systems of the host countries. The developments in the payment system and in the associated legislation are of particular relevance to remittance services.

### 4.2 Current payment systems and regime for remitters in the EU

#### 4.2.1 Consumer payment services

In the EU every year 231 billion payments are made for the purchase of goods and services, via cash and non-cash payment systems.<sup>33</sup> The total value of those payment transactions is € 52 trillion; the greater part via non-cash payment instruments. Most small payments however are made in cash.

The European Commission, in its explanatory memorandum on the Directive on payment services in the internal market, states that modern and technology based economies are based on efficient and secure payment systems. Such modern systems have a direct and positive impact on competitiveness of the financial sector and improve the competitiveness of the economy as a whole. Modern electronic payments are also recognised to stimulate consumer spending and economic growth.<sup>34</sup>

The great majority of consumers in EU countries maintain an account with a bank or other regulated financial institutions for receiving their salary or allowance, and for making non-cash payments. Consumers make many millions of non-cash payments every day.

Credit transfers are the most widely used means of non-cash payment in the euro area, followed by direct debits. Card-based payments are high volume as well, with a preference for debit cards in most EU countries. Cheques were traditionally a very important payment instrument, but are now being replaced by other payment instruments. In France, UK and Ireland cheques are still the most widely used payment instrument.

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<sup>33</sup> Directive on payment services in the internal market; 2005/0245; Commission proposal dated 1-12-2005.

<sup>34</sup> Studies (e.g. VISA International and the Commonwealth Business Council, 2004) claim that for every ten per cent increase in the share of electronic payments in an economy, consumption is stimulated by as much as half a percent.

The most notable recent development in the usage of payment instruments is the increased tendency for consumers to issue and transmit payment instructions electronically (internet-based, mobile phone) to their banks.

Clearing is a vital function to ensure smooth and low-cost interbank exchange of the mass payments flows, because in most payments the ordering party and beneficiary have their accounts with different banks. In EU countries the national banking communities have established centralised clearing operations (ACH). Final settlement for the net results of the retail payments clearings is provided by the Central Bank's RTGS (Real Time Gross Settlement). For the euro-countries it is the TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system.

#### 4.2.2 Mass payments infrastructure in EU Member States

Non-cash payments are based on the giro principle: they move from one account to another account and do not leave the banking domain. Far-reaching and detailed standardisation (e.g account numbers, payment messages) is the key to highly efficient processes and to a low cost level per transaction. In the EU those standards with an end-to-end scope are very well implemented by all participants. The Straight-Through-Forward processing, without any manual intervention, create great value added to users. The mass participation in the giro system in the EU generates a multiplier effect, resulting in large volumes and an impressively high giro-money portion of national liquidity. Competition between suppliers keeps the fee levels low; for the consumer the giro is often free of charge, for businesses the fees are very modest.

##### Box 4.1 Development of mass giro payments in the Netherlands

In 1918 the Dutch government took the initiative for the establishment of an infrastructure for non-cash payments, the Postal Giro. The banks were reluctant to invest. Government institutions and private businesses became account holders. Many transactions were "semi-giro", as the consumers did not have an account and had to visit the post office for the payment of bills. Despite the manual operations, progressively the number of account holders in the consumer market developed. In the early 1960s the Postal Giro automated its operations using punched card technology and the number of account holders grew. The banks, that now had installed computers themselves, wanted their share of the giro-flows and started to attract accounts. Due to the heavy competition (campaigns, attractive conditions) between Post Giro and banks, in a very short period (1965/1968) the entire population became 'banked'. The banks founded their own clearing house (ACH) and cooperated in the development of consumer payment products. The consumer gained much from the "retail banking war", because the product range and service levels improved drastically and fees remained very low, mostly zero.

The Dutch government initiated the first giro system, and merged the Postal and the Bank giro circuits into one National Giro Circuit. When the National Payment Circuit was completed, the government privatised the Postal Giro, which is now part of ING Bank.



### 4.2.3 National regulation

Most giro based systems were developed in the 1960s and 1970s of the twentieth century, by regulated financial institutions with the Central Bank acting as a catalyst and provider of the settlement services and sometimes the clearing operations.

Suppliers of payment services within a country developed an attitude of strong technical co-operation and self-regulation. In most countries there was no need for legislators to add specific legislation on payment systems to their general legal framework.

#### *Identification: know-your-customer*

However in the 1990's, following the recommendations of the international Financial Action Task Force, laws related to the fight against money laundering and terrorist financing were introduced. A key theme of those laws is the know-your-customer principle: anonymous transactions are forbidden and suspected transactions must be reported. Users of financial services must identify themselves properly.

Those tightened rules and procedures may be barriers for new migrants to open a bank account, and are costly for the remittance industry. A possible consequence is a growing preference for the use of informal remittance systems. So far only a few countries have issued dedicated regulations on remittance operators that are consistent with FATF recommendations and have appointed a supervisor to register or to license remittance providers. The regulation of Money Remittance Providers in the UK is implemented via registration by the customs authority. Implementation in Germany and the Netherlands is arranged via licensing by the financial supervisor.<sup>35</sup>

In its recent international survey the IMF reports<sup>36</sup> that some authorities (France, Japan, India) have opted for another approach than licensing or registration:

- to require money remitters to obtain a banking license with the accompanying prudential conditions such as relatively high capital requirements;
- or to simply prohibit the operations of money remitters, and require all remittances to flow through the banking sector.

Those countries consider remittance services to be a purely financial business to be done only by entities with a banking license.

#### *Basic bank account*

Both governments and banking communities in a number of EU countries have addressed the issue of Basic Banking Services, following the principles on corporate social responsibility as brought forward by the CSR Europe network. People who do not meet the regular access criteria for getting a payment account risk to be socially excluded. In some countries (France, Belgium, Netherlands, UK) the banking sector put forward voluntary initiatives for the 'basic bank account', which is a bank account with limited features designed for people who might not meet the criteria for opening a regular

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<sup>35</sup> In discussion with representatives from Central Banks some argue that because the UK system is relatively liberal, there is less 'underground' activity compared to the strict regimes in Germany and The Netherlands. Others are of the opinion that a strict regime in combination with a tight control ensures that the legal operators offer legal services, implying that a loose registration regime as in the UK enables legal operators to offer illegal services due to a lack of control.

<sup>36</sup> Ingves, 2005.

account (mostly because they have too many debts). These accounts are only for making payments (giro; ATM via debit card) and do not provide an overdraft facility. Belgium, France, Germany, Ireland, Portugal, Sweden have adopted legislation on basic banking services.

## 4.3 Developments regarding payment systems

### 4.3.1 The Single Euro(pan) Payment Area (SEPA)

For the further development of the EU Internal Market a Single European Payment Area (SEPA) that supports the free traffic of goods, services, people and capital between the Member States is a prerequisite. Pan-European payment products, standards, systems and legislation will replace their current national equivalents. The introduction of euro notes and coins in 2002 represented the first important step towards SEPA, alongside with Regulation 2560 that introduced the rule that cross-border euro-payments within the Union should have the same price as national payments. Other elements for SEPA are currently under construction, for completion by 2010.

The user of the payment system will appreciate the common standards as payment instruction forms (and internet screens) as well as the service level for national and for cross-border payments will be equal.

The technical market infrastructure required for clearing and settlement in SEPA is under development. Since 1999 the TARGET system of the ECB and the national Central Banks already serves for the settlement of the euro. Another step in the development towards SEPA is the adoption of the PE-ACH (Pan-european Automated Clearing House) concept.

#### Box 4.2 Price cuts for cross-border credit transfers in the EU<sup>37</sup>

Until 2002, a cross-border transfer between euro countries, e.g. Germany to France would cost on average EUR 17 for the transfer of EUR 100. However, the average costs for a national payment were low or nil. This huge price difference was caused by the different set-up of transfers. National payment systems were end-to-end standardised, exchanged via clearing and high volume. Cross-border payment systems offered many options to the customer (a.o. related to the cost instruction), handled relatively low volumes, and operated via bilateral correspondent banking that causes manual work.

The EU found that the high costs were hampering cross-border trade and therefore constituting an obstacle to the proper functioning of the internal market and from the early 90s demanded the financial sector for self-regulation. Also the European consumer demanded for a substantial price reduction of intra EU cross-border credit transfers, supported by consumer organisations and press publications. When studies showed that the average cost of cross-border credit transfers had hardly changed since 1993, EU commissioner Bolkestein sponsored Regulation (EC) No 2560/200 forcing banks to price their cross-border Euro-payments within the EU the same as national payments.

<sup>37</sup> Transfer Exercise RBI for the Commission in 1993, 1994 and March 2001; additional studies made for the Commission and covering the countries in the Euro-zone, in 1999 and 2001.

### 4.3.2 EU Regulations

#### *Regulation 2560 “Bolkestein” on pricing*

The driver behind the price-setting for transfers in euro was the European Commission. (see box-text 4.2).

#### *Regulation on information for wire transfers*

Recently (July 2005), the European Commission announced a Regulation<sup>38</sup> arranging the identification of a person transferring funds. It now is the obligation of the payment service provider to verify that the information provided by the payer is obtained from a reliable source. For transfers of funds up to € 1.000 outside the Community, the regime is lighter and payment service providers may determine themselves the extent of such verification in view of the risks of money laundering and terrorist financing. As most remittances are under € 1.000, for remitters the light regime will apply.

## 4.4 The future regime for remitters banks and MTOs in the EU

### 4.4.1 New Legal Framework for SEPA

In December 2005 the EU Commission presented its proposed Directive 2005/0245 on payment services in the internal market. Twelve months after adoption of the Directive the harmonisation of the legislation in the Member States should be completed and all national rules replaced by 2007/8.

The Directive addresses four key aspects in relation to payments:

- Realisation of the Single Euro Payment Area (SEPA);
- Creation of an open and competitive playing field for payment service providers;
- Rules for fair and proportionate consumer protection;
- Maximum possible harmonisation in the legislative framework for payments.

### 4.4.2 Recognition of Payment institutions

Of particular importance for providers of remittance services is the recognition of “payment institutions”. Payment institutions are payment service providers other than credit institutions, electronic money institutions or specific entities like post office giro institutions. An authorisation regime will be introduced for those payment institutions.

Authorised payment institutions are restricted to the rendering of payment services and are not allowed to take on deposits. The authorisation to operate as a ‘payment institution’ is valid for the entire Community, provided the institution is not authorised under the derogation clause. The introduction of a derogation for certain categories of money remitters (low volume; specific vital role for underprivileged social groups; support of the

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<sup>38</sup> Market-2004-113750.

combat against money laundering and terrorist financing) is meant to facilitate the gradual migration of providers from the unofficial economy to the official sector.

There will be a transitional period for existing payment service providers that are established in accordance with the national law. They will be allowed to continue their activities within the country concerned for 18 months after compliance of national legislation with the Directive.

#### *Transparency of conditions*

Under the Directive, all payments service providers, including payment institutions must fulfill the provisions on transparency of conditions, including:

- Information prior to the transaction (brochures, web-sites) must include very detailed prescriptions on all charges and on the reference exchange rate applied to payment transactions (including the relevant date for determining such a rate and the way to calculate the rate). The scope is end-to-end: the party offering the service is obliged to disclose all information, also the costs charged to the recipient and the currency conversion rate used at the recipient side.
- Information available after execution of the transaction must include identifiers of the transaction, the remitter and the recipient, the transaction amount, the amount of any commission and charges and the applied exchange rate.

#### *Main consequences for remitters' Banks and MTO's*

It is expected that most MTOs will welcome the Directive with respect to the legislation of payment institutions. They no longer will be confronted with the licensing regime of individual countries in the EU.

MTOs will not applaud the new transparency requirements as they will need to upgrade their systems and they have to redevelop the information slips for the customer. Payment institution will be forced to hand the remitter a confirmation of the executed transaction with the exact specification of: amount paid by him or debited to his account, fee, charges, commission, transaction amount and the exchange rate applied. In the wire transfer the complete identifying information on the payer must be included.

The requirements with respect to verification of ID information by the payment institutions do not change: the 'light' regime of verification of transfers under € 1.000 will remain.

The conditions with respect to transparency in the Directive will not burden the banks that offer remittance services, because following the Cross-Border Credit Transfers Directive 97/5/EC they already comply to similar regulations regarding transparency.

## 5 Germany – Turkey

### 5.1 Introduction

The Germany – Turkey corridor is an important corridor in the context of this study. Not only is the remittance flow large, but most Turkish migrants living in Europe, with the largest concentration in Germany.

The Turkish government and the Turkish financial sector have taken an active approach towards migrants, resulting in some practices that may be good examples for the other corridors. Thus, for example, remittance services offered by the Turkish banks in Germany are extremely efficient and Turkey has been able to attract additional savings through the securitisation of remittance flows

### 5.2 Registered remittances

Table 5.1 shows the officially registered remittances by the Central Banks of Germany and Turkey.

Table 5.1 Registered remittances Germany – Turkey (in million €)

Geographical origin of flows	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Germany	1.383	1.324	1.219	1.227	1.195	1.200	1.200	1.000	879
Remittances received from Germany	-	-	-	-	-	-	-	-	-
Remittances received from Europe	-	-	-	-	-	-	-	-	-
Total remittances received in Turkey <sup>39</sup>	2.800	3.700	4.800	4.200	4.900	3.300	2.047	645	646

Source: row 1 Bundesbank; row 4 Central Bank of Turkey.

<sup>39</sup> Workers' remittances, migrant transfer and compensation of employees.

### *Central Bank Germany*

The German Central Bank (Bundesbank) estimates workers' remittances based on the 'cash transfers' as reported by banks and post offices and adapted for data provided by the Federal Employment Agency on the number of employed and unemployed foreign nationals contributing to social insurance. Since 1996 the flows show a slightly declining trend.

### *Central Bank Turkey*

The Central Bank of Turkey (CBT) provides data on workers' remittances, which include the BoP items 'migrant compensation' and 'migrants transfers', but does not include imports financed from the earnings of Turkish nationals living abroad. The data mainly reflect transfers through banks and also transactions of MTOs in as far as they use the bank transfer system. The origin of remittance flows is not recorded.

The data reported by the CBT suggest that remittance receipts have dropped significantly since 2000. The largest drop occurred in 2003, when total remittance inflows fell to € 0,6 billion, from € 2 billion in 2002. However, this decrease largely reflects a change in the classification of workers' remittances by the CBT since 2003. Before the introduction of the new method, workers' remittances included the following transactions performed by the Turkish citizens residing abroad: foreign exchange remittances converted into Turkish Lira, Turkish lira conversion from their foreign exchange accounts and money spent during their visit in Turkey. Following the introduction of the new method the last two items were reclassified as tourism revenues.

Even before 2003, however, Turkey appears to have experienced a large decline in remittance receipts. In both 2001 and 2002, workers' remittance flows to Turkey fell by over € 1 billion, which could partly reflect the consequences of the 2001 economic crisis and its aftermath. This could suggest that in the case of Turkey, and contrary to conventional wisdom, remittance flows were adversely affected by weak economic conditions. However, it is also possible that the decline is caused by the economic performance of Germany at that time or by a combination of economic developments in both Turkey and Germany.

In a more general context, the following section on migrants suggests that the number of Turkish migrants may be declining and that the number of potential Turkish remitters from Germany, which account for the bulk of Turkish migrants living abroad, may be falling since they represent mostly 3<sup>rd</sup> and 4<sup>th</sup> generation migrants, with weaker attachment to the homeland. This could help explain why remittance flows to Turkey have been falling.

## 5.3 Migrants

### 5.3.1 Turkish migrants in Europe

Around 85% of the four million Turkish migrants live in Europe with a large concentration in Germany.<sup>40</sup> The Turkish community in Germany decreased from 1,9 million in 2001 to around 1,8 million in 2003. Other large concentrations of Turks are in the Netherlands (320.000) and France (208.000).

In Germany, Turkish migrants account for 24% of the total migrant community and 2% of the total population. Within Germany many live in Nordrhein-Westfalen (33%) and in Southern Germany (31%).

Figure 5.1: Concentration of Turkish migrants in the top 3 host countries in 2003 and their geographical spread in Germany

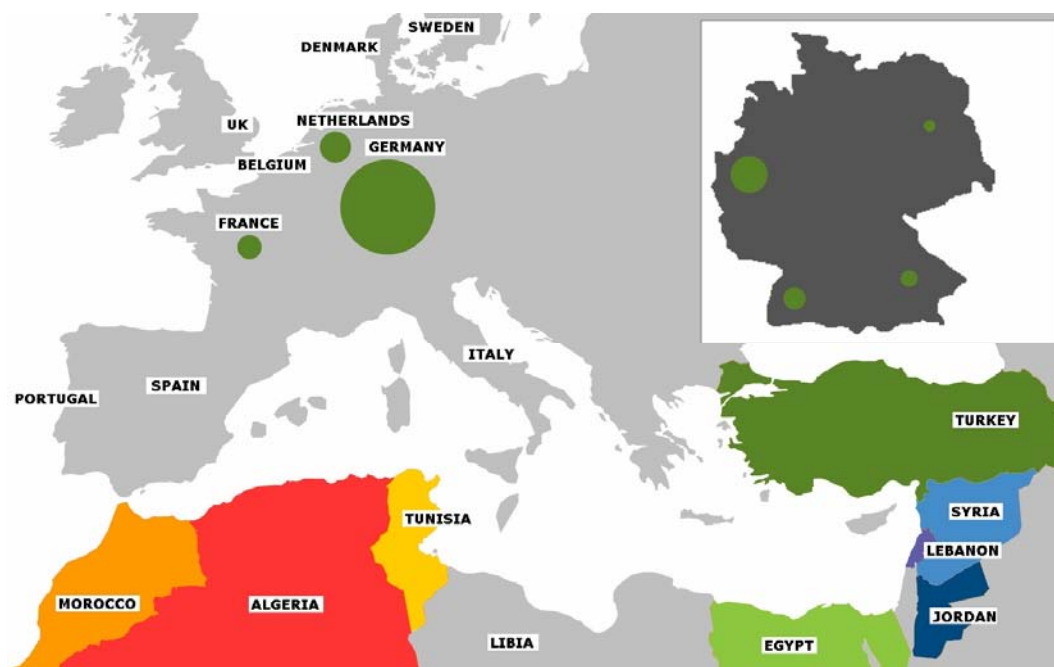


Table 5.2 Number of Turkish migrants (in thousands) worldwide, in main EU host countries (2003) and the number of Turkish migrants in the main host regions in Germany (2004)

Host region or country	Number of Turkish migrants (* 1.000)		Number of Turkish migrants (* 1.000)
• Worldwide	4.000	<i>In Germany:</i>	
• Europe	3.400	• Nordrhein Westfalen	590
• Germany	1.700	• Baden-Wurtemberg	320
• Netherlands	320	• Bayern	230
• France	200	• Hessen	190

Source: [www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad](http://www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad), European University Institute, <http://www.carim.org/research.asp>, and Statistische Bundesamt Deutschland, Statistische Bundesamt Deutschland, <https://www-genesis.destatis.de/genesis/online/Online> and <http://www.destatis.de/basis/d/bevoe/bevoetab10.php>

<sup>40</sup> According to the Ministry of Foreign Affairs of the Republic of Turkey ([www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad](http://www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad)).

### 5.3.2 Characteristics

The heydays of the Turkish emigration were in the 1960s and 1970s, when Turks from the poor rural areas moved to Europe to be employed as ‘guest-workers’. Although guest-workers were expected to return to their home country, most stayed and reunited with their families in the host country. The majority of these migrant families and their descendants (now 3<sup>rd</sup> or 4<sup>th</sup> generation) now have German nationality. German citizens of Turkish origin can obtain a Turkish passport without the obligation for military service when they are 18 years old.

The number of potential remitters is decreasing. Most families are reunited in the host country and the ties with the family left behind are weakening. In addition, the attachment of the 3<sup>rd</sup> and 4<sup>th</sup> generation Turks in Germany to their country of origin is not as strong as the attachment of the 1<sup>st</sup> and 2<sup>nd</sup> generation.

## 5.4 Channels

### 5.4.1 Introduction

In this paragraph we present an overview of the ‘remittance market’: the channels used for the transfer of funds from Germany to Turkey, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Bundesbank, commercial banks, MTOs and other transfer providers. Furthermore, we have conducted mini-surveys in the recipient countries.

### 5.4.2 Channels

In table 5.3 the usage of the various channels is indicated.

Table 5.3 Usage of channels in the Germany – Turkey corridor

Channels	Usage
Banks	Most Often
MTOs	Sometimes
Post office	Sometimes
Informal	Sometimes

Source: telephone interviews and literature review.

#### *Banks*

Notable for the Germany – Turkey corridor is the strong presence of Turkish banks in Germany.<sup>41</sup> For decades the Turkish commercial banks have been actively approaching Turkish residents abroad through their overseas branches.<sup>42</sup> Over the years the costs for fund transfers have been kept relatively low, as the workers’ remittances represented an

<sup>41</sup> This is also noted by Köksal and Liebig, 2005.

<sup>42</sup> In 1933 Türkiye İs Bankası A.S. opened a branch with 35 employees in Hamburg. The bank closed during the Second World War and re-opened in 1977 with the prime purpose of transferring workers’ remittances to Turkey (Köksal and Liebig, 2005, p.3).



important source of foreign currency. Economies of scale have enabled Turkish banks to provide services at low cost. However, low cost is not the only attractive feature. Köksal and Liebig (2005) point out that the Turkish banks also provide a more rapid service compared to other channels. At the moment the Turkish banks in Germany have started to offer new products -such as Turkey-related investment funds- targeting the migrant population.

German banks only have a minor share of the remittances market. German banks willing to enter the remittance market either have to find a correspondent bank in Turkey or they have to set up their own branch in Turkey.

#### *Other channels*

Post offices and MTOs have a minor share of the remittances market in this corridor, although Western Union services are offered by most banks in Turkey and the 3.200 branches of the Turkish post office. Money Gram is offered by Koc Bank and Kuveyt Türk.

#### *Informal channels*

A remarkable feature of this corridor is the low market share of the informal sector, likely reflecting the attractive package provided by Turkish banks. The Turkish banks are not only attractive because of the efficient operations (low cost, high speed), but also because of the incentives offered by the Central Bank of Turkey.<sup>43</sup>

#### Box 5.1 Result mini-surveys

We conducted 38 mini-surveys in Turkey and received 52 responses on the question through which channel remittances are received and why (more than one channel is used). 56% of the transfers was conducted through a bank, 25% through MTOs / Post office and 19% was received through informal channels. More than in other countries, respondents mentioned that the channel was chosen by the sender of the remittance.

### 5.4.3 Transactions

#### *Characteristics based on telephone inquiries*

We have gathered information on specific transaction characteristics through telephone inquiries and by money transfers that we conducted ourselves (table 5.4 provides an overview for the costs, speed of transfers, and other requirements (i.e. with respect to identification).

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<sup>43</sup> See paragraph 5.6.1 on incentives

Table 5.4 Channel characteristics in the Germany – Turkey corridor for transfers of € 400.

	Banks	Post Office	MTOs
<b>Costs</b>	(local banks) 2,5% – 9,4% (MPC banks) 1,3% - 2,5%	1,5%– 2,1%	5,3% MG 6,5% WU
<b>Speed</b>	2-8 days	3-5 days	Instant
<b>Accessibility</b>	Account (only recipient)	Account	ID

Source: telephone interviews and literature review by ECORYS.

#### *Costs incurred in conducted pilot transfers*

We have conducted three transfers of € 400 from Germany to Turkey. The experiment is limited and therefore serves only as an illustration. Table 5.5 presents an overview of the three transfers and their costs. The transaction through the banks was OURS.<sup>44</sup> We have not included the post office services as these are not frequently used.

The transfer through the Turkish bank was not only cheap and fast; the transfer itself was also easy. After the sender had identified himself, the funds were transferred to the account of the recipient in just one day. There was no need for the sender to have a bank account. The transfers through the MTOs were also fast and convenient, but more expensive.

Table 5.5 Transaction costs for real transfers of € 400

(all costs in €, unless indicated otherwise)

Channel used	Total costs in €	Costs in €			Received	
		Fee sender	Fee recipient	Exchange rate costs	Received in €	Received in local currency
Comdirect Bank to Türkiye İş Bankası OURS	8,43 (2,1%)	7,67 (1, 9%)	-	0,76	400	YTL 645,20
Western Union (Deutsche Post bank Emmerich) to Western Union Istanbul (Finansbank)	27,18 (6,8%)	26 (6,5%)	-	1,18	400	YTL 648,80
Money Gram Berlin (Euro Change) to Money Gram Istanbul (KOC Bank)	35,13 (8,8%)	21 (5,3%)	-	14,13	400	YTL 615,20

Note: *Fee sender* is the cost for sending an amount of € 400 from Germany to Turkey in Euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in Euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The Euro: YTL exchange rates were 1,6161 (row 1, rate at 29 September 2005), 1,6268 (row 2, 22 September 2005) and 1,5943 (row 3, 4 October 2005), respectively. *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400).

<sup>44</sup> OURS: all costs are paid by the sender. SHARED: costs are shared between sender and recipient.

The fees for the money transfer by Western Union are 5% with a minimum of € 26. Money Gram charges a fixed fee related to the relevant money transfer bracket: all transfers of sums in the bracket € 300–400 from Germany by Money Gram cost € 21. In all cases the recipients were allowed to withdraw the amount in Euro without any additional costs.

If the recipients had taken out the money in Euro, the total costs would have been equal to the fee paid by the sender. However, the recipients picked up the funds in Lira which resulted in additional exchange rate costs. The exchange rate costs for the transfer through Money Gram are particularly substantial.

## 5.5 Financial sector in Turkey

### 5.5.1 Introduction

The preference for specific channels is influenced by the options in the recipient country. Therefore in this paragraph we provide a brief overview of the financial sector in Turkey. This section also discusses practices that may impede or increase the efficiency of workers' remittances.

### 5.5.2 Financial sector

The Turkish banking sector is composed of 47 banks, including the Special Finance Houses.<sup>45</sup> Ziraat (a public bank) is the largest bank in the country.<sup>46</sup> Although the Turkish banking sector is considered to be well developed, the number of inhabitants per branch is around 11.000. One third of the assets of the Turkish banking system are controlled by state-owned banks. The four largest commercial banks, Isbank, Akbank, Yapi Kredi and Garanti aim primarily at corporate services, but they have implemented several retail banking services, including remittance services, as well. The public banks Halk and Ziraat offer financial services in the rural areas, where most migrants have their roots, but the amount of services offered and the outreach offered is limited. Microfinance institutions, operating in rural areas, are now starting to emerge.

The government engaged in the restructuring of the banking sector and cleaning-up of non-performing loans following the financial crisis in 2001, which had its origin in the banking sector and caused a strong devaluation of the Turkish Lira. As a result of the financial crisis and the devaluation, public confidence in the banking sector has been low and many households prefer to keep their money in the form of cash in local or preferably in foreign currencies at home.

The payment systems in Turkey are well developed: Turkish Interbank Clearing System (TIC-RTGS), Eurogiro, Interbank Clearing Houses, Bank Card Centre (credit cards), and

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<sup>45</sup> These were created to attract customers in the informal sector, especially people that were keeping their savings at home for religious reasons and to attract investors from foreign Arab countries to invest in the oil sector.

<sup>46</sup> <http://www.tbb.org.tr>

all large banks use SWIFT for cross border payments. Most of the low-value retail payments are handled either by banks, credit card companies or the postal offices.

### 5.5.3 Remittances

In 1978 regulations were introduced that allowed Turkish banks to offer incentives on the savings of remittances, such as special services and premium bank accounts in the Central Bank. The incentives aim to encourage migrants to send money home. Banks have also been actively issuing remittance-backed bonds.

#### *Special services*

The banks have experimented with preferential currency exchange rates for remittances. In the 1960s these special rates were introduced, abandoned in 1970, and resumed again in 1979. We have no information on the success of this incentive, but the reintroduction suggests that the preferential exchange rate positively influences remittance flows. Turkish banks in Germany are now starting to offer new products -such as Turkey-related investment funds- targeting the migrant population.<sup>47</sup>

#### *Central Bank*

The role played by the Central Bank of Turkey on the remittance market has been important. In order to encourage savings, the Central Bank offers two types of foreign currency accounts to migrants: a 'foreign currency deposit', which enables the depositor to establish a deposit account in various hard currencies for up to 2 years, and a 'Super FX account', a premium account for larger dollar or Euro deposits.

#### *Remittance-backed bonds*

Turkish banks have been actively issuing remittance-backed securities. The issuance by banks of bonds in international capital through the securitization of future remittance flows has been growing in popularity in countries with large remittance flows. The securitization of bonds through remittances has a number of distinct advantages: it lowers the cost of issuing banks and mobilizes additional foreign savings for onlending in the recipient country (see chapter 14).

Turkish banks have issued large amounts of remittance-backed bonds (in excess of € 4 billion since 2000), representing over one-third of the share of the global remittance-backed securitization market. For instance, Akbank has implemented a system of remittances securitisation, named Akbank Remittances Trust Securitisation (ARTS). The bonds are backed by existing and future hard currency denominated transfers, including workers' remittances.

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<sup>47</sup> Köksal and Liebig, 2005

## 5.6 Use of remittances

### 5.6.1 Institutional support and incentive schemes

Since the 1960s the Turkish government has tried various incentive schemes to encourage the productive usage of remittances with mixed success. In 1998, two commissions were established to deal with migration: a Supreme Committee for Nationals Living Abroad (chaired by the Prime Minister), and a Coordinating Committee for Nationals Living Abroad, including representatives of Turks in 12 foreign countries. When available, information on the effect of the incentive scheme is included. For most mechanisms this information was not available.

#### *Special migrant investment banks*

In 1976 the DESIYAB (State Bank for Industry and Migrant Investment) was established with the objective to channel workers' remittances into productive investments. One of the schemes the bank supported was the "migrant multi-partner enterprise". In order to get financial, recruitment or training support, companies had to be founded by resident's abroad or returned migrants. The migrant had to invest at least 50% of the capital needed for the realisation of the project and had to take up a managerial role.<sup>48</sup> About 600 cooperatives, village development cooperatives and companies have been founded through this scheme. The results were generally poor<sup>49</sup> amongst others because of a weak entrepreneurial sense, the severe crisis of the period 1977-1980, and poor management.<sup>50</sup>

#### *Priority development towns*

Another incentive scheme was the "priority development towns" in East and South-East Anatolia initiated by the State Planning Organisation. Migrants investing in these cities received financial incentives. However, the number of contributions was limited and the expected boost to investments was not achieved.

#### *Training scheme in Germany and Turkey*

Turkey and the German government agreed to make funds available for those wishing to return to Turkey and open a small business, provided that the migrant participated in training programmes in both Germany and Turkey. However, these programmes of reintegration promoted by the host nations were too complicated and costly and not attractive enough to encourage migrant participation.<sup>51</sup>

#### *Special import privileges*

Special import privileges for durable consumer goods and machinery have also been used in Turkey, although it is difficult to obtain information on the success of these measures. The scheme has provided returning migrants with the opportunity to purchase durable consumer goods in special tax free shops within six months after their return.

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<sup>48</sup> Köksal and Liebig, 2005, p.16.

<sup>49</sup> Koç and Onan, 1996.

<sup>50</sup> Abadan-Unat, 1986.

<sup>51</sup> Martin, 1992.

### *Pink card*

In 1995, the government created the “pink card” for migrants that gave up their Turkish citizenship but wanted to preserve their right to buy and inherit land in Turkey.<sup>52</sup> The “pink card” also discharged Turks from the obligation to fulfil their military service before being allowed to give up their Turkish citizenship.

### *Capital controls*

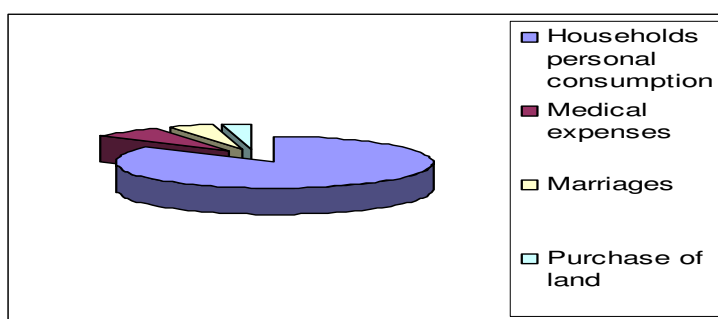
There are no capital controls restricting the employment of remittances for investments in real estate or small businesses.

## 5.6.2 Usage of remittances

Research on a micro, household level on received remittances is not widely available. Local household survey data go back ten years. A survey in 1996 showed a median value of received remittances of € 315 per year.<sup>53</sup>

An analysis of the Turkish International Migration Survey also stated that about 12% of the households are beneficiaries of some kind of remittances and that the remittances are used for both consumption and investment.<sup>54</sup> On average 80% is used to improve the household’s personal consumption, 7% to pay medical bills, 4% to cover the costs of marriage and the remaining 3% is used to buy land or a house (see figure 5.2)

Figure 5.2 Breakdown in the utilization of remittances in Turkey



Source: elaborated from Koc and Onan (1996).

Other studies may show a slightly different breakdown of usage; for example the spending for home improvement may be higher and the personal consumption lower.<sup>55</sup> However, most studies suggest that remittances are generally not used for productive purposes in Turkey, an observation that appears to repeat itself in other countries in the region.

One of the reasons for this lack of productive investments is that although remittance transfers provide potential resources for investment, many, mainly rural, regions from

<sup>52</sup> Martin et al., 2002, p.125.

<sup>53</sup> Dalen, Van et al., 2005, sample of 1773 interviewed households.

<sup>54</sup> Koç and Onan, 1996.

<sup>55</sup> Barisik et al.,1990, quoted in Koç and Onan,1996.

which migrants originate are underdeveloped in terms of infrastructure (electricity, water, telecommunications, health systems, and schools), which is constraining investment opportunities. Thus, remittances for productive investments are constrained by an inadequate investment environment, and investments that are made are more often used for purchasing land and housing, where the multiplier effect is low.

It should be noted that the potential for using remittances for productive investments will vary per region: households in regions with lower income per capita spend more on daily expenses than those in richer regions. Thus poorer regions will find it more difficult to allocate a portion of their remittance receipts into productive investments.

Box 5.2 Result mini-surveys on usage of remittances

We conducted 38 mini-surveys in Turkey and received 55 responses on the question how the remittances were used (more than one answer was possible). 53% mentioned as usage for 'daily expenses', 16% payment of school fees and 4% the building of a house. 6% answered that remittances were used for investments (company or other). 21% of the answers was related to other utilisation.

## 5.7 Observations, impediments, recommendations

### 5.7.1 Summary of key facts

Table 5.6 Key characteristics Germany – Turkey

<b>Key characteristics Germany – Turkey</b>	
<b>General</b>	
Number of inhabitants in Turkey <sup>56</sup>	69 million
GDP (2003, current prices)	€ 215,5 billion
<b>Registered remittances (2004)</b>	
Total registered remittance flows to Turkey	€ 646 million
Workers' remittances sent from Germany	€ 879 million
- <i>Informal remittances as % of formal remittance flows in the corridor</i>	<i>Small</i>
Registered remittances received in Turkey as % of GDP	1–2%
<b>Migrants</b>	
Estimate of number of Turkish migrants worldwide <sup>57</sup>	4 million
- <i>Turks in EU as % of Turkish migrants worldwide</i>	<i>85%</i>
Estimate of number of Turkish migrants in Germany	1,7 million
- <i>Turks in Germany as % of total Turks in EU</i>	<i>70%</i>
Migration developments 1995 – 2003 in Germany	Number of migrants with Turkish nationality (foreign born) is steadily decreasing, from 2,0 million in 1995 to 1,8 million in 2003
<b>Financial sector</b>	
Estimated number of bank branches in 2004 <sup>58</sup>	More than 6.000
Inhabitants per branch	11.500
Estimated number of MTO outlets in Turkey	3.370
Number of inhabitants per MTO	20.475
<b>Channels</b>	
Banks	Most Often
MTOs	Sometimes
Post office	Sometimes
Informal	Sometimes
<b>Usage of Remittances</b>	
Consumption	Mainly
Investment (land or house purchase)	Sometimes

<sup>56</sup> Based on estimates CIA factbook, 2005, <http://www.cia.gov/cia/publications/factbook/geos/tu.html>.

<sup>57</sup> Turkish Ministry of Foreign Affairs, : [www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad](http://www.mfa.gov.tr/mfa/foreignpolicy/mainissues/turkslivingabroad)

<sup>58</sup> <http://www.bveqm.gov.tr/REFERENCES/banking.htm>.



### 5.7.2 Observations

- The Turkish migrant community is one of the largest migrant groups in Europe;
- Over the past eight years remittance flows to Turkey have fallen. While the decline in official data on remittances to Turkey can in part be explained by a change in the classification of remittance flows by the CBT, it also likely reflects migrant trends and characteristics, and possibly in more recent years the effects of the 2001 economic crisis and its aftermath.
- The importance of remittances for Turkey is relatively small compared to the other MPCs, representing only 1-2% of GDP;
- Compared to the other MPCs the efficiency of remittances through the Turkish banks in Germany is excellent: relatively cheap and fast. This likely contributed to the relatively minor role of other channels of remittance transmission through this corridor;
- The large and steady flows of remittances through the banking channel has facilitated the issuance of remittance-backed bonds, with the potential for a strong developmental impact;
- Households use remittances primarily for consumption. There is little evidence of utilisation for productive purposes. Although household may not themselves use the receipts for productive purposes, the fact that remittances are primarily channelled through the banking sector and into deposit accounts would suggest that the multiplier effect may still be large;
- The lack of infrastructure in the rural areas, from where many migrants originate, may be hampering entrepreneurship and economic development.

### 5.7.3 Impediments

#### *Transaction costs*

The costs of remittances in this corridor can be considered reasonable and we do not see impediments in the remittance market.

#### *Usage of remittances*

Households seem to use remittance predominantly for consumption. One of the impediments to productive usage, i.e. investment in businesses, is the weak infrastructure in the areas where the migrants come from.

#### *Usage of channels*

Turkish migrants use banking channels to remit and often the funds are kept in savings accounts. And although the productive appropriation by households is low, the multiplier effect generated by the usage of giro systems and savings accounts is strong. In addition, banks are issuing remittance-backed bonds, which may even further increase the developmental impact. We see no impediments on the usage of channels.

#### 5.7.4 Recommendations

##### *Usage of remittances: Pooling Schemes.*

Given the predicament that regions within Turkey benefit from significant remittances inflows and potential, but that productive investment may be constrained by the lack of infrastructure, resources should be pooled and invested in development-related projects (i.e., schools, clinics). Thus, in relatively capital-rich regions, where remittance-backed savings are underutilized, remittances could be pooled locally, as has been done in some communities, through hometown associations (HTAs). These HTAs could then act as a conduit for development projects. Such projects could be enhanced through matching schemes from governments or donors. At the same time, once established, the pooling of resources could also be used to finance local entrepreneurial activities, with the advantage that it could offer returns to investors.

At the same time, cooperative schemes could be devised, whereby non-government organizations (NGOs), such as diaspora organizations, in host and recipient countries help pool migrant resources to provide the capital base for micro-credit funds, mortgage financing and other targeted financial products<sup>59</sup>. Migrant communities and their families could thus pool their resources, and offer reduced cost for remittances, savings accounts, and investment accounts, either by creating their own financial institutions or through cooperation with banks. Co-financing of projects with banks or multilateral organizations could also be envisaged here.

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<sup>59</sup> Such setups are starting to develop. For example, the World Diaspora Forum is looking for partners in the banking sector to set up African Diaspora Cooperative Financial Institutions. Information provided by initiator Andy Sundberg, Consultex SA.

## 6 Spain - Morocco

### 6.1 Introduction

After the Turks, Moroccans constitute the second largest migrant community in the EU. Moroccans are highly attached to their home country and remittance flows are considerable.

Most Moroccan migrants live in France. However, as both the migrant population in Spain and the remittance flows from Spain to Morocco are growing fast, we have chosen to investigate the Spain – Morocco corridor for the purpose of this study.

Whereas the Moroccan community in France now includes 3<sup>rd</sup> and 4<sup>th</sup> generations, the Moroccans in Spain are the first generation: most of them are young (between 25–32 year old) and well educated. It should be noted that there is a large population of irregular and illegal Moroccan migrants in Spain, but no official data on their numbers are available. From the perspective of remittances it is an important group and it is likely that they use informal channels for their remittances.

### 6.2 Registered remittances

#### 6.2.1 Introduction

Remittance flows are of considerable importance to the Moroccan economy. Foreign exchange receipts from remittances surpass those from phosphate and tourism industries,<sup>60</sup> and represent between 6-9% of GDP.

Remittance flows are not stable during the year. They peak during the holiday season, July and August, and during religious holidays. During these periods flows of largely unrecorded in-kind remittances, such as gifts or spare parts for vehicles and other small equipment, are substantial.

#### 6.2.2 Remittance flows

As can be seen in Table 6.1, total private current transfers (the bulk of which are assumed to be workers' remittances) sent from Spain to Morocco amounted to € 392 million in

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<sup>60</sup> Office des Change, 2002.

2004. Total (worldwide) private current transfers received by Morocco are estimated at € 3,4 billion in 2004, of which € 2,9 billion originate in EU countries.

Table 6.1: Registered remittances Spain – Morocco (in million €)

Geographical origin of flows	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Spain	-	-	-	-	-	-	-	-	-
Private current transfers received from Spain	-	-	73	56	94	187	187	293	392
Private current transfers received from EU	-	-	1.657	1.644	2.078	3.231	2.680	2.850	2.867
Private current transfer received Worldwide	1.712	1.667	1.802	1.833	2.334	3.628	3.026	3.182	3.403

Source : Workers remittances sent from Spain to Morocco (1<sup>st</sup> row) not available, other rows: Office des Changes Morocco.

### Central Bank of Spain

The Spanish Central Bank could only provide an overview of total remittances from Spain and no geographical breakdown. The data from the Central Bank of Spain show the growing importance of Spain as a migrant country with the total remittances sent from Spain to the rest of the world increasing from € 312 million in 1994 to € 2,9 billion in 2003.

### Office des Changes

The BoP in Morocco is compiled by the Office des Changes of the Ministry of Finance. Workers' remittances are not broken down and are registered under the heading 'private current transfers'. These transfers also include cash exchanges at the border.

## 6.3 Migrants

### 6.3.1 Moroccan migrants in Europe

Around 85% of the total Moroccan migrant population worldwide has settled in Europe, a group of over one million people in 2003. The Moroccan migrant community is thus the second largest migrant group in the EU after the Turks (3 million). Concentrations of Moroccans can be found in France (30%), Spain (25%-30%) and the Netherlands (20%), see table 6.2 and figure 6.1. France has been the historical destination, but the growth rate of the Moroccan community in Spain indicates that by 2005/2006 it will surpass the size of the community in France.

The majority of Moroccans in Spain live in the Barcelona area (Catalonia), with smaller groups in Madrid and Andalusia.

Figure 6.1 Moroccans in the most important EU countries in 2003 and their geographical spread in Spain

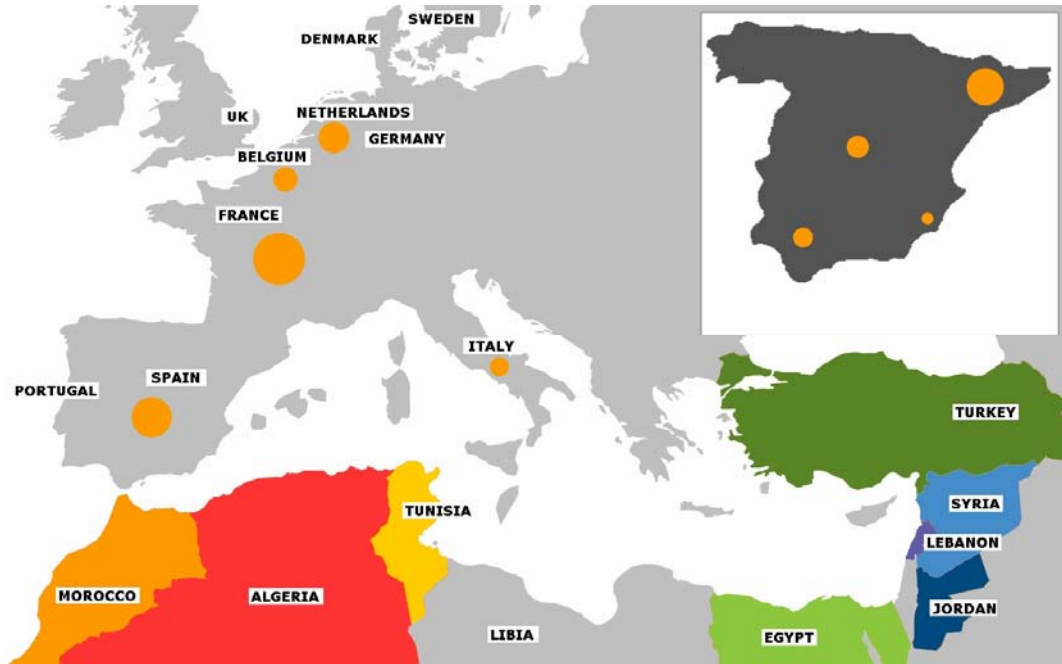


Table 6.2 Number of Moroccan migrants (in thousands) in main EU host countries (2003) and the number of Moroccan migrants in the main host regions in Spain (2003)

Host region or country	Number of Moroccan migrants (* 1.000)	In Spain	Number of Moroccan migrants (* 1.000)
• Europe <sup>61</sup>	1.666	<i>In Spain:</i>	
• France	504	• Catalonia	143
• Spain	378	• Madrid	61
• Netherlands	295	• Andalusia	57
• Belgium	204	• Comunidad Valenciana	35
• Italy	174		

Source: Harrison (2003), [www.ines.es](http://www.ines.es) and <http://www.ine.es/prodyser/pubweb/espcif/pobl05.pdf> from Annual statistics for Spain (2005)

### 6.3.2 Characteristics

Encouraged by a proactive government and the automatic dual nationality accorded to Moroccan migrants, Moroccans remain highly attached to their home country. This is demonstrated by investments in real estate in their home country and the high participation of the third and fourth generation descendants of Moroccan migrants in solidarity projects at the village and national levels.<sup>62</sup>

A unique characteristic of Moroccan migrants is their ability for collective mobilisation of resources both in the home and in the host country. For example, Moroccan residents

<sup>61</sup> Based on 12 most important European host countries.

<sup>62</sup> Bouhga-Hagbe, 2004.

in Catalonia (Spain) set up an association ‘Migrations and Desenvoleppement’ that is supporting building a small dam and an irrigation system to spur agricultural development in Al-Hoceima in the North of Morocco.<sup>63</sup> Another group of Moroccan migrants in Catalonia has raised funds through a local NGO to construct four kilometres of roads in an area close to Oujda near the border with Algeria.

In Marseille, the Moroccan residents association ‘Migration & Développement’, engaged in channelling collective remittances for social investments in the province of Tarouddant in the South of Morocco.

## 6.4 Channels

### 6.4.1 Introduction

In this paragraph we provide an overview of the ‘remittance market’: the channels used for the transfer of funds from Spain to Morocco, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. Also we have conducted 40 mini-surveys in the recipient country to better understand the motivation to use channels. Next to this we have conducted a limited number of own transfers to verify costs.

### 6.4.2 Channels

According to the Central Bank of Spain (Banco de España), 70-80% of *formal* remittances flow through the banking sector. Our mini-survey for the Spain-Morocco corridor, suggests that MTOs are also used frequently, whereas post office services do not appear to be widely used, probably reflecting slower speed and efficiency. Informal channels are an important remittance conduit in this corridor.

Table 6.3 Usage of channels in the Spain – Morocco Corridor

Channels	Usage
Banks	Often
MTOs	Often
Post Office (own services)	Hardly
Informal	Often

Source: telephone interviews and literature review by ECORYS

#### *Banks*

Banque Populaire appears to have a major share in the formal remittance market (see below). The bank has an extensive network of branches in Morocco. Banque Populaire offers several money transfer services: joint checking accounts (with family in the home country), wire of money to an account, or wire money to a private person. The accounts

<sup>63</sup> Østergaard, 2005.

can be held in Dirham or in foreign currency. In Spain the bank does not have independent branches, but operates through a cooperation agreement with la Caixa (see also box 6.1).

Box 6.1 La Caixa and their migrant approach

For La Caixa migrants are an important target group. The bank considers the transfer of remittances by a migrant as a first step towards opening a bank account. La Caixa is offering remittances all over the world with a focus on Latin America and is active in the development of migrant services, like remittances through cell phones (SMS), internet, and card-to-card or Visa credit cards. The bank has 4.500 branches all over Spain. For remittances to Morocco, La Caixa has cooperation agreements with two Moroccan banks: Banque Populaire and Credit de Maroc.

Another initiative targeting migrants is the establishment of a payment platform by CECA, the Spanish confederation of savings banks (see box 6.2).

Box 6.2 CECA and their migrant approach

CECA developed a project targeted at immigrants consisting of a payment platform for Spanish savings banks. The payment platform is operational since 1 December 2004. CECA concluded an agreement with La Caixa for the use of its correspondents. In Morocco, the main correspondent bank is Banque Centrale Populaire, which covers the whole country. As an extra service, the payment platform offers the possibility to track transfers through call centres in the origin and destination country. These call centres report on the status of remittances. Morocco has seven call centres. The costs of transfers are low. Per transaction the costs consist of the SWIFT fee, the correspondent bank's fee and the call centre's fee. Furthermore the savings bank has to pay to enter the platform. In Morocco this is relatively cheap; the call centre's fee is only 1 euro. In total, the client pays around 6 euro (depending on the savings bank). All costs are levied at the origin. The speed is maximum 1 day (guaranteed). There is no need to have an account at one of the savings banks. However, identification with a passport is required.

*MTOs – post office*

Whereas MTOs appear to have a smaller market share than banks overall, our mini-survey suggests that they are nonetheless frequently used in the Spain-Morocco corridor, whereas the Post Office does not appear to be widely used. According to the Central Bank of Spain the number of licensed MTOs in Spain currently is 43. MTOs report to the Central Bank, which is the supervising authority. In Spain Western Union and Money Gram operate through various agents, including the post offices (Western Union). In the home country they have a good distribution network: Western Union has 1.700 agents in Morocco and Money Gram 600 agents (mainly located in the Banque Populaire).

*Informal channels*

Indications on the importance of informal channels for the Spain – Morocco corridor were obtained through telephone interviews. The Spanish Central Bank has estimated that remittances, including informal transfers, amounted to € 6 billion in 2003.<sup>64</sup> Thus remittance flows out of Spain through informal channels appear to be roughly equal to those through formal channels. Considering the large group of irregular Moroccan

<sup>64</sup> Banco de Espana, 2003.

migrants in Spain, and the geographical proximity of the two countries, it is likely that the volume of informal remittances for the Spain – Morocco corridor is relatively high. This seems to be confirmed in our mini-survey, where 34% of all respondents said that they used informal channels for remitting funds.

Box 6.3 Result mini-surveys

We conducted 40 mini-surveys in Morocco and received 109 responses on the question through which channel remittances are received and why (more than one channel is used). 34% of the transfers was conducted through informal channels (carrying of money or unregistered private courier), because respondents felt that this was easy and the transfer was fast and safe. 49% of respondents used MTOs or the Post office (primarily MTOs), and only 16% of the transfers was conducted through banks and 2% through courier services (DHL / FEDEX). Most respondents indicated that speed was their primary concern.

### 6.4.3 Transactions

#### *Characteristics based on telephone inquiries*

The information on remittance transactions is collected through telephone interviews.

Table 6.4 Channel Characteristics in the Spain – Morocco Corridor for transfers of € 400

	Banks	Post Office	MTOs
Costs	(local banks) 1% – 8,8% (MPC banks) 0,8%	1,1% – 6,3%	2,2% MG 2,5% WU
Speed	0-4 days	5-6 days	instant
Accessibility	Account	ID	ID

Source: telephone interviews and literature review by ECORYS.

Transfers through banks are cheap and fast. Most likely the example is set by the market leading alliance of La Caixa and Banque Populaire: a Spanish bank committed to migrants and a Moroccan bank with an extensive network in the home country.

Apart from the Western Union products, the post office offers a cheap, but slow, own remittance service. Remarkable are the low fees of the MTOs, most probably induced by the strong competition of banks and informal channels.

## 6.5 Financial sector in Morocco

### 6.5.1 Introduction

This section provides a brief overview of the financial sector in Morocco, and discusses practices that may impede or increase the efficiency of workers’ remittances.



## 6.5.2 Financial sector

### *Sector*

Since the beginning of the 1990s a reform process for the financial sector has been ongoing, aiming at the establishment of a modern, market oriented financial system. Morocco now has one of the most modern and developed financial systems in North Africa. However, in spite of this success, markets continue to play only a limited role and government ownership of financial institutions remains widespread.<sup>65</sup>

The geographical coverage of banks is low. 50% of the banking activities are conducted in urban areas, 30% of which concentrate in the Casablanca agglomerate. The number of bank accounts held by resident's amount to only 15%, compared to 40% in Tunisia and over 100% in developed countries. In 2003 there was approximately one bank office per 17.000 residents. The microfinance sector is developing rapidly.

The banking sector consists of 11 banks, of which six are private (2003). The state controls the largest commercial banks (Groupe Banques Populaires), four specialised banks and the Caisse de Dépôts et Gestions (institutional savings). In addition there are several specialised financial institutions, focusing on particular sectors such as agriculture or tourism.

Groupe Banques Populaires (also known as Crédit Populaire du Maroc) has a stronghold in France and offers joint deposit accounts enabling the wiring of funds for Moroccans living abroad. Deposit accounts can be held in Dirham and foreign currency. Automatic payments to telecom and electricity companies can be made through these accounts.

### *Payment systems*

Cash is the prevailing payment method. Cheques are the most widely used means of non-cash transfers, but electronic transfers are gaining popularity. In 2002, the Central Bank of Morocco (Banque Al-Mahgrib) introduced its large-bulk real-time settlement system, the Système Interbancaire Marocain de Télécompensation (SIMT). Also a new clearing system complying with international standards was introduced recently. Despite these developments, most of the cheques still are processed manually.

## 6.5.3 Remittances

### *Banks*

At present, there are two main banks dealing with migrants and remittances: the Banque Populaire and the Bank Al Amal. Banque Populaire has been the main reference for residents abroad since 1974. Today, it still has about 60% of the accounts of residents abroad, most of which originate in France. Bank Al Amal was established in 1989 and is specialised in financing migrants' investments projects.<sup>66</sup> The foreign branch offices of these banks are situated in France; in Spain they operate through partners.

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<sup>65</sup> IMF, 2003.

<sup>66</sup> Collyer, 2004.

### *MTOs*

Western Union (with around 1.700 outlets) and Money Gram have a presence in Morocco, but as indicated previously, their market shares are not as large as the banks.

## 6.6 Use of remittances

### 6.6.1 Institutional support and incentive schemes

The government of Morocco has experimented with a broad range of incentive schemes to encourage remittances.

#### *Financial sector*

To encourage remittances in 1971 the Moroccan government introduced a “*premie de fidélité*”, a premium on the interest rates on bank deposits held by emigrants. In 1987, the scheme was abandoned because of the unsustainable cost which prompted a decline of 20% in remittances the following year.<sup>67</sup>

#### *Nationality*

The attachment of Moroccans to their country is underpinned by the policy of the Moroccan government regarding their nationality: Moroccans do not lose their nationality even if born abroad. Officially these Moroccans nationals are called “residents abroad”. Since the 1980s residents abroad are represented in parliament.<sup>83</sup>

#### *Institutions*

Two public foundations are involved in migration management issues, the Hassan II Foundation and the Mohammed V Foundation. The former supports residents abroad interested in investing in the home country, while the Mohammed V Foundation is supporting Moroccan migrants to return for the summer holidays (*operations de transit*).

Banks offering remittance services donate a small part of their profits as funding of the Hassan II Foundation. The Foundation has six departments: education, cultural exchange, sports and youth; social assistance; communication; legal studies and assistance; cooperation and partnership; and economic promotion.<sup>68</sup> The Foundation is also conducting studies to document migration trends, i.e. the ‘Observatory on the Moroccan Community Living Abroad’.<sup>69</sup>

The strong attachment and ties of Moroccan migrants to their home country and the supportive role played by the government in this regard has probably helped support the increase in remittance flows to the country over the past decade.

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<sup>67</sup> Charef, 1999, in Collyer, 2004, p.19.

<sup>68</sup> Brand, 2002.

<sup>69</sup> FCC, 2004.

## 6.6.2 Usage of remittances

A study by Femise reported that remittances have helped to keep three percent of the Moroccan population (three percent equal's almost one million people) out of poverty, reducing the portion of the population living in poverty from 23 to 19%.<sup>70</sup>

Moré calculated that in 2001 Moroccan migrants have sent on average between € 1.117 and € 1.675 to their families back home, based on a Diaspora of two million or three million migrants. As these amounts correspond to two to three times the monthly minimum wage level in Spain, and a bit less in France, one may define Moroccans as very generous and altruistic with regard to the family left behind.<sup>71</sup>

Studies carried out in Morocco over the past 35 years, show that money is predominantly used to sustain the household, to build a house or to improve an existing one.<sup>72</sup> At the same time, a survey by INSEA shows that Moroccan residents abroad increasingly invest in their home country, especially in real estate (84% of all investments), agriculture (7,5%) and in other sectors as tourism, industry and the retail sector.<sup>73</sup> Another more recent study confirmed these findings and noticed the growing interest of residents abroad with a higher level of education in investing in stocks listed on the Moroccan stock exchange and in information and communication technology.<sup>74</sup> These investments illustrate the attachment of Moroccan migrants to their home country.

### Box 6.4 Economic impact of housing investments<sup>75</sup>

Several studies on a micro-level have demonstrated how areas with strong traditions of migration, such as the Rif region in Morocco, have seen a genuine boom in the construction sector. 71% of migrant households in this region have managed to buy land, build a house or carry out considerable repair work on their old homes. Several professions and occupations attached to construction have benefited from migration and repatriated wages. The housing boom that has been fuelled by migrant spending has probably saved many of the smaller cities. Communities in the Nador Province, an important emigration region, suffered a loss of population after independence and might have disappeared completely if the remittances had not helped to sustain them.

The same survey as quoted above also noticed that the investment flows could even be higher if the investment climate would be improved. For example, the INSEA survey mentioned the following impediments to investment encountered by residents abroad: 42% administrative problems, 18% lacked access to venture capital, 13% corruption, 13% fiscal problems. Moroccan migrant in Denmark have expressed their interest in investing in Morocco if the investment climate would be favourable.<sup>76</sup> Apart from issues related to

<sup>70</sup> FCC, 2004.

<sup>71</sup> Moré, 2005, p. 15.

<sup>72</sup> See Khachani, 2005, for a review of the surveys in Morocco.

<sup>73</sup> INSEA, 2000, pp. 196-197.

<sup>74</sup> Khachani, 2005, p. 14.

<sup>75</sup> Nyberg Sørensen, 2004.

<sup>76</sup> FCC, 2004.

the investment climate there is a lack of up to date information on the investment opportunities to the residents abroad.<sup>77</sup>

Box 6.5 Result mini-surveys

We conducted 40 mini-surveys in Morocco and received 86 responses on the question how the remittances were used (more than one answer was possible). 45% mentioned as usage 'daily expenses', 31% payment of school fees and 16% the building of a house. 5% answered that remittances were used for investments. 2% of the answers was related to other utilisation.

*Capital controls*

There are no capital controls that could restrict the employment of remittances for investments in real estate or small businesses by migrants.

## 6.7 Observations, impediments, recommendations

### 6.7.1 Summary of key facts

Table 6.5 Key characteristics Spain - Morocco

Key characteristics Spain - Morocco	
<b>General</b>	
Number of inhabitants in Morocco <sup>78</sup>	32 million
GDP (2003, current prices)	€ 39,5 billion
<b>Remittances (estimations 2004)</b>	
Worldwide (registered) private current transfer received in Morocco	€ 3,4 billion
Registered current private transfer flows from EU countries	€ 2,9 billion
Registered Current private transfer flows from Spain	€ 0,392 billion
- <i>Informal remittances as % of formal remittance flows in the corridor</i>	over 100%
Remittances received in Morocco as % of GDP (average 1996- 2003)	6 – 9 %
<b>Migrants</b>	
Estimate of number of Moroccan migrants worldwide (2000)	1,255 million
- <i>Moroccans in EU as % of Moroccan migrants worldwide<sup>79</sup></i>	85%
Estimate of number of Moroccan migrants in Spain (2003)	378.800
- <i>Moroccans in Spain as % of total Moroccans in Europe (2003)</i>	25%
Migration developments 1995 – 2003 in Spain	Sharp increase of + 495% (from 63.600 in 1995 to 378.800 in 2003)

<sup>77</sup> Khachani, 2005, p. 24.

<sup>78</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/tu.html>.

<sup>79</sup> For the estimate the number of Moroccans worldwide in the year 2000 and the number of Moroccan migrants in Europe in 2001 are used, with neglecting the differences in definitions.

Key characteristics Spain - Morocco	
<b>Financial sector</b>	
Estimated nr of bank branches in 2004	1.882
Inhabitants per branch	17.000
Estimated number of MTO outlets in Morocco	Over 1.700
Number of inhabitants per MTO	Less than 18.000
<b>Channels</b>	
Banks	Often
MTOs	Often
Post office (own services)	Hardly
Informal	Often
<b>Usage of Remittances</b>	
Consumption	Mainly
Investment (land or house purchase)	Small, but increasing

### 6.7.2 Observations

- The Moroccan migrant community is the second largest migrant group in Europe;
- Moroccan migrants remit a large portion of their earnings;
- Remittances to Morocco are significant, representing between 6 and 9 % of GDP, and represent an important source of income for the households left behind;
- The total receipts of remittances by Morocco have been on an increasing trend and have doubled between 1996 and 2004 mainly caused by the rapidly increasing remittance flows from Spain
- Moroccans are strongly attached to their motherland. Over the years the government has supported this attachment by allowing for dual nationality and through support schemes aimed at supporting investments of Moroccans residing abroad and their seasonal return to the home country. This is likely to have contributed to rising remittance flows and to ensure that they remain strong in the future;
- Both formal and informal remittance channels are used. Due to the proximity of the two countries, it may be expected that informal channels will remain important. However, the dichotomy in this corridor (migrants use *either* informal channels *or* banks) suggests that migrants that *do* have a bank account use it for remittances and migrants that *do not* have a bank account opt for the informal channels;
- The fees for money transfers, for both banks and MTOs, are among the lowest in the studied corridors.

### 6.7.3 Impediments

#### *Transaction costs*

The costs of remittances in this corridor are among the lowest of all corridors and there seems to be healthy competition (no impediments).

### *Usage of remittances*

The recipients of remittances use them predominantly for consumption and for housing. As in Turkey, there appears to be evidence in Morocco that lack of infrastructure may be hindering more productive investments.

### *Usage of channels*

Despite the low costs of remittances through formal channels, the informal flows appear to be relatively large, probably reflecting both geographical proximity as well as the large number of illegal migrants of Moroccan origin in Spain. Informal flows, mainly cash or in kind, are hampering the developmental impact of remittances as their multiplier effect is low. An impediment to the usage of formal channels may be the inability of illegal migrants to open a bank account.

## 6.7.4 Recommendations

### *Usage of remittances: Pooling schemes.*

Outside the real estate sector, investments related to remittance flows appear to be lacking in Morocco, likely reflecting both impediments to investments, but also lack of infrastructure in support of productive investments. To this end, pooling schemes described in the previous chapter could be promoted further.

### *Usage of channels: Matricula consular*

A large portion of remittances in this corridor will always flow through informal channels due to the proximity of Spain and Morocco and the easy and frequent travel. However, by offering the large group of irregular migrants the opportunity to open a bank account and by offering them attractive services, part of the informal flows could be rerouted through formal channels. This can be done by offering these migrants an identity card similar to the 'Matricula consular' used for (irregular) Mexican migrants in the USA.

### *Other: Facilitate investment*

Moroccans are interested in investing in their country. This could be encouraged by facilitating investments in general (i.e. by further removing administrative hurdles) and by providing information on investment opportunities.

## 7 France – Tunisia

### 7.1 Introduction

France has been an important host country for Tunisian migrants for many decennia. Many of the migrants that arrived in the 1960s and 1970s, because of the high demand for workers, are now well established in France. Their attachment to the home country remains strong as evidenced by purchases of homes or land back in Tunisia. More recent migrants show a similar attachment to the homeland.

### 7.2 Registered remittances

Total remittance flows from migrants worldwide registered by the Central Bank of Tunisia amounted to € 1,1 billion in 2003 of which the bulk (€ 950 million) originates in Europe. Approximately 58% of total flows originate in France (Table 7.1).

Table 7.1 Registered remittance flows France – Tunisia (in million €)

Geographical origin of flows	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from France	-	-	-	-		87	83	82	82
Remittances received from France <sup>80</sup>	-	-	-	-	423	538	569	558	-
Remittances received from Europe <sup>81</sup>	-	-	-	709	750	895	962	950	-
Remittances received Worldwide <sup>82</sup>	-	629	712	813	859	1.042	1.118	1.099	-

Source: 1<sup>st</sup> line Central Bank France, other Central Bank of Tunisia

#### Central Bank France

The Central Bank of France has been publishing data on remittances by geographical breakdown since 2001. The data of the Central Bank of France refers to 'workers' remittances' in the Balance of Payments, and includes private international transfers through banks, La Poste and MTOs.

<sup>80</sup> Workers' remittances, compensation of employers and migrant transfers.

<sup>81</sup> Workers' remittances, compensation of employers and migrant transfers.

<sup>82</sup> Workers' remittances, compensation of employers and migrant transfers.

### *Central Bank Tunisia*

Remittance flows from France as reported by the Tunisian Central Bank (CBT) are substantially larger than those reported by the Central Bank of France. This difference in figures results primarily from the use of different definitions for remittances. The CBT includes all transfers carried out by workers (short term workers and long term migrants) and currency inflows through banks and MTOs. In addition, the Tunisian classification includes cash inflows through exchange offices at the border and the cash value of imported goods such as cars. The data collected by the CBT suggests that global remittances to Tunisia are important (representing 4-5% of GDP), and have been on an increasing trend. Remittances from the EU and France have also increased since 2000.

## 7.3 Migrants

### 7.3.1 Tunisian migrants in Europe

Of the approximately 843.000<sup>83</sup> Tunisian migrants, approximately 85% have settled in Europe. Similar to remittance data, French and Tunisian sources report different figures. According to French statistics<sup>84</sup> only 150.000 Tunisians live in France, while the Tunisians report 490.000.<sup>85</sup> One explanation for the difference may be the existing double citizenship of Tunisian migrants in France. Migrants with a double citizenship could be counted as Tunisians in Tunisia and as French in France.

According to the French data, 43% of the 150.000 Tunisians reside in Ile-de-France. Two other regions that have large Tunisian communities in France are Provence-Alpes-Cotes d'Azur (25%) and Rhones-Alpes (14%).

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<sup>83</sup> Number is mentioned in an article on middle east online (2005-05-31) "Tunisian expatriates contribute billions to economy" and refers to 2003. Article mentions that the number is based on a survey by Office des Tunisiens a l'Etranger.

<sup>84</sup> European University Institute <http://www.carim.org/research.asp>, based on national census data.

<sup>85</sup> **Tunisian Central Bank, 2003.**



Figure 7.1 Tunisians in the most important EU countries in 2003 and their geographical spread in France

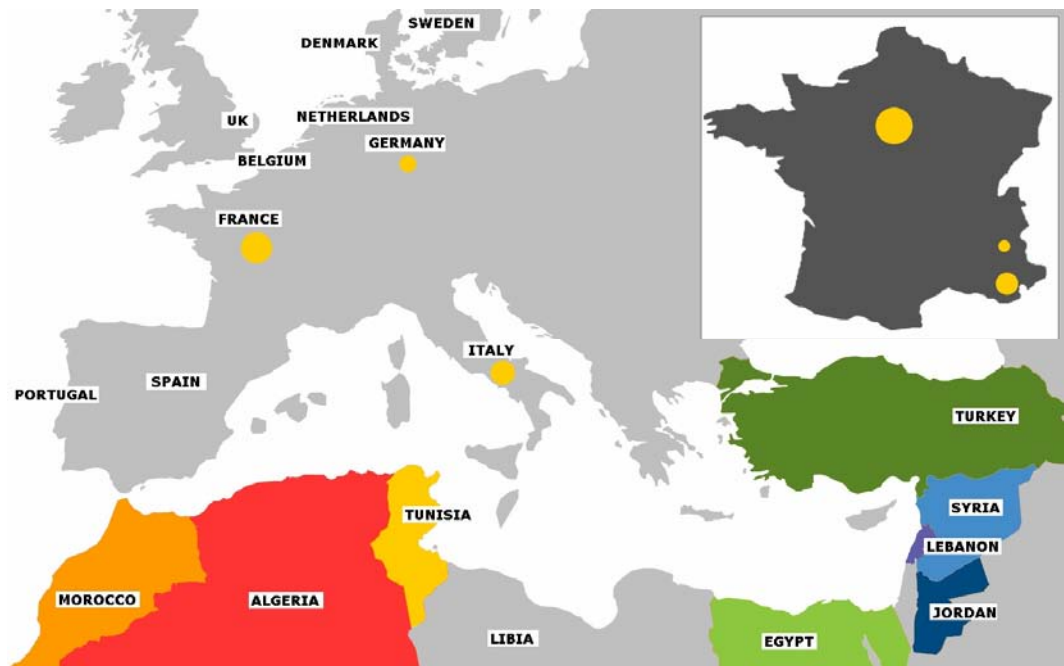


Table 7.2 Number of Tunisian migrants (in thousands) worldwide (2003), in main EU host countries (2003) and the number of Tunisian migrants in the main host regions in France (1999-2001)

Host region or country	Number of Tunisian migrants (* 1.000)	In France	Number of Tunisian migrants (* 1.000)
• Worldwide	843		
• Europe	295	<i>In France:</i>	
• France	154	• Ile-de-France	87
• Italy	101	• Provence-Alpes-Cotes d'Azur	50
• Germany	22	• Rhone-Alpes	27

Source: Number is mentioned in an article on middle east online (2005-05-31) "Tunisian expatriats contribute billions to economy", based on a survey by Office des Tunisiens a l'Etranger, European University Institute <http://www.carim.org/research.asp>, based on national census data.

Note: since worldwide data is from Tunisian data source and other data is from an EU data source, data is not compatible

### 7.3.2 Characteristics

France is the most important host country for Tunisian migrants for the last decennia. Between 1999 and 2004, about 76.000 people left Tunisia. Of this group 84,5% were male, half of which between 15-29 years of age and another third between 30-44 years.<sup>86</sup> France was the main destination for 32.000 Tunisians over the past five years. 16.000 migrants settled in Italy. About 20% left for Europe to study and 9%, especially women, left for family reunifications.<sup>87</sup>

<sup>86</sup> Fourati, 2005

<sup>87</sup> Fourati, 2005

The Tunisian community tends to be well established in the French society: they generally have academic qualifications, relatively high income levels, and benefit from dual citizenship. These migrants tend to stay in France and only return home during holidays for family visits.

Migrants that have left Tunisia over the past five years, come from regions with high unemployment, usually in poor rural areas. The main motivation to migrate is to save as much money as they can to help their families at home (wife or husband, children, parents, grandparents). They invest in housing in Tunisia and save money for the day they return. The newer generation of migrants expect to return as by working abroad they have built a social status at home, whereas their social status (and living conditions) in the host country are expected to remain low. Their attachment to their home country is high.

Overall, the community spirit and the family links remain very strong between Tunisians, even after migration.

## 7.4 Channels

### 7.4.1 Introduction

This section describes the ‘remittance market’: the channels used for the transfer of funds from France to Tunisia, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We also conducted 40 mini-surveys in the recipient country to better understand the motivation to use channels, and conducted a limited number of own transfers to verify costs.

### 7.4.2 Channels

During the telephone interviews we received different indications on the channels for remittances from France to Tunisia, but the most common opinion from interviews with various operators is that Tunisians prefer the MTOs most. Banks are used, but not as frequently.

Table 7.3 Usage of channels in the France – Tunisia corridor

Channels	Usage
Banks	Often
MTOs	Most often
Post office (own services)	Sometimes
Informal	Regularly

Source: Telephone interview, literature review and mini-surveys

#### *Banks*

Tunisian banks are present in France and some French banks offer remittance services, such as Société Générale (see box 7.1). While the results of the mini-survey would suggest that a large portion of formal remittance flows are transferred through banks (box

7.2), interviews with various operators suggest that the bank channel is not used as often as the MTO channel because, as shown below, transfer times for banks are slow and fees may be unpredictable. An explanation for the different views collected through telephone interviews and the mini-survey may be that the mini-survey was conducted in large cities for which banking services are more readily available.

Box 7.1 Example of remittance services offered by Société Générale

Société Générale offers two ways of transfer to African countries, depending on whether the recipient has a bank account or not. If the recipient has a bank account, the funds are transferred via branches of the SG Group or via a correspondent bank (SWIFT).

If the recipient does not have a bank account, transfer is possible through members of the 'Groupe SG network' or via Western Union. Through either channel, bank or Western Union, the remittances can be collected in cash. For this 'cash transfer' additional charges are due at the recipient side.

Instead of visiting the bank, both types of transfer can also be initiated by telephone 24 hours a day, seven days a week. According to the spokesperson of the bank a transfer to the recipient's bank account costs € 10 and a transfer in cash € 20. Both transfers take two to three working days.

### *MTOs*

According to telephone interviews, MTOs have a substantial market share in this corridor. Both Western Union and Money Gram have a large network in France. Agents of the 2.800 outlets of Western Union in France are, among others La Poste, CCF Change and Société Financière de Paiement (SFP). In Tunisia, Western Union has about 1.300 outlets through the post office networks of La Post Tunisienne and Office Nationale des Postes.

Money Gram has 800 outlets in France and about 120 in Tunisia, most through Banque Nationale Agricole.

### *Post office*

The post offices offer financial, payment and savings products, among which an own remittance product 'Le Mandat Express International'. The post office 'La Poste' is connected to the correspondent network of Eurogiro. According to our local contacts the post office is further promoting remittance services by, amongst others, opening branches in areas from which many migrants originate.

### *Informal channels*

Despite the fact that the Tunisian Central Bank captures part of the informal remittances in the official reports, substantial remittance flows remain unregistered according to respondents during telephone interviews. Information collected suggests that the remittances flowing through informal channels may constitute 50–100% of the size of the formal (registered) flows. This is not surprising given that many Tunisian migrants own property or small businesses in their home country and frequently travel back home. By contrast, the mini-survey showed that 15% of the transfers is going through informal channels. This difference may again reflect the fact that the survey was conducted for large cities, where access to formal services may be more widespread.

Box 7.2 Results mini-surveys

We conducted 40 mini-surveys in Tunisia and received 40 responses on the question through which channel remittances were received and why. 15% of the transfers was conducted through informal channels (carrying of money). 70% was received through a bank, 10% through an MTO / post office and 5% was sent through a courier service.

7.4.3 Transactions

*Characteristics based on telephone inquiries*

Information on transactions costs compiled through telephone inquiries are presented in Table 7.4.

Table 7.4 Channel characteristics in the France – Tunisia corridor for transfers of € 400.

	Banks	Post Office	MTOs
Costs	(local banks) 1,8% – 4,2% (MPC banks) 0,8% - 10%	2,5%	3,1% MG 8,4% WU
Speed	2-5 days	2-10 days	Instant
Accessibility	Account	ID	ID

Source: telephone interviews and literature review by ECORYS.

According to the interviews, a bank transfer, especially through Banque Populaire (0,8%), appears to be the cheapest way of remitting. MTOs appear to be more expensive at first glance, although actual transfers reveal that the costs structure may not be that different (see below). At the same time, MTOs deliver almost instantly. Interesting is the difference in pricing reported by Western Union and Money Gram. A transfer of € 400 costs 8,4% (€ 33,50 for bracket € 370-460) at Western Union and only 3,1% (€ 12,50 for bracket € 250 – 500) at Money Gram.

*Costs incurred in conducted pilot transfers*

We have conducted three transfers of € 400 to Tunisia: Two through a French bank and one through Western Union in the Netherlands. Table 7.5 presents an overview of the transfer costs.

Table 7.5 Transaction costs for real transfers of € 400

(all costs in €, unless indicated otherwise)

Channel used	Total costs in €	Costs in €			Received	
		Fee sender	Fee recipient	Exchange rate costs	Received in €	Received in local currency
Société Générale to UIB OURS <sup>88</sup>		41,26 (10,3%)	-	-		<sup>89</sup>
Société Générale to UIB Shared	31,09 (7,8%)	19,73 (4,9%)	11,37 (2,8%)	--		TND 611.094
Western Union (Postbank, Rotterdam, NL) to Western Union Tunis	28 (7%)	28 (7%)	-	--		TND 621.570

*Note:* *Fee sender* is the cost for sending an amount of € 400 from France to Tunisia in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The euro: TND exchange rates published on the internet was, 1.57243 (row 2, 30 November 2005). The funds received through Western Union (30 November 2005) exchanged at rate of 1.553. *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400).

The transfer through banks revealed surprise costs. Thus, although the telephone interview with Bank Société Générale mentioned a fee of € 13,76, the actual fee for the real transfer was € 41,26. Furthermore, it was possible to lower the costs of remitting money with the same bank by using the SHARED cost structure (€ 31,08) rather than the OURS transaction (€ 41,26).

Due to organisational and time constraints we transferred funds from MTOs in the Netherlands and not from France. The actual costs of MTOs and banks through the experiment were not different, representing roughly 8% of the cash transferred.

### Observations

The transaction costs in the France – Tunisia corridor are relatively high, and appear to represent about 8% of the capital sent, both for banks (SHARED option) and MTOs.

## 7.5 Financial sector in Tunisia

### 7.5.1 Financial sector

#### Financial sector

In recent years a reform programme has been implemented in the financial sector, which has included strengthening supervision and the privatisation of several public banks.

<sup>88</sup> OURS: all costs are paid by the sender. SHARED: costs are shared between sender and recipient.

<sup>89</sup> At the time of publication the funds were not yet received

However, the government retains control over the three largest banks and foreign ownership does not exceed a quarter of total banking assets. Banking penetration in Tunisia remains relatively limited, and total banking assets do not exceed 70% of the country's GDP.

Tunisian banks offer foreign currency accounts to residents and non-residents. The share of the population having a bank account is estimated at 40%, while the average for the region is 15%.<sup>90</sup> This percentage is much higher than in other MPCs, because in Tunisia it is nowadays common to receive salaries in the public sector through a bank account. Also retirement allowances and salaries in the private sector are often paid to a bank account. In addition, bank accounts are often used by parents to finance the future study of their children.

#### *Payment systems*

Currently there are four payment networks: a clearing network of cheques and wire-transfers, a card payment network, a securities settlement network and a RTGS network. The Central Bank of Tunisia is engaged in the further integration of the various payment systems.

The clearance network, launched in 1999 and operated by SIBTEL (Société Interbancaire de Télécompensation), is linking Tunisian banks, the Office Nationale des Postes (post office) and Tunisia Telecom through fibre optic cables.

### 7.5.2 Remittances

Tunisian banks offer a wide range of services directed to their clientele, including Tunisians residing abroad.<sup>91</sup> However, Tunisians residing abroad enjoy some additional benefits: they are allowed to hold accounts in convertible dinars or in foreign currency, they receive a higher interest on these bank deposits and they are exempt from paying tax on interest received.

Two Tunisian banks, UBCI and BIAT, recently have shown a renewed interest in overseas residents and are promoting new services. The Tunisian UBCI (Union Bancaire pour le Commerce et l'Industrie) has launched a service called 'Offre Azur' in cooperation with BNP Paribas. 'Offre Azur' targets Tunisian residents abroad. So far the package has only been marketed to current UBCI clients, assuming that they will promote it to their relatives abroad. It is anticipated that the package in France will be marketed in collaboration with BNP Paribas or with other banks.

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<sup>90</sup> IMF, 2003.

<sup>91</sup> This section draws largely from the Femise study on remittances (FCC, 2004).

### Box 7.3 Offre Azur

The package 'Offre Azur' includes two types of services: "essential" and "optional".

Essential services include:

- An account in convertible dinars with an attractive interest rate;
- A Visa card;
- An UBCI contract including several services, such as internet banking, chequebooks;
- A foreign currency deposit partly exempt from bank commission.

The optional services include:

- A current account in foreign currency, remunerated at the rate fixed by the Central Bank minus 0,25%;
- A mortgage credit account with free transfers;
- A "housing savings plan" with free transfers.

BIAT (Banque Internationale Arabe de Tunisie) is marketing their services to migrants through an agency in France and by promotions at airports and ports.

### Box 7.4 BIAT

BIAT offers the following services to overseas residents:

- Account in convertible dinars and foreign currency;
- A housing savings plan (loans are granted for the purchase of the house from the moment the accumulated savings reach 10,000 dinars);
- A rapid money transfer service (Western Union) and periodical transfers named "Biatip" through the French post or "Biatkreiss" in Germany;
- Information on the balance of the current by telephone with the service "Biatofil".

## 7.6 Use of remittances

### 7.6.1 Institutional support and incentive schemes

The Tunisian government has developed a number of incentives for the residents abroad, including information campaigns and measures aiming to facilitate the imports of capital goods. The privileges and the procedures are published by the Office Nationale du Tourisme Tunisien (ONTT), the Agence de Promotion des Investissements Agricoles (APIA), and the Agence de Promotion de l'Industrie (API). These institutions are engaged in the support of Tunisians abroad.

The following is a short summary of incentive schemes:

- Tunisian migrants returning temporarily (for example for holidays) are exempt from tax and customs duties on imported goods up to a value of 1.000 dinars per year if these goods are not considered to have a commercial character. Nevertheless 'suitcase trade' is practised widely;

- Tunisian residents abroad permanently returning to Tunisia enjoy a number of tax incentives on their imported goods, like cars, up to a value of 15.000 dinar;<sup>92</sup>
- Tunisian residents abroad that invest in businesses in their home country are exempt of the payment of custom duties for the import of business-related material or cars. These advantages can only be enjoyed once in the lifetime of the migrant.

### *Capital controls*

Non-residents require prior approval from the Central Bank of Tunisia for the purchase of real estate. Other approvals are required from the Central Bank related to investments that raise the foreign ownership to more than 50% of the capital.

Tunisian residents abroad can import foreign currency on every return trip without limitations and formalities. However, if the migrant has the intention to re-export a value of over 1.000 dinar or to open a foreign currency account, a customs declaration is required;<sup>93</sup>

## 7.6.2 Usage of remittances

The purpose and usage of remittances depends upon the migrants 'maturity' in the migration cycle. In the first years after migration money is sent home to support parents. Later remittances are used for marriage or the construction of a house. And finally, remittances may be used for investments in productive activities.

A survey<sup>94</sup> on remittances uses in Mahdia (a city 200 km south east of Tunis) identified four different reasons for money transfers:

1. Small sums for monthly living expenses of 100-120 dinars a month;<sup>95</sup>
2. Slightly larger sums of 200–300 dinars per month, if the migrant contributes to the social life of the family and the community;
3. Larger sums in case of weddings and births, ranging between 2.000 and 10.000 dinars or more;
4. Substantial amounts for investments in a house. The migrant than sends 70.000 to 90.000 dinars over a period of four to five years. The construction is usually supervised by one of the parents of the migrant.

Results from our mini-survey suggest that a substantial amount of remittances for Tunisia are invested, particularly in housing (box 7.5).

### Box 7.5 Result mini-surveys

<sup>92</sup> The Tunisian migrant must have resided abroad for at least two years and trips to Tunisia must not have exceeded 180 days in a year.

<sup>93</sup> OTE, 2000.

<sup>94</sup> FCC, 2004.

<sup>95</sup> 1 dinar is approximately € 0,6.



We conducted 40 mini-surveys in Tunisia on the question how remittances were used (more than one answer was possible). 23% of respondents noted that remittances were used for payment of school fees and 34% the building of a house. 18% answered that remittances were used for investments (company or other). 25% of the answers noted miscellaneous usage.

## 7.7 Observations, impediments, recommendations

### 7.7.1 Summary of key facts

<b>Key characteristics France – Tunisia</b>	
<b>General</b>	
Number of inhabitants in Tunisia <sup>96</sup>	10 million
GDP (2003, current prices)	€ 22,3 billion
<b>Remittances (2004)</b>	
Worldwide (registered) remittance <sup>97</sup> flows into Tunisia	€ 1.100 million
(Registered) remittance <sup>98</sup> flows from EU countries	€ 950 million
(Registered) remittance <sup>99</sup> flows from France	€ 558 million
- Informal remittances as % of formal remittance flows in the corridor	50-100%
(Registered) remittances <sup>100</sup> received in Tunisia as % of GDP (average 1996-2003)	4 – 5 %
<b>Migrants (2003)</b>	
Estimate of number of Tunisian migrants worldwide	843.000
- Tunisians in EU as % of Tunisian migrants worldwide	85%
Estimate of Number of Tunisian migrants in France	154.000
- Tunisians in France as % of total Tunisians in Europe	50%
Migration developments 1995 – 2003 in France	Decrease of 25% (from 206.000 in 1995 to 154.000 in 2003)
<b>Financial sector</b>	
Estimated number of bank branches in 2003	2.500
Inhabitants per branch	4.000
Estimated number of MTO outlets in Tunisia <sup>101</sup>	1.420
Number of inhabitants per MTO	
<b>Channels</b>	
Banks	Often
MTOs	Most often
Post office (own services)	Sometimes
Informal	Regularly
<b>Usage of Remittances</b>	
Consumption	Prevalent
Investment	Frequent investments, notably in housing

<sup>96</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/tu.html>.

<sup>97</sup> Workers' remittances, compensation of employees, migrant transfers

### 7.7.2 Observations

- Most of the Tunisian migrants worldwide live in Europe, with a large concentration in France. Consequently, the corridor France – Tunisia represents the most important remittance flow into Tunisia;
- Tunisians are highly attached to their country. This is reflected in the relatively large investments in housing;
- The high attachment and the dual citizenship are motivators for frequent travel between home and host country, making it easy for migrants to take money with them; as a consequence the informal sector plays an important role.
- MTOs are used often;
- Recently the Tunisian banks BIAT and UBCI launched services targeting migrants;
- Transaction costs for remittances are relatively high;
- Depending on the number of years after migration, remittances are used for consumption, investments in housing and investments for productive usage (for example in small businesses), respectively;
- More than in the other MPCs, recipients use the remittances for investments.

### 7.7.3 Impediments

#### *Transaction costs*

Despite the relatively high outreach of Tunisian banks (about 40% of the population has a bank account) the market share of banks for remittance transfers is modest. The MTOs, however, have a fairly strong market position. The launch of migrant dedicated packages by the Tunisian banks BIAT and UBCI suggests that the competition for the migrant clientele will intensify, which may result in lower transaction costs.

#### *Usage of remittances*

The recipients use remittances predominantly for consumption and for housing. As in other MPCs, there appears to be evidence in Tunisia that lack of infrastructure may be hindering more productive investments.

#### *Usage of channels*

The flows through informal channels and MTOs are substantial. These flows mainly cash or in kind, are hampering the developmental impact of remittances as their multiplier effect is low. An impediment to the usage of bank channels may be the high (and unpredictable) costs, the limited services offered, and the slow processing time.

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<sup>98</sup> Workers' remittances, compensation of employees, migrant transfers

<sup>99</sup> Workers' remittances, compensation of employees, migrant transfers

<sup>100</sup> Workers' remittances, compensation of employees, migrant transfers

<sup>101</sup> Indication for Western Union and MoneyGram only.

#### 7.7.4 Recommendations

##### *Encourage alliances*

More competition may drive the costs in this corridor down: alliances between Tunisian and French banks, and the post office may open up their network to other providers of remittances; banks should develop more migrant targeted services (as in now starting to happen).

##### *Encourage usage of banks*

Remittances in this corridor would have a larger developmental impact if channeled through banks and if the receipts are deposited in bank accounts. Channelling a larger part of the remittances through the banking system would not only increase the asset base of banks (allowing them to increase their lending activities) but would also open up opportunities for the development of capital market products, including securitisation of remittance receipts.

Therefore, we recommend that the banking sector start to make itself known as an attractive remittance channel (as now started by UBCI and BNP Paribas). Also, MTOs could link up with banks and encourage savings (some links already existing)

##### *Develop Pooling schemes.*

In Tunisia funds (from donors and migrants) should be pooled to strengthen development and investments in productive activities.

##### *Encourage investments*

There is a large scope for small private sector investment in Tunisia, for example in textile, agro-food products and fishing. Information on these sectors as well as on the export processing zones could be made available to the diasporas. It should be noted, however, that bureaucratic procedures may need to be streamlined to encourage residents abroad to make investments. A website focussing on the diasporas community and providing information on investment opportunities could fill the information gap.



## 8 France – Algeria

### 8.1 Introduction

Algeria went through a political turmoil in the early 1990s. Economic growth and the reform process practically came to a near stand still. In 1994 a reform programme was initiated which is going on until date, albeit slowly. Over the past five years the economy has been supported by large oil revenues.

### 8.2 Registered remittances

Table 8.1 presents estimates of remittance flows into Algeria.

Table 8.1 Remittances France – Algeria (in million €)

Registered flows from:	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from France	-	-	-	-	-	287	282	282	283
Remittances from France	-	-	-	-	-	-	-	-	-
Remittances from Europe	-	-	-	-	-	-	-	-	-
Worldwide net current transfer	-	935	946	738	849	788	1.131	1.547	-

Source: 1<sup>st</sup> row Central Bank France, other rows Central Bank of Algeria.

#### *Central Bank France*

The Central Bank of France estimates that about € 282 million (2003) workers' remittances flows to Algeria through formal channels: banks, post offices and MTOs.

#### *Central Bank Algeria*

In the Balance of Payments, the Central Bank of Algeria only publishes total net current transfers. In addition to workers' remittances, these transfers include pensions sent through banks and non-duty paid imports (cars, cash). In other corridors the inflows related to the cash value of cars would remain unregistered and as such would be considered 'informal remittances'. In 2003, net current transfers to Algeria amounted to € 1,5 billion, or roughly 3% of GDP.

The Central Bank of Algeria does not provide a geographical breakdown, but in a telephone interview conducted by our local consultant with the Central Bank of Algeria it

was mentioned that most likely about 90% (that is circa € 1,35 billion) is originating from France. As we noticed in other corridors it is not unusual that the differences between the estimates of the Central Banks in the host and home countries are considerable.

#### *Informal remittances*

During the telephone interviews, several respondents mentioned the probably high level of informal remittances. Migrants prefer to take presents and cash with them when going home. According to the Migration Policy Group (May 2004), the majority of the total volume of remittances made by migrants living in France passes through unofficial channels. Since Algerians make up a substantial portion of the migrant community in France, we assume that the majority of remittances are informal remittances.

## 8.3 Migrants

### 8.3.1 Algerian migrants in Europe

According to the CNES<sup>102</sup> about 1,2 millions Algerians live abroad, of which 95% reside in Europe. Data sources differ on the exact number of Algerians in Europe. The CNES report about 1,1 million Algerians living in Europe, whereas European sources provide an estimate of about 550.000. A further investigation into the cause of these differences is beyond the scope of this study, but we expect it is caused by different definitions, i.e. France reporting citizens with dual citizenship as French and Algeria reporting them as Algerians.

Based on the European data sources, Algerian migrants account for almost 1% of total population in France and for 11,5% of the total migration community in France. Algerians in France live in two main regions: the Paris area (Ile-de-France, 39%) and the south-east of France (Provence-Alpes-Cotes d'Azur, 13%).

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<sup>102</sup> Conseil National Economique et Social, 2003.

Figure 8.1 Algerians in the most important EU countries in 2003 and their geographical spread in France.



Table 8.2 Number of Algerian migrants (in thousands) worldwide (2002), in main EU host countries (2003) and the number of Algerian migrants in the main host regions in France (1999-2001).<sup>103</sup>

Host region or country	Number of Algerian migrants (* 1.000)	In France	Number of Algerian migrants (* 1.000)
• Worldwide	1.200		
• Europe <sup>104</sup>	575	<i>In France:</i>	
• France	477	• Ile-de-France	216
• Spain	40	• Rhone-Alpes	84
• Italy	15	• Provence-Alpes-Cotes d'Azur	73
• Germany	14	• Nord-Pas-de-Calais	35
• United Kingdom	11	• Languedoc-Roussillon	24
• Belgium	9		

Source: Conseil National Economique et Social (2003), European University Institute <http://www.carim.org/research.asp>, and [www.insee.fr](http://www.insee.fr)

### 8.3.2 Characteristics

The Algerian migrant population in France has changed over the past four decades. In the 1960s the migrants were mainly male, coming from rural areas and had a low level of education. They were recruited with the aim of performing unskilled jobs in France. This migration was later on followed by family reunification. At the moment, many migrants in France are of the third and the fourth generation.

<sup>103</sup> Depending on the year of the census per region.

<sup>104</sup> Based on 12 most important European host countries

The newly arriving single migrants are usually young, come from urban areas, are well educated, and often already had a job in Algeria.<sup>105</sup>

Various organisations of Algerians in France are mobilising human and financial resources for collective small development projects, such as the French-Algerian association AMSED (Association Migration, Solidarité et Echanges pour le Développement) in Strasbourg.

## 8.4 Channels

### 8.4.1 Introduction

In this section we provide an overview of the ‘remittance market’: the channels used for the transfer of funds from France to Algeria, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We have also conducted 64 mini-surveys in the recipient country to better understand the motivation to use channels, and conducted telephone interviews and own transfers to check costs.

### 8.4.2 Channels

#### *Characteristics based on telephone inquiries*

The most used channel in this corridor is informal channels and Western Union.

Table 8.3 Usage of channels in the France – Algeria corridor

Channels	Usage
Banks	Sometimes
MTOs	Often (Western Union)
Post office (own services)	Seldom
Informal	Often

Source: Telephone interviews and literature review and mini-surveys

#### *MTOs*

Both Western Union and Money Gram have a large network in France, but Money Gram is not represented in Algeria. According to the respondent of Money Gram during the telephone interview, this is because of the political instability.

Agents of the 2.800 outlets of Western Union in France are, among others La Poste, CCF Change and Société Financière de Paiement (SFP). In Algeria, Western Union is offering its services through 800 post offices of Algérie Poste.

<sup>105</sup> Musette, 2005.



### *Banks*

Some French banks, among others Société Générale offer remittance transfers. Money can also be transferred to Algeria through Banque Populaire.

### *Post office*

The large network of the post office in both France and Algeria is used by Western Union. The post office in France also has its own money transfer product, but as in other countries these services do not seem to be used or offered very often. The main service sold by the post office in this corridor is Western Union.

The post office in Algeria today has of 3.200 local offices where a CCP (Postal check account) can be opened.

### *Informal channels*

In the mini-survey 51% of the respondents mentioned that they receive remittances through informal channels. Most of the informal transfers are conducted by family or friends (24% of all transactions) or by paid others (20%). In only 7% of all transactions the migrant took the money himself.

#### Box 8.1 Result mini-surveys

We conducted 64 mini-surveys in Algeria. 51% of the transfers was conducted through informal channels (carrying of money or unregistered private courier), because respondents felt that this was safe, practical or the only available channel. 27% of respondents used Western Union via the post office, whereas only a minor portion of remittances is sent directly through post office services; only 16% of the transfers was conducted through banks and 6% through a courier (DHL / FEDEX). Remarkable is that often respondents mentioned that a channel was used because it 'is the only channel available'.

### 8.4.3 Transaction characteristics

#### *Characteristics based on telephone inquiries*

The information provided in table 8.4 has been gathered through telephone interviews with banks, post offices and MTOs.

Table 8.4 Channel characteristics in the France – Algeria corridor for transfers of € 400

	Banks	Post Office	MTOs
<b>Costs</b>	1,8% – 4,2% (local banks) 0,8% (MPC banks)	2,5%	8,4% WU
<b>Speed</b>	2-5 days	2-10 days	Instant
<b>Accessibility</b>	Account	ID	ID

Source: telephone interviews by ECORYS.

The cheapest transfer is possible through Banque Populaire (0,8%). Western Union is by far the most expensive channel with 8,4%.

### Costs incurred in conducted pilot transfers

We have conducted two transfers of € 400 to Algeria. The costs incurred are presented in table 8.5.

Table 8.5 Transaction costs for real transfers of € 400

(all costs in €, unless indicated otherwise)

€ 400 transaction Channel	Costs			Received		
	Total costs €	Fee sender €	Fee recipient	Exchange rate costs €	Received in Foreign currency €	Received in local currency
Société Générale to Banque Nationale d'Algerie (BNA) Shared*	19,73 (4,9%)	19,73 (4,9%)	-	-	400	DZD 34.268
Western Union (Postbank Rotterdam, NL) to Western Union Algiers	36,47 (9,1%)	28 (7%)	-	8,47 (2,1%)		DZD 34.012,36

*Note:* *Fee sender* is the cost for sending an amount of € 400 from France to Algeria in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The euro: DZD exchange rates were 85,67 according to the Central Bank of Algeria (row 1, rate at 10 December 2005) and 86,87 (row 2, 9 December 2005) respectively. *Total costs* is the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400). Note that the MTO transfer was conducted through Western Union in the Netherlands. According to the telephone interviews the transaction fee for a transfer originating in France is € 33, so € 5 more than indicated in this table.

Because of organisational and time constraints we have transferred funds via Western Union in the Netherlands and not from France (which would have been € 5,50 more expensive). The transfer costs are much higher than that of the bank, nevertheless MTOs are used frequently.

## 8.5 Financial sector in Algeria

### 8.5.1 Financial sector

#### *Financial sector*

Since 1990, private banks are allowed to operate in Algeria, but they represent only a small part of the banking sector. The four largest banks are state-owned : Crédit Populaire d'Algérie (CPA), Banque Extérieure d'Algérie (BEA), Banque Algérienne de Développement Rural (Badr) and Caisse Nationale d'Epargne Populaire (CNEP).

The number of bank branches in Algeria today is 1.160, only one branch per approximately 27.000 inhabitants.<sup>106</sup> The outreach of the banking sector is therefore limited.

### *Payment systems*

Sending money through the banking system within Algeria has traditionally been slow: to remote regions it could take up to a month for the transfer to be completed. Furthermore, weaknesses in the interbank payments system have characterized Algeria. However starting in 2002, the Central Bank of Algeria, in cooperation with the World Bank, launched a restructuring project for modernizing the interbank payment systems. The project includes the implementation of a system for large-value gross transactions (RTGS); the development of norms and standards for low-value payment systems, an automatic clearing house and a supporting telecommunication infrastructure for the RTGS system.

Cash is the dominant payment instrument, followed by cheques. The postal system Central des Cheques Postaux (CCP) is the most often used payment institution as it has a centralised clearing system, allowing faster services than banks.

## 8.6 Use of remittances

### 8.6.1 Institutional support and incentive schemes

Within the Assemblée Populaire Nationale (APN) residents abroad are represented. One of their achievements is the establishment of social security facilities for (returning) migrants. Residents abroad can vote for the National People's Assembly. The channelling of savings of workers abroad is handled by the Caisse Nationale d'Epargne Populaire (CNEP).

Algerians enjoy tax benefits on the import of cars.<sup>107</sup> The right to import a new or used car is still limited to residents abroad and the old "moudjahids" (the fighters of the liberation war).

Nowadays, the government is experimenting with knowledge transfer programmes to mobilise groups of expert Algerian workers residing abroad. They have been asked to contribute to R&D as well as to educational and training programmes.

### *Capital controls*

There are no capital controls that could restrict the employment of remittances for investments in real estate or small businesses.

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<sup>106</sup> Information local experts

<sup>107</sup> Musette, 2003.

## 8.6.2 Usage of Remittances

Little research has been conducted on the usage of remittances, so the only source we have is our mini-survey. It gave some indications of the usage of remittances: daily sustenance, housing, and payment of school fees. Only some people mentioned that remittances were used for productive activities, such as opening up a business.

### Box 8.2 Result mini-surveys

We conducted 64 mini-surveys in Algeria on the question how the remittances were used (more than one answer was possible). 45% of respondents mentioned 'daily expenses' as the main usage, 13% payment of school fees and 23% the building of a house. 8% answered that remittances were used for investments (company or other). 11% of the answers was related to other usage.

## 8.7 Observations, impediments, recommendations

### 8.7.1 Summary of key facts

Key characteristics France – Algeria	
<b>General</b>	
Number of inhabitants in Algeria <sup>108</sup>	32 million
GDP (2003, current prices)	€ 58,8 billion
<b>Remittances (estimates 2004)</b>	
Worldwide current transfer flows into Algeria	€ 1,5 billion
Remittance flows from EU countries	€ 1,35 billion <sup>109</sup>
Workers' remittances from France	€ 282 million
- Informal remittances as % of formal remittance flows in the corridor	over 100%
Current transfers received in Algeria as % of GDP (average 1996 – 2003)	2 – 3 %
<b>Migrants</b>	
Estimate of number of Algerian migrants worldwide (2002)	1,2 million
- Algerians in EU as % of Algerian migrants worldwide <sup>110</sup>	95%
Estimate of number of Algerian migrants in France (2003)	480.000
- Algerians in France as % of total Algerians in EU (2003)	85%
Migration developments 1995 – 2003 in France	Decrease of 22% (from 614.000 in 1995 to 480.000 in 2003)
<b>Financial sector</b>	
Estimated number of bank branches in 2004	1.160
Inhabitants per branch	27.500
Estimated number of MTO outlets in Algeria	800
Number of inhabitants per MTO	40.000

<sup>108</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/tu.html>.

<sup>109</sup> Based on own calculations: % of Algerian migrants in EU of Algerians worldwide multiplied with total worldwide current transfers received

Key characteristics France – Algeria	
<b>Channels</b>	
Banks	Sometimes
MTOs	Often (Western Union)
Post office	Seldom
Informal	Often
<b>Usage of Remittances</b>	
Consumption	Prevalent
Investment (land or house purchase)	Sometimes

### 8.7.2 Observations

- The Algerian community is one of the largest migrant groups in France;
- Remittances to Algeria constitute 2-3% of GDP, excluding the remittances through informal channels;
- The costs for the transfer of money from France to Algeria are among the highest in all corridors. Most remittances are sent home through Western Union, as recipients perceive it as the only available formal channel'. The post office (CCP) has the most extended branch network in Algeria. Through their exclusivity agreement, the CCP and Western Union have a de facto monopoly position in the remittance market;
- Algerian banks are not actively targeting migrants. One of the reasons may be their weak branch network, hampering them to reach the remittance recipient;
- Remittances are mainly used for consumption.

### 8.7.3 Impediments

#### *Transaction costs*

Transaction costs in this corridor are high, reflecting the weak bank position and exclusivity contract of Western Union with the Algerian post office.

#### *Usage of remittances*

Remittances are predominantly used for consumption. As in other MPCs, there appears to be evidence in Algeria that lack of infrastructure may be hindering more productive investments.

#### *Usage of channels*

The small choice of channels results in a lack of competition.

<sup>110</sup> To make an estimate, the number of Algerians worldwide in the year 2002 is used and the number of Algerian migrants in Europe in 2003, without reference to differences in definition.

#### 8.7.4 Recommendations

##### *Open up the post office branch network*

The most dense distribution network for financial services in Algeria is that of the post office. The branch networks of the banks are small. Therefore, whoever controls the post office network, can control the remittance market. Apart from further development of the financial sector, especially payment systems, we recommend that the post office in Algeria takes an active role in opening up the remittance market by inviting other providers to use their network. This may concern other MTOs, but also banks interested in developing services for Algerian migrants. Over the long run the domestic payments system and banking network will need to be strengthened to develop competition further.

##### *Develop Pooling schemes*

To stimulate investment, pooling schemes described in previous chapters could be envisaged.

## 9 Italy – Egypt

### 9.1 Introduction

A substantial number of Egyptians live and work abroad and send remittances to their home country. The Egyptian community in Europe is however relatively small and consequently the importance of the remittance flows relative to those from the USA and the Gulf region, is small.

Italy is the host country for the largest community of Egyptians in the EU and is the main trading partner (after USA) for Egypt. The Italian official development cooperation is supporting a project to reinforce the technical and institutional capacities of the Egyptian government in managing migration (the IMIS project). Through an information platform the two countries facilitate legal migration, the development of cultural ties and the mobilisation of the Diaspora of human and financial resources for development projects in Egypt.

### 9.2 Registered remittances

Most Egyptian migrants work in the Gulf countries and many in the USA. According to the Central Bank of Egypt, in 2001 remittances originated mainly from the USA (34%), Saudi Arabia (22%), United Arab Emirates (11%) and Kuwait (9%). The flow of remittances into Egypt is therefore strongly influenced by the demand for labour in the oil producing Gulf countries. Hence, the size of the total remittance flows into Egypt is influenced by the oil price, as illustrated in box 9.1. In the remainder of this paragraph, we will mainly discuss the flows originating from Europe.

#### Box 9.1 Remittance flows into Egypt are dependent on oil prices

Mc Cormick and Wahba distinguished three phases in the remittance flows into Egypt showing the influence of oil prices on remittances:

- 1974-1984: remittances increased at a rate of 30,8% annually reflecting the increase of oil prices and the high demand for Egyptian workers in oil producing countries in the Arab peninsula;
- 1985-1989: declining oil prices and revenues reduced the demand for Egyptian workers and hence the inflow of remittances declined at a rate of 3,6% annually over the period;
- 1990-2001: the fall of oil prices after 1993 contributed to the decline of remittances at a rate of 8% annually over the period 1990-2001.

Source: based on Mc Cormick and Wahba (2000), in Nassar (2005), p.12.

As can be seen in table 9.1, total remittance flows from migrants worldwide registered by the Central Bank of Egypt was € 2,4 billion in 2004. Approximately 22%, € 544 million originates in Europe of which € 83 million is sent from Italy.

Table 9.1 Remittances Italy – Egypt (in million €)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Italy	2	1	2	4	3	5	4	5	-
Remittances <sup>111</sup> received from Italy	-	-	-	31	29	39	34	55	83
Remittances <sup>112</sup> received from Europe <sup>113</sup>	-	-	-	280	292	316	298	444	544
Total remittances <sup>114</sup> received worldwide	-	-	-	2.867	3.057	3.474	3.313	2.651	2.411

Source: 1<sup>st</sup> row Ufficio Italiano dei Cambi, other rows Central Bank of Egypt

#### *Ufficio Italia dei Cambio .*

The information provided by banks and non-bank financial institutions through the International Transaction Reporting System on their cross border transactions is collected by the Ufficio Italiano dei Cambio, an executing agency of the Italian Central Bank. The figures in table 9.1 obtained from this source and are made up of remittances through formal channels.

#### *Central Bank of Egypt*

The differences between the remittance flows reported by the Ufficio Italiano dei Cambio and the Central Bank of Egypt are large. Whereas Italy reports remittances to Egypt of € 5 million in 2003, the Egyptian Central Bank reports a flow of € 55 million. The Egyptian data would imply remittances of the order of 3-4% of GDP. The figures of the Egyptian Central Bank also show a substantial growth in remittances from Italy since 1999, while according to Italy the flows remain rather stable. Though most Egyptians in Europe live in Italy, the Egyptian Central Bank reports that remittances received in 2003 are higher from Germany (€ 143 million) and the UK (€ 161 million).

Egyptian Central Bank data for the remittance flows from Italy are probably a better estimate than those of the Italian 'Ufficio' since there are more than 42.000 Egyptian migrants living in Italy.

<sup>111</sup> Workers' remittances, Migrant transfers, Compensation of Employees

<sup>112</sup> Workers' remittances, Migrant transfers, Compensation of Employees

<sup>113</sup> France, Germany, Spain, Italy, Netherlands, UK

<sup>114</sup> Workers' remittances, Migrant transfers, Compensation of Employees



## 9.3 Migrants

### 9.3.1 Egyptian migrants in Europe

Of the approximately 1,9 million Egyptians that live outside Egypt<sup>115</sup>, about 5% (105.000) have taken residence in EU countries. Concentrations of the latter can be found in Italy (almost 40%), the UK (23%) and to a lesser extent in the Netherlands and Germany (both 10%).

Since 1995 the number of Egyptian nationals in Italy has doubled to 41.000 in 2003<sup>116</sup>. Egyptian migrants in Italy are concentrated in the Milan area (Lombardy, 69%) and Lazio (16%).

Figure 9.1 Egyptians in the most important EU countries in 2003 and their geographical spread in Italy



<sup>115</sup> Estimate for 2003 of the Egyptian State Information Service, [www.sisgov.eg/en/publications](http://www.sisgov.eg/en/publications). The number refers to “temporary immigration”.

<sup>116</sup> National institute of statistics (<http://demo.istat.it>) Estimates of Egyptians in Italy differ; the Egyptian Central Agency for Public Mobilisation and Statistics (CAPMAS) estimates that the number of migrants in Italy is 90.000, more than double the amount of the Italian estimates.

Table 9.2 Number of Egyptian migrants (in thousands) worldwide (2003) in main EU host countries (2003) and the number of Egyptian migrants in the main host regions in Italy (2003)

Host region or country	Number of Egyptian migrants (* 1.000)	In Italy	Number of Egyptian migrants (* 1.000)
• Worldwide	1.900		
• Europe <sup>117</sup>	105	<i>In Italy:</i>	
• Italy	41	• <i>Lombardy</i>	28
• United Kingdom	24	• <i>Lazio</i>	5
• Netherlands	10	• <i>Piemonte</i>	2
• Germany	10		

Source: Egyptian State Information Service, [www.sisgov.eg/en/publications](http://www.sisgov.eg/en/publications), National institute of statistics <http://demo.istat.it>

### 9.3.2 Characteristics

According to Stocchiero, during the first part of their stay in Italy, Egyptian migrants do not usually send remittances home due to limited employment opportunities and the need to settle in. Transfers are not very regular as far as sending money is concerned and the lapse of time between one money-transfer and another varies a lot from one family to another and is never on a monthly basis. After stabilisation, money-transfers usually occur about every 2 months. The channels used for remittances are nearly always informal, due to the numerous opportunities that the migratory network offers (trips made by relatives and friends).<sup>118</sup>

## 9.4 Channels

### 9.4.1 Introduction

This section provides an overview of the ‘remittance market’: the channels used for the transfer of funds from Italy to Egypt, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We have conducted 31 mini-surveys in the recipient country to better understand the motivation to use channels, and have conducted telephone interviews and transfers to check costs.

### 9.4.2 Channels

For remittances from Italy to Egypt migrants mostly use informal channels and MTOs.

<sup>117</sup> 12 most important European host countries

<sup>118</sup> Stocchiero, 2004

Table 9.3 Usage of channels in the Italy – Egypt corridor

Channels	Usage
Banks	Sometimes / Regularly
MTOs	Frequently
Post office (own services)	Nil
Informal	Often

Source: Telephone interviews, literature review and mini-surveys

### *Banks*

Egyptian banks are present in Italy. Arab Bank has one branch in Rome, and 12 in Egypt. Misr Bank has cooperation agreements with Banca di Roma, but also with Western Union and Money Gram.

While respondents from our mini-survey suggest that banks are used frequently to transfer remittances, interviews conducted with various operators lead us to believe that banks do not have a large market shares.

### *MTOs*

Over the last years, the expansion of MTOs in Italy has been extraordinary.<sup>119</sup> Western Union, for example, has opened 5.000 branches in Italy over a period of eight years. In Egypt the network consists of 48 outlets in the main cities including cooperation agreements with International Business Associates and Misr International Bank.

In Italy Money Gram services are offered through, amongst others, more than 300 post offices. Money Gram has around 40 pay-out points in Egypt, with about half of them in Cairo. All outlets (with the exception of one) are located in the National Société Générale Bank.

### *Post office*

The Italian post office is offering accounts and transfer services in cooperation with Money Gram. Recently the post office in Italy has started marketing its own remittance product. Though, at the moment, their market share is still small, they seem to be gaining market share quickly. As is shown in the next section their fees are among the lowest. At the moment research on the role of the post office is conducted by research institute Cespi (2004) in Rome.<sup>120</sup>

Through the post office network in Egypt, comprising 2.900 branches, a limited number of financial services is offered, of which savings is the most important. Surprisingly the post office has not yet allied with one of the MTOs. At the moment the post office is running a pilot project on the implementation of a payment infrastructure in cooperation with a number of banks, see box 9.2.

<sup>119</sup> Chaloff and Piperno, 2004.

<sup>120</sup> Stocchiero, 2004

#### Box 9.2 Giro Nil in Egypt

A consortium of Banque Misr (the largest public bank), Egypt Post, Commercial International Bank (the largest private bank) and a payment system expert organisation (Inclusion Group) is now implementing a payment infrastructure in Egypt, called Giro-Nil. The company has launched a range of interbank payment products, including salary and pension payments, bill payments, money orders and cash withdrawals. The introduction of these products will increase the electronic (giro) money flows and create a multiplier effect in Egypt. It is expected that in the next ten years at least 20 million Egyptian citizens will use this infrastructure. Households receiving remittances are a core target group and will be encouraged to open Giro accounts at local banks.

#### *Informal channels*

According to the Caritas<sup>121</sup> the actual flows of workers' remittances could be twice as much as the officially reported data. The mini-survey conducted also suggests that informal channels play an important role (over 50% of transfers). The mini-survey's respondents mentioned that often the migrant brought the money himself (28% of all transactions) or that it was carried by family or friends (20%).

#### Box 9.3 Result mini-surveys

We conducted 31 mini-surveys in Egypt on the question through which channel remittances are received and why. 51% of the transfers was conducted through informal channels (carrying of money or unregistered private courier), because respondents felt that the transfer was fast, cheap and safe. 30% of the transfers was conducted through banks, 14% was received through MTOs and 5% through an official courier (DHL/FEDEX). The post office was not mentioned by any of the respondents, although the post office is an agent for Money Gram.

### 9.4.3 Transaction Costs

#### *Characteristics based on telephone inquiries*

Table 9.4 provides an overview of the characteristics per channel.

Table 9.4 Channel characteristics in the Italy – Egypt corridor for transfers of € 400

	Banks	Post Office	MTOs
Costs	(local banks) 3,9% – 12,5% (MPC banks) 5% - 10%	1,1% - 7,3%	7% MG 7,3% WU
Speed	2-7 days	10-15 days	Instant
Accessibility	Account	ID	ID

Source: telephone interviews by ECORYS.

<sup>121</sup> According to the Caritas (ed. -) Italy's leading Catholic voluntary association. Statement from a power point presentation by Banca d'Italia on a UN meeting of a technical subgroup of movement of natural persons, 31 January – 1 February 2005, <http://unstats.un.org/unsd/tradeserv/TSG%2002-05-Paris/tsg0502-2.htm>

The post office in Italy appears to be cheap relative to other services, but seems to be very slow. The costs for a transfer of € 300 are around 1,5%. Furthermore, transfers through the post office can be made without an account.

Transfers via MTOs are rather expensive, but fast. Bank transfers are not only expensive, but also take a rather long time.

#### *Costs incurred in conducted pilot transfers*

As an illustration, we have conducted four transfers of € 400 from Italy to Egypt ourselves. Table 9.5 presents an overview of these transfers and their costs.

Table 9.5 Transaction costs for transactions of € 400 from Italy to Egypt

(all costs in €, unless indicated otherwise)

Channel	Total costs in €	Costs in €			Received	
		Fee sender	Fee recipient	Exchange rate costs	Received in	Received in local currency
Carisbo Bank to Commercial national Bank (CNB) OURS	35,49 (8,9%)	35,49 (8,9%)	-	-	Euro 400	LE 2760
Carisbo Bank to Commercial national Bank (CNB) Shared	15,49 (3,9%)	15,49 (3,9%)	-	-	Euro 400	LE 2760
Western Union (Omnia Finanziaria) to Western Union Egypt	44,87 (11,2%)	29 (7,3%)	-	15,87 (4%)	USD 461,80	-
Money Gram ( Banco Poste) to Money Gram Egypt (National Societe Generale Bank (NSGB)	43,87 (11%)	28 (7%)	-	15,87 (4%)	USD 461,80	LE 2655,35

*Note:* *Fee sender* is the cost for sending an amount of € 400 from Italy to Egypt in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The euro: LE exchange rates were 6,90 (row 1 and 2, rate at 9 October 2005). The USD: LE exchange rates were 5,75 (row 3 and 4, 17 October 2005). *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400).

For all channels, the money could be disbursed in local currency, euro or USD, with the exception of Western Union that could not disburse in euro, only in USD and local currency;

MTOs offer a better service relative to banks: not only are they cheaper (€ 28 – 29) than banks (over € 35), they are also much faster. The bank transfer took two days, whereas

MTOs usually deliver instantly<sup>122</sup>. However, here the exchange rate costs make the MTO transfer significantly more expensive than the bank transfers.

We also wanted to obtain some information on the difference between the costs for 'OURS' and 'SHARED' transactions through the bank, and conducted both types of transfers. Remarkably, no fees were charged for the SHARED transaction at the recipient side. This was probably a mistake from the Egyptian bank. However, also in other countries we found banks that 'forget' to charge recipient costs.

## 9.5 Financial sector in Egypt

### *Financial sector*

The Egyptian banking sector comprises 56 banks. Four state-owned banks dominate the market: National Bank of Egypt, Banque Misr, Banque du Caire and the Bank of Alexandria. Since the 'open door' policy in the 1970s Egypt has encouraged foreign banks to open branches in the country.

The financial sector has been weakened by a significant exposure on loans to loss-making state-owned enterprises. At the moment a reform programme is being implemented to address the weaknesses with as key objectives the improvement of the performance of the state banks, the strengthening of banking regulation and supervision and the improvement of the information infrastructure. One of the measures announced is the merger of Banque Misr and Banque du Caire.

Most of the banks are commercial banks, serving mainly large customers. For Small and Medium-Sized Enterprises (SMEs) it is difficult to obtain credit, which could discourage recipients of remittances that would like to invest in a small enterprise.

### *Payment systems*

The major non-cash payment instrument is the cheque for which the clearing is centralised in three clearing houses in Alexandria, Cairo and Port Said. Bank debit cards are now issued to at least 70% of the clients in the banking sector.

The modernisation of the payment system is ongoing. Through a project financed by EuropeAid a real-time gross settlement payment system (RTGS) will be introduced in 2006. RTGS will allow for processing and settlement of financial transactions in real time.

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<sup>122</sup> Some delays were encountered with the Money Gram transfer.

## 9.6 Use of remittances

### 9.6.1 Institutional support and incentive schemes

In Collyer (2004) a number of examples of measurements of the Egyptian government to attract remittances are listed.<sup>123</sup> The Egyptian government used to have a policy for the obliged repatriation of funds, whereby migrants had to transfer 25% of their income for single migrant households and 10% for family households into their own bank account. The government changed its policy in the 1980s and induced migrants to send money to a foreign currency account in Egypt by offering favourable exchange rates. Also bonds for Egyptian migrants were introduced. According to Collyer (2004), none of the measures had the expected result of an increase of remittance flows through formal channels.

According to IMIS Project manager in Cairo G. Rizza Egyptian migrants tend to avoid participating in initiatives promoted by the government for the Diaspora because of the bureaucracy and rigidity involved.<sup>124</sup> Apparently, government interventions are perceived by the Diaspora as an intrusion in the migrants livelihood strategy. Nevertheless, today, a well organised web page (<http://www.emigration.gov.eg>) is available to those migrants wishing to take advantage of this resource.

#### *Capital controls*

Non-residents can own real estate under the conditions that the ownership is limited to two real estate properties, the area does not exceed 4.000 square metre and the real estate is not a historical site.

### 9.6.2 Usage of Remittances

#### *Household usage*

A survey in 1997 shows that most remittances are used to finance the daily costs of living, such as food, clothing, rent, etc.<sup>125</sup> Daily household expenses appear to be up to 75% of the receipts. Next to household spending, remittance funds are used for the purchase of conspicuous goods, such as gold and precious stones.<sup>126</sup> The results of our mini-survey also show a high preponderance for consumption (box 9.4).

An older survey by Adams Jr. in 1991 among 1.000 rural households showed that remittances have a small but positive impact on poverty reduction. If remittances are included in the predicted (estimated household income divided by the number of household members) per capita household income, then the total number of households in poverty declined by 9,8%.<sup>127</sup>

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<sup>123</sup> Roussillon, 1985, in Collyer, 2004, p.12.

<sup>124</sup> Interview reported in the Master's thesis by Jakob Illeman Myschetzky, Roskilde University (2005)

<sup>125</sup> Van Dalen *et al.*, 2005, p.15.

<sup>126</sup> Nassar, 2005, p.24.

<sup>127</sup> Adams Jr., 1991, in Nassar, 2005,, p.25.

### *Community usage*

On an individual basis, Egyptian migrants support Islamic organisations through the *Zaqqat* and the *Sadaqqa*<sup>128</sup> for the improvement of schools and mosques in their villages of origin. Unlike Moroccans, the interest among Egyptians for the collective mobilisation of remittances for the social development of communities, such as education, healthcare, sanitation and small irrigation systems, is very limited.<sup>129</sup>

No known collective programmes aiming at strengthening the links with villages and cities in Egypt were set up by associations of Egyptian migrants.<sup>130</sup> Some researchers have defined Egyptians as a non-community.<sup>131</sup>

### *Returned migrants*

Returned migrants are a distinct category. This group of former migrants has a high propensity to invest in especially land, agricultural equipment, vehicles and commercial enterprises (stores). The study by Adams Jr. among 'once-abroad' migrants shows that returned migrants in the rural areas invest 73% of their total expenditures on the purchase of land for farming and on buildings. Returned migrants in the urban areas invest mainly in the service sector (73% nationally).<sup>132</sup>

#### Box 9.4 Result mini-surveys

We conducted 31 mini-surveys in Egypt on how remittances were used. 43% mentioned as main usage 'daily expenses', 12% payment of school fees and 18% the building of a house. 15% answered that remittances were used for investments (company or other). 12% of the answers was related to divergent utilisation.

<sup>128</sup> According to the Coran, 2 to 5% of the income should be donated to the poor or an Islamic cause. This Islamic tax, *Zaqqat* is due annually. *Sadaqqa* are funds given voluntarily

<sup>129</sup> Stocchiero, 2004, p.18.

<sup>130</sup> For example, such associations exist in Bologna, Reggio Emilia, Milan, Rome and Turin.

<sup>131</sup> Ambrosini and Abbatecola, 2003, in Stocchiero, 2004, p.14.

<sup>132</sup> Adams, 1991, quoted in Nassar, 2005, p.21.



## 9.7 Observations, impediments, recommendations

### 9.7.1 Summary of key facts

<b>Key characteristics Italy – Egypt</b>	
<b>General</b>	
Number of inhabitants in Egypt <sup>133</sup>	77,5 million
GDP (2003, current prices)	€ 67,5 billion
<b>Remittances (2004)</b>	
Registered remittance <sup>134</sup> flows into Egypt	€ 2.400 million
Registered remittance <sup>135</sup> flows from European <sup>136</sup> countries	€ 544 million
Registered remittance <sup>137</sup> flows from Italy	€ 83 million
- <i>Informal remittances as % of formal remittance flows in the corridor</i>	50% to over 100%
Registered remittances received in Egypt as % of GDP	3- 4 %
<b>Migrants (2003)</b>	
Estimate of number of Egyptian migrants worldwide	1,9 million
- <i>Egyptians in EU as % of Egyptian migrants worldwide</i>	5%
Estimate of number of Egyptian migrants in Italy	41.000
- <i>Egyptians in Italy as % of total Egyptians in EU</i>	40%
Migration developments 1995 – 2003 in Italy	Sharp increase of + 95 % (from 21.000 in 1995 to 41.000 in 2003)
<b>Financial sector</b>	
Estimated number of bank branches in 2004	3.000
Inhabitants per branch	25.000
Estimated number of MTO outlets in Italy	89
Number of inhabitants per MTO	870.000
<b>Channels</b>	
Banks	Sometimes / Regularly
MTOs	Frequently
Post office	Nil
Informal	Often
<b>Usage of Remittances</b>	
Consumption	Prevalent
Investment (land or house purchase)	Small (but returned migrants use majority of repatriated funds for investments)

<sup>133</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/tu.html>

<sup>134</sup> Workers' remittances, Compensation of Employees, Migrant transfers

<sup>135</sup> Workers' remittances, Compensation of Employees, Migrant transfers

<sup>136</sup> France, Germany, Spain, Italy, Netherlands, UK

<sup>137</sup> Workers' remittances, Compensation of Employees, Migrant transfers

### 9.7.2 Observations

- The Egyptian community in Europe is only a small percentage of the Egyptian migrant community worldwide;
- Considering the difference in estimates of the migrant population in Italy (42.000 estimated by the Italian authorities versus 90.000 of the Egyptians) we assume that quite a large group of Egyptians in Italy have an irregular status;
- In the first years after migration Egyptian migrants show their attachment to the home country by remitting a large part of their income. Over the years the amounts decline until they become negligible;
- The transfer of funds is relatively expensive, compared to other corridors. The banks, Egyptian and Italian, do not seem to offer services specifically targeting Egyptian migrants. Recently the Italian post office is taking an active approach;
- In Egypt, the number of bank branches per inhabitant is low. The post offices are not yet included in the payment infrastructure. However, an important pilot project, called Giro-nil is now being implemented to encourage the opening and usage of a bank account;
- Remittances are mainly used for consumption. However, returned migrants use a large part of the repatriated capital for investments.

### 9.7.3 Impediments

#### *Transaction costs*

Up to now the formal remittance market is dominated by the MTOs. Competition from banks, both Italian and Egyptian, is weak. However, the recent activities of the post office are promising. The apparent lack of interest of banks is an impediment to the development of a competitive market.

#### *Usage of remittances*

Most of the remittances is used for daily expenses, although some money is used by the recipients for investments. An impediment to productive usage is the lack of credit for small entrepreneurs.

#### *Usage of channels*

The informal flows are relatively large. Informal flows, mainly cash or in kind, are hampering the developmental impact of remittances as their multiplier effect is low. An impediment to the usage of formal channels may be the inability of illegal migrants to open a bank account.

### 9.7.4 Recommendations

#### *Form alliances and offer migrant services*

Competition in the remittance market could result in lower transaction costs. The entrance of the Italian post office is encouraging. We recommend that banks start offering more services targeted at migrants, including Egyptian migrants. Alliances of Italian banks with the post office in Egypt would immediately open up a network of 2.900 branches.

### *Matricula consular*

A large portion of remittances in this corridor is flowing through informal channels. However, by offering the large group of irregular migrants the opportunity to open a bank account in Italy, part of the informal flows could be rerouted through formal channels. This can be done by offering these migrants an identity card similar to the ‘Matricula consular’ used for (irregular) Mexican migrants in the USA.

### *Develop Pooling schemes*

Given the lack of access to credit, pooling schemes described in previous chapters could be particularly useful to stimulate investment.



## 10 Germany – Lebanon

### 10.1 Introduction

The Lebanese community in Europe is small, only a fraction of the worldwide Lebanese Diaspora. Consequently, measurements to increase the efficiency of workers' remittances originating in Europe will have little economic impact, and our recommendations are focused on improving productive usage of remittances.

### 10.2 Registered remittances

#### 10.2.1 Remittance flows

The remittance inflow from migrants worldwide in Lebanon is substantial, representing between 9 and 15 percent of GDP over the past few years. We do not know exactly how much of it is originating from Europe, but we assume that that is only a fraction based on migration numbers. From Germany, where the largest group of Lebanese reside, only € 16 million was sent through formal channels according to the Central Bank of Germany (Bundesbank).

Table 10.1 presents the estimates for the (registered) remittance flows into Lebanon.

Table 10.1 Remittances Germany – Lebanon (in million €)

Geographical origin of flows	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Germany	7	8	8	9	10	17	16	15	16
Remittances received from Germany	-	-	-	-	-	-	-	-	-
Remittances received from Europe	-	-	-	-	-	-	-	-	-
Worldwide Workers' remittances received	946	1.058	1.070	1.402	1.505	1.882	2.431	2.210	2.170

Source: 1<sup>st</sup> row Bundesbank, last row: IMF Balance of Payments Statistical Year book

#### *Central Bank Germany (Bundesbank)*

The Bundesbank estimates workers' remittances based on the 'cash transfers' as reported by banks and post offices and adapted for data provided by the Federal Employment

Agency on the number of employed and unemployed foreign nationals contributing to social insurance. Since 2001 the remittance flow in this corridor has been stable.

#### *Central Bank Lebanon*

The Central Bank of Lebanon offers little information on remittances and for the data that are available, the composition is not clear. According to the Saradar Investment House<sup>138</sup> the available figures are composed of information sent by banks and MTOs<sup>139</sup>. The IMF presents a consistent time series on workers' remittances, see table 10.1, 4<sup>th</sup> row. The IMF data suggest that the size of remittances is large: in 2002 for example remittance income was € 2.4 billion, more than from tourism (€ 910 million), export (€ 843 million) and FDI (€ 265 million) combined.

## 10.3 Migrants

### 10.3.1 Lebanese migrants in Europe

There is no clear indication on the number of Lebanese living abroad. The only number we could find is that 895.000<sup>140</sup> Lebanese are residing abroad. Based on this figure, we estimate that about 10% of all Lebanese are living in Europe (105.000). About 40% of the Lebanese in Europe reside in Germany. Overall the size of the Lebanese EU community is stable, although the Lebanese migrants groups in Sweden (20%) and Denmark (10%) are slightly increasing and the Lebanese community in Germany is decreasing.

Lebanese in Germany are concentrated in three areas: Nordrhein-Westfalen (30%), Berlin (19%) and Niedersachsen (19%). See figure 10.1.

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<sup>138</sup> A financial and real estate service firm with a research department.

<sup>139</sup> Mentioned in a news article in the Daily Star newspaper, "Family remittances vital in Lebanese Economy", July 20, 2004, by David Nabti.

<sup>140</sup> In [www.dailystar.com](http://www.dailystar.com), "Strategy to reverse exodus of skilled people from Lebanon" By Kamal Dib, Friday, August 12, 2005, is stated that: "According to the UNDP, Lebanon has lost 895,000 people to permanent emigration since 1975, including 320,000 skilled and educated individuals."

Figure 10.1 Lebanese in the most important EU countries in 2003 and their geographical spread in Germany

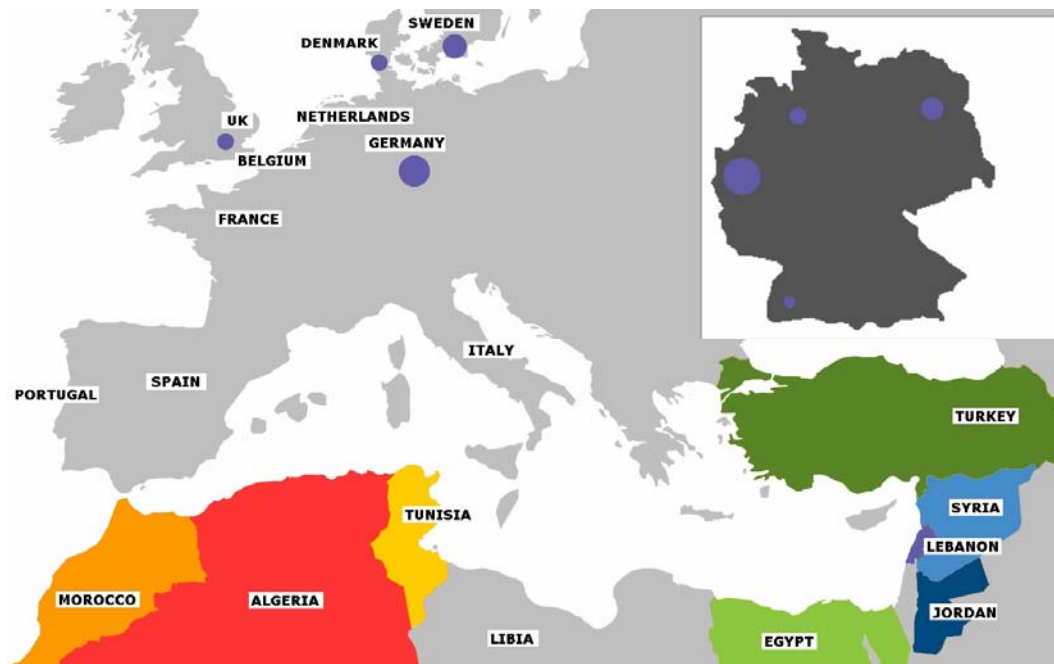


Table 10.2 Number of Lebanese migrants (in thousands) worldwide<sup>141</sup>, in main EU host countries (2003) and the number of Lebanese migrants in the main host regions in Germany (2004)

Host region or country	Number of Lebanese migrants (* 1.000)	In Germany	Number of Lebanese migrants (* 1.000)
• Worldwide	895		
• Europe	105	<i>In Germany:</i>	
• Germany	41	• Nordrhein westfalen	13
• Sweden	21	• Berlin	8
• Denmark	12	• Niedersachsen	8
• United Kingdom	10	• Baden-Wurttemberg	5

Source: In [www.dailystar.com](http://www.dailystar.com), "Strategy to reverse exodus of skilled people from Lebanon" By Kamal Dib, Friday, August 12, 2005, Statistische Bundesamt Deutschland, <http://www.destatis.de/basis/d/bevoe/bevoetab10.php>, Statistische Bundesamt Deutschland, <https://www-genesis.destatis.de/genesis/online/Online>, European University Institute <http://www.carim.org/research.asp>

### 10.3.2 Characteristics

Many Lebanese left their county in the period between 1975 and 1990 on account of the war and ensuing weak economic conditions. Between 1996 and 2001 there was another wave, though smaller, of emigration. Usually Lebanese easily integrate in their new environment and quickly move up to the middle and upper socioeconomic classes.

<sup>141</sup> No exact year available

## 10.4 Channels

### 10.4.1 Introduction

In this paragraph we provide an overview of the ‘remittance market’: the channels used for the transfer of funds from Germany to Lebanon, their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We have also conducted 41 mini-surveys in the recipient country to better understand the motivation to use channels, and also have conducted own transfers to verify costs.

### 10.4.2 Channels

Lebanese migrants in Germany mainly use MTOs. The share of banks and post offices appears small. Also several informants mentioned the likely large size of the informal sector, i.e. a local expert<sup>142</sup> said that “the amount of remittances transferred through unofficial channels is becoming so large that the official figures should be doubled”.

Our estimates for the usage of channels is presented in table 10.3 .

Table 10.3 Usage of channels in the Germany – Lebanon Corridor

Channels	Usage
Banks	Sometimes
MTOs	Often
Post office (own services)	Nil
Informal	Often

Source: Telephone interviews and literature review and mini-surveys

#### *Banks*

Although Lebanon has a well-developed banking sector, banks do not appear to be widely used as a channel for remittance flows according to our interviews. This appears to be confirmed by our mini-survey (box 10.1), and may reflect the well-established MTO sector in Lebanon, limited presence and alliances of Lebanese banks in Germany (see below).

#### *MTOs*<sup>143</sup>

Western Union and Money Gram have extensive networks in both Germany and Lebanon. In Germany many of the post offices offer the Western Union services. In Lebanon Western Union has 580 branches. Money Gram has 225 agents in Germany and 250 in Lebanon. The MTOs offer a fast service and funds can be received in US dollars.

<sup>142</sup> Mr. Nassib Ghobril, head of research at Saradar Investment HOUSE SAL, Beirut.

<sup>143</sup> Based on telephone interviews with Western Union and MoneyGram.



### *Informal channels*

Little is published on informal remittance flows into Lebanon. However, during telephone interviews several informants indicated that informal flows are likely substantial. In a newspaper article in 2004, the president of the American Lebanese Chamber of Commerce Salim Zeenni, mentioned that Lebanon is receiving between € 5 to 8 billion of remittance income (formal and informal) per year.<sup>144</sup> This would imply that informal remittance flows are equal to, or even higher than the formal flows.

In another newspaper article<sup>145</sup> a local research on remittances was discussed. In the article the researchers stated that for Lebanon “the amount of remittances transferred through informal channels is becoming so large that researchers almost *doubled the amount* from the official figures”.

Despite the evidence, results of our mini-survey suggest that only 7% of the respondents sent funds through informal channels. One explanation for the divergence between mini-survey results and other evidence may be that the mini-survey concentrates on the Germany-Lebanon corridor, where remittances may be going more through the formal rather than the informal sector. Overall remittance receipts, most of which originate in the region, could more easily be transferred through informal channels.

#### Box 10.1 Result mini-surveys Lebanon

We conducted 41 mini-surveys in Lebanon on the question through which channel remittances were received and why. 74% of remittances are received through an MTO, because, according to the respondents, the channel is safe, fast and cheap. 14% used banks and 5% the post office. Only 7% of our respondents mentioned that remittances were received through informal channels.

### 10.4.3 Transaction

#### *Characteristics based on telephone inquiries*

We have gathered information on specific transactions through telephone inquiries and through own money transfers. Table 10.4 includes the results from telephone inquiries and own transfers. We have elaborated on the real transfers in the next paragraph.

Table 10.4 Channel characteristics in the Germany – Lebanon corridor for transactions of € 400

	Banks	Post Office	MTOs
Costs	(local banks) 2,5% – 9,4%	1,5% - 2,1%	5,3% MG 6,5% WU
Speed	2-8 days	3-5 days	Instant
Accessibility	Account	Account	ID

Source: telephone interviews by ECORYS

<sup>144</sup> The Daily Star, July 20, 2004.

<sup>145</sup> The DailyStar 23/04/2004 , “Remittances chief source of foreign exchange earnings”

The table shows that the costs for MTOs and bank remittances are similar. However, the competitive advantage of the MTOs versus the bank is in the speed (instant), accessibility (no account required) and the proximity on both sides is high: both Money Gram and Western Union have extensive networks in both Lebanon and Germany.

So even when Lebanese migrants do have a bank account, transfer through MTOs is more attractive. There are no Lebanese banks in Germany offering services to Lebanese migrants, as is the case in Turkey. Nor are there alliances of Lebanese banks and German banks, like Morocco – Spain (Banque Populaire – La Caixa). It is questionable whether the small remittance flows in this corridor, compared to the Gulf – Lebanon corridors, will spark any commercial interest from German or Lebanese banks to specifically target the Lebanese migrants in Germany (or Europe.)

#### *Costs incurred in conducted pilot transfers*

We have conducted two transfers of € 400 from Germany to Lebanon. Table 10.5 presents an overview of the two transfers and their costs.

Table 10.5 Transaction costs for real transfers

#### Transactions of € 400

(all costs in €, unless indicated otherwise)

€ 400 transaction Channel	Costs in €			Received		
	Total costs in €	Fee sender	Fee recipient	Exchange rate costs	Received in €	Received in local currency
Comdirect Bank to Societe Generale de Banque au Liban (SGBL) OURS <sup>146</sup>	15,98 (4%)	7,67 (1,9%)	8,31 (2,1%)	-	391,69	-
Money Gram Berlin (Euro Change) to Money Gram (Cash United, Hamra Beirut) <sup>147</sup>	21 (5,3%)	21 (5,3%)	-	-	USD 463	-

*Note:* *Fee sender* is the cost for sending an amount of € 400 from Germany to Lebanon in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The euro: LBP exchange rates were euro: LBP=1.817,74 (row 1, rate at 29 September) and USD: LBP= 1.507,50, and euro: USD= 1,2037 according to ECB (row 2, 28 September 2005) respectively. *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400).

In all cases the recipients were allowed to withdraw the amount in euro or dollar without any additional costs.

<sup>146</sup> OURS: all costs are paid by the sender. SHARED: costs are shared between sender and recipient.

<sup>147</sup> Fees are fixed and related to brackets. All transfers in the bracket € 300 – 400 from Germany by Moneygram cost € 21.

## 10.5 Financial sector in Lebanon

### *Sector*

For years Lebanon has been considered the Switzerland of the Middle East. Its banking sector is well developed, highly transparent and open to competition. The banking system is comprised of 62 commercial banks and 7 specialized banks. Several foreign banks have branches in the country or own large shares in national banks.

Lebanon has a highly dollarized economy. During the civil war (1975 – 1990) the Lebanese pound became highly volatile and depositors' preferences shifted to the US dollar. Currently, the dollar remains the principal currency in circulation and dollar deposits at commercial banks account for roughly 70 percent of total.

Next to the Lebanese banks, specific Lebanese money dealers are authorized to transfer money. These financial institutions serve primarily retail costumers, operate as single establishments and usually do not have branches. The money dealers are permitted to handle the exchange of foreign cash, foreign currency remittances, traveler's checks and they can trade in precious metals. There are almost 400 authorised money dealers.

Overseas residents can open own bank accounts or joint accounts with a Lebanese resident.

### *Payment systems*

Cash is the major payment method; 90% of the cashless transactions are via cheques, 10% via credit/debit cards. Banks are obliged to use the clearing houses of the Lebanese Central Bank. Most banks are connected to SWIFT.

## 10.6 Use of remittances

### 10.6.1 Institutional support and incentive schemes

Few research is available on incentive schemes in Lebanon. We therefore rely on a study conducted by Mr. Nasib Ghobril in 2004. Mr. Ghobril recommends that the government should take a more proactive approach towards remittances and should implement measures to promote and channel flows of remittances, improve the investment climate, explore securitisation of remittance flows, rule out taxation of remittances, introduce tax deferrals for retirement and pension plans, increase transparency, provide incentives to channel development projects as is done in Mexico, sign agreements with the USA, Saudi Arabia and the OECD countries for example to avoid double taxation and Bilateral Investment Treaties, and to facilitate voting in absentia.<sup>148</sup>

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<sup>148</sup> Ghobril, 2004.

### Capital controls

There are no restrictions to the movement of capital. To register a company, local residency and a working permit are required. Up to 3.000 square meter of real estate can be acquired without a permit.

#### 10.6.2 Usage of remittances

According to the research of Mr. Ghobril remittances are mainly used by individuals and families for consumption and to raise their standard of living. Remittances peak generally between the third and fifth year after emigration of the family member and then stabilise. Remittances decrease from the second to the third generation and then usually stop.<sup>149</sup>

#### Box 10.2 Result mini-surveys

We conducted 41 mini-surveys in Lebanon on how remittances were used. 56% of respondents mentioned as main usage 'daily expenses', 24% payment of school fees and 5% the building of a house. 10% answered that remittances were used for investments (company or other). 5% of the answers was related to divergent utilisation.

## 10.7 Observations, impediments, recommendations

### 10.7.1 Summary of key facts

Key characteristics Germany - Lebanon	
<b>General</b>	
Number of inhabitants in Lebanon <sup>150</sup>	3,8 million
GDP (2003, current prices)	€ 16,2 billion
<b>Remittances (estimations 2004)</b>	
Worldwide workers' remittances into Lebanon	€ 2,2 billion
Workers remittance flows from EU countries	Over € 16 million
Workers remittance flows from Germany	€ 16 million
- Informal remittances as % of formal remittance flows in the corridor	Estimated at over 100%
Workers' remittances received in Lebanon as% of GDP	9 – 15 %

<sup>149</sup> Ghobril, 2004 and The Daily Star, July 20, 2004.

<sup>150</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/sy.html>.

Key characteristics Germany - Lebanon	
<b><u>Migrants</u></b>	
Estimate of number of Lebanese migrants worldwide	895.000
- Lebanese in EU as % of Lebanese migrants worldwide <sup>151</sup>	10%
Estimate of number of Lebanese migrants in Germany (2003)	41.000
- Lebanese in Germany as % of total Lebanese in EU (2003)	40%
Migration developments 1995 – 2003 in Germany	Decrease of 25% (54.000 in 1995 to 41.000 in 2003)
<b><u>Financial sector</u></b>	
Estimated nr of bank branches in 2004	700
Inhabitants per branch	5.500
Estimated number of MTOs outlets in Lebanon	Over 960
Number of inhabitants per MTO	4.000
<b><u>Channels</u></b>	
Banks	Sometimes
MTO	Often
Postoffice	Nil
Informal	Often
<b><u>Usage of Remittances</u></b>	
Consumption	Prevalent
Investment (land or house purchase)	Unknown

### 10.7.2 Observations

- The Lebanese community in Germany is slightly declining, the remittance flow from Germany has been stable over the past five years;
- Income from remittances is important for Lebanon. Most important is the contribution from flows originating in the Gulf countries, the remittance flow from Europe as portion of total remittance inflows in Lebanon is very small;
- MTOs are the channels of choice: they have an extensive network on both sides of the corridor, offer their services at prices comparable to those of the banks, but their service is fast and easily accessible.

### 10.7.3 Impediments

Impediments are assessed through answering two questions related to efficiency as explained in the first chapter:

- Can the *transaction cost* of remittances be considered reasonable for the services delivered?"
- Are *remittances used* in a way that they generate a maximum developmental impact?"

<sup>151</sup> To make an estimate, the estimate of Lebanese worldwide (no reference to a certain year) is used and the number of Lebanese migrants in Europe in 2003, without reference to differences in definition.

- Do the *channels* used for remittances contribute to a maximum developmental impact?

#### *Transaction costs / Usage of channels*

In this corridor, the MTOs offer a competitive service. The general disadvantage of the MTO remittances in comparison with bank transfers is the absence of multiplier effects. Whereas banks can leverage funds for onlending and thus contribute to productive investments, MTOs ‘just’ transfer money.

### 10.7.4 Recommendations

#### *Form alliances*

To increase the multiplier effect, we propose encouraging the usage of banks as a means for channeling remittance flows. Given the relatively small Lebanese community in Germany, it would make more sense to try and forge alliances between Lebanese and German banks, rather than to set up individual bank services. More flows through the banking system would also facilitate the development of other products , such as remittance-backed securities, particularly in a country like Lebanon which benefits from a sophisticated banking sector.

#### *Other*

A number of recommendations made by Mr. Ghobril, mentioned earlier in this chapter, make sense, notably as concerns strengthening the investment climate and providing for increased transparency on remittances. On the other hand, measures aimed at providing tax incentives, for example, are not viewed favorably, as these might lead to unwanted economic consequences and distortions (see chapter 14).

# 11 Germany – Jordan

## 11.1 Introduction

Jordan is a small country with limited resources, but surrounded by oil-rich countries. Labour emigration to the neighbouring countries in the Gulf region is widespread.

Remittances are an important source of (foreign currency) income for Jordan. The most important emigration region are the Gulf countries. The Jordanian community in Europe is small, as are remittance flows originating in Europe compared to those from the Gulf region. As a result, the impact of any efficiency improvements in the Germany – Jordan corridor on Jordan will be minor.

## 11.2 Registered remittances

### 11.2.1 Remittance flows

Remittance flows into Jordan from migrants worldwide amounted to almost € 2 billion in 2003 (over 20 percent of GDP). The recorded flows originating from Germany are small in contrast (only € 3 million, Table 11.1).

Table 11.1 Remittances Germany – Jordan (in million €)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Germany	3	3	3	3	3	4	3	3	3
Remittances received from Germany	-	-	-	-	-	-	-	-	-
Remittances received from Europe	-	-	-	-	-	-	-	-	-
Workers' remittances received worldwide	1.230	1.469	1.421	1.601	1.970	2.289	2.175	1.929	-

Source: 1<sup>st</sup> row Bundesbank, 4<sup>th</sup> row Central Bank of Jordan

The Bundesbank estimates workers' remittances based on the 'cash transfers completed' as reported by banks and post offices and adapted for data provided by the Federal Employment Agency on the number of employed and unemployed foreign nationals contributing to social insurance. Over the past few years, remittance flows in this corridor have been stable, averaging over € 2 billion since 2000. This is higher than the average

over the previous four years (€ 1,4 billion), reflecting improved oil market conditions in recent years.

#### *Central Bank of Jordan*

The Central Bank of Jordan only reports on total remittances received, and a geographical breakdown is not available. The remittance data of the Central Bank are based on formal channels.

## 11.3 Migrants

### 11.3.1 Jordan migrants in Europe

An estimated 400.000 Jordanians live outside Jordan<sup>152</sup>. The OECD reports around 18.500 of them (or 5%) living in Europe. The Jordanian community in Europe is the smallest of all MPCs in this study. Concentrations of Jordanians can be found in Germany, the UK, Italy and Sweden.

In Germany the number of Jordanian immigrants is decreasing from 12.500 in 1995 to 8.500 in 2004. They are concentrated mainly in Nordrhein-Westfalen (2.065 or 24%), Hessen (1.511), Baden-Wurttemberg (1.212) and Berlin (1.206). See insert in figure 11.1.

Figure 11.1 Jordans in the most important EU countries in 2003 and their geographical spreading in Germany



<sup>152</sup> See [www.migrationinformation.org](http://www.migrationinformation.org). Data refers to 2001. The estimate entails workers only.



Table 11.2 Number of Jordan migrants (in thousands), worldwide (2001), in main EU host countries (2003) and the number of Jordan migrants in the main host regions in Germany (2004)

Host region or country	Number of Jordan migrants (* 1.000)	In Germany	Number of Jordan migrants (* 1.000)
• Worldwide	400	<i>In Germany:</i>	
• Europe <sup>153</sup>	19	• <i>Nordrhein westfalen</i>	2
• Germany	8	• <i>Hessen</i>	2
• United Kingdom	3	• <i>Baden-Wuerttemberg</i>	1
• Italy	2	• <i>Berlin</i>	1

Source: Statistische Bundesamt Deutschland, <http://www.destatis.de/basis/d/bevoe/bevoetab10.php>, Statistische Bundesamt Deutschland, <https://www-genesis.destatis.de/genesis/online/Online>, European University Institute <http://www.carim.org/research.asp>.

### 11.3.2 Characteristics

Jordanian migrants in Europe are mainly of Palestinian origin as over the years Jordan was one of the few MPCs granting Palestinian refugees nationality. In 1960 and the 1970s many migrated to the Gulf countries and few to Europe, retaining loose connections with Jordan.

The return of migrant workers started in the 1980s and reached a massive proportion in the 1990s after the first Gulf crisis. In the mid 1990s new emigration routes were opened, especially towards the U.S.<sup>154</sup> The emigration was composed of highly skilled migrants, which have easily integrated in the host labor markets. Little is known on the second and third generation of Jordanian migrants in Europe.

## 11.4 Channels

### 11.4.1 Introduction

In this section we provide an overview of the ‘remittance market’: the channels used for the transfer of funds from Germany to Jordan, their characteristics and the costs of products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We have also conducted 40 mini-surveys in the recipient country to better understand the motivation to use channels, and conducted own transfers to verify costs.

<sup>153</sup> Based on the 12 most important European host countries

<sup>154</sup> Baldwin-Edwards, 2005.

## 11.4.2 Channels

Jordanian migrants in Germany use both banks and MTOs to remit money. Informal channels are also commonly used and indications from the literature and our interviews are that they may equal the flows through the formal channels.

Table 11.3 Market shares of Channels in the Germany – Jordan Corridor

Channels	Usage
Banks	Frequently
MTOs	Frequently
Post office (own services)	Low
Informal	Often

### *MTOs*<sup>155</sup>

Western Union and Money Gram have extensive networks in both Germany and Jordan. In Germany Western Union has a good branch network as many of the post offices offer their services. In Jordan Western Union has 350 branches. Money Gram has 225 agents in Germany and 225 in Jordan.

While the mini-survey conducted suggests that MTOs may be less frequently used, interviews indicate that the MTOs are actually frequently used and have a rather strong position, as evidenced by the wide distribution network. The wide use of MTOs would also be supported by the fact that service is more rapid and does not require an account (see below).

### *Banks*

See section 11.5 Financial sector in Jordan

### *Informal channels*

Spokesmen of the Central Bank and MTOs estimated that the informal flows equals the flows through formal channels (100%). The estimates in literature range from 60% to 200%<sup>156</sup>

#### Box 11.1 Result mini-surveys Jordan

We conducted 40 mini-surveys in Jordan and received 45 responses on the question through which channel remittances were received and why (more than one channel was used). 53% of the transfers was conducted through informal channels (carrying of money or unregistered private courier), because respondents felt that this was fast, safe and cheap. 36% of the respondents used banks because they were reliable. The usage of MTOs was only 11%. The post office was not mentioned.

<sup>155</sup> Based on telephone interviews with Western Union and MoneyGram.

<sup>156</sup> See for example, El-Sakka, 2004.

### 11.4.3 Transaction

#### *Characteristics based on telephone inquiries*

Table 11.4 provides the results from telephone inquiries.

Table 11.4 Channel characteristics in the Germany - Jordan corridor for transactions of € 400

	Banks	Post Office	MTOs
Costs	(local banks)	1,5% - 2,1%	5,3% MG
	2,5% – 9,4%		6,5% WU
Speed	2-8 days	3-5 days	Instant
Accessibility	Account	Account	ID

Source: telephone interviews by ECORYS.

The table shows that the costs for MTOs and bank remittances are broadly similar, although banking services in practice may be somewhat cheaper, especially if exchange rate costs are taken into account (see below). However, the competitive advantage of the MTOs versus the bank is in the speed (instant), accessibility (no account required) and the proximity on both sides is high: both Money Gram and Western Union have extensive networks in both Jordan and Germany.

So even if Jordanian migrants may have a bank account, transfer through MTOs is attractive. There are no Jordanian banks in Germany offering services to the migrants. It is questionable whether the small remittance flows in this corridor, compared to the Gulf – Jordan corridors, will spark any commercial interest from banks to specifically target the Jordanese migrants in Germany (or Europe).

#### *Costs incurred in conducted pilot transfers*

We have conducted two transfers of € 400 from Germany to Jordan (Table 11.5).

Table 11.5 Transaction costs for transactions of € 400 from Germany to Jordan

(all costs in €, unless indicated otherwise)

Channel	Total costs in €	Costs in €			Received	
		Fee sender	Fee recipient	Exchange rate costs	Received in €	Received in local currency
Comdirect Bank to HSBC OURS <sup>157</sup> .	11,92 (3%)	7,67 (1,9%)	4,25 (1,1%)	-	-	JD 337,58
Western Union (Deutsche Postbank Emmerich) to Western Union Sweifieh branch Amman	36,52 (9,1%)	26 (6,5%)	-	10,52 (2,6%)	USD 473,53	JD 335,73

<sup>157</sup> OURS: all costs are paid by the sender. SHARED: costs are shared between sender and recipient.

*Note: Fee sender* is the cost for sending an amount of € 400 from Germany to Jordan in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The euro: JD exchange rates were 0,853 (row 1, rate at 29 September 2005) and 0,862 (row 2, 22 September 2005) respectively, and the euro: USD rates, according to ECB were 1,22 (22 September 2005). *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400).

While the quoted transactions costs for banks and MTOs appeared similar, the transfer revealed some hidden costs for both transfer operations. Thus for the the banks transfer, a fee was charged at the receiving end, although the transaction was supposed to be OURS. The MTO costs were also substantially higher than quoted, reflecting substantial exchange rate charges.

## 11.5 Financial sector in Jordan

### *Financial sector*<sup>158</sup>

Since the late 1980s Jordan has implemented a program to improve the structure and efficiency of the financial sector: monetary controls were abandoned, preferential facilities eliminated, interest rates were fully liberalised and new banking laws were adopted. These measures have considerably helped to develop Jordan's financial sector.

The banking system is composed of 24 private banks, five specialized credit institutions, offering financial services in the area of agricultural credit and rural development. Nonetheless, the banking system is highly concentrated, with the three largest banks accounting for 90 percent of total assets.

The banking system is entirely private, profitable and efficient. Banks have modern banking systems, such as electronic check clearing, and offer electronic data-transmission networks and e-banking. Arab Bank is the largest bank, accounting for 60% of the assets of the bankin sector. The Housing Bank is the second largest bank but has the most extensive branch network.

### *Payment Systems*<sup>159</sup>

The IMF qualifies the payment system in Jordan as modern and functioning relatively well. The Central Bank has encouraged all banks to participate in the interbank payment system. In 2001, The Central Bank of Jordan launched an RTGS system, named RGTS-JO. This systems encompasses transactions in either JDN or USD and cross-border payments, electronic clearing, interbank low-value bulk payments for salaries and bill payments. The strong growth in volume and value of transactions in the years following the introduction of RTGS-JO show the high degree of usage among the population.

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<sup>158</sup> Main source is Creane et al., 2004.

<sup>159</sup> Bases on IMF Country Report No. 04/122.

### *Remittances*

The lion share of remittances is handled by Arab Bank and the Housing Bank. Arab Bank has a network of branches all over the world (400 branches in over 30 countries) offering specialized services to manage remittances. The majority of the foreign branches is located in Arab countries in Africa and Asia, but Arab Bank also has subsidiaries in Switzerland, Austria, Germany and Australia.

## 11.6 Use of remittances

### 11.6.1 Capital controls

Foreign exchange accounts are permitted, both domestically and abroad. There are no repatriation requirements on export proceeds. Nonresident investments are restricted to a maximum of 50 percent ownership in a given sector of the economy, and approval is required for real estate transactions.

### 11.6.2 Usage of remittances

Although little research has been conducted on usage of remittances on a household level, there is evidence that remittances have contributed to a strong real estate boom, and that consumption is an important element of remittance usage.<sup>160</sup> There are also indications that returning migrants created small and micro enterprises in low technology and labour intensive sectors.<sup>161</sup> In relation to one another, our mini-survey would suggest that consumption constitutes an important share of the household's allocation of remittance funds.

#### Box 11.2 Result mini-surveys

We conducted 40 mini-surveys in Jordan on the use of remittances. 74% of respondents mentioned as main usage 'daily expenses', 16% payment of school fees and 4% the building of a house. 6% answered that remittances were used for investments.

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<sup>160</sup> Metz, 1989

<sup>161</sup> Amoroso and Gallina, 2002.

## 11.7 Observations, impediments, recommendations

### 11.7.1 Summary of key facts

<b>Key estimates Germany – Jordan</b>	
<b>General</b>	
Number of inhabitants in Jordan <sup>162</sup>	5,7 million
GDP (2003, current prices)	€ 8,7 billion
<b>Remittances (estimations 2003)</b>	
Worldwide registered workersremittance flows into Jordan	€ 1,9 billion
Workers remittance flows from Europe	Over € 3 million
Workers remittance flows from Germany	€ 3 million
- <i>Informal remittances as % of formal remittance flows in the corridor</i>	over 100%
Registered workers' remittances received in Jordan as % of GDP (average 1996 – 2003)	20 – 22 %
<b>Migrants</b>	
Estimate of number of Jordan migrant worldwide (2001)	400.000
- <i>Jordan migrants in EU as% of Jordan migrants worldwide (2001)</i>	5%
Estimate of number of Jordan migrants in Germany (2003)	8.500
- <i>Jordan migrants in Germany as % of Jordan in the EU (2003)</i>	45%
Migration developments 1995 – 2003 in Germany	Decrease of 35% (from 12.500 in 1995 to 8.500 in 2004)
<b>Financial sector</b>	
Estimated nr of bank branches in 2004	Between 500 – 550
Inhabitants per branch	Around 11.000
Estimated number of MTOs outlets in Jordan	575
Number of inhabitants per MTO	Around 10.000
<b>Channels</b>	
Banks	Frequently
MTO	Frequently
Postoffice	Low
Informal	Often
<b>Usage of Remittances</b>	
Consumption	Often
Investment (land or house purchase)	Frequent upon return

### 11.7.2 Observations

- The Jordanian community in Europe is small and consequently the remittance flows are insignificant compared to the flows originating from other regions, notably the Gulf region;
- Remittance income through formal channels contributes to over 20 percent of Jordan's GDP;

<sup>162</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/jo.html>.

- Remittance flows from worldwide sources through formal channels have been relatively stable since 2000, but appear significantly larger than in the late 1990s which may be caused by oil market developments.
- Remittance flows through informal channels are assumed to be significant and at least equal to the formal remittance flows
- MTOs and banks are widely used as channels for remitting money to Jordan.

### 11.7.3 Impediments

#### *Transaction costs / Usage of channels*

Compared to other corridors, costs for remittances in this corridor were rather high. Also the transfer experiment revealed hidden costs for transactions. The fact that informal channels and MTOs are often used, would indicate that the multiplier effect may be small.

#### *Usage of remittances*

Mini-survey suggests that consumption is a predominant use of remittances.

### 11.7.4 Recommendations

To increase the multiplier effect, we propose that banks need to be involved more in the remittance process. Given that the Jordanian bank outreach in Germany is small, alliances would need to be forged with domestic banks in Germany in order to provide a faster service that could more effectively compete with MTOs. However, given the relatively small share of remittance flows originating in Germany, the overall effect on the Jordanian economy of such measures is likely to be limited.





## 12 Germany – Syria

### 12.1 Introduction

Despite the fact that Syria has been exporting labour for over a century, little information is available on Syrians abroad and their remittances. Most Syrian migrants live in Lebanon and the Gulf states. The Syrian community in Europe is small, also compared to the number of migrants from other MPCs.

### 12.2 Registered remittances

The Syrian Central Bank reports € 447 million in private current transfer flows into Syria in 2003 (Table 12.1). From Germany only € 7 million in workers' remittances were sent through formal channels in 2003.

Table 12.1 Remittances Germany – Syria (in million €)

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Workers' remittances sent from Germany	2	3	4	4	4	6	7	7	8
Remittances received from Germany	-	-	-	-	-	-	-	-	-
Remittances received from Europe	-	-	-	-	-	-	-	-	-
Total worldwide private current transfers received	-	-	532	501	530	590	521	447	-

Source: 1<sup>st</sup> row Bundesbank, 3<sup>rd</sup> and 4<sup>th</sup> row the Central Bank of Syria

#### *Central Bank Germany*

The Bundesbank estimates workers' remittances based on the 'cash transfers' as reported by banks and post offices and adapted for data provided by the Federal Employment Agency on the number of employed and unemployed foreign nationals contributing to social insurance. Remittance flows to Syria from Germany have been on a gradual increase since 1996.

### Central Bank of Syria

The Central Bank of Syria only publishes data on ‘private current transfers’, which also contain workers’ remittances.<sup>163</sup>

## 12.3 Migrants

### 12.3.1 Syrian migrants in Europe

Only a minor portion of Syrian migrants—about 66.000 –live in Europe. Of those, nearly half live in Germany<sup>164</sup>. Sweden is home to the second largest population of Syrian immigrants in Europe.

From the almost 30.000 Syrian immigrants living in Germany, 30% reside in Nordrhein-Westfalen and 20% in Niedersachsen, see table 12.2 and figure 12.1 (insert).

Figure 12.1 Syrians in the most important EU countries in 2003 and their geographical spread in Germany



<sup>163</sup> In other MPCs, ‘private current transfers’ largely constitute remittances. Therefore, for Syria, we assume that (formal) workers’ remittances are roughly equal to ‘private current transfers’.

<sup>164</sup> Here migrant data is used from 12 European countries which are the most important host countries for migrants.

Table 12.2 Number of Syrian migrants (in thousands), worldwide (2000), in main EU host countries (2003) and the number of Syrian migrants in the main host regions in Germany (2004)

Host region or country	Number of Syrian migrants (* 1.000)	In Germany	Number of Syrian migrants (* 1.000)
<ul style="list-style-type: none"> <li>Worldwide</li> <li>Europe<sup>165</sup></li> <li>Germany</li> </ul>	<p>981</p> <p>66</p> <p>28</p>	<p><i>In Germany:</i></p> <ul style="list-style-type: none"> <li><i>Nordrhein Westfalen</i></li> </ul>	<p>8</p>
<ul style="list-style-type: none"> <li>Sweden</li> <li>Netherlands</li> <li>Belgium</li> </ul>	<p>16</p> <p>6</p> <p>2</p>	<ul style="list-style-type: none"> <li><i>Niedersachsen</i></li> <li><i>Baden-Wurtemberg</i></li> <li><i>Hessen</i></li> <li><i>Berlin</i></li> </ul>	<p>6</p> <p>3</p> <p>3</p> <p>2</p>

Source: [www.eu-esis.org/esis2basic/SUbasic7.htm](http://www.eu-esis.org/esis2basic/SUbasic7.htm) , Statistische Bundesamt Deutschland, <http://www.destatis.de/basis/d/bevoe/bevoetab10.php>, Statistische Bundesamt Deutschland, <https://www-genesis.destatis.de/genesis/online/Online>, European University Institute <http://www.carim.org/research.asp>,

### 12.3.2 Characteristics

In the past there has been sizable emigration of Syrians to Europe, Africa, and the Western hemisphere, but emigration had virtually ceased by the late 1940s. Since World War II there has been substantial internal migration from the coastal mountains to the central plains and, in general, from rural areas to the towns. There is considerable migration across the borders with Lebanon and Jordan. About 150.000 Syrians working in Kuwait returned during 1990–1991.<sup>166</sup>

Since the 1970s, there has been a noticeable emigration of Syria’s educated elite, most of who remain abroad. According to the 2005 National Human Development Report, published jointly with the United Nations Development Programme (UNDP) and the State Planning Commission, only 20% of the Syrians who obtained a Ph.D. at a foreign university returned home afterwards.

Contemporary Syrian migrants are mainly male students and a few businessmen. Often males migrate to escape the military service. To prevent this type of emigration a year ago the waiver fee for avoiding compulsory military service has been slashed from USD15.000 to USD 2.000.

## 12.4 Channels

### 12.4.1 Introduction

In this paragraph we provide an overview of the ‘remittance market’: the channels used for the transfer of funds from Germany to Syria , their characteristics and the costs of their products. As the literature on these channels is limited, we have conducted telephone interviews with the Central Bank, MTOs and migrant organisations. We have also

<sup>165</sup> Estimate based on: Syrian migrants in Europe (20 countries) from 2001 and total Syrian migrants worldwide in 2000.un

<sup>166</sup> <http://www.nationsencyclopedia.com/Asia-and-Oceania/Syria-MIGRATION.html>, visited on 30 November 2005.

conducted 49 mini-surveys in the recipient country to better understand the motivation to use channels, and have conducted own transfers to verify costs.

## 12.4.2 Channels

Very little information is available on the remittance market from Germany to Syria. As indicated above, the informal remittance flows are likely considerable. At the same time, substantial funds may enter Syria through Lebanon, where they may have been originally collected through MTOs or banks.

Table 12.3 Market shares of channels in the Germany – Syria corridor

Channels	Usage
Banks	Hardly
MTOs	Hardly
Post office (own services)	Hardly
Informal	Often

Source: Telephone interviews, literature review and mini-surveys

### *Banks*

According to our mini-surveys, banks are not a major means of remitting funds in this corridor. This may reflect the absence of a developed banking sector, weak payments systems, and weak links to outside banks.

### *MTOs*

MTOs are hardly present in Syria. Western Union has one agent, and Money Gram is not represented.

### *Informal channels*

During telephone interviews, respondents indicated that remittances are frequently sent through informal channels. The respondents also indicated that informal flows into Syria probably largely outweigh those flowing through formal channels. This appears to be confirmed in our mini-survey, where 82 percent of respondents indicated that they used informal means of transmitting funds.

### Box 12.1 Result mini-surveys Syria

We conducted 49 mini-surveys in Syria on which channel was used and why. 81% of the transfers were conducted through informal channels (carrying of money or unregistered private courier), because respondents felt that it was safe, easy and there was no hurry to receive the money. 17% used the bank, because it was perceived as the 'only available channel' and only 2% used Western Union.

## 12.4.3 Transaction characteristics

### *Characteristics based on telephone inquiries*

Table 12.4 summarises the characteristics for various channels from Germany to Syria.

Table 12.4 Channel characteristics in the Germany – Syria corridor for transactions of € 400

	Banks	Post Office	MTOs
<b>Costs</b>	(local banks) 2,5% – 9,4%	1,5% - 2,1%	6,5% WU
<b>Speed</b>	2-8 days	3-5 days	Instant
<b>Accessibility</b>	Account	Account	ID

Source: telephone interviews by ECORYS.

The telephone interviews do not show peculiarities compared to other channels. The rates are relatively high

#### *Costs incurred in conducted pilot transfers*

We have conducted two transfers of € 400 from Germany to Syria. Table 12.5 presents an overview of the two transfers and their costs.

Table 12.5 Transaction costs for real transfers of € 400 from Germany to Syria

(all costs in €, unless indicated otherwise)

€ 400 transaction Channel	Total costs in €	Costs in €				Received	
		Fee sender	Fee recipient	Other costs	Exchange rate costs	Received in €	Received in local currency
Comdirect Bank to Bank of Syria and Overseas OURS <sup>167</sup>	10,67 (2,7%)	7,67 (1,9%)	3 (0,7%)		-	397	SYP 21.120
Western Union (Deutsche Postbank Emmerich) to Western Union Damascus	67,74 (16,9%)	26 (6,5%)	18,03 (4,5%) (USD 22)	8,20 (2%) (USD 10)	15,51 (3,9%)	-	SYP 25.171

Note: *Fee sender* is the cost for sending an amount of € 400 from Germany to Syria in euro and as a percentage of € 400 in parenthesis. *Exchange rate costs* is calculated by multiplying the sum received in euro by the exchange rate published by the Central Bank at the day that the sum was collected and then to subtract this figure from the amount received in local currency. The EURO: SYP exchange rates were 53,20 (row 1, rate at 1 October 2005) and 53,66 (row 2, 22 September 2005), respectively, and the euro: USD rates, according to ECB were 1,22 (22 September 2005). *Total costs* are the sum of fee sender, fee recipient and the exchange rate costs (in parenthesis as a percentage of € 400). \* Excluding fee and cost paid.

At the Western Union counter in Syria it was explained that the money could not be sent to Syria directly, but only via Lebanon and that consequently the recipients had to pay an additional fee for the route Lebanon – Syria. In Syria the additional fees for the recipient were: € 15,51 exchange rate costs, € 8,20 other costs (exact purpose unclear) and € 18,03 rerouting fees. Altogether this transaction was the most expensive of all transfers made for this study: € 67,74 or almost 17% of money sent.

<sup>167</sup> OURS: all costs are paid by the sender. SHARED: costs are shared between sender and recipient.

The funds could only be picked up in local currency. At the bank exactly the Central Bank exchange rate was charged, Western Union earned 3,9% on the exchange.

## 12.5 Financial sector in Syria

### 12.5.1 Financial sector

#### *Financial sector*

The financial sector in Syria is not well developed. The Government of Syria has implemented some reforms over the past few years, including opening the sector up to private banks.<sup>168</sup>

#### *Payment systems*

Syria's payment system is largely underdeveloped: cash is the principal means of payment and all clearing activities are conducted manually.

## 12.6 Use of remittances

### 12.6.1 Institutional support and incentive schemes

Since 1990 the government is attempting to stimulate the inflow of foreign currency through the formal sector by granting a favourable exchange rate for remittances.

#### *Capital controls*

Foreign investors must register at the Ministry of Foreign Trade and their share holdings cannot exceed 49% of invested capital. Real estate may not be owned by non-residents without prior approval from government authorities. Syrian residents abroad are allowed to open a foreign currency account. Residents are not allowed to do this.

### 12.6.2 Usage of remittances

Very little is known about the usage of remittances in Syria. Though the number of Syrians abroad is relatively small, their incomes tend to be high, reflecting an educated successful migrant community. This provides opportunities for remittances and investments in Syria, if the investment climate is favourable. At the moment several initiatives are targeted at the migrant community. The government is organising Syrian media centres in key foreign countries and establishing an Expatriates' Fund, audited by UNDP, through which Syrians living abroad can safely invest in development projects back home.

According to the Integrated Regional Information Networks (IRIN) and the UN Office for the Coordination of Humanitarian Affairs, Syrian migrants are allocating funds for

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<sup>168</sup> Commercial Bank of Syria, Cooperative Agricultural Bank, Real estate Bank, Public Loaning Bank and Industrial Bank.

community and investment projects. Projects initiated by Syrian expatriates include the establishment of two private universities in the western cities of Homs and Tartous, the construction of an animal feed factory in the northern province of Hassake and a scheme to support disabled Syrians to get medical support.

The results of our mini-survey suggest remittances are primarily used for consumption (box 12.2).

Box 12.2 Result mini-surveys: Usage

We conducted 49 mini-surveys in Syria on how remittances were used. 61% mentioned as main usage 'daily expenses', 11% payment of school fees and 8% the building of a house. None of the respondents mentioned that the remittances were used for investments. 20% of the answers was related to divergent utilisation.

## 12.7 Observations, impediments, recommendations

### 12.7.1 Summary of key facts

Key characteristics Germany - Syria	
<b>General</b>	
Number of inhabitants in Syria <sup>169</sup>	18,4 million
GDP (2003, current prices)	€ 23,3 billion
<b>Remittances (2003)</b>	
Worldwide registered private current transfer flows into Syria	€ 447 million
(Registered) workers remittance flows from EU countries	More than € 7 million
(Registered) workers remittance flows from Germany	€ 7 million
- Informal remittances as% of formal remittance flows in the corridor	100 – 200%
Registered private current transfer received in Syria as % of GDP (average 1996 – 2003)	2%
<b>Migrants</b>	
Estimate of number of Syrian migrants worldwide (2000)	981.000
- Syrians in EU as % of Syrian migrants worldwide <sup>170</sup>	5%
Estimate of number of Syrians migrants in Germany (2003)	27.700
- Syrians in Germany as % of total Syrians in Europe (2003)	45%
Migration developments 1995 – 2003 in Germany	Increase of 50% (from 18.300 in 1995 to 27.700 in 2003)
<b>Financial sector</b>	
Estimated nr of bank branches in 2004	Unknown
Inhabitants per branch	Unknown
Estimated number of MTOs outlets in Syria	1
Number of inhabitants per MTO	18,4 million

<sup>169</sup> Based on estimates CIA factbook (2005) <http://www.cia.gov/cia/publications/factbook/geos/tu.html>.

<sup>170</sup> To make an estimate, the estimate of Syrians worldwide (2000) is used and the number of Syrian migrants in Europe in 2001, without reference to differences in definition.

Key characteristics Germany - Syria	
<b>Channels</b>	
Banks	Hardly
MTO	Hardly
Post office	Hardly
Informal	Often
<b>Usage of Remittances</b>	
Consumption	Mostly
Investment (land or house purchase)	Less

### 12.7.2 Observations

- The Syrian community in Germany and the EU is small;
- Based on the information on formal remittances, remittances account for about two percent of GDP, although the informal flows are probably more significant.
- Remittance flows from the Germany have been on an increasing trend, but are small compared with total remittance inflows into Syria;
- Remittance costs in this corridor are high.

### 12.7.3 Impediments and recommendations

The transaction costs are very high and there is no real choice of channels. Substantial reforms are needed, both in the banking sector and in payment systems. Further liberalisation of markets would encourage banks and MTOs to develop remittance services and may result in a more competitive market. The Syrian government's efforts to stimulate investment from migrants through its outreach programs are notable, but success in its efforts will probably require an improvement in the domestic investment climate.



# 13 Observations

## 13.1 Introduction

In this chapter we provide answers to the questions posed in the first chapter related to efficiency:

- Can the *transaction cost* of remittances be considered reasonable for the services delivered?”
- Are *remittances used* in a way that they generate a maximum developmental impact?”
- Do the *channels* used for remittances contribute to a maximum developmental impact?”

## 13.2 Transaction cost

*“Can the transaction cost of remittances be considered reasonable for the services delivered?”*

Efficient remittances require efficient and cost-effective end-to-end systems from sender to receiver. To remit money from a EU country to an MPC country, several alternatives exist. In the formal sector, correspondent banking networks, post office networks and the MTO networks can be used. In the informal sector funds can be remitted through cash carriers or by transfers through unlicensed money transfer operators.

This study points to a number of inefficiencies in the formal remittance market from the EU to MPCs. The first indication of inefficiencies in the formal sector, is the apparent preponderance of informal remittances, which account for the majority of funds remitted in most corridors investigated.

Inefficiencies in the remittance market are also evidenced by the high transactions costs. These costs vary widely according to transfer operator and corridor, but can exceed 16 percent of capital sent. A number of market imperfections and information deficiencies have been identified to help explain the high transaction costs. These include exclusivity contracts for MTOs in post offices; lack of transparency on transfer costs (particularly as regards exchange rate fees); inadequate information regarding available transfer mechanisms and associated costs, speed and reliability; and inadequate payment systems and limited usage of bank accounts in Mediterranean countries. Accessibility to banking accounts for emigrants residing in the EU is also limited and banking products are not sufficiently tailored for remitters, with few exceptions.

By contrast, and as described in chapter 4, transfer costs within the EU are extremely low. However, the EU faced similar issues as those faced by MPCs not so long ago. The

European commission tried to persuade the banking sector to regulate its pricing for transfers within the EU, but this failed to reduce costs. Only through EU directives was a (forced) reduction of prices achieved. In light of the EU experience, it is questionable whether market forces alone can help bring down costs to reasonable levels, particularly since remittance service users are not well informed or organized.

### 13.3 Usage of remittances

*Are remittances used in a way that they generate a maximum developmental impact?*

Remittances are sent by migrants with the purpose to support the households daily livelihood (including housing). Indications that migrant earnings are used for productive usage, when the local conditions are favorable, are found. We have mentioned the increasing interest of Moroccans to invest directly in their country, Tunisians that finance small businesses and returning migrants in Egypt and Jordan who become entrepreneurs. However, remittances remain primarily used for daily expenses and therefore do not have large developmental impact.

### 13.4 Usage of channels

*Do the channels used for remittances contribute to a maximum developmental impact?*

The channels of transmission seem to go predominantly through the informal sector, with the notable exception of the German-Turkish corridor, which relies heavily on Turkish banks operating out of Germany. Money Transfer Operators (MTOs) are often a dominant formal channel, despite higher costs, because they provide speed, reliability, do not require an account, and usually have good distribution networks.

The large informal sector generates a number of potential disadvantages. First, the development impact of informal flows is likely to be more limited than that of formal flows since formal flows, particularly through the banking sector, become part of the financial system and can be leveraged by banks for investments<sup>171</sup>. It could also be argued that informal flows can be a conduit for money laundering or other illegal activities, including terrorism financing. Finally, as this study highlights, illegal flows hinder the collection of valuable information on the remittance market.

From an economic development point of view, banks are also likely to provide a potentially higher multiplier effect than MTOs since remitted funds are more likely to stay within the domestic banking system (i.e. deposited in bank accounts), and can thus be used for lending purposes. Overall, the channels used for remittances in most corridors, do *not* contribute to a high developmental impact.

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<sup>171</sup> It is of course also possible for informal flows to find their way back into the financial system, although this is less likely to be the case than formal flows.

# 14 Recommendations

## 14.1 Recommendations for improving the efficiency of remittances

In order to improve the efficiency of workers remittances it is necessary to both remove existing impediments identified throughout this study to lower transactions costs, and at the same time devise means to maximise the developmental impact of remittances. This section provides an overview of the recommendations to improve the efficiency of workers remittances in this way.

### 14.1.1 Recommendation 1: Improve payment systems

Payment systems in MPCs need to be improved and links with EU countries need to be strengthened in order to reduce transactions costs, foster the transmission of remittance funds through formal channels, and thereby augment the potential developmental impact of remittance flows. The proposed reform implies harmonizing standards, and payment instructions and services, and strengthen outreach, with the aim to facilitate the inclusion of the mass public in the MPCs into convenient low cost payment facilities like those that have matured in EU countries.

The establishment of mass consumer payment service infrastructures in MPCs should be promoted and supported by the authorities and donors. The authorities should be actively involved in setting payment standards and services through national payment councils, and governments and donors need to coordinate to ensure financial and technical support for the development of more efficient payment systems and inter-operability of cross-border payment systems.

#### *Initiative*

MPC governments, the EU, other donors and multilateral organizations, banks and post office services should coordinate to develop an effective mass payments in MPCs. MPC governments and the EU should take the initiative to start this project, including determining funding and technical assistance requirements, and also be prepared to strengthen interoperability of SEPA and MPCs payment infrastructures, possibly resulting in a “EU/Neighbourhood countries Payment Area”.

### 14.1.2 Recommendation 2: Offer migrant oriented banking and investment services

The banking system is an effective way for channeling remittances into productive investments. Developing banking services specifically targeted at migrants may prove

very successful in attracting remittance funds to the banking sector. For example, host country banks in regions with high migrant concentrations could develop financing packages for migrants wishing to buy or build property in their home country<sup>172</sup>. Similar products could be set up by banks in MPC countries. For example, savings accounts for migrants could be designed for specific purposes—such as building a home, paying for school fees, or for supporting a business. Banks could also set up investment funds or issue bonds directly targeting migrant groups for investment projects in home countries.

#### *Initiative*

Banks in both the EU and in MPCs should take the initiative of developing instruments and products specifically targeted at the migrant communities, as described above.

### 14.1.3 Recommendation 3: Encourage bank (and other) alliances

Banks that have started to take the remittance business seriously have learned the importance of building alliances to leverage local expertise and combine distribution networks to reduce the cost of their operations. Lloyds' alliance with ICICI of India, the alliance of Caixa Economica Federal with BCP Bank, and the “Bravo” brand of CECA are illustrative examples of these kinds of successful partnerships. Alliances could also be strengthened by including Micro Finance Institutions (MFIs) that have a good presence in the area's where migrants originate from or by linking banking services to post offices, when the latter have a dominant network.

#### Box 14.2 Microfinance and remittance in El Salvador <sup>173</sup>

The role of micro credit and microfinance institutions is vital for the provision of capital to small and micro enterprises, despite their usually high collateral requirements and interest rates. In South America, the microfinance industry is well developed and in El Salvador some MFI's are linked to large banks, such as the Banco Calpià. To promote the productive use of remittances, the Banco Calpià developed financial services and micro credit schemes that can be paid with remittance funds.

#### *Initiative*

Banks in MPCs and the EU should try to forge alliances with a view to reducing transactions costs and attracting remittances. Alternatively banking services could be linked to post office networks, when the latter enjoy a dominant network market position. Exclusivity contracts for MTOs in post offices should be removed to open the sector up to competition.

### 14.1.4 Recommendation 4: Improve migrant access to bank accounts via simple ID card

Migrant access to banks is proving to be a problem in host countries. Migrants, often young migrants, have an irregular status (they may be illegal or have an expired visa) and

<sup>172</sup> Several such projects are underway for Moroccan migrants, including one by the Caisse d'Epargne Provence-Alpes-Corse-la Réunion, and by la Caixa in Spain.

<sup>173</sup> <http://www.laprensagrafica.com/dpt15/remesas/remesas06.asp>

consequently do not have an ID that allows them to open a bank account. For remittance transfers through MTOs this is less of a problem due to the lighter verification regime (for transfers less than € 1.000).

An ID card similar to the ‘Matricula consular’ used for Mexican migrants in various states in the USA can be a useful instrument to improve accessibility to banking services (see box 14.1). It is a widely accepted identity card issued by the Mexican embassy irrespective of the way the migrant entered the USA.

#### *Initiative*

European governments, in coordination with MPC embassies, could consider a pilot project of this type in regions with a high concentration of irregular immigrants.

Box 14.1 Matricula Consular: a means for financial inclusion of migrant workers

**Measures supporting the inclusion of illegal Mexican workers in the USA**

The matricula consular<sup>174</sup> provides an important instrument for illegal Mexicans in the United States for improving their inclusion in the host society, despite the fact that they arrived through illegal ways or became irregular. The matricula provides access to the following services and advantages

- Receive same driver's license as citizens (in 13 states);
- Police less likely to arrest; instead cite and release for minor violations;
- Reduced risk of background checks for past criminal acts;
- Lessen chance of crosscheck with INS for repeated border crossings;
- Open bank accounts;
- Obtain ATM cards for relatives living in Mexico;
- Leverage bank account to obtain credit cards;
- Obtain home mortgages by building credit history;
- Bank accounts lead to issuance of official U.S. ID number from the IRS;
- Get hospital ID for medical services;
- Register for local health department services;
- Obtain marriage license;
- Apply for birth or death certificate;
- Enter government buildings;
- Receive resident discounts for city parks, etc.;
- Rent or buy homes and apartments (protection under fair housing laws);
- Qualify for subsidized housing;
- Obtain telephone and utility services;



Source: A. Gallina, 2005a.

14.1.5 Recommendation 5: Use of new technologies

New technologies (i.e. telephone or internet transfers) can lead to lower transaction costs and reduced processing times and be a strong inducement for remitting funds. Such services are already taking off in the USA–Asia corridors, for example, but require

<sup>174</sup> Information sources: Statement of Marti Dinerstein “The Issuance, Acceptance and Reliability of Consular Identification Cards” Testimony prepared for the U.S. House of Representatives Committee on the Judiciary. Fellow. Center for Immigration Studies. June 19, 2003; Dinerstein, M. (2003) “IDs for Illegals - The ‘Matricula Consular’ Advances Mexico’s Immigration Agenda” Center for Immigration Studies, in <http://www.cis.org/articles/2003/back303.pdf>; <http://www.bankersonline.com/articles/bhv12n10/bhv12n10a1.html>.

compatible systems on both ends. In the MPC corridors, La Caixa in Spain is experimenting with telephone based remittances.

#### *Initiative*

We recommend that banks and communication companies start developing migrant remittance services along the lines of what is already well-developed in Asia.

#### 14.1.6 Recommendation 6: Use remittance flows for securitizing capital market instruments

The issuance by banks of bonds in international capital through the securitization of future remittance flows has been growing in popularity in countries where large amounts of remittances flow through the banking sector. The remittance securitization process involves the set up of an offshore special purpose vehicle (SPV), managed by a trustee. The SPV is used to issue bonds—secured by future remittance receivables—in international capital markets, and for making payments to bond investors once remittances are received. Any excess receivables are sent to the borrowing bank. The issuing bank also credits individual account holders for the remittance amount received in local currency. The securitization structure thus guarantees that foreign exchange receipts for the issuing bank are first used to repay bond investors; at the same time its offshore characteristic avoids the usual currency convertibility risk.

The securitization of bonds through remittance flows has a number of distinct advantages: it tends to lower the cost of borrowing for issuing banks and helps mobilize additional foreign savings for onlending in the recipient country. There is therefore an opportunity to use remittance receipts indirectly to strengthen bank access to finance at lower cost for productive investments.

#### *Initiative*

MPCs banks that receive substantial amounts of remittance flows should be encouraged to structure remittance-backed bonds. This would not only reduce financing costs, and mobilize additional savings, but also contribute to financial market development.

#### 14.1.7 Recommendation 7: Pooling schemes

In capital-rich regions, which benefit from large remittance inflows, resources could be pooled locally (i.e. through HTAs) to promote economic development. The objective of these smart-aid projects would be to remove infrastructure impediments to productive investments and economic development by financing local infrastructure projects through pooled funds, and to directly finance entrepreneurial activities as well. Financing of infrastructure projects could be enhanced through matching schemes from governments or donors.

Local pooling schemes tend to be small in scale. For larger projects, cooperative schemes could be devised, whereby non-government organizations (NGOs), such as diaspora organizations in host and recipient countries, help pool migrant resources to provide the capital base for project finance, micro-finance, mortgage financing and other targeted

financial products<sup>175</sup>. Migrant communities could thus pool their resources, and offer reduced costs for remittances, savings accounts, and investment accounts, either by creating their own financial institutions or through cooperation with banks. Co-financing of projects with banks or multilateral organizations could also be envisaged here.

#### *Initiative*

The international donor community and local government should encourage the creation of local associations and smart-aid pooling schemes, particularly in capital-rich regions, and provide matching funds for community projects. At the same time, cooperation between diaspora groups, banks, and international financial institutions needs to be fostered to develop cooperative pooling schemes.

#### 14.1.8 Recommendation 8: Encourage migrant knowledge transfer and organization of migrant groups for business development

Diaspora communities are not only a source of funding for projects, but also an important source of human capital, which could well be used in their countries of origin. Because of their attachment, many migrants could thus be mobilised to support projects in their home country, not only through financial contributions, but also by offering time and knowledge.

The Algerian government, for example, has realised the potential gain from human capital, and has created an Algerian transnational network of researchers and engineers; thus students that remain in the host countries (Europe and the US) transform the brain-drain into brain-gain. The underlying idea is that contributions by these groups of migrants can stimulate small and medium starts-up in high-tech sectors such as biotechnologies for agriculture which is strongly needed to improve productivity.

At the same time, many diaspora groups are not yet well organised or recognized. Often, they are not eligible to apply for subsidies and grants, though their projects would fit eligibility conditions. Box 14.6 illustrates the approach of the Indian government towards the diaspora.

#### Box 14.2 Box: Mobilizing the Diaspora<sup>176</sup>

According to the information on the home page of [trendwatching.com](http://trendwatching.com), India actively explores "Diaspora management". The Indian government and the Federation of Indian Chambers of Commerce and Industry recently invited 2.000 extremely successful 'non-resident' Indians from 63 countries to New Delhi, to determine how the resources and achievements of Indians abroad might be used to benefit India. Another example of Diaspora organization is the Thai initiative to set up a government-sponsored chain of Thai restaurants in countries around the world to stimulate tourism to Thailand.

<sup>175</sup> Such setups are starting to develop. For example, the World Diaspora Forum is looking for partners in the banking sector to set up African Diaspora Cooperative Financial Institutions. Information provided by initiator Andy Sundberg, Consultex SA.

<sup>176</sup> [www.trendwatching.com](http://www.trendwatching.com), visited on 18 September 2005.



### *Initiative*

MPC governments, in conjunction with the EU, could help sponsor migrant knowledge transfer and the establishment and recognition diaspora organizations for business development, along the lines of what has been done in Algeria, India, and Thailand.

#### 14.1.9 Recommendation 9: Increase knowledge base by establishing a knowledge centre and corridor expert groups

In this study we have pointed out a number of peculiarities related to remittances:

- The importance, magnitude, policy and economic relevance of migrant workers from MPCs and their contribution as agents of development to both the host and origin countries;
- The increasing need to provide the framework for an inclusion (social, economic, financial and political) of the immigrant communities in the societies of the EU countries;
- The importance of maintaining the attachment to the home country, represented by the large flows of remittances by migrant workers;
- The lack of a forum in which the issues related to the acknowledged link between migration and development are taken to a higher political level;
- The lack of comparable data on remittance flows.

A EU-MPC forum, in which remittance issues and products are taken to a higher political level is currently lacking. This study can serve as a starting point for a Euro-Mediterranean think-tank on “enhancing the utilisation and the efficiency of migrant workers remittances in the Euro-Mediterranean region”. Experience from the United States in managing the relationship of Latino communities in the US with governments in Latin America show the importance of the role that such a think-tank or knowledge centre could play.

### *Initiative*

The role of the knowledge centre will be to conduct and initiate research, organise awareness and visibility campaigns, act as expert counterpart for governments, and initiate and monitor projects, with a view to enhancing the efficiency of remittances. To this end, the knowledge centre would also assist civil organisations (in particular migrant organisations), governments, the financial sector and MTOs, and set up expert groups.

The expert groups (organised per corridor) would be composed of representatives of civil society (migrant associations, European and Mediterranean NGOs), the private sector (banks, MTOs) and the public sector (government, postal sector). The expert group would enable representatives to share experiences and ideas on how to improve the transfer and utilisation of workers remittances within a corridor.

Start up funding would need to be provided by the donor community; financial independence would eventually be achieved through the services provided to the public, and possibly private, sector.

#### 14.1.10 Recommendation 10: Website to improve information transparency on transaction costs

A website to provide information to migrants on remittances transfer mechanisms, prices, and speed and reliability, could improve transparency and further competition in the remittance industry. The website could also provide information on investment opportunities back home, immigration policies in EU countries, links to EU government websites that deal with immigration, and links to websites of the home country government and non-government institutions that work with the Diaspora, return migrants, micro-credit institutions, and business development.

##### *Initiative*

Financial and technical support is required for the initial years of the project, and could be sponsored by governments and the international donor community. The website should be able to sustain itself after some years by attracting advertisement or sponsors.

### 14.2 Other policies affecting remittance flows

Aside from the recommendations listed above, a number of other policies or instruments identified throughout the study were found to potentially affect the efficiency of remittance flows. These include capital controls, various incentive schemes, tax policies, and forced remittance schemes.

Capital controls can deter remittance flows, particularly those that may be intended for investments in the home country. Thus, removal of such controls could provide an incentive for migrants to remit additional funds, particularly in countries where migrants have a strong attachment to their home country.

This study has also shown how tax incentives are used to attract remittances. While these may well be contributing to higher remittance flows, they may also lead to undesirable consequences, such as tax misuse and evasion. The revenue implications of tax incentives on remittance flows are an empirical question. However, if revenues were lost, it could also be argued that such an effect could raise the tax burden for residents at the expense of non-residents.

Other incentives schemes have also been identified, including special training schemes for migrants to open small businesses back home, special import privileges, and offering premium interest rates on remittance funds. These have been met with varying degrees of success, and could be envisaged to complement other instruments described above.

### 14.3 Summary of recommendations per corridor

#### 14.3.1 Introduction

The table in this section summarises the recommendations that are of particular relevance for each of the corridors.

### 14.3.2 Recommendations corridor Germany – Turkey

	Recommendation	Why	Explanation
1	Pooling schemes	To finance infrastructure and productive investments.	See recommendation 7

### 14.3.3 Recommendations corridor Spain – Morocco

	Recommendation	Why	Explanation
1	Pooling schemes	To finance infrastructure and productive investments	See recommendation 7
2	Martícula Consular	To enable the irregular and temporary Moroccan migrants in Spain to open a bank account.	See recommendation 4
3	Website	To raise the interest of Moroccans, already highly attached to their home country, for investments.	See recommendation 10

### 14.3.4 Recommendations corridor France – Tunisia

	Recommendation	Why	Explanation
1	Offer migrant oriented bank services and form alliances	To encourage remitters to use the bank channel and reduce transactions costs.	See recommendation 2 See recommendation 3
2	Encourage remittance-backed bonds	Encourage mobilization of additional foreign savings and reduce project finance costs to banks	See recommendation 6
3	Pooling schemes	To finance infrastructure and productive investments	See recommendation 7
4	Website	To raise the interest of Tunisians for small investments. There is large scope for small private sector investment in Tunisia, for example in textile, agro-food products and fishing.	See recommendation 10

### 14.3.5 Recommendations corridor France – Algeria

	Recommendation	Why	Explanation
1	Open up the post office branch network	By opening up the largest network in Algeria to other interested MTOs and banks, competition will increase.	-
2	Improve the payment network	A well functioning end-to-end payment system will encourage the usage of formal channels.	See recommendation 1
3	Pooling schemes	To finance infrastructure and productive investments	See recommendation 7
4	Encourage cooperation of organisations	Cooperation between organisations and governments in home and host country could trigger small projects in the home country, financed through remittances.	See recommendation 8

### 14.3.6 Recommendations corridor Italy – Egypt

	Recommendation	Why	Explanation
1	Form alliances	The Egyptian post office, with its 2.900 branches is not yet used for remittances. In an alliance with Italian partner banks excellent remittance products could be developed.	See recommendation 3
2	Offer migrant oriented bank services	Encourage the usage of bank channels.	See recommendation 2
3	Martricula Consular	To enable the irregular and temporary Egyptian migrants in Italy to open a bank account.	See recommendation 4
4	Pooling schemes	To finance infrastructure and productive investments	See recommendation 7

### 14.3.7 Recommendations corridor Germany – Lebanon

	Recommendation	Why	Explanation
1	Offer migrant oriented bank services and form alliances	To encourage remitters to use the bank channel and reduce transactions costs.	See recommendation 2 See recommendation 3

### 14.3.8 Recommendations Germany – Jordan

	Recommendation	Why	Explanation
1	Offer migrant oriented bank services and form alliances	To encourage remitters to use the bank channel and reduce transactions costs.	See recommendation 2 See recommendation 3

### 14.3.9 Recommendations Germany – Syria

	Recommendation	Why	Explanation
1	Develop financial market	Develop financial market and remittance services and products.	-
2	Offer migrant oriented bank services and form alliances	To encourage remitters to use the bank channel and reduce transactions costs.	See recommendation 2 See recommendation 3

### 14.3.10 Other recommendations

	Recommendation	Why	Explanation
1	Adopt new technologies	Lower transactions costs	See recommendation 5
2	Establish a knowledge center	To improve the understanding and efficiency of remittances, and support policy decision making	See recommendation 9

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## Appendix 2 Overview of key characteristics

Key characteristics	Key characteristics Germany – Turkey	Key characteristics Spain - Morocco	Key characteristics France – Tunisia	Key characteristics France – Algeria	Key characteristics Italy – Egypt	Key characteristics Germany - Lebanon	Key estimates Germany – Jordan	Key estimates Germany – Syria
<b>General</b>								
Number of inhabitants in Morocco	69 mln	32 mln	10 mln	32 million	77,5 million	3,8 million	5,7 mln	18,4 million
GDP <sup>1</sup>	215,5 bln (2003)	39,5 bln (2003)	22,3 bln (2003)	58,8 bln (2003)	67,5 bln (2003)	16,2 bln (2003)	8.7 bln (2003)	23,3 bln (2003)
<b>Remittances (estimates based on most recent data)</b>								
Worldwide (registered) remittance flows to MPC country	€ 0,646 mln - € 0,879 bln	€ 3,4 bln	€ 1.100 million	€ 1,5 billion	€ 2.400 million	€ 2,2 billion	€ 1,9 billion	€ 447 million
(Registered) remittance flows from EU countries	-	€ 2.9 bln	€ 950 million	€ 1,35 billion	€ 544 million	Over 16 million	Over € 3 million	More than € 7 million
(Registered) remittance flows from EU host country	More than € 0,879 bln	€ 0,392 bln	€ 558 million	€ 1,3 billion	€ 83 million	16 million	€ 3 million	€ 7 million
- Informal remittances as % of formal remittance flows in the corridor	Small	over 100%	50 - 100%	over 100%	50 - over 100%	Estimated at over 100%	over 100%	over 100 – 200%
Total (Registered) remittances received in MPC country as % of GDP (average 1996 -2003)	1 – 2 %	6 – 9 %	4 – 5 %	2 - 3 %	3 – 4 %	9 – 15%	20 – 22%	2%
<b>Migrants</b>								
Number of migrants worldwide	4 mln	1,255 mln	843.000	1,2 mln	1,9 million (2003)	895.000	400.000	981.000
- Estimated number of migrants in EU as % of migrants worldwide	85%	85%	85%	95%	5%	10%	5%	5%
Number of migrants in host corridor country	1.7 mln	378.787	154.356	480.000	41.000	40.908	8.500	27.700
- Estimated number of migrants in host corridor country as % of total corridor migrants in EU	70%	25%	50%	85%	40%	40%	45%	45% 27.741/ 66.313 = 42%, onze data 2003
Migration developments	Decrease (-10%, from 1.965.580 in 1995 to 1.764.318 in 2003)	Sharp increase (+495%, from 63.640 in 1995 to 378.787 in 2003)	Decrease (-25% from 206.336 in 1995 to 154.356 in 2003)	Decrease (-25%, from 614.200 in 1995 to 477.482 in 2003)	Sharp increase (+95% from 20.645 in 1995 to 40.583 in 2003)	Decrease (-25% from 54.270 in 1995 to 40.908 in 2003)	Decrease (-35% from 12.500 in 1995 to 8.145 in 2003)	Increase (+ 50% From 18.310 in 1995 to 27.741 in 2003)
<b>Financial sector</b>								
Estimated nr of bank branches in 2004	More than 6,000	1882	2.500	1.200	3.000	700	Between 500 – 550	Unknown
Inhabitants per branch	11,500	17000	4.000	26.000	25.000	5.500	Around 11.000	Unknown
Estimated number of MTO's outlets in Morocco	3,370	Over 1700	1.420	800 (of the 1.000 post offices)	89	Over 960	575	1
Number of inhabitants per MTO	20,475	Less than 18000		40.000	870.000	4.000	Around 10.000	18,4 million
<b>Channels</b>								
Banks	Often	Often	Often	Sometimes	Sometimes / Regularly	Sometimes	Frequently	Hardly
MTO	Sometimes	Often	Often	Often (Western Union)	Frequently	Often	Frequently	Hardly
Postoffice	Sometimes	Hardly	Sometimes	Seldom	Nil	Nil	Nil	Hardly
Informal	Sometimes	Often	Regularly	Often	Often	Often	Often	Often
<b>Usage of Remittances</b>								
Consumption	Prevalent	Prevalent	Prevalent	Prevalent	Prevalent	Prevalent	Unknown	Unknown
Productive (land or house purchase)	Sometimes	Sometimes	Frequent investments in housing	Sometimes	Small (but returned migrants use majority of funds repatriated for investments)	Unknown	Frequent upon return	Unknown

## Appendix 3 Overview of transaction costs

Sending costs for transactions of € 400 as indicated by channels in telephone interviews

(% refers to sending cost as percentage of € 400)

Germany-Turkey			Spain-Morocco			France-Tunisia			France-Algeria			Italy-Egypt			Germany-Lebanon			Germany-Jordan			Germany-Syria		
Channel	Costs		Channel	Costs		Channel	Costs		Channel	Costs		Channel	Costs		Channel	Costs		Channel	Costs		Channel	Costs	
	€	%		€	%		€	%		€	%		€	%		€	%		€	%		€	%
Bank			Bank			Bank			Bank			Bank			Bank			Bank			Bank		
Sparkasse	17,50	4,4%	Caja Ahorros Madrid	9	2,3%	Société Générale	13,75	3,4%	Société Générale	13,75	3,4%	Banca di Roma	30	7,5%	Sparkasse	17,50	4,4%	Sparkasse	17,50	4,4%	Sparkasse	17,50	4,4%
Deutsche Bank	15	3,8%	Banco Popular Espanol	18	4,5%	BNP Paribas	16,98	4,2%	BNP Paribas	16,98	4,2%	SanPaolo	15,49	3,9%	Deutsche Bank	15	3,8%	Deutsche Bank	15	3,8%	Deutsche Bank	15	3,8%
Internet:	10	2,5%												Internet:	10	2,5%	Internet:	10	2,5%	Internet:	10	2,5%	
Dresdner Bank	12	3%	Banco Bilbao Vizcaya Argentaria	35	8,8%	Crédit Coopératif	12	3%	Crédit Coopératif	12	3%	Banca Popolare di Roma	18	4,5%	Dresdner Bank	12	3%	Dresdner Bank	12	3%	Dresdner Bank	12	3%
Commerzbank	12	3%	Santander Central Hispano	5	1,3%	Crédit Mutuel	7	1,8%	Crédit Mutuel	7	1,8%			Commerzbank	12	3%	Commerzbank	12	3%	Commerzbank	12	3%	
Hypovereinsbank	37,50	9,4%	La Caixa	4	1%									Hypovereinsbank	37,50	9,4%	Hypovereinsbank	37,50	9,4%	Hypovereinsbank	37,50	9,4%	
Branches of MPC Banks			Branches of MPC Banks			Branches of MPC Banks			Branches of MPC Banks			Branches of MPC Banks		Branches of MPC Banks			Branches of MPC Banks			Branches of MPC Banks			
Yapi ve Kredi Bankasi –Turkish Bank	5	1,3%	Banque Marocaine du Commerce	3	0,8%	Banque Populaire	3	0,8%	Banque Populaire	3	0,8%	Arab Bank	20	5%									
													Foreign currency:										
Türkiye Halk Bankasi –Turkish Bank	6	1,5%				Union Tunisienne de Banques	40	10%	Union Tunisienne de Banques	40	10%		40	10%									
Akbank –Turkish Bank	10	2,5%																					
Post office			Post office			Post office			Post office			Post office			Post office			Post office			Post office		
Post Office	Transfer:		SE Correos Y Telégrafos	4,33	1,1%	La Poste	10,20	2,5%	La Poste	10,20	2,5%	Poste Italiana (€258-516)	4,39	1,1%	Post Office	Transfer:		Post Office	Transfer:		Post Office	Transfer:	
	8,50	2,1%													8,50	2,1%		8,50	2,1%		8,50	2,1%	
	Internet:		Urgent:	25,18	6,3%									Internet:	6	1,5%		Internet:	6	1,5%	Internet:	6	1,5%
	6	1,5%																					
MTOs			MTOs			MTOs			MTOs			MTOs			MTOs			MTOs			MTOs		
Western Union	26	6,5%	Western Union (€250-500)	10	2,5%	Western Union (€370-460)	33,50	8,4%	Western Union (€370-460)	33,50	8,4%	Western Union (€390-470)	29	7,3%	Western Union	26	6,5%	Western Union	26	6,5%	Western Union	26	6,5%
5% minimum 26														5% minimum 26			5% minimum 26			5% minimum 26			
Money Gram (€300-400,01)	21	5,3%	Moneygram (€250-500)	8,90	2,2%	Money Gram (€250-500)	12,50	3,1%	Money Gram (€250-500)	12,50	3,1%	Money Gram (€390-470)	28	7%	Money Gram (€300-400,01)	21	5,3%	Money Gram (€300-400,01)	21	5,3%	Money Gram (€300-400,01)	21	5,3%

Note:

- Banks are randomly selected among larger banks in the host country.
- Data gathered in the period July – August 2005
- Rates, according to the institutions, only valid for limited period
- Bank cost related to costs for OURS transactions (all costs paid by the sender)



## Appendix 4 Results mini-surveys

During August and September 2005 mini-surveys were conducted in the eight recipient countries: Turkey, Morocco, Tunisia, Algeria, Egypt, Lebanon, Jordan and Syria. These 15-minute household are used as an illustration of our findings and do not allow for deriving statistically justified conclusions.

Questions related to the average amount of remittances received per year, the frequency of remittances, the channels used and the throughput time, the origin of the remittances and the usage. Only respondents that had received funds from friends or family living in Europe were interviewed. Although initially many respondents were reluctant to cooperate as they considered remittances a private matter, after their anonymity had been guaranteed they answered our questions.

- Turkey. Interviews with 38 persons were carried out mainly in city centres, café's in suburban areas, in streets near banks and post offices and in the airport.
- Morocco. Interviews with 40 persons in a mainly urban area.
- Tunisia. Interviews with 40 persons were carried out in the region of Tunis, including urban and rural areas.
- Algeria. 64 interviews were carried out in rural and semi urban (concentration of villages) areas. Remarkable was the immediate willingness to cooperate.
- Egypt. 31 interviews were conducted in the area of Greater Cairo and the Fayoum and Tanta. The interviewers especially went to areas known for their high concentration of migrants to Europe. Remarkable was the fear that the research was related to taxes or money laundering.
- Lebanon. 41 persons were interviewed in and around Beirut.
- Jordan. 40 persons were interviewed in busy city centres at the entrances of major banks and of MTOs. It was difficult to find people that had received remittances from Europe.
- Syria. Of the 200 people approached in the airport and in residential areas in Damascus 49 persons had received funds from Europe and were interviewed.

	Turkey	Morocco	Tunisia	Algeria	Egypt	Lebanon	Jordan	Syria
<b>Number of interviewees</b>	38	40	40	64	31	41	40	49
<b>Funds received from:</b>								
Belgium	18%	7%	5%	5%				
Bulgaria							13%	
France	13%	33%	60%	73%	13%	28%	7%	29%
Germany	34%	7%	25%		10%	12%	21%	15%
Italy		20%	10%		32%	7%	15%	
Netherlands	11%	7%			10%			6%
Spain		13%		3%		7%	7%	8%
Sweden	11%					7%		16%
UK				3%	22%	10%	10%	6%
Other European countries	13%	13%		16%	13%	29%	27%	20%
<b>Amount received per year</b>								
< 500	8%			23%	10%		2%	4%
501 – 2000	60%	30%	15%	49%	48%	39%	13%	41%
2000 - 9000	32%	58%	60%	22%	39%	54%	30%	47%
> 9000		12%	25%	6%	3%	7%	55%	8%
<b>Amount received per transfer</b>								
< 200	45%	3%	8%	38%	39%	7%	8%	8%
201 – 500	29%	32%	32%	34%	39%	24%	45%	31%
501 – 1000	18%	52%	35%	22%	16%	49%	30%	28%
> 1000	8%	13%	25%	6%	3%	20%	17%	33%
No answer					3%			
<b>Frequency</b>								
> 12 times per year		7%				8%	8%	
12 times per year (monthly)	57%	93%	45%		59%	29%	80%	18%
7-11 times per year				31%		3%		
3- 6 times per year	19%		35%	57%	19%	56%	12%	32%
1-2 times per year	19%			12%	3%	2%		50%
Irregular	5%				19%			
No answer			20%			2%		
<b>Usage</b>	(55 responses)	(86 responses)	(44 responses)	(121 responses)	(40 responses)	(41 responses)	(50 responses)	(64 responses)
Daily expenses	53%	46%		45%	43%	56%	74%	61%
Pay of school fees	16%	31%	23%	13%	12%	24%	16%	11%
Building a house	4%	16%	34%	23%	18%	5%	4%	8%
Set up of a company	4%		2%	3%		5%		
Investments	2%	5%	16%	5%	15%	5%	6%	
Other	21%	2%	25%	11%	12%	5%		20%

	Turkey	Morocco	Tunisia	Algeria	Egypt	Lebanon	Jordan	Syria
<b>Channels</b>	(52 responses)	(109 responses)	(40 responses)	(82 responses)	(36 responses)	(42 responses)	(45 responses)	(63 responses)
Personally carried	4% <i>Sender's preference</i>	8% <i>Access, fast</i>	8%	7% <i>Safe</i>	28% <i>Safe, easy, fast, small amounts</i>		29% <i>Fast, cheap, easy</i>	46% <i>No need for hurry, frequent visits, safe</i>
Carried by friends or family	15% <i>Easy, sender's preference</i>	26% <i>Fast, safe, access</i>	2%	24% <i>Safe, only available channel</i>	17% <i>Safe, cheap, fast, small amounts</i>	7% <i>Safe, fast, cheap</i>	24% <i>Cheap, easy</i>	33% <i>Easy, frequent visits, safe</i>
Carried by others for fee			5%	20% <i>Safe, only channel, more practical</i>				
Private courier or Not-official specialised organisation		2% <i>Fast</i>	5% <i>Fast</i>	6% <i>Easy, fast</i>	11% <i>Fast, safe</i>			2% <i>Safe</i>
Specialised organisation (MTO)	10% <i>Easy, fast</i>	29% <i>Fast, safe</i>	2% <i>Fast</i>	5% <i>Fast</i>	14% <i>Fast, safe</i>	74% <i>Fast, cheap</i>	11% <i>Fast, easy</i>	2% <i>Fast</i>
Post	15% <i>Easy, cheap</i>	20% <i>Fast</i>	8% <i>Only available channel</i>	22% <i>Only channel, practical</i>		5% <i>Safe</i>		
Bank	56% <i>Easy, Sender's preference</i>	15% <i>Fast, safe, other</i>	70% <i>Fast, safe, easy</i>	16% <i>Only available channel</i>	30% <i>Easy, fast, safe</i>	14% <i>Fast, sender's preference</i>	36% <i>Reliable, fast, easy</i>	17% <i>Safe, only available channel</i>
<b>Duration</b>								
Few hours	11%	41%	10%	8%	23%	77%		
One days	20%	33%	2%	6%	3%	2%	53%	27%
2-4 days	52%	4%	46%	12%	29%	2%	45%	8%
5-7 days	17%	13%	40%	9%	16%	12%		10%
> 7 days		9%	2%	34%	3%	2%		
Don't know				30%	23%		2%	55%
No answer				1%	3%	5%		



# Appendix 5 ToR

## Terms of Reference

### Study on improving the efficiency of workers' remittances in Mediterranean Countries

#### 1. Background information

With a few qualifications, the potential beneficial impact of workers' remittances on the development of recipient countries is now widely accepted.

Workers' remittances to Mediterranean Countries are substantial in both absolute value and with respect to the size of relevant economic variables (for example, GNI, imports, BOP current account): Egypt, Jordan, Lebanon, Morocco and Turkey are among the top ten recipients of remittances globally in terms of GNI.

However, there is much anecdotal evidence that workers' remittances are hampered by high transfer costs and that the efficiency of their use in recipient countries is constrained. Hence the twin challenges of policy are to take action to:

1. facilitate cross border transfers
2. maximise the developmental impact of remittances.

Since imperfections in financial markets in both host and recipient countries (monopolistic structures, inefficient and complex procedures, scarce harmonisation of payments systems, etc) are keeping transfer costs higher than justified, reducing these market imperfections—and hence transfer fees—is a priority for stimulating remittance flows. Furthermore, transfers could be facilitated by easing access to, and increasing competition in, the banking system and removing foreign exchange restrictions.

At the same time, increasing the developmental impact of transfers requires improving the efficiency of financial markets in recipient economies and developing the appropriate financial instruments that give more options for productive use to recipients. Complementary action needs to be taken also to create a favourable investment climate.

Meeting the above objectives requires action on behalf of the authorities of both host and recipient countries, which is liable to be complex due to the need for extensive coordination. The EIB could play a pro-active role in this process, which will vary depending on the situation in different Mediterranean Countries.

## 2. The study objective

The study objective is to determine ways by which the efficiency of workers' remittances in Mediterranean countries can be improved.

## 3. Scope of the work

A first step in this direction is to take stock of the current situation<sup>177</sup>. Estimates of aggregate inflows by country are available, but additional information is required, notably regarding:

1. the origin of these flows for each Mediterranean Country. In many cases data should be available from national sources, they need to be collected and elaborated.
2. the channels of transmission of remittances (banks, post offices, money transfers, informal networks) and associated costs.
3. the impact of market imperfections in host and recipient countries on costs.
4. the use of funds in recipient countries and impediments to their efficient allocation.

This would comprise the first stage of the overall study.

On the basis of this information, an action plan needs to be devised on ways to improve the efficiency of workers' remittances in Mediterranean countries. To this end, targeted studies will be required on a country specific basis. These studies, which would comprise the second part of the overall study, should address the following questions:

1. which priority actions are needed
2. where such priority actions can feasibly be implemented
3. what type of expert advice is needed to develop financial instruments in host (EU) and recipient (Med) countries to make workers' remittances more efficient.
4. what support to financial institutions is required in Med countries for developing efficient ways to channel remittances into finance for investment.

While general proposals for the region may be warranted, country specific recommendations should also be explored. These recommendations could usefully draw on the experience and challenges within the EU.

## 4. Required profile of the expert team

The consultant will propose an expert team (including a team leader) and the expected amount of working days in the EU and the Mediterranean countries required to execute the study. The expert team will need to have extensive knowledge about international capital flows, particularly as regards workers' remittances, as well as a keen understanding of EU and Mediterranean financial markets. Specifically, with a view to addressing the two stages of the study, the expert team shall have the following profile:

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<sup>177</sup> The Mediterranean countries to be studied are Algeria, Morocco, Tunisia, Egypt, Jordan, Lebanon, Syria, and Turkey.

- A strong background in international finance, preferably with a specialization in analysing worker's remittances.
- Understanding of EU and Mediterranean economies, particularly of domestic market conditions and regulatory framework affecting international capital flows.
- Strong knowledge of local financial markets and of services for conducting cross border transfers.
- Experience working in emerging markets, preferably in Mediterranean countries.
- Fluent in spoken and written English. Knowledge of Arabic would be an advantage.

## **5. Period of execution and location**

### 5.1 Period of execution

The program will last six months and it is forecasted to start at the beginning of June 2005.

### 5.2 Location:

The primary location of the study will be within the EU, with missions to each Mediterranean country and relevant EU member states.

## **6. Reporting**

Five paper copies and one electronic copy, in English, of the following reports will be submitted to the European Investment Bank (client):

- A preliminary report of the first stage of the study to be provided within three months of the signing of the contract.
- A draft final report, covering the first and second stages of the study to be provided within five months from the date of the signing of the contract.
- The final report within six months from the date of the signing of the contract.

Any comments from the EIB on the first two reports shall be provided to the consultant within fifteen days from receipt of the report and shall be taken into account in finalising the final report.

A kick-off meeting with the team leader will take place at the EIB offices in Luxembourg at the beginning of the study. Furthermore, two presentations are to be organized during the study period to be held in the EIB offices in Luxembourg. The first presentation shall take place following the completion of the preliminary report, and the second one shortly after the submission of the draft final report.

The maximum budget for the study is EUR 199.999. This amount should cover all costs (fees, travel, per diem, secretarial and translation services, etc.) related to this assignment. The contract, established in Euro, will be a global price contract.

All correspondence and reporting shall be done in English. The economist-in-charge at the European Investment Bank is Mr. Peter Künzel.







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