



Remittances from Germany and their Routes to Migrants' Origin Countries

A study on five selected countries

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Division 41
Economic Development and Employment
Section Financial Systems Development
Section Migration and Development
E financial.systems@gtz.de
E migration@gtz.de

Authors:

Elizabeth Holmes
Carola Menzel
Torsten Schlink
Frankfurt School of Finance & Management
www.frankfurt-school.de

Responsible:

Dr. Irina Kausch
Dr. Brigitte Klein
Dr. Hans Werner Mundt
Jenni Winterhagen
Thérèse Žák

Design:

Jeanette Geppert
www.jeanette-geppert.de

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Germany is one of the most important countries of origin for remittances—money transfers from migrants. In 2006 they amounted to approximately ten billion euros. However, as this study shows, migrants face considerable difficulties with the transfer process. Despite its large volume, the market for money transfers is extremely intransparent. Intensive research is needed to discover which financial institutions offer what kind of services, and at what cost. In some cases the cost of these services is extremely high. The result is that transfers are frequently made through informal channels. According to a World Bank study, half of all remittances to Serbia are transported as cash. This form of money transfer reduces the developmental potential of remittances. To make better use of these and increasingly steer remittances into formal channels will require increased cooperation with the financial sector. The financial sector itself will benefit as formally transferred remittances help strengthen inclusive financial systems providing services to population groups that have been neglected so far. The study at hand is a first step towards it.

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Abkürzungsverzeichnis

BaFin	German Financial Supervisory Authority
BRD	Federal Republic of Germany
DZ Bank	Deutsche Zentral-Genossenschaftsbank (German Central Cooperative Bank)
EUR	Euro
GDP	Gross Domestic Product
GDR	German Democratic Republic
GTZ	German Technical Cooperation
ILO	International Labour Organisation
IMF	International Monetary Fund
IOM	International Organisation for Migration
KWG	Kreditwesengesetz (Banking Act)
MTO	Money Transfer Operators
SWIFT	Society for Worldwide Interbank Financial Telecommunication
WGZ Bank	Westdeutsche Genossenschafts-Zentralbank (Western German Cooperative Central Bank)
USA	United States of America
USAID	United States Agency for International Development
USD	US-Dollar

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1 Introduction

More and more people are leaving their homeland in the hope of finding greater security and prosperity elsewhere. Today, almost 200 million people live outside their country of origin.¹ Around half of them live in North America and Europe.

Most migrants remain in contact with their country of origin. In fact, many support their families in their country of origin through money transfers. These transfers, also known as remittances,² are the second most important external source of finance for the group of developing countries, close behind direct investments. Their volume is significantly greater than official development aid, and in many countries accounts for a high percentage of gross domestic product. According to World Bank estimates, some USD 200 billion was sent to developing countries in 2006 through formal and informal channels.³

In these countries, remittances help to reduce absolute poverty. Beyond this, the effects of remittances depend on the economic and social context, patterns of migration and transfer routes. If, for example, migrants send money through informal channels,⁴ remittances can contribute little towards strengthening the financial system and integrating the population into a formal financial system in the migrants' origin country (or the recipient country for remittances).⁵ This also applies if money is sent as a cash transfer.

Remittances are mostly used to support the family, or are put aside for emergencies. It has been frequently observed that remittances enable families to invest more money in education and health. However, they also serve as insurance: if the family income is unexpectedly reduced, for example because of a poor harvest, this does not affect the earnings of the family member abroad. In fact, remittances often run counter to economic growth cycles: particularly in periods of crisis or in the face of natural disasters, migrants support their family members in their country of origin.

The multiplier effect of remittances depends on how they are used. If remittances are used primarily to import foreign goods, they do not boost demand for local products. Part of the money is invested, but it is small. Not all migrants are entrepreneurs, many save the money for emergencies. As with the transfer itself, it is important that this happens through formal financial institutions. This strengthens the financial system, and invests the funds through financial institutions.

Often, however, migrants use informal transfer routes because these are more convenient, and—particularly—cheaper. The World Bank estimates, that for example half the remittances from Germany to Serbia are sent informally.

In addition to the routes used to transfer remittances to the origin country, it is also important for development policy purposes how much money actually arrives. Migrants often pay large amounts for a relatively simple financial service. These substantial fees reduce the amounts sent, and are a major reason why migrants use informal channels or take the money with them when they visit.

These considerations are the basis for the present study, which has been carried out by the Frankfurt School of Finance & Management for the German Technical Cooperation (GTZ). The goal was to investigate whether money transfers from Germany are difficult and expensive, too, and what the reasons are for this. The study followed the example of five remittance corridors, i.e. transmission routes from Germany to five countries (Albania, Ghana, Morocco, Serbia and Montenegro and Vietnam). Financial institutions and migrants were surveyed and the terms for money transfers investigated. Effects of the money transfers in the individual recipient countries were not considered.

If the assumption that formal remittance services are too expensive is confirmed, it is important to increase competition in the remittance market. This can have a positive impact on the quality and price of the services offered. Lower fees would ensure that more money arrives in the migrants' origin country. Also, formal transfer channels would become more competitive and attractive compared to informal ones. This is particularly important, given that Germany is one of the largest remittance-sending countries of remittances in the world.⁶

Before the results of the study are summarised, the following section offers a brief introduction into the topic of migration to Germany, remittances and German financial institutions. The last part of the study contains recommendations for making better use of the developmental potential of remittances.

2 Background

10.4 million people with personal experience of migration lived in Germany in 2005. If we count the children of migrants, the group of potential senders of remittances here numbers 15.3 million, or 18.6% of the population.⁷

According to the balance of payments statistics of the Deutsche Bundesbank, just under ten billion Euro were transferred abroad in 2006. This includes what is internationally described as workers' remittances, compensation of employees and migrant transfers.

In all, compensation of employees amounts to the largest with 6,566 million Euro⁸, followed by remittances (2,927 million Euro) and migrant transfers in kind (68 million Euro). Since 1999, workers' remittances have declined from 3,429 million to 2,927 million Euro, while compensation of employees increased during the same period from 5,020 million to 6,566 million Euro.⁹

For the selected remittance corridors, workers' remittances are decisive, so that the other two categories can be neglected. The following table shows the workers' remittances to the five selected countries and to Turkey.¹⁰ These figures—to emphasise the point again—do not include informal transfers. A detailed overview of all recipient countries is given in annex 1.

Where do these figures come from? Workers' remittances are estimated by the Deutsche Bundesbank using a statistical technique, as transfers abroad only have to be reported if they exceed EUR 12,500. However, the overwhelming majority of remittances are well below the reporting limit. Migrants mostly send much less than EUR 1,000 per transfer.¹¹

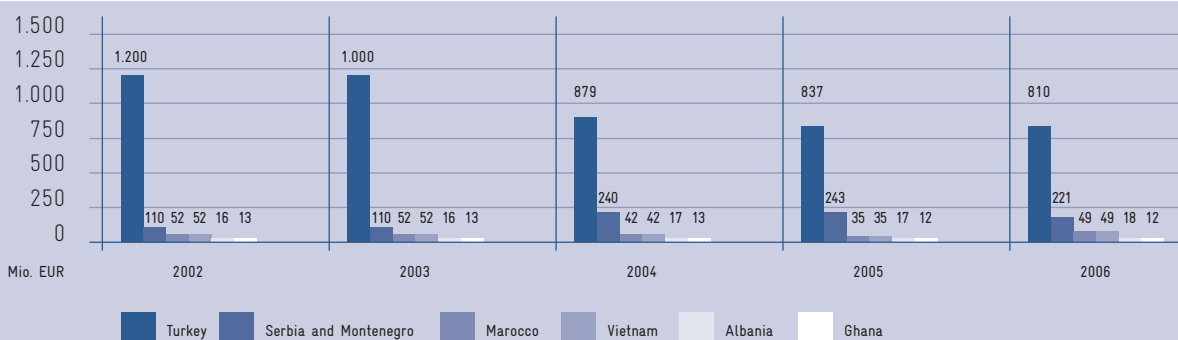
How is this money sent abroad? What possibilities does a migrant worker have to send money to the country of origin using a formal channel? German financial institutions, as briefly described here, offer various possibilities.

Institutions and products available in Germany for remittances

There are 2,100 banks and 146 branches of foreign financial institutions in the Federal Republic of Germany. We distinguish between cooperative banks, public law institutions (savings banks, Landesbanken) and commercial banks.¹² Almost all offer foreign transfers. Besides the banks, there are money transfer operators (MTOs) specialising in remittance services which offer foreign transfers.

In Germany not everyone is allowed to offer a commercial service for transferring funds, and specifically not account-based transfers.¹³ Operating such a financial transfer business requires written approval by the German Financial Supervisory Authority (BaFin).¹⁴ Alternatively, it is possible to operate a commercial payments transaction business with a banking licence.¹⁵

Workers' remittances in six remittance corridors



Source: Deutsche Bundesbank (2007)

Vietnamese migrants in Germany

In 2006 there were some 83,000 Vietnamese registered in Germany. Together with around 42,000 naturalised Vietnamese, this makes approximately 125,000 people of Vietnamese origin currently living in Germany.

Before the reunification of North and South Vietnam, there were only a few hundred Vietnamese living in the Federal Republic of Germany and the GDR. They were mostly part of the elite, and had come for educational purposes. The Vietnamese studying in the GDR mostly went back after completing their education. Vietnamese students in the Federal Republic of Germany were recognised as applicants for asylum and mostly integrated well into West German society.

Later Vietnamese immigrants arrived mainly in two groups. South Vietnamese fleeing from the country's Communist government by sea ("boat people")¹⁶ arrived in the Federal Republic of Germany between 1975 and 1986. There were also an increasing number of Vietnamese arriving in the GDR. From the start of the 1980s on they were brought in as contract labour.

Whereas the boat refugees were well integrated, no integration of the contract labourers was planned. Many of them left Germany in the years 1989–1991, after reunification. Those who stayed faced serious problems. Not only was their legal status uncertain, but they were the first to be affected by the economic crisis in Eastern Germany.

Migrants also contribute to economic growth in Vietnam, with remittances representing 10% of GDP¹⁷ According to figures of the East Asia Bank, remittances in 2005 totalled USD 4,290 million. Some of this comes from Germany – in 2006, migrants sent EUR 32 million to Vietnam.¹⁸

Savings banks and cooperative banks do not have their own correspondent banks abroad, nor do they have branches or branch offices there. Their foreign business is conducted through the relevant Landesbank or the WGZ Bank (Western German Cooperative Central Bank)¹⁹ or DZ Bank (German Central Cooperative Bank)²⁰ These financial institutions in turn do not offer any retail banking services.

The German Sparkassen- und Giroverband, an association of banks, has reached an agreement with Western Union—the world biggest MTO—under which the savings banks can use Western Union's services. This was intended to give migrants the opportunity to transfer money to their country of origin. However, this service is still rarely offered.²¹

Reisebank, a subsidiary of DZ-Bank, sees worldwide transfer of cash as its core business (operation of ATMs and distribution of travel-related products). Reisebank offers its services through over 90 branches in Germany, and cooperates with Western Union on worldwide money transfer.

Among the institutions described, we distinguish between the following foreign payments transaction products:

- transfer through SWIFT, correspondent bank,
- transfer within the institution's own network,
- payment by cheque,
- cash transfer.

With the exception of two banks, the German banks, savings banks and cooperative banks participating in the study cover all five remittance corridors.

However, the route chosen by migrants to send their money home depends not only on services offered in Germany by the remittances service providers but also on the possibilities for disbursement in the recipient country and the intended use of the money, for example.

For historical reasons, the foreign branch and branch office network of German banks is weaker than that of our European neighbours, particularly in developing and transition countries. In contrast to French, Spanish and UK banks, for example, German banks concentrate on corporate clients. This has an adverse effect on migrants that want to transfer money from Germany.

3 Methodology

The study surveyed both providers and potential customers of remittance services. Table 1 gives a brief overview of the empirical studies.

The survey of providers was carried out in a number of different ways. First, a standardised questionnaire was produced for selected service providers to be completed by themselves. Second, information was gathered using the “mystery shopper” technique (telephone enquiries by customers, test transfers). In all, 137 institutions, which offer formal money transfer services, were contacted.²²

The selection included all those operating throughout Germany and offering transfer services worldwide. Institutions were also contacted which were domiciled

in regions with a high share of migrants relevant for the study. For example, many local savings banks and Volksbank institutions were contacted for this reason. In addition, providers using specific channels were selected—MTOs specialising in transfer services from Germany to one of the target countries.

For the survey of customers, 74 migrants were contacted. Those surveyed almost all sent regular remittances to their country of origin.

In view of the small number of respondents among both providers and customers, the results of the study are not representative. Nevertheless, certain tendencies and problems are clearly apparent, particularly among providers.

Table 1: Overview of the empirical studies

Suppliers		Customers
Questionnaires	Mystery Shopping	Interviews
10 out of 132 financial institutions contacted returned a completed questionnaire	telephone survey of 47 financial institutions 14 test transfers	74 surveyed migrants

Moroccan migrants in Germany

Currently, three million Moroccan nationals are living outside Morocco. This represents 10% of the Moroccan population. Many have settled in Europe, where Moroccans form the second largest group of migrants after Turks.

In Germany, the Federal Central Foreign National Register showed some 70,000 Moroccans in 2006. Just under 50,000 Moroccans have accepted German citizenship since 1994.

Most Moroccans came after the 1964 German–Moroccan Labour Recruitment Agreement. Few of them brought their families over, as they assumed they would be returning soon. This changed after the recruitment freeze in 1973, after which migrants were no longer able to travel back and forth. At this point, many of the Moroccan migrants decided to stay in Germany for the medium or long term, and to bring their families over.

Since the end of the 1980s, there has also been an increasing flow of Moroccan students coming to Germany to go to university. According to the Federal Statistical Office, there were over 7,000 students of Moroccan nationality enrolled at German universities in the 2005/06 winter term. These students completed their secondary education outside Germany.

Morocco is one of the top ten remittance recipients. In absolute terms, according to the IMF, it ranked fourth in 2003 and tenth in 2006. Formal remittances in 2006 exceeded EUR 3.8 billion, corresponding to almost 9% of Moroccan GDP. According to the Deutsche Bundesbank, Moroccan migrants sent EUR 49 million to Morocco from Germany that year.

It is accordingly not surprising that the Moroccan Government regards migration favourably, and even encourages it. Migration reduces the pressure on the labour market, it is the most important source of foreign currency, and it helps balance the trade deficit and reduce poverty. To promote transfers through legal channels—and money transfers generally—the counters of the Moroccan Banque Populaire were opened at the consulates at an early stage.²³ Currently, three Moroccan banks have a licence in Germany to operate financial transfer services.

4 Obstacles to formal transfers

Given the high branch density in Germany, Volksbank and Raiffeisenbank institutions, savings banks and other banks should be the first place migrants go to send money to their country of origin. However, migrants face serious barriers in transferring money to their country of origin, and specifically through bank channels. This is clear from both the study of remittance services on the German market and the survey of migrants.

The high fees charged by the financial institutions cause the biggest problem for money transfers to countries outside Europe. In addition—and this is the surprising and important result of the study—it is extremely difficult to get exact information on transfer conditions. In many cases it is difficult or even impossible to find out how much the transfer will ultimately cost and how long it will take. Requirements for financial products—such as the need for proof of identify or have a bank account—are such that some migrants cannot satisfy them, and therefore cannot use the service.

4.1 Money transfers are expensive

Fees for a money transfer are generally high. Migrants face the choice between relatively expensive transfers through MTOs and the comparatively more favourable bank transfers, although these often involve hidden costs.

Most of the migrants surveyed cited high costs as an important obstacle to using formal remittance services. The telephone survey of German financial institutions also showed that fees are indeed high. Table 2 shows the fees for various types of transfer for sending EUR 100 from Germany to Albania. We are limiting ourselves here to showing one remittance corridor as fees in the other corridors differ only marginal. The transfer costs depend less on the destination country than on the type of transfer and the provider.

The online transfer is the cheapest way to send money. However, there are many requirements that have to be met for a bank transfer, and particularly through the Internet. These are frequently not satisfied, so that a transfer is impossible (see section 4.3). The table clearly shows that even fees for the same transfer type vary widely between providers. A comparison would be useful for the customer, but this is often difficult (see section on 4.2).

Table 2: Transfer fees for sending EUR 100 from Germany to Albania

Transfer type:	Fee in EUR
Bank cheque	8.60
Cash transaction	7.50-25.00
Foreign transfer via SWIFT, with voucher	3.50-18.80
Voucherless online foreign transfer order	1.50-18.80
Foreign wire transfer order	7.87-17.50

Besides the five transfer types shown in table 2, there is another option available in the Serbian and Moroccan remittance corridor—a transfer through the intrabank network of one Serbian or three Moroccan banks which have a licence for financial transfers in Germany. For example, the customer transfers money from his or her German current account to an account of the Serbian institution Komerčijalna Banka in Germany, which forwards the money to Serbia. The sender must identify himself or herself once before the transfer, in an uncomplicated procedure. On the other side, the recipient needs a free foreign exchange account at Komerčijalna Banka in Serbia. In Germany only the minimal intra-German transfer fees incurs. In Serbia, the fees for the transfer are automatically deducted from the transfer amount. To transfer EUR 100 here costs only EUR 5.²⁴

As this example clearly shows, the fees of the German financial institutions generally represent only part of total transfer costs as there are additional fees in the recipient countries. This particularly applies to bank transfers. Analysis of the questionnaires shows that bank transfers and payment by cheque mostly involve fees in the recipient country. However, the financial institutions surveyed were unable to release the amount of these fees.

The test transfers confirmed that financial institutions in the recipient country also charge fees. The fees varied from just under EUR 1 to EUR 60, so substantial amounts were involved. Surprisingly, and contradicting statements by the providers, there were additional costs to recipients with some MTOs as well.

Leaving aside the extreme case of the savings bank M, fees averaged EUR 17 on the EUR 100 transfer.

In addition to the high fees in the originating and recipient countries, there is an unknown variable: if the money is transferred in another currency, the exchange rate is unknown to the customer.²⁵ If the financial institution uses an unfavourable exchange rate, the resulting loss in value of the transfer must be added to the transfer costs. But the exchange rate is not the only unknown factor in the transfer. Other uncertainties, the overall intransparency of the market, and the difficulty of getting information, are described in the next section.

Table 3: Test transfers of EUR 100²⁶

Providers	Destination country	Amount received, EUR	Charge in Germany	Total costs
MTO	Ghana	97.72	106.50	8.78
Bank C	Ghana	99.05	109.50	10.45
MTO/Bank	Serbia	100.00	114.50	14.50
Cooperative bank A	Serbia	97.50	112.50	15.00
Bank D	Serbia	97.50	114.50	17.00
MTO/Bank	Morocco	96.09	114.50	18.41
Bank A	Morocco	91.35	111.55	20.20
Cooperative bank B	Vietnam	81.30	115.50	34.20
Savings bank M	Morocco	39.20	112.00	72.80

4.2 The difficulty of getting information

In addition to the exchange rate, it is also very difficult generally to get information about the costs and time needed for the transfer. This usually does not apply to MTOs, which are mostly able to provide exact information.²⁷ By contrast, getting information from a bank on foreign transfers is a laborious exercise.

These difficulties also hampered the production of the present study. The fact that only ten of the 132 financial institutions surveyed returned a questionnaire can simply be an indicator of a lack of interest. However, the fact that in the telephone survey many customer service representatives could only give vague or no information at all shows clearly how difficult it is to get information about remittance services, and not only for migrants.

Even if most migrants in Germany have a bank account, this does not mean that they are aware of the possibility of making foreign transfers through their bank. Many of those surveyed see the lack of transparency about conditions as a key obstacle to using formal remittance services. If they ask their bank about this, the bank generally cannot answer many questions, and specifically cannot give any information about the costs in the country of origin.

The banks also misjudge the time needed for the transfer. A comparison between the test transfers and the information given by the financial institutions concerned during the telephone survey shows that of all the banks tested, only one correctly estimated the time needed for the transfer. The transfer to Vietnam through a cooperative bank did in fact take five days. In all other cases, the banks either gave incorrect or no information. For example, a transfer to Ghana took eight days instead of five. Conversely, a transfer to Serbia was faster than expected, arriving three days early.

The tests also showed that in some cases transfers were not carried out at all. One month after the test transfer, the designated recipients for four transactions had still not reported the received equivalent of EUR 100 and the time taken. At one MTO the EUR 100 had not been debited to sender's account even one month after the test transfer, and there was no credit to the recipient either.

These results document the difficulties associated with an apparently simple transfer abroad. The next section shows that many remittance services cannot be used by migrants, as they do not satisfy the necessary requirements.

4.3 No passport, no account—no transfer

Specific conditions often have to be met for a formal transfer, otherwise the financial services are unavailable. For example, to transfer funds, you have to be able to prove your identity. Furthermore, for a bank transfer both sender and recipient must have an account with a bank. Technical problems can arise, for example with online transfers, or if the financial institution does not have correspondent banks in the destination country. Many countries lack the financial system infrastructure, particularly in rural areas.

The introduction of a general requirement for depositors to prove their identity means that people without valid IDs will be unable to send remittances formally to their country of origin. The study confirmed that all the institutions surveyed asked for proof of identity in the form of an ID or passport and the residence permit, some even requiring proof of the registered address. Driving licences and bank cards are not accepted.

If foreign transfers are made via SWIFT, both sender and recipient must have accounts with the institution executing the transfer. In the case of payment by cheque (bank cheque, customer order cheque), the sender must either be an account holder or pay the money in advance.

With online transfers, information is required in many cases which simply does not exist for many foreign banks (for example the bank routing code). While online transfers are not standard within Europe, they are available only to a restricted extent for countries outside Europe. It is up to the bank to decide which country it will offer transfers to, and at what cost. A poor branch network compared to France, Spain and the UK reduces the possibilities for sending money home simply and cheaply.

The survey of migrants made this and other problems clear. While 22% of respondents regarded lack of documents as a possible barrier to transfers, 19% mention the lack of infrastructure in their country of origin. Serbs frequently cite a lack of confidence in

Serbian financial institutions. 18% of respondents regard the lack of security as an obstacle to money transfers. This is particularly striking for the German-Vietnamese transfer corridor.

One possible reason for migrants' distrust of financial institutions may be that they do not distinguish between financial institutions in Germany and those in the recipient countries. This is particularly plausible where migrants come from countries where the banking system collapsed and as a result they lost their deposits. Primarily in these cases, informal remittance channels have evolved which enjoy migrants' confidence, and which have proved reliable and efficient, particularly in phases of instability or establishment of banking markets.

Serbian migrants in Germany

Serbs comprise the largest of the five groups of migrants selected. However, it is difficult to say exactly how many Serbs actually live in Germany. According to the 2005 Microcensus, there were some 400,000 people in Germany who held or had held a Serbian or Montenegrin passport.²⁸ The number of Montenegrin migrants can be neglected. A more difficult problem is that the Microcensus might also count Kosovo Albanians as Serbs. We can, however, assume that many of the Kosovo Albanian refugees who fled from their homeland at the end of the 1990s as a result of the civil war²⁹, have returned, voluntarily or involuntarily.³⁰

The migration of Serbs began with the massive recruitment of labour in the 1960s and 1970s. During this period, over half a million people came from Yugoslavia, one third of them from the Serbian Republic. After the recruitment freeze, around a quarter of them returned to Yugoslavia. However, the migration continued as a result of the reunification of families. On the violent breakup of the former Yugoslavia, "Yugoslavs" came to Germany as refugees, including Serbs.³¹

Workers' remittances from Germany to Serbia in 2006 exceeded EUR 243 million. In addition, there are EUR 3 million in pension payments, in the case of Serbia. The World Bank estimates that as much money again goes from Germany to Serbia through informal channels, for example estimating that remittances in 2004 totalled USD 476 million.³² In Serbia, remittances represent at least 12% of Serbian GDP. It is estimated that the largest share (approx. 20%) comes from Germany.³³

In surveys, Serbian migrants gave two main reasons why they prefer to take money home to Serbia in person or entrust it to coach drivers, instead of using formal channels: high costs, and the absence of confidence in the infrastructure in the recipient country. Many migrants also know little about the possibilities of transferring through the banks, as these hardly advertise their services at all.

4.4 Many transfers take a long time

For most migrants surveyed, the time a transfer takes is not a key criterion for deciding between different providers. But they do complain that formal money transfer service providers—in fact, the banks—are too slow. Analysis of the test transfers, questionnaires and telephone survey shows that migrants have to choose between a quick but expensive transfer (MTO) or a bank transfer which is in some cases cheaper but slower.

The following data on the time for a transfer should be seen as approximate values. One reason for this is that the banks—or the individual customer service representatives—themselves do not exactly know how long a transfer takes. The ability of the banks to make a prediction ends at the point where the money leaves their own institutional network. MTOs by contrast have a cross-border payment service network and can generally provide accurate information on the subject.

Tables 4 and 5 show the time taken for various types of transfer. According to the questionnaires, bank transfers take between one and five days on average. Cheque payments (bank cheque or customer order cheque) are a little faster, taking one and two days.³⁴ Cash transfer is clearly fastest, taking from half an hour to at most a day.

The test transfers, however, contradict the results of the questionnaires. They generally took longer, as the following table shows.

Table 4: Time needed for money transfers (in days) according to the questionnaires, for Albania and Morocco

		Albania	Marocco ³⁵
Transfer through SWIFT, correspondent bank,	voucherless, online	1-2	1-5
	voucher, forms	1-4	1-5
Payment by cheque	bank order	1-2	1-2
	cheque customer order cheque	1-2	1-2
Cash transfer.	cash payment	30 mins-1 day	30 mins-1 day

Table 5: Time taken for test transfers

Providers	Destination country	Actual time in days
MTO/Bank	Morocco	0
MTO/Bank	Serbia	0
MTO	Ghana	1
Bank D	Serbia	1
Cooperative bank A	Serbia	4
Cooperative bank B	Vietnam	5
Bank C	Ghana	8
Savings bank M	Morocco	8
Bank A	Morocco	8

Albanian migrants in Germany

Emigration from Albania has been so massive since the start of the 1990s that it has been described as the most dramatic East-West migration since the Cold War.³⁶ By the end of 2004 almost a quarter of all Albanian citizens had moved abroad, primarily to Greece and Italy.

In Germany there were around 10,000 people with Albanian nationality registered in 2006, and in the past six years some 4,000 people of Albanian origin have acquired German citizenship.³⁷

Many Albanian migrants support their families through monthly transfers. There is a rising trend apparent here: in 1999 the Deutsche Bundesbank reported EUR 8 million of workers' remittances, in 2006 it had more than doubled to EUR 18 million.

The following figures show clearly the importance of this money for the small transition country on the Adriatic Sea.³⁹ In 2004, around USD 1 billion flowed into Albania from all over the world, equivalent to c. 13.5% of GDP. Remittances were three times as large as net direct investment and twice as large as funds from development cooperation.⁴⁰

However, these figures are only for formal remittances. As in the case of Serbia, a large share is transferred through informal channels. According to a survey by the Bank of Albania, just under two thirds of those surveyed bring money with them on visits, and over one fifth have money transported by friends or relatives.

This can be explained by the proximity of the migrants' destination countries and Albania, as this makes regular visits possible. Conversely, the underdeveloped infrastructure of the banks makes formal transfers difficult. Many Albanians have also lost their trust in the banking sector as a result of the collapse of the Albanian banks in 1997.

4.5 Informal alternatives

Formal transfer routes—as the present study shows—have disadvantages. They are either expensive and fast or cheap and slow—or, in the worst case, both expensive and slow. In addition, pricing among formal providers is surprisingly no more transparent than among informal ones. In this study it is not possible to make a detailed comparison between informal and formal transfer channels, although the conditions on which formal providers offer financial transfers make it easy to understand why migrants look for alternatives (cf. Table 6).

The survey shows that the migrants clearly prefer MTOs. This is followed by taking the money personally, bank transfers and giving the money to travellers, for example when friends are travelling to the country of origin. Formal and informal transfer methods rank about equal.

The weighting differs depending on the country of origin. Moroccans, for example, prefer to make transfers over the network of their Moroccan bank, as this is for free, rather than through a German bank. Coach companies often carry remittances to Serbia. Surprisingly, only one respondent used internet services.

Table 6: User preferences for providers by user country of origin

Preferred provider		Albania	Ghana	Morocco	Serbia	Vietnam	Total
formal	Bank	8	1	14	4	4	31
	MTO	10	13	4	9	4	40
	Internet	1	0	0	0	0	1
	Other	0	0	0	1	0	1
informal	Giving to travellers	4	6	6	6	5	27
	Taking personally	8	4	7	9	6	34
	Other	1	0	0	4	0	5

Informal transfers- where access to formal systems is barred

Informal transfer channels—also known as feich'ien (China), hui kuan (Hong Kong), hundi (Indien), hawala (Near East), padala (Philippines), or pheï kwan (Thailand)—were already a way of simplifying trade between two remote regions.⁴¹ If formal financial systems are inadequate or lacking, financial institutions are inefficient and the regulatory environment is restrictive, informal financial systems evolve.

Informal transfer channels are particularly popular among migrants because they are cheap and simple. The system is the same as with the MTOs, but in contrast to these the money does not reach its destination through officially licensed institutions. The infrastructure often consists of facilities such as bureaux de change (for example in the Gulf States and central Asia) or businesses frequented by specific migrant groups, such as import-export companies, food stores and travel agents (for example in Europe and the USA). These financial service providers are important for many migrants because they represent the only way of sending money to some parts of the world. For migrants unable to identify themselves adequately, these service providers offer an alternative to formal financial institutions. It is, however, true that informal financial transfer systems are open to abuse, as transfers are not documented and are accordingly not subject to review by regulatory authorities.⁴²

Ghanaian migrants in Germany

In 2006 the Federal Statistical Office reported around 20,600 Ghanaians in Germany. This makes Ghanaian migrants one of the largest groups of African migrants in Germany, after Moroccans and Tunisians. In addition, there are naturalised Ghanaian migrants—between 1981–2004 over 6,600 Ghanaians acquired German citizenship.

The first significant wave of migration came after Ghanaian Independence in 1957, when Ghanaians came to study in Germany. Into the 1960s Ghana was mainly a net immigration country, as many people came from neighbouring West African countries to what was a relatively prosperous country at that time. However, the economic situation deteriorated, and many Ghanaians came to Germany in the course of the 1980s as migrants.⁴³

In 2006 workers' remittances by Ghanaians totalled EUR 12 million. Transfers from Germany account for only a small part of total remittances. In 2004, for example, Ghanaians send USD 1.3 billion to Ghana from all over the world.⁴⁴ They also transfer further large sums through informal channels, because the Ghanaian infrastructure often does not allow formal transfers.

USAID, for example, emphasises that in several parts of the country branches of banks or MTOs are lacking.⁴⁵ For this reason there is little or no access to transfer service providers in western and eastern Ghana in particular.

The importance of informal transfers in this region is also clear from the fact that formal remittances to Africa represent only 15% of the total documented by the IMF worldwide. Only 5% went to Sub-Saharan Africa, for example.⁴⁶

Valuable gifts on visits—Ghanaian migrants often bring in goods by shipping containers—are an important part of the Ghanaian culture, and constitute an additional and unrecorded transfer of wealth. Transfers by Ghanaian migrants worldwide has resulted in increased foreign currency reserves and growth in the service and construction sectors. The IMF concludes that migrants have made a decisive contribution towards the development of the Ghanaian economy.⁴⁷

5 Conclusions

Transferring money outside the boundaries of the European Union is more difficult than anticipated. Costs are high, and in many cases the procedures are complicated and intransparent. Simplified, migrants in Germany have the choice between MTOs, which are expensive and fast, or banks, which are cheap and slow—or, in the worst case, expensive and slow.

In development policy terms, and also taking into consideration customer protection it is unfortunate that MTOs and even informal providers dominate the market for remittance services. Informal financial transfers or cash transfers lack many positive side effects which remittances by way of bank transfer could have. Where migrants transfer remittances through banks, their relatives need a bank account. This helps make the use of financial services—often not standard practice in developing countries—more usual, integrating large population groups into an inclusive financial system. Remittances also remain in the financial system longer, as recipients often leave the money in their account and save it at first.

The goal of German development cooperation must accordingly be to route remittances increasingly into channels of formal financial institutions. Greater market transparency facilitates access to adequate, demand-oriented financial services with appropriate conditions. Measures improving market transparency and competition also help reduce costs. Web pages such as those created by the UK Department for International Development (DFID) at www.sendmoneyhome.org and the Dutch equivalent www.geldnaarhuis.nl are good examples, as they provide information on a wide range of remittance services. In a joint project of the Frankfurt School of Finance & Management and the German Technical Cooperation (GTZ) under a commission of the German Federal Ministry for Economic Cooperation and Development (BMZ), the web site **www.geldtransFair.de** has now been developed.

Notes

- ¹ The United Nations Population Division estimates that there were 191 million migrant workers world-wide in 2005.
- ² The International Labour Organisation defines remittances as “the portion of international migrant workers' earnings sent back from the country of employment to the country of origin”, in order to include transfers of goods. ILO 1999, p. 3.
- ³ Development Data Group of the World Bank 2006.
- ⁴ Informal remittances here refers to money which migrant workers send through informal channels, rather than banks or other registered financial transfer service providers. For example, migrant workers frequently bring money with them on visits or give money to friends who are travelling to their country of origin.
- ⁵ Katseli et al. 2006, p. 48 et seq.
- ⁶ According to the IMF Balance of Payment Statistics, Germany ranked fourth in the world in 2004, after the USA, Saudi Arabia and Switzerland. World Bank 2006b, p. 6. According to estimates which include informal transfers, Germany was actually in second place in that year. Cf. Netzwerk Migration in Europa, Migration und Bevölkerung, 2/07, www.migration-info.de.
- ⁷ Federal Statistical Office 2007.
- ⁸ The largest share goes to Poland (2,870 million Euro).
- ⁹ Deutsche Bundesbank 2007, Balance of Payments, unpublished data.
- ¹⁰ The group of Turkish migrant workers is the largest in Germany, which is why they are shown here. No detailed study is made here of the German-Turkish transfer channel. Numerous studies have already been conducted on remittances to Turkey. The result is that many Turkish banks are active in this transfer channel, offering formal transfers on good terms. Cf. Erdle 2007, p. 13 et seq.
- ¹¹ The estimate uses figures on the number of migrant workers resident in Germany and average amounts of transfers to their countries of origin. The number of migrant workers is based on reports by the Federal Employment Agency, which registers employees liable for social security and migrant workers registering for unemployment. The average amount of remittances is determined for each country through qualitative surveys, such as household surveys. This process may result in an underestimate, as migrant workers may have acquired German citizenship.
- ¹² The specifically German three-pillar system comprises private banks, state savings banks and Landesbanks and the cooperative banks.
- ¹³ Section 1, para.1a; sentence 2 (6) Federal Banking Act (KWG).
- ¹⁴ According to section 53 b KWG, there are exceptions for companies domiciled in another state in the European Economic Area.
- ¹⁵ The banking licence may not exclude section 1 no. 9 (clearing operations) KWG.
- ¹⁶ “Boat people” were accepted as refugees as part of humanitarian aid campaigns. They were given the right to stay in the Federal Republic of Germany by legislation of 22 July 1982 without having to go through a prior recognition procedure. They are given an unlimited residence permit (since 1991); between 1979-1990 they were only given a residence permit limited for five years, but could then apply for an unlimited one.
- ¹⁷ Asian Development Bank 2004.
- ¹⁸ GTZ 2007b.
- ¹⁹ The cooperative central bank for the Volksbank and Raiffeisenbank banks in Rhineland-Westphalia, and the commercial banks.
- ²⁰ The central bank for the Volksbank and Raiffeisenbank banks.
- ²¹ Western Union's online list shows only seven different city savings banks (Sparkasse Düsseldorf, Kreissparkasse Heidenheim, Sparkasse Chemnitz, Kreissparkasse Freudenstadt, Kreissparkasse München Starnberg, Sparkasse Freiburg, Sparkasse Offenburg).

- ²² The 137 institutions contacted comprised 17 major banks, 4 direct banks, 52 credit unions, 52 savings banks and 12 money transfer operators (MTOs). Many institutions were contacted both by questionnaire and by telephone.
- ²³ GTZ 2007.
- ²⁴ The fees for larger amounts are EUR 250-700, EUR 7; above EUR 700, EUR 9
- ²⁵ The Payment Service Directive recently adopted by the European Parliament will improve the situation of customers for financial transfer services. Initially, the Directive will only apply within the EU. An amendment is planned after three years, and possibly this will then affect cases where either the sender or recipient of the money is located outside the EU. The Directive requires banks to notify the customer of the exchange rate used in electronic money transfers. After adoption by the Council and Parliament, the member states must implement the Directive in national law by 1 November 2009. See also the “Joint statement by the European Commission and the European Central Bank welcoming the European Parliament's adoption of the Payment Services Directive“.
- ²⁶ As not all the commissioned transfers were carried out, only the executed transfers are listed.
- ²⁷ The fact that the test transfers incurred unexpected fees in the countries of origin with two MTOs is unusual. It would, however, be necessary to check if these are exceptions or the general rule.
- ²⁸ Federal Statistical Office 2007.
- ²⁹ Hockenos 2003, p. 185 et seq.
- ³⁰ According to World Bank figures, 60,000 Kosovo Albanians had to return in 2000, with a further 160,000 returning in the following year (World Bank 2000).
- ³¹ GTZ 2006, p. 25 ff.
- ³² World Bank 2006b, p.10. A study on behalf of the Swiss State Secretariat of Economic Affairs SECO produced even more drastic numbers. Of the surveyed Serbian migrant workers, 75% sent money from Switzerland to Serbia through informal channels. Swiss Forum for Migration and Population Studies 2006, p. 107; see also Swiss Forum for Migration and Population Studies 2007, p. 14.
- ³³ World Bank 2006b, p. 1.
- ³⁴ The time for cheque payments does not include the time for mail or courier service. The time shown is solely the period until the bank or customer order cheque is issued.
- ³⁵ The figures for Morocco are roughly the same as those for all other transfer channels.
- ³⁶ Lucas, o.J., p. 39.
- ³⁷ World Bank 2006c, p. 5.
- ³⁸ Federal Statistical Office 2007.
- ³⁹ World Bank 2007.
- ⁴⁰ World Bank 2006c, p. 3.
- ⁴¹ El Qoorchi, Mohammed et al. 2003.
- ⁴² Loc. cit.
- ⁴³ Schröder 2006.
- ⁴⁴ IWF 2005.
- ⁴⁵ USAID 2005.
- ⁴⁶ Sander/ Maimbo 2003, p. 7.
- ⁴⁷ IWF 2005.
- ⁴⁸ These figures do not cover compensation of employees and migrant transfers.
- ⁴⁹ We depart here from the official classification of banking groups used by the Bundesbank, and group together commercial banks, major banks, regional banks and branch offices of foreign banks under “banks”, Landesbank institutions and savings banks under “savings banks”, cooperative central banks and credit cooperatives under “cooperative banks”. Due to the special access to direct banking institutions, these were shown separately.

**Annex 1:
Workers' remittances to
their country of origin⁴⁸ in**

	2002	2003	2004	2005	2006
Turkey	1.200	1.000	879	837	810
Italy	240	300	297	282	275
Serbia and Montenegro	110	110	240	243	221
Greece	220	220	190	162	148
Croatia	54	54	80	104	106
Poland	82	93	99	99	102
Spain	300	300	200	79	80
Russian Federation	61	66	75	76	76
Austria	140	130	80	72	70
Portugal	120	120	88	64	62
Bosnia and Herzegovina	46	46	58	59	60
United States of America	53	52	51	49	50
Marocco	52	42	42	35	49
Ukraine	33	37	43	43	44
UK	46	45	44	42	42
Vietnam	34	33	34	33	32
Islamic Republic of Iran	41	40	37	33	31
Iraq	22	26	32	32	31
Romania	28	30	31	30	30
China,	12	14	17	17	27
Netherlands	30	29	28	27	26
Kazakhstan	16	18	22	23	23
India	12	13	14	14	22
Philippines	14	14	15	19	21
Macedonia (FYROM)	23	23	19	19	20
Afghanistan	20	21	22	21	20
France	54	38	20	15	18
Albania	16	17	17	17	18
Hungary	19	19	19	18	17
Pakistan	12	11	11	10	16
Sri Lanka	20	18	18	16	15

Annex 1: Workers' remittances to their country of origin ⁴⁸ in	2002	2003	2004	2005	2006
Bulgaria	9	11	13	13	14
Lebanon	16	15	16	15	14
Thailand	12	13	14	14	14
Tunisia	14	13	14	13	13
Brasil	7	7	8	8	13
Ghana	13	13	13	12	12
Nigeria	8	8	8	8	12
Slovenia	24	24	15	13	10
Belgium	9	9	9	8	9
Schweizerland	9	9	9	9	9
Togo	5	5	6	6	9
Japan	7	7	9	6	8
Czech Republic	11	12	12	11	7
Slovakia	6	10	6	6	7
Cameroon	3	4	4	4	7
Ethiopia	8	8	8	7	7
Syrian Arab Republic	7	7	8	8	7
Denmark	10	10	9	8	6
Sweden	6	6	6	6	6
Algeria	6	6	7	6	6
Finland	6	5	5	5	5
Egypt	4	4	4	4	5
Peru	3	3	3	3	5
Ireland	5	5	5	4	4
Cuba	4	4	4	4	4
Luxembourg	2	2	1	1	2
Dominican Republic	1	1	1	1	2
Mexico	1	2	2	2	2
Australia	2	2	3	2	2
Lichtenstein	0	0	0	0	0

Source: Deutsche Bundesbank (2007)

Annex 2: Type of institutions participating actively in the questionnaire		Annex 3: Type of financial institutions surveyed by phone	
Bank ⁴⁹	2	Bank	11
Direct banking institution	1	Direct banking institution	4
Savings bank	3	Savings bank	15
Cooperative Bank	3	Credit cooperative	11
Financial transfer service provider, MTO	1	Financial transfer service provider, MTO	6

Annex 4: Migrants surveyed						
Country	Albania	Ghana	Marocco	Serbia	Viet Mam	Total
female	3	9	5	8	8	33
male	9	5	13	7	5	39
not available	0	0	2	0	0	2
total	12	14	20	15	13	74

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Deutsche Gesellschaft für
Technische Zusammenarbeit (GTZ) GmbH

Dag-Hammarskjöld-Weg 1-5
65726 Eschborn
T +49 61 96 79-0
F +49 61 96 79-11 15
E info@gtz.de
I www.gtz.de

