

# **Remittances to Afghanistan: An Examination of Transfer Cost, Identification of Transfer Channels and Volume**

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## **Abstract**

The war in Afghanistan and poor economic condition of the country resulted in continues rise in migrant workers going abroad. Corresponding to the growth of the number of migrant workers, remittance inflow through both formal and informal channels to Afghanistan experienced a rise. This paper provides an overview of channels, volume of remittances through formal channels and costs of transferring remittances into Afghanistan. We find that remittance costs are higher in Afghanistan compared to other South Asian countries and mostly informal channels are used for remitting funds as being less costly and time efficient. Informal remittances which can be sources for money laundering and other illegal activities is a concern for the Central Bank of Afghanistan as, it is a bare channel of transfer for most of the population living in remote areas of the country and unbanked population. The paper also attempted to explore the possibilities of channeling remittance flows through formal financial institutions.

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## Introduction

Immigrants residing in foreign countries mostly send remittances to their countries of origin in order to address financial needs of their families. The remittances that these migrants send to their home countries contribute not only on macro level (whole economy) but also on micro level by enhancing the livelihoods, access to better health facilities, proper education and poverty alleviation of the family members back home.

Most of the developing countries are highly dependent on remittances. For example, in 2015, worldwide remittance streams were gauged to have surged \$601 billion. Of that amount, developing countries were gauged to receive about \$441 billion, which stands for almost three times the amount of official development assistance. The actual size of remittances, containing unrecorded flows through both formal and informal transfer channels, is believed to be substantially larger.<sup>1</sup> Between the years 2015 and 2030, an estimated 6.5 trillion USD in remittances will be sent to developing countries. Most of which will be used by remittance recipient families for their personal goals including better health, education, higher consumption, and etc. as, to a large extent it contributes to development of the country. Over the past decade the remittance flows have grown at an average rate of 4.2 percent annually, from USD 296 billion in 2007 to USD 445 billion in 2016 (IFAD,2017).

Remittances are, above all, private funds, but which also offer development possibilities for entire communities and countries. The term “remittance” has been defined differently by various institutions, experts and states. According to IOM, migrant’s remittance is defined broadly as monetary transfers that a migrant makes to the country of origin. In other words, financial flows associated with migration (IOM). Remittances serve as countercyclical and more stable source of finance for the receiving country, as it is not affected by the economic and political condition of the country (WB). It plays an important role in improving the livelihood of the people by increasing their purchasing power and improving their access to better health facilities and education which further leads to an increase in aggregate demand and overall rise in aggregate production of the country. While, on other hand higher costs of remitting

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<sup>1</sup>Migration and Remittances Factbook 2016 is also available online at <http://www.knomad.org> and <http://www.worldbank.org/prospects/migrationandremittances>. The Web site provides updates of data and information on migration and remittances.

money still remains a major obstacle to these inflows to the receiving country which will in result weaken the impact it has on the overall economy of the country.

According to the World Bank report on remittances in Afghanistan about 15 percent of rural households receive remittances from foreign countries, which cover around 20 percent of the daily expenditure of the families.<sup>2</sup>In the last quarter of 2017, the average cost of sending money to Afghanistan from Germany, Pakistan, Saudi Arabia, the UK and the US corridors was almost 10 percent of the amount transferred while other South Asian countries remained the cheapest receiving region, with an average cost of 5.40 percent.<sup>3</sup>High fees for remittance transactions reduce the amount of funds to be remitted and encourage remitters to use informal channels due to the lower costs of transfer, resulting in higher number of unrecorded transactions and further creating challenges such as money laundering and financing terrorism to financial markets of the country. Previous studies and our survey findings indicate that informal channels are more time efficient, convenient and costs of remitting funds through informal channels are much lower than formal channels in Afghanistan.

Reducing the cost of remitting money through formal channels will have many benefits for the policy makers and the receiving country. The use of informal transfer channels will be reduced and the country will have a complete record of the true size of remittance flows, which will benefit the policy makers for designing economic policies, in addition and overall flow of remittances through formal channels will increase (C Freund, N Spatafora, 2005) beside above facilitating and improving the network of banks and MTOs have played significant role in accelerating and increasing inflow of remittances through formal channels to the country.

The exact amounts of the inflow and outflow of remittances are unrecorded as more informal channels are used for remitting money. Banks, microfinance institutions, remittance specialized companies also called Money Transfer Organizations (MTOs) such as Western Union and MoneyGram, money service providers (MSPs) and foreign exchange dealers offer money transfer services in Afghanistan. High costs of remitting money can hinder these major sources of external finance to the overall economy of a country. This study examines volume, channels and estimates the costs of remittance to draw policy implications in order to further reduce the costs of remitting money to Afghanistan and identify the ways to encourage use of formal channels by sender and receivers.

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<sup>2</sup> World Bank data, 2005

<sup>3</sup>Remittance Prices Worldwide – An analysis of trends in cost of remittance services”, The World Bank, 2017. Available at: [https://remittanceprices.worldbank.org/sites/default/files/rpw\\_report\\_march\\_2017.pdf](https://remittanceprices.worldbank.org/sites/default/files/rpw_report_march_2017.pdf)

This paper will highlight the current flow of remittances to Afghanistan and also analyzes costs associated with transfer of funds. The analysis looks at data on prices of remittance transfers from formal channels and compares it with informal channels. It also provides an overview of different channels and volume of remittances. This study will also highlight some of the challenges MSPs and Banks face while transferring funds and provide recommendations to encourage the use of formal channels.

The paper is followed by a short review of relevant literatures, research design and methodology, a review of the channels, volume and cost of remittances in Afghanistan, reducing the costs of Remittances, and finally, conclusion.

## **Literature Review**

The literature review depicts that various studies are conducted on the volume, channels and understanding the costs associated with the inflow and outflow of remittances to some South Asian and African countries. Also, some progress has been made on understanding the remittances and the costs that remitters bear in sending their remittances to Afghanistan. In terms of measuring the true volume of remittances, channels through which funds are transferred and understanding the costs of remittances to some specific countries and policy recommendations to bring down the costs of transactions, various studies have been conducted. Maimbo (2003) by studying the Hawala system in Afghanistan has found that Hawaladars (individuals responsible for Hawala or transfer of funds) have a long history in Afghanistan by providing their customers reliable, convenient and inexpensive fund transferring services into Afghanistan and among its provinces. These Hawaladars offer wide range of financial and non-financial business services at local, regional and international level. The Hawala system is a self-regulatory system and there are no regulations imposed by the central bank which can create macroeconomic problems. The Hawala system emerged due to non-existing proper banking system and it has experienced growth because of many decades of conflict in the country which resulted in poor financial system but it also effectively transferred funds from NGOs to Afghanistan and suburb areas of the country. Monusutti (2004) in his study of remittances to Afghanistan has found that measuring the exact amount of remittances to Afghanistan is much more difficult due to the large use of informal channels for remitting money which is because of undocumented migrants in Iran and other neighboring countries. As, the transfer of funds through formal channels such as banks and Western Union require identification card or any other official documents and papers. He explains that Hawaladars' activities

are twofold, they provide money transferring services and at the same time they are also merchants and make profit by taking commission, exchange rate spread and sale of different merchandise purchased with the money received from migrants. The exact amount of funds transferred through this channel and the profit that Hawaladars make is difficult to estimate because most of the Hawaladars do not keep a proper record of their all transactions and also quick devaluation of different currencies makes it difficult to determine the profit these Hawaladars make in each of the transaction. Since 9/11 terrorist attacks the Hawala system has often been very negatively assessed and have even been criminalized. Yet it is misleading to consider Hawala system as a tool in the hands of only terrorists; it has been an efficient strategy for millions of Afghans striving for their survival. Ratha and Reidberg (2005) discussed some of the factors that influence the price of remittance services. They suggested that Money Service Providers (MSPs) or remittance services should be an independent and separated industry from the banking services of the country, easing or simplifying the regulations and the procedure of remittances and permitting the smaller remittance service providers which will lead in a competition among the (MSPs) in the market which will further reduce the costs associated with the inflow and outflow of remittances. Lastly, they also suggested that the improvement in accessibility of undocumented migrants who remit money to their country of origin to formal remittance channels, such as banks and other transfer channels would greatly impact the prices of remittances and discouraging the large use of informal transfer channels. Similarly, in a paper Beck et al (2011) suggested that remittances are a main source of external financing for developing countries. Their research has shown that corridors with greater number of expatriates and higher competition among the service providers, fewer barriers to access banking services are found to have lower costs, whereas the cost of remittance is higher in rich corridors. In another related study, Ahmad and Marinez-Zarzoso (2015) explore the relative importance of the determinants which acts as a driving force to the volume of remittance flows to Pakistan with particularly focusing on transaction costs. The authors use bilateral remittances data for 23 major remittance sending countries and estimate a gravity model for ten-year time period (2001-2011). Their results indicate that recorded or formal remittance inflows increase with the increasing number of people migrating abroad. They have also found that financial system, bilateral exchange rate and more importantly, transaction costs are the major sources of influencing the size of remittance flows to Pakistan, suggesting that increase in access to financial services in remote areas by providing branchless banking will redirect the transactions from informal to formal channels. Bhupal's (2010) findings regarding workers' remittances to India indicates that by estimating error correction model the transaction cost and payment infrastructure are major factors affecting the remittance flows. They

further estimate impulse response function and the findings disclose that favorable shocks to transaction fees and payment infrastructure facilitate formal inflow of remittances. Gibson et al. (2006) in their study have found that there exists a negative elasticity between remittances and transaction costs. Their findings indicate that by reducing transaction fees of sending money, it is expected that migrant workers' remittances will increase to recipient countries. Offering discounts on remittance transaction fees will lead to large increase in remittances sent to countries. Aycinena et al. (2010) by implementing randomized field experiment to test the impact of reduction in transaction fees of remitting money on the remittance decision-making. They found that reduction in remittance transaction fees effects positively the amounts of remittances sent to migrants' home countries, that increase happens in the form of frequency of transactions while the amounts remitted remain constant.

There is also growing literature on different channels of remitting money to countries, and the main focus is to increase the use of formal channels compared to informal channels. Based on the questionnaire survey of migrant workers, Kubo (2015) found that accessibility of payment points is an important determinant and the empirical results suggest there is a statistically significant influence of accessibility of payment points on migrants' choice.

Discussing various literatures above indicate that there are different determinants of remittances. However, the true volume, transfer channels and the factors affecting the cost of remittances in Afghanistan are not well identified. In this study interviews with banks and surveys of different Money Service Providers providing money transfer services in Afghanistan are conducted in an attempt to fill the existing void.

## **Data issues and Methodology**

In order to collect data on amounts remitted, remittance transfer channels, and cost of remitting to Afghanistan and identify policies for reducing the cost, we collected data from MSPs, MTOs, and Banks in Afghanistan. We have chosen both qualitative and quantitative approaches by conducting interviews and data collection through survey. Furthermore, various papers are reviewed and then based on that understanding, policy recommendations are developed to reduce the costs of remittance services and increase the formal flow of transactions. We have reviewed World Bank's data on five remittance sending countries Germany, Pakistan, Saudi Arabia, the United Kingdom and the United States and Afghanistan a remittance receiving country. In our survey sample, 60 randomly selected money service



providers (MSPs), two largest Money Transfer Operators (MTOs) including Western Union and MoneyGram and 15 private Banks were included in the survey sample.

The table below summarizes the interviewees:

Table 1:

Banks	Money Service Providers (MSPs)	Money Transfer Operators (MTOs)
15	60	2

Of the 15 respondents from Banks, 12 returned the questionnaire after filling. It was also not easy to obtain data from MSPs and out of 60 MSPs 25 answered the questionnaire and the rest 35 felt that it was difficult or almost impossible to reply to any question because they have not received enough education to answer such questions.

**Country Selection:**

To select Remitter countries, we used information from Ministry of Refugees and Repatriations Afghanistan, which has a record of immigration.

**Data Collection:**

We have gathered primary data from a randomly selected sample of money service providers in Kabul to obtain information on the transaction fees and also used secondary data on some aspects.

**Transfer Amounts:**

We collected data for \$200 and \$500 transfers in consistence with the World Bank’s Remittance Prices Worldwide database, which uses these amounts which are considered the global mode and mean amounts for cash-to-cash remittances.

The questionnaire was designed in a manner to collect information on costs and some other relevant aspects to remittances such as: exchange rate and transfer methods in Afghanistan. The entire

questionnaire was divided into two sections, business background and a section on information on cost of remittance and channels of remitting money and some other remittance-related aspects. The sample size was randomly set as 60 MSPs, 15 Commercial Banks and two largest MTOs Western Union and Money Gram.

### **Limitations**

The most important limitation to our research were the lack of data on the amounts remitted to Afghanistan, dishonesty because respondents were not always truthful with their answers due to personal privacy, and finally the interviewee bias which resulted in inaccurate responses of the interviewees or sometimes not even answering any question.

## **Review of Channels, Volume, and Costs of remittances in Afghanistan**

The channels used by migrants to remit money back home differs greatly from country to country, widely divided into two main categories formal transfer channels and informal transfer channels. From the previous researches on the channels of workers' remittances worldwide, it has been recognized that due to lower transfer costs, widespread coverage in remote areas and less documentation requirements a large part of the remittance is transferred through informal channels.

Formal mechanisms ranging from banks, Money Transfer Organizations (MTOs) such as Western Union, and money service providers (MSPs) or Hawaladars offer money transfer services in Afghanistan. The several decades of war and conflict has limited the ability of financial sector to provide proper financial services including international transfer of funds, which resulted in developing an informal and widely used fund transfer mechanism called Hawala as a way of transferring money internationally and domestically in Afghanistan. There are two types of Hawala systems in Afghanistan formal and informal. Formal Hawala system which are authorized, have a license and report to Da Afghanistan Bank and informal Hawala system which do not have an official license and do not report to Da Afghanistan Bank.

Recently the financial system of Afghanistan has witnessed some development as Banks and MTOs also provide money transfer services and some of the Afghan migrants choose these transfer channels to remit their funds to Afghanistan because of the reliability, security, low risks associated with the transfer of funds, being branches of foreign banks in Afghanistan and some other aspects.

Money Transfer Organizations (MTOs) like Western Union and MoneyGram are non-bank financial institutions and are the most popular transfer channels around the world. Sending funds through MTOs does not require any type of account openings and are the most reliable way of transferring money to the recipient country.

Unregistered Hawala system which is considered an informal system of value transfer operates in almost all over the world. Both formal and informal Hawala system works very simply. If an individual in foreign country wants to send money to another individual in Afghanistan, he presents the amount and full details of both themselves (sender) and the other individual in Afghanistan (receiver). The Hawaladar gives a code to the sender to be presented by the receiving person and sends a message or call to the office in Afghanistan. The receiver goes personally to the Hawaladar in Afghanistan discloses the code, provides full details of the sender and his own proof of identity. If the information of both parties matches, the receiver will receive the money. The Hawala system can also be one of numerous alternatives available to criminals for remitting money inside and outside of the country.

The compensation of the liability of the first party (Hawaladar in foreign country) to the second party (Hawaladar in receiving country) which does not often involve direct payments takes different forms and different time periods. The Hawaladars deal with each other either by sending cash or through trade.

Informal mechanisms include money transfer by the migrants themselves to their home countries or by their friends or relatives and unauthorized Money Service providers (MSPs) or exchange dealers. As, in Afghanistan many money exchange dealers beside providing money exchange services, they also offer fund transferring services without having a license from the Da Afghanistan Bank which are considered as informal Hawala system.

Remittances are one of the least transparent sources of finance because they are private transfers between individuals. Measuring the total inflow and outflow of remittances in Afghanistan is very difficult as, both formal and informal remittance transfer channels are used to transfer funds. True measurement of remittance flows depends on how remittances are defined, ineffective monitoring of flows and limited data coordination among different agencies (Orozco, 2006). The most widely accepted definition is provided by the International Monetary Fund (IMF) in the BOP Manual 5<sup>th</sup> edition in terms of three components: workers' remittances, compensation of employees and migrant transfers. Workers' remittances include current transfers made between a migrant – a person who arrives in a new economy and has or is expected to remain in it for one year or more - and (often) related persons.

This component includes only migrants who are employed in new economies and are considered as residents there. Compensation of employees includes wages, salaries and benefits earned by an individual for work performed in an economy in which that individual is not considered a resident. Migrants' transfers encompass goods and financial items - assets - that a migrant has transferred from one economy to another in the course of migration. Within the balance of payment (BOP) framework, both workers' remittances and compensation of employees are part of the current account, but the former is a component of current transfers and the later is a component of income. In contrast, migrants' transfers are part of the capital account and are a component of capital transfers (Reinke, 2007).<sup>4</sup>While on the other hand migrants' transfers and the transfers from informal channels are not recorded in the Balance of Payment (BOP) accounts. The following table shows remittance data recorded in the Balance of Payment (BOP) accounts of Da Afghanistan Bank for the period 2006-2017.

Table 2: Net remittance flows (BOP, in USD millions), 2008-2017

in million USD										
Period/items	2008/09	2009/10	2010/11	2011/12	2012	2013	2014	2015	2016	2017
<b>Worker remittances (net)</b>	-99.62	-172.13	13.67	-72.25	38.09	54.61	-29.86	190.90	249.81	291.88
Inward remittances	89.54	152.21	342.07	185.35	159.33	329.23	249.79	341.31	368.03	378.24
Outward remittances	189.16	324.34	328.40	257.60	121.24	274.62	279.65	150.41	118.22	86.36

Source: DAB, Monetary Policy Department, Balance of Payment Statistics

The table above shows that remittance inflows to Afghanistan has been on upward trend since 2008/09, except in two consecutive years 2011 and 2012 where the scenario becomes different and the inflow of remittances to Afghanistan has declined sharply. Though Afghanistan is mainly a remittance receiving country, there are outward remittances as well. The records on outflow of remittances also indicate a rise until 2011/12 however, since then it has been on both upward and downward trends.

Informal flows of remittances which makes a large part of the remittance flows to Afghanistan is a major problem of reporting data on overall remittances. The above estimates are likely to be considerable underestimates of true values, as the above figures only represent two components of the IMF definition of remittances which are workers' remittances and compensation of employees through

<sup>4</sup>IMF (2005): Definition of Personal Remittances in the Balance of Payments Context. Retrieved in March 2014, from <http://www.imf.org/external/pubs/ft/bop/2005/05-09.pdf>.

formal channels. As, more afghan refugees in neighboring countries Pakistan and Iran are undocumented and do not have formal jobs, it is likely that they usually remit their funds through non-registered Hawala system and the values captured in the BOP represent only the flows relevant to staff officially employed or have formal job contracts. According to IFAD (2006) report on remittance flows to Afghanistan, the inward remittances through both formal and informal channels were estimated approximately USD 2.5 billion which accounts for almost 30 percent of GDP (Orozco, 2007b).

## **Money Transfer Service Providers in Afghanistan**

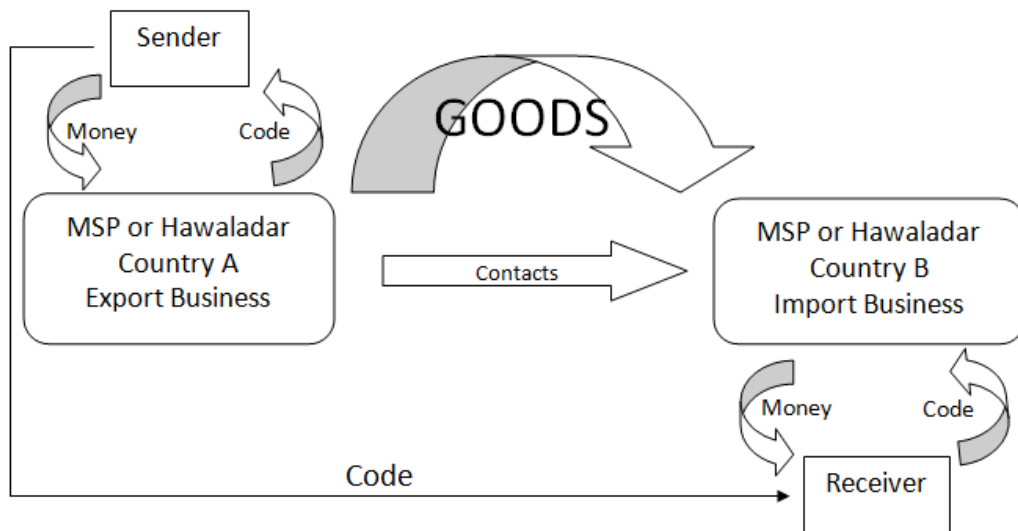
Almost all banks have been operating for more than 10 years in Afghanistan. MSPs or Hawaladars have a long history in Afghanistan as in the absence of any real formal banking system they have been providing basic banking services such as taking deposits, providing loans, domestic and international money transfer and foreign currency exchange services for many years. With the rise in migration of Afghan migrants abroad number of MSPs has increased in Afghanistan.

Unregistered migrants in foreign countries especially Afghan refugees living in neighboring countries Pakistan and Iran transfer funds mostly through MSPs due to less documentation requirements and lower transfer charges. While registered Afghans living abroad and in developed countries such as UK, US and other European countries mostly use formal channels including MTOs and sometimes Banks.

Most of the MSPs registered with DAB or having official license for sending Hawala are also engaged in foreign currency exchange services and some of them are also having side businesses as trade, transit or transportation and etc. and their main sources of income are selling exported goods in home country.

The diagram below summarizes the process:

Figure 1: the structure of a remittance operation through Hawala



The accounts of both Hawaladars in country A and B are balanced regularly through cash transfer, bank accounts and trade between the two parties.

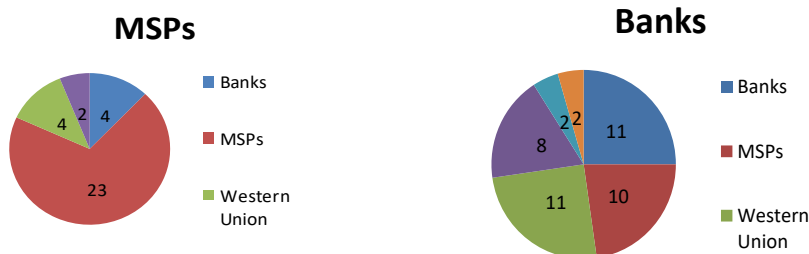
Banks offer banking services including accepting deposits, providing loans/financing contracts, fund transfers ( SWIFT and western union), trade finance (Letter of Credits, Bank Guarantees), safe lockers, foreign currency exchange, Islamic Banking, check collections, payroll accounts, online banking (E-statements, SMS banking, ATM services, call centers.

## Money Transfer Service Market

Money Service Providers (MSPs) have the largest market share in Afghanistan, followed by Money Transfer Operators (MTOs), Banks and others including foreign currency exchange dealers. Increased competition means lower fees due to that Money Service Providers (MSPs) in Afghanistan charge the lowest transfer fees. While Banks charge the highest fees for international transfers.

Below pie charts summarize the responses of MSPs and Banks on most used transfer channels in Afghanistan.

Figure 2:



From the charts above it is evident that MSPs' experience tells us that people in Afghanistan mostly transfer their money or receive remittances through MSPs as it has been operating since very long and some other aspects including cost efficiency and less time. Whereas, all banks operating in Afghanistan experienced that along with Banks people also remit money through MSPs and MTOs. Just 2 Banks mentioned that M-Paisa (mobile money transfer) and Foreign Currency Exchange service providers are also among the most used channels or methods for transferring money.

Most of the MSPs also provide foreign currency exchange services and some mentioned services such as photocopy of required documents, offering services for more than official working time, and cooperating senders in foreign countries.

## Costs

MSPs claim that they charge lower fee and transfer takes very short time (cost and time efficient). MSPs have services available in remote areas even in some unsecured areas where banks and MTOs do not have any offices.

Transferring money through MSPs does not require any documentation process or familiarity with modern systems such as filling forms online and etc. and their main items of expenses of include rent, electricity bills, staff salaries, daily expenses including food and etc. while Banks have higher expenses than MSPs by having a large organizational structure including higher rent, higher salaries, and etc. Banks also have to pay correspondent bank charges for SWIFT and interest payments for Nostro accounts. Other large businesses as their main business can reduce the transfer costs through Hawala or

informal channels. In some cases, some Money Service Providers offer free services or do not charge any transfer fees for example if the sender of funds has another business with the Hawaladar (MSP) or engaged in any other transaction such as transportation of goods, the Hawaladar can transfer their money without any charge.

MSPs and Banks charge both flat fee and percentage of the transfer for transferring money domestically and internationally. Most of the MSPs charge a percentage of the transfer while some banks mentioned that they charge both flat fee and percentage of the transfer. For instance banks charge flat fee for domestic transfers and percentage for international transfers. As commission they charge on each transaction their main source of income.

The cost of making funds transfer into Afghanistan averages around 1% but the final charges depend on the volume of transaction. The larger the volume of transaction the lower the cost of each transaction. With the increasing number of migrants abroad, the number of MSPs has risen which resulted in decreasing the degree of monopoly of MSPs in the market which existed from the past. The costs of remittance vary considerably. European countries are among the most expensive countries for remittances to Afghanistan. In these countries, the use of informal channels is almost impossible and the remittance service providers do not have any side business to Money Service Providing in order to cover the expenses and have no choice except charging higher fees. Iran and UAE have the lowest remittance costs with less than 1% charges on each transaction because of the trading businesses and exchange rate spread. Remittances from Pakistan have declined significantly due to the rise in return of migrants back to Afghanistan. Migrants currently residing in Pakistan are not willing to return as they do not have their own houses or land to reside and are not able to pay for higher property prices in Kabul and some other provinces. And for that reason they have relied on their businesses in Pakistan and supporting their families.

Table 3: Remittances costs per \$200 and \$500 dollars received

Table shows the average costs for all providers, average costs among banks and average costs among MTOs

<b>Sending Country</b>	<b>Receiving Country</b>	<b>Amount USD</b>	<b>Average Cost - all providers (%)</b>	<b>Average Cost - all providers (USD)</b>	<b>Banks' average cost (%)</b>	<b>Banks' average cost (USD)</b>	<b>MTOs' average cost (%)</b>	<b>MTOs' average cost (USD)</b>
<b>Germany</b>	Afghanistan	200	10.21	20.42			10.21	20.42



<b>Germany</b>	Afghanistan	500	8.17	40.86			8.17	40.86
<b>Pakistan</b>	Afghanistan	200	8.73	17.45	13.37	26.74	4.08	8.16
<b>Pakistan</b>	Afghanistan	500	3.79	18.97	5.22	26.09	2.37	11.85
<b>Saudi Arabia</b>	Afghanistan	200	6.77	13.54			6.77	13.54
<b>Saudi Arabia</b>	Afghanistan	500	5.04	25.21			5.04	25.21
<b>United Kingdom</b>	Afghanistan	200	11.28	22.57			11.28	22.57
<b>United Kingdom</b>	Afghanistan	500	7.63	38.16			7.63	38.16
<b>United States</b>	Afghanistan	200	7.15	14.3			7.15	14.3
<b>United States</b>	Afghanistan	500						

Source: World Bank

Table 3 shows the average costs (based on transferring US\$200 and US\$500) in each of the 5 corridors. The average remittance costs for US\$200 are lowest in Saudi Arabia – Afghanistan corridor (6.77 percent) and highest in United Kingdom – Afghanistan corridor (11.28 percent). The average remittance costs for US\$500 are lowest in Pakistan – Afghanistan corridor (3.79 percent) and highest in Germany – Afghanistan corridor (8.17 percent). There is also variation in remittance costs across different types of providers. On average we find that banks charge significantly higher fees than MTOs (13.37% vs. 4.08% for US\$200) and (5.22% vs. 2.37% for US\$500). [On the other hand the cost of remittances through informal channels are very low and reach to only one percent for both \(200 and 500 USD\) and our survey found that in some cases it is even free of cost.](#)

The costs of sending funds vary significantly among different corridors and there are several factors that can affect these costs and ultimately the volume of the funds being sent to Afghanistan. Most importantly the use of informal channels can impact the costs associated with the formal transfer channels because as more and more transactions take place through informal channels, the amount of funds sent through formal channels will decline and costs of sending will increase. Secondly, the weak financial system of Afghanistan including limited access to banking system and unavailability of banks and financial institutions in remote areas can induce the prices of sending money to rural areas. And

finally, fewer Money Transfer Operators operating in Afghanistan is also an important factor affecting the costs of sending funds.

## **Documentation**

The documentation process of all Money Service Providers is identical and they just require Tazkera (ID) or Passport for both sending and receiving money. Banks on the other hand require a lot of paper work and the required documents differ with the nature of transaction.

Required documents for sending and receiving funds from the Banks in Afghanistan are the following:

While sending (for individuals):

Account (customer must have an account with the bank), supporting documents, source of funds (the source of funds must be obvious), purpose of transaction, screening of the sender and receiver (both parties are screened in the sanctioned lists)

While sending (for corporates):

- (a) Account (must have an account with the bank)
- (b) supporting documents (invoice which should include all the details of sender and receiver including bank information with description of the goods imported, confirmation of invoice (the invoice must contain an official email and website and importer company must confirm the origin of their invoice through email), sales contract (all the description of goods must be clarified in sale contract with details), bill of lading (optional), custom documents (updated and express the nature of business), and valid license.<sup>4</sup>
- (c) site inspection (inspection of the parties by the bank team)
- (d) nature of businesses of both parties must be matching

While receiving (for individuals):

An account with the bank, bank details of the customer, supporting documents

While receiving (for corporates):

An account with the bank, valid license and supporting documents.

Some MSPs mentioned challenges they face in ID requirements as some people present fake IDs or even do not have any ID including Tazkera or passport. Banks have faced problems in opening accounts with foreign banks as most of the foreign banks do not cooperate in opening bank accounts for Afghan banks.

From the interviews with MSPs in Kabul we have also noticed that they use the traditional method of recording their daily transactions and lack proper computer software to record and report to Da Afghanistan Bank. In order to escape from government tax and sometimes for the purpose of money laundering they have secondary record book to record their suspicious transactions.

## **Recommendations:**

- Links with countries with high migrant concentration and from which higher remittances are received needs to be strengthened in order to reduce the transaction costs and foster use of formal channels for transferring remittances.

Banks in Afghanistan and countries with higher outflow of remittances to Afghanistan should coordinate to develop an effective system for remittances. Both sides should take an initiative to determine funding and technical assistance requirements and work for its improvement.

- Afghanistan to offer migrant oriented banking services Developing banking services specifically targeted at migrants may prove very successful in attracting remittance funds to the banking sector. For example, designing saving accounts for migrants for the purpose of building home, paying for education, or supporting any kind of business.
- Ease access of migrants to banks a major problem migrants face in host countries is access to banks. Migrants with their citizenship cases pending do not have an ID and other documents required for opening a bank account. A card or any other instrument similar to ID which can improve accessibility to banking services has to be issued. Afghan embassies in countries with high migrant concentration to issue such cards in order to improve accessibility to banks. Mutual agreements of domestic banks with foreign banks can help reduce the cost of transferring remittances.
- Increasing competition among remittance service providers for example, by issuing more licenses to unregistered MSPs including those in remote areas. Da Afghanistan Bank should take measures to ensure that all money transfer service providers, including transmission through informal transfer system or network are licensed or registered. Da Afghanistan Bank should also ensure that persons or entities carrying out this service illegally are subject to criminal sanctions.

- Da Afghanistan Bank to strictly monitor private banks, MTOs and MSPs on costs of transfer and issue guidelines on operational aspects of funds transfer transactions. Da Afghanistan Bank to take an initiative to develop software for MSPs in order to record all transactions on daily basis.
- Da Afghanistan Bank to improve market transparency by empowering end-users with practical up-to-date information on costs, remittance products and services, new access points and channels, and required disclosures and procedures, among others.
- The government to reimburse a part or full cost of sending remittances to domestic banks.
- The government to adopt a gradual approach in modification of existing money transfers regulations and ensure regulations with regards to the current needs and requirements of the society in order to insure the application of the above recommendations.

## Conclusion

Remittance flows through both formal and informal channels plays an important role in the economy of receiving country. Formal transfer channels include Banks, Microfinance institutions, MTOs, and registered MSPs while informal channels include unregistered MSPs.

Some of the developing countries are highly dependent on remittances and they have received about 441 billion USD in 2015. The extent of informal flows is very hard to assess and actual figures are predicted to be 6.5 billion USD between the years 2015-2030. The World Bank report indicates that about 15 percent of rural households in developing countries receive remittances from foreign countries covering 20 percent of their daily expenditures.

Remittances also play an important role in the economy of Afghanistan. Security challenges, unemployment and poor economic condition of the country have a significant impact on migration which affects the remittance flows to Afghanistan.

High fees for remittance transactions reduce the amount of funds to be remitted and encourage the use of informal channels. Banks still remains the most expensive mean of remitting funds to the World and Afghanistan while MSPs are the least expensive transfer channels and they offer the cheapest rates of remitting money in our country.

Our survey outcome indicate that most of the transfers of funds are carried out by MSPs because beside offering lower prices they do not require lots of documentation (bureaucracy) and are time efficient.

Banks and MTOs are the most reliable sources of transfer but due to higher costs and additional required documents, people prefer to receive their funds through MSPs. In order to encourage transfer of funds through formal channels, it is important to offer lower cost services to become competitive with MSPs and receive higher volume of remittances to Afghanistan.

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## Appendix

Western Union International Charges		
From	Up to	Charges
\$1.00	\$50.00	\$13.00
\$50.01	\$100.00	\$14.00
\$100.01	\$200.00	\$21.00
\$200.01	\$300.00	\$27.00
\$300.01	\$400.00	\$32.00
\$400.01	\$500.00	\$37.00
\$500.01	\$750.00	\$42.00
\$750.01	\$1,000.00	\$47.00
\$1,000.01	\$1,250.00	\$55.00
\$1,250.01	\$1,500.00	\$60.00
\$1,500.01	\$1,750.00	\$70.00
\$1,750.01	\$2,000.00	\$75.00
\$2,000.01	\$2,500.00	\$80.00
\$2,500.01	\$3,000.00	\$105.00
\$3,000.01	\$3,500.00	\$125.00
\$3,500.01	\$4,000.00	\$145.00
\$4,000.01	\$4,500.00	\$165.00
\$4,500.01	\$5,000.00	\$185.00