Remittance Corridor between the Netherlands and Afghanistan: An Overview

Afghanistan Public Policy Research Organization

Case Study
May 2010
Acknowledgements

This paper is based on a report prepared for the School of Governance, Maastricht University (the Netherlands) as part of a study on remittances between the Netherlands and Afghanistan, commissioned and funded by the Dutch Ministry of Foreign Affairs.

The authors wish to thank Melissa Siegel (School of Governance, Maastricht University) for her constructive comments on the various versions of the report and all those who agreed to be interviewed for the Afghanistan part of this study.

Cover photo: Money market, Kabul (Ahmad Shaheer Anil, APPRO)

About Authors

Lead author: Saeed Parto
Co-authors: Ahmad Shaheer Anil

Saeed Parto is Director of Research at Afghanistan Public Policy Research Organization. He holds a doctorate in Human Geography from the University of Waterloo (Ontario, Canada) and specializes in policy and institutional analysis in developed and developing countries. His recent work includes analysis of policy and institutional change in development cooperation, waste management, and technological transitions and innovation. Dr. Parto is also Lecturer at the Faculty of Arts and Social Sciences, Maastricht University, the Netherlands.

Ahmad Shaheer Anil is Manager - Training and Development at Afghanistan Public Policy Research Organization. He is leading Evaluation Team and works with a range of thematic streams including Aid Effectiveness, Social and Economic Rights and Governance. He has Diploma in Business Administration from Bakhtar University (Kabul, Afghanistan). He has ten years of experience working with development programs and conducting research in Afghanistan.

Suhaila Mohsini, Nafa Gul Karimi, and Sharifa Ibrahimkhel are Researchers at APPRO and contributed to the field work for this project.

About APPRO

The Afghanistan Public Policy Research Organization (APPRO) is an independent social research organization promoting social and policy learning to benefit development and reconstruction efforts in Afghanistan. APPRO is registered with the Ministry of Economy (Registration Number: 1212) as a not-for-profit organization and headquartered in Kabul, Afghanistan. APPRO’s mission is to measure development progress against strategic reconstruction objectives and provide insights on how to improve performance against the milestones set by the government of Afghanistan and the international donors. APPRO is staffed by personnel with many years of collective experience in various facets of development and scientific research.

APPRO takes full responsibility for any omissions and errors.

(c) 2010. Afghanistan Public Policy Research Organization. Some rights reserved. This publication may be reproduced, stored in a retrieval system or transmitted only for non-commercial purposes and with written credit to APPRO and the authors. Where this publication is reproduced, stored or transmitted electronically, a link to APPRO’s website www.appro.org.af should be provided. Any use of this publication falling outside of these permissions requires prior written permission and can be sought by emailing mail@appro.org.af or by calling +93 700 538 081.
Table of Contents

1. Introduction ........................................................................................................... 1
2. Objectives for this Study ......................................................................................... 2
3. Research Methods and Organization .................................................................. 3
4. Remittances, Livelihoods and Development ...................................................... 4
5. Summary of Findings .............................................................................................. 5
6. Conclusions and Recommendations .................................................................. 9
Appendix 1: Interview Questions ........................................................................... 11
Appendix 2: List of Key Informants and Organizations .......................................... 13
References ................................................................................................................ 14

List of Tables

Table 1. Remittance Amounts and Uses ........................................................................ 6
Table 2: Formal Banks in Afghanistan ........................................................................ 8
1. Introduction

Without a doubt the almost exponential increases in migration from less developed to developed countries has laid the material foundations for equally exponential and unprecedented amounts of remittances from migrant workers to their home countries. De Haas (2005) reports the estimated remittance amounts at: US$2 billion in 1970, US$17.7 billion in 1980, US$31 billion in 1990, and at least US$116 billion in 2003. These totals could be significantly higher if transfers in cash and kind and remittances through informal channels are included.

For Afghanistan, remittances in 2006 were estimated to total US$3.3 billion by the United Nations International Fund for Agricultural Development (IFAD). This has been the first, and to date the only, official estimate made of remittances received in Afghanistan. There is some documentation available on the nature, origins and dynamics of these remittances, however it remains largely understudied.

Approximately 38,000 Afghans live in the Netherlands, making the Netherlands home to one of the highest concentrations of Afghan diaspora community in the world after Pakistan, Iran, USA and Germany. Given the relatively high number of Afghans living in the Netherlands, as well as the the reconstruction commitment by the Dutch Government, and the importance of remittances in sustaining the livelihoods of the recipients in Afghanistan, there are numerous policy benefits in gaining insights into this important “remittance corridor”.

Recognizing the importance of remittances in general and to gain more in-depth understanding of this mostly traditional and poorly understood sub-sector, the World Bank has been commissioning a series of studies\(^2\) with the following objectives:

1. Gain new knowledge to better understand the size and nature of remittance flows
2. Identify incentives that influence remittance senders and recipients to use the available mechanisms
3. Devise policies to regulate the activities of the emerging new players such as money transfer operators
4. Address the implications of compliance with standards on anti-money laundering and terrorist financing
5. Identify opportunities for introduction of financial products in the mostly heterogeneous remittance markets

Consistent with the above, the results of this study are intended for use by the Dutch Government to raise awareness among banks and financial institutions offering remittance services (e.g., Western Union and MoneyGram) of the relative importance of the Dutch-Afghan remittance corridor. By stimulating the interest of the financial sector, the Dutch Government hopes to promote greater use of formal channels for transferring money to Afghanistan. This would reduce the risk of appropriating the funds for illicit activities such as the drugs trade or terrorism and make possible the linking of the remittances sub-sector to development aid, policymaking and innovation in product and service provision such as loans and mortgages, savings accounts, and microcredit by modern financial sector operators.

---

2 See http://go.worldbank.org/JZ7S790IP0 for examples of these studies.
2. Objectives for this Study

The goal for the project, of which this study is a component, is to investigate to potential for increasing competition in the market for sending remittances from the Netherlands to Afghanistan and to contribute to the reconstruction of the Afghan financial sector through formalizing remittance transactions and encouraging the Dutch financial sector to offer services in Afghanistan. The specific objectives are as follows:

1. Gain insight into the nature (size, actors, and channels) of the remittance corridor between the Netherlands and Afghanistan
2. Identify problems and obstacles, whether technical (financial / infrastructure) or otherwise (risks, lack of transparency, or lack of trust)
3. Develop concrete policy recommendations, particularly with respect to:
   a) Promoting the use of formal channels for remittances, and
   b) Improving access to financial services in Afghanistan (with a specific focus on the potential for public-private partnerships)

Key Questions

The key questions guiding this research are:

1. What is the size of the flow of remittances from the Netherlands to Afghanistan? What trends are evident?
2. Who is sending remittances to Afghanistan? How many Afghans in the Netherlands send remittances, and in what ways can this group be differentiated (first/second generation, age, tribal/ethnic grouping)? Which regions do they originate from? What percentage of their income do they send back to Afghanistan? Does the money come from stable (salary, pension, benefits) or incidental sources?
3. Who are the recipients of these remittances? Where do they live?
4. What is the intended use of the remittances? How are they actually used?
5. Are commodities sent as well as money?
6. What channels are used to send remittances (formal/informal, legal/illegal)? Which actors are involved in the various stages? The hawala system is of particular interest in this question.
7. What kinds of transaction costs are involved in sending remittances? What factors make using one channel easier or more difficult than another? What is the role of financial institutions and legislation? What is the best way to remove obstacles and reduce transaction costs?
8. Are the lessons learned from studies and other remittance corridors applicable to Afghanistan?
9. What concrete policy recommendations should emerge from this study? How can the Netherlands encourage a shift from informal to formal channels in the remittance corridor from the Netherlands to Afghanistan? How can access to financial services in Afghanistan be improved? What opportunities exist for public-private partnerships?
3. Research Methods and Organization

The objectives of this study were to be met through answering the key questions in the preceding section (questions 3 through to 9) based on:

1. A review of the existing reports, papers, and other material to highlight what is known about the remittance corridor. Suggestions to the School of Governance project management team regarding changes or additions to the key questions, as appropriate.
2. A list of key informants including individual recipients, facilitating organizations, and authorities involved in the remittance corridor. This list is attached as an appendix to this report.
3. Semi-formal and informal interviews with key informants drawn from 2, above.
4. A preliminary analysis of the qualitative data in light of the background information and the interviews.
5. Transcribed and translated interviews to be submitted as a separate file accompanying this report.

The interview data were collected in Kabul based on interviews with 5 households who receive remittances from the Netherlands on a regular basis, 3 officials from private Afghan banks and 3 officials from public Afghan banks which offer remittance transfer services, one interview with a hawaladar, and one interview with a representative from the Afghanistan Chamber of Commerce and Industry (ACCI). See Appendix 2 for the list of key informants.

It has to be noted that the low number of interviews with the recipient households has had little or no impact on the validity, reliability, or credibility of the data or the findings reported in this document. Consistent with the widely practiced approaches in qualitative research, the interviewers sought no further interviews after it became apparent that additional interviews were not likely to reveal additional insight to what was already known about the remittance sub-sector in Afghanistan. While there may be minor variations in detail, the findings from the interview data reported in this document are unlikely to change fundamentally, regardless of how many more interviews are held with additional remittance recipients.

The remainder of this report is organized as follows. Section 4 provides an overview of what is known about remittances and their role as an increasingly relied-upon exogenous source of income for the recipients in developing countries. Section 5 reports on the findings from interviews conducted in Kabul with recipients of remittances originating from the Netherlands. Section 6 concludes this study with a series of recommendations for policy intervention to promote the use of formal channels for remittances, improve access to financial services in Afghanistan, encourage productive use of remittance funds in entrepreneurial activity, and identify market opportunities for Dutch financial products providers in Afghanistan.

3 For a validation of this approach see, for example, Strauss and Corbin (1998)
4. Remittances, Livelihoods and Development

According to the World Bank (2006) the actual flows of remittances from developed to developing countries may be as high as USD 300-500 billion worldwide, involving some 150-175 million migrants. IFAD (2007) estimates the remittances to Afghanistan in 2006 at USD 3.3 billion. The common definition of what constitutes a remittance is “cross-border, person-to-person [recurring] payments of relatively low value” from migrant workers in developed countries to their kin in their country of origin (BIS and World Bank 2007:2). 4 Remittances are transferred by individuals who may or may not charge a service cost, specialized global money transfer operators such as Western Union and MoneyGram, or conventional banks which may have reciprocal arrangements between sending and receiving countries.

Remittances to countries such as Afghanistan have been the focus of attention for at least three main reasons. First, the potential offered by traditional ways of transferring money for illicit activity including money laundering and drugs trade. Second, the potential for remittances to act as a “bottom-up” supplement or even substitute for top-down development aid on the account of remittances being “less volatile, less pro-cyclical, and therefore a more reliable source of income than other capital flows to developing countries” (de Hass 2005). Third, the increasing size of remittances has been an issue of concern from a macroeconomic perspective as a difficult-to-control distorting factor with implications for monetary policy, particularly in relation to money supply and inflation. 5

A significant portion of the remittances received in Afghanistan is thought to come through the traditional hawala system. Hawaladar s are brokers who exchange money, loan, and facilitate transfer of funds for a fee between two parties. 6 “Traditional” in this case does not, however, mean informal since the hawala system is highly evolved, generations-old, and mostly trusted by the people who rely on its services. An immediate implication of this view of the hawala system is that Dutch or other financial services providers have to find ways of competing with pre-existing (institutional) arrangements rather than assuming that their new products fill a vacuum.

The available literature identifies a number of key issues associated with remittance transfers. According to the World Bank (2007:10) the market for remittances has numerous and inherent inefficiencies with a potential to increase transaction costs for the service users. These include lack of transparency in the market, lack of understanding of the rules by the users, weaknesses in the remittance transaction infrastructure, inadequate legal framework and regulation governing the transactions, hampered competition, and risk. Elsewhere, the World Bank (2003:9) has underlined the difficulties of regulating the highly unregulated remittance market in Afghanistan due to the following key constraints:

1. Lack of effective monitoring of cross-border currency movements

4 It is important to note here that remittances also flow to Afghanistan from the neighbouring countries, particularly Pakistan and Iran, both of which have Afghan diaspora numbering in millions.
5 See, for example, World Bank (2003) for a detailed analysis.
6 It is possible for a person residing in Afghanistan to draw cash on a Dutch bank account using a bankcard and the appropriate PIN. The charges by Dutch banks vary for remote withdrawals while some banks may not charge at all for such transactions. This possible way of remittance transaction was not investigated for this report, however.
2. Lack of reporting requirements for large cash transactions or a pattern of inconsistent reporting under a voluntary system
3. Lack of uniform guidelines from which to identify suspicious transactions
4. Parallel black market economies, and
5. Little ability to share financial information with foreign law enforcement authorities

The report adds that these constraints are likely to continue to characterize the remittance market in Afghanistan for many years to come while the mapping to capture the remittance system and its network of actors remains in many of the official reports as speculative.\(^7\) As we report below there are, in Afghanistan, some regulations governing financial transaction despite the difficulties identified by the World Bank in 2003.

The next section highlights the main findings from the data collected from the interviews with the recipient families and institutional key informants in Kabul, Afghanistan during August and September 2009.

5. Summary of Findings

The usual manner for sending remittances from the Netherlands to Afghanistan involves the recipients identifying trusted or reputable brokers (hawaladars) or banks from which the remittances can be collected. MoneyGram, Western Union and banks transfer funds using the modern wire systems for their transmittal. Hawaladar agents in the Netherlands accept to transfer funds on behalf of the sender to the hawaladar agent in Afghanistan which is then contacted by the recipient to collect the remittance.

Once the remittance request is made through a hawaladar agent based in the Netherlands (very often a small business entrepreneur such as a shopkeeper with links to hawaladars in Afghanistan), a code is provided by the hawaladar agent in the Netherlands to the sender who then relates it to the recipient. The recipient goes to the specified hawaladar agent in Afghanistan (Kabul in cases reviewed for this study), provides the code and a form of identification (such as a birth certificate, passport, or drivers license) to the hawaladar agent who then tells the recipient when to come and collect the money. Depending on the hawaladar agent in Afghanistan, and the persistence of the recipient, the release of the remittance to the recipient could take as many as 3 to 5 days. This delay is an expected cost of the transaction and a side benefit to the hawaladar as the delay allows the hawaladar to earn interest on the remittance or to allow the funds to be used, knowingly or unknowingly, for short term illicit investments such as the drug trade.\(^8\) Given the level of secrecy associated with the hawala system, it is not possible to determine with any degree of accuracy how much of the funds in the hawala system is employed in illicit trade.

There are differences between the brokers’s fees charged for sending remittances. It is not unusual for the senders to shop around in the Netherlands to find a broker agent in the Netherlands who charges less commission or takes fewer number of days to deliver the remittance to the recipient. The overall impression is

\(^7\) As a side, from about 1992 until around 2003-4 numerous international aid and humanitarian organizations in Afghanistan used the hawala system for transferring funds to Afghanistan due to the unavailability or unreliability of other means. See World Bank (2003) for elaborate examples.
\(^8\) See IMF (2003-12) for details of how funds in transit can be used in illicit trade.
that funds for trade are mostly transferred through modern banking channels while remittances destined for families tend to be sent through the hawala system. The recipients from hawaladars can receive the remittance in the original fund currency or in Afghans. The recipients of wired transfers through banks, MoneyGram or Western Union can have their remittances in US Dollars or Afghans. The commission charged by hawaladars is usually between 1.5-5%, or slightly higher, and payable by the sender or the recipient. The hawala system is perceived by the senders and recipients as reliable, convenient, and economical. The hawala system handles small sums of money and has a very “user friendly” system, working on the basis of a code and an identification document. This contrasts with banks’ requirement for filling forms and for the recipients to have access to a corresponding bank in Afghanistan. While the interest charges may be lower at some banks for transferring funds, sometimes as low as 0.1% for up to 10,000 USD, the high rate of illiteracy among Afghans and not being accustomed to using modern banking systems in general may also act as a deterrent in using banks. In addition, sending remittances through the hawala system carries no risk of being found out by the Dutch authorities that may question a sender on misappropriation of state benefits.

For a number of reasons it is difficult to extract reliable information from the remittance senders and recipients. The recipients have real concerns about being identified and the possibility of becoming targeted by charity seekers on the account of having “wealthy” relatives abroad.

The senders also tend to be concerned about becoming known through using modern banking systems since many of them send as remittance part of their allowance provided to them by the Dutch Government – members of the households interviewed are receiving welfare benefits, disability, and refugee allowances from the Dutch Government. These amounts are estimated at 800 Euros per month in Table 1, below.

### Table 1. Remittance Amounts and Uses

<table>
<thead>
<tr>
<th>Household No.</th>
<th>Number of members in NL</th>
<th>Source(s) of income in NL</th>
<th>Income in NL for each household member (€ approx.)</th>
<th>Remittance per month (€ approx.)</th>
<th>Use of remittance by recipients</th>
<th>Means of fund transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>- Govt job - Service jobs - Business - State benefit</td>
<td>- 2,000 - 1,400 - unreported - 800</td>
<td>100 (a)</td>
<td>- Business (taxi) - Property - Children’s education - Consumption smoothing</td>
<td>- Hawaladars - Traveling relatives and friends</td>
</tr>
<tr>
<td>2</td>
<td>2</td>
<td>- Service jobs - State benefit</td>
<td>- unreported - 800</td>
<td>30 (b)</td>
<td>- Business (Internet shop) - Children’s education - Consumption smoothing</td>
<td>- Hawaladars - Traveling relatives and friends</td>
</tr>
<tr>
<td>3</td>
<td>Many in NL and USA</td>
<td>- State benefit</td>
<td>- 800</td>
<td>5 (c)</td>
<td>- Consumption smoothing</td>
<td>- Traveling relatives and friends</td>
</tr>
<tr>
<td>4</td>
<td>1</td>
<td>- State benefit</td>
<td>- 800</td>
<td>50</td>
<td>- Consumption smoothing - Children’s education</td>
<td>- Traveling relatives and friends</td>
</tr>
<tr>
<td>5</td>
<td>5</td>
<td>- Services jobs - State benefits</td>
<td>- 1,400 - 800 - 800 - unreported</td>
<td>85 (d)</td>
<td>- Property - Children’s education - Consumption smoothing</td>
<td>- Hawaladars</td>
</tr>
</tbody>
</table>

(a) This is the amount according to the interviewee. Prior to the interview, the interviewers had been told that this recipient family had received sufficient funds previously to purchase a vehicle to work as a taxi driver.
(b) This amount is also likely to be understated. Reportedly, the household received sufficient remittances to set up a business offering internet and international telephone communication services.
(c) Amount was stated as “about 50 Euro, once a year” and difficult to verify.
(d) The interviewee also stated that he had received lump sums of €5,000, €3,000, and €500 for various needs.
Additionally, **hawaladars** tend to be very secretive about their role, the number of transfers they handle and who their clients are. To gather the information for this research, the researchers relied almost exclusively on personal contacts or relatives who are known to receive remittances from the Netherlands, or who work in the **hawala** system and Afghan banks. The remainder of this section highlights the key findings from the interviews.

1. There appear to be no ethnic factors at play in the Dutch-Afghan remittance corridor apart from the fact that **hawaladar** agents in the Netherlands and Afghanistan are more favoured if they are from the same ethnic group as the sender and recipient.

2. A number of **hawaladars** are registered with Da Afghanistan Bank (Central Bank) while many others are not. Because of the time delay between the remittance entering the **hawala** system and the recipient receiving the remittance, and much like the conventional banking system, the **hawaladars** have access to large sums of money that could be invested in “productive” or “destructive” entrepreneurial activity.\(^9\) Given the lack of transparency in the unregistered **hawala** system, there is a strong possibility that in-transit remittances could be put to illicit use. As one interviewee put it,

   “[The **hawaladars**] work [with] the money, it is not only my money, but thousands of other Afghans send remittances too, so [the **hawaladars**] keep the money and work [with] it for a few days and when they have got some interest on it, they pay the [recipient].”

3. The banking system in Afghanistan has been developing steadily and reasonably adequately. Many development aid agencies and international NGOs operating in Afghanistan rely on the services provided by these banks. There are now 17 banks operating in Afghanistan of which eight are international, one is public, seven are private, and one, Da Afghanistan Bank, acts as the Central Bank. Apart from the international banks, some Afghan banks have branches in European countries or have reciprocal arrangements with international banks such as Commerz Bank to transfer funds.

4. The use of banks as a means for personal or business transactions has not become fully institutionalized to a degree comparable to other countries with modern banking systems. This is due largely to the decades-long instability and the fear of loss of money by placing it in vulnerable entities such as banks in a conflict-ridden country.

5. Receiving money from abroad through the modern banking system requires that recipients have a bank account and there are a number of banks that could be utilized for this purpose (Table 2). However, remittances through the **hawala** system could be received by anyone without a bank account and as long as they prove to be the rightful recipient of the remittance.

\(^9\) For a rich discussion of different types of entrepreneurial activity see Baumol (1990).
Table 2: Formal Banks in Afghanistan

<table>
<thead>
<tr>
<th>Entity Name</th>
<th>Entity Type (Origin)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Da Afghanistan National Bank</td>
<td>Central Bank of Afghanistan</td>
</tr>
<tr>
<td>Afghan United Bank</td>
<td>Private Bank (Afghanistan)</td>
</tr>
<tr>
<td>Azizi Bank</td>
<td>Private Bank (Afghanistan)</td>
</tr>
<tr>
<td>Arian Bank</td>
<td>Private Bank (Iran)</td>
</tr>
<tr>
<td>Bakhtar Bank</td>
<td>Private Bank (Afghanistan, Subsidiary of Azizi Bank)</td>
</tr>
<tr>
<td>Bank e Mili Afghanistan</td>
<td>Public Bank (Afghanistan)</td>
</tr>
<tr>
<td>Bank Alfalah Ltd</td>
<td>Private Bank (UAE?)</td>
</tr>
<tr>
<td>BRAC Afghanistan Bank</td>
<td>Private Microfinance / Commercial Bank (Bangladesh)</td>
</tr>
<tr>
<td>Ghazanfar Bank</td>
<td>Private Bank (Afghanistan)</td>
</tr>
<tr>
<td>Habib Bank of Pakistan</td>
<td>Private Bank (Pakistan)</td>
</tr>
<tr>
<td>Kabul Bank</td>
<td>Private Bank (Afghanistan)</td>
</tr>
<tr>
<td>Maiwand Bank</td>
<td>Private Bank (Afghanistan)</td>
</tr>
<tr>
<td>National Bank of Pakistan</td>
<td>Public (PK) Bank (Pakistan)</td>
</tr>
<tr>
<td>Pashtany Bank</td>
<td>Public Bank (Afghanistan)</td>
</tr>
<tr>
<td>Punjab National Bank</td>
<td>Private Commercial Bank (India)</td>
</tr>
<tr>
<td>Standard Chartered Bank</td>
<td>Private Bank (Global??)</td>
</tr>
<tr>
<td>The First Microfinance Bank</td>
<td>Private Microfinance / Commercial Bank (??)</td>
</tr>
</tbody>
</table>

6. Another key difference between the *hawala* and the modern banking systems is the limits on the amount of funds to be transferred. Modern banks using the SWIFT system have no upper limits on the amount of funds transferred while MoneyGram and Western Union could accept funds for transfer up to a maximum of 3,000 USD per sender and release funds of up to 5,000 USD to a single recipient. The commission charged by Western Union was reported at 14%, compared to 0.1% charged by some modern banks for amounts of up to 10,000 USD.

7. Of the total amount of money handled through the *hawala* system, an estimated 10-20% is made up of small remittances sent by individuals abroad to their families. According to one bank interviewee, of the money received from the Netherlands, up to 80% are remittances for individuals in Afghanistan who may be using the funds for consumption smoothing or for setting up businesses, continuing to conduct business activity, or buying property.

8. Another bank interviewee reported that on average his bank received up to 5,000 USD per day from the Netherlands in remittances and trade related funds. Remittances received by Afghans through the modern banking system are not taxed. However, banks and registered *hawaladars* pay taxes on their earnings as reported to Da Afghanistan Bank.  

10 As in all other cases in Afghanistan, it is expected that earnings reported by registered Hawaladars on their exchange and transfer activities are prone to a general avoidance to pay taxes or pay as little as possible. Many of the transactions facilitated by hawaladars are likely to go unreported.
9. To make their services attractive to the remitters, some Afghan banks do not charge commission on transferring funds of up to 500 USD.

10. The households interviewed receive gifts from their relatives in the Netherlands from time to time and on special occasions but these gifts cannot be treated as payment in-kind.

11. Modern banks in Afghanistan can accept transfer of unlimited amounts of funds. There are no particular requirements for amounts not exceeding 10,000 USD. For higher amounts, the sender is required to complete a clearance form for Da Afghanistan Bank (Central Bank) as a routine exercise. All modern banks in Afghanistan are expected to report any transaction deemed as “rogue” to the Financial Intelligence Unit department at the Ministry of Finance, charged with taking measures as appropriate.

6. Conclusions and Recommendations

Based on the information collected in Kabul, the use of brokers is by far the most common method of sending remittances to the senders’ families in Afghanistan, though the total amount is much lower than the formal trade funds moving back and forth between the Dutch and Afghan banks.

Given the novelty and the general unavailability of modern banking and fund transfer systems in the rural areas, it is reasonable to assume the remittances destined for recipients in rural areas are almost entirely transferred through the hawala system. It is also safe to assume that a significant portion of the remittances sent to rural households is likely to be used for consumption smoothing rather than any other activity.\(^\text{11}\)

*hawaladars* operate very similarly to modern banks in that their revenue and profit are generated by investing the funds they handle. In addition, hawaladars often cause delays in releasing the funds to the recipient so as maximize the opportunity to invest. An investment may be providing short-term monetary loans to borrowers who may be involved in illicit activities, however.

The bulk of the remittances destined for families tend to be sent through the hawala system. Because of low overheads, the commission charged by hawaladars is usually significantly lower than that charged by MoneyGram, Western Union and some of the banks. The bulk of the funds transferred through the hawala system goes through unregistered, street-side stalls or merchandise stores whose official function is not to transfer or receive funds. Some banks in Afghanistan charge no fees for smaller transactions as a means to capture a share of the remittance market.\(^\text{12}\)

---

\(^\text{11}\) For a separate discussion of consumption smoothing in relation to microcredit and all other possible forms of monetary supplements, see Parto and Regmi (2009).

\(^\text{12}\) Pashtany Bank, one of the banks interviewed for this study, charges no commission for transfers of up to 500 US Dollars.
The hawaladar system is perceived by the senders and recipients as the most trustworthy, reliable, convenient, and economical. In addition, sending remittances through the hawala system carries no risk of being found out by the Dutch authorities that may question a sender on misappropriation of state benefits such as refugee allowance and disability or unemployment benefits.

There are signs of regulation of the hawaladar system as many of the more formal entities are required to be registered with Da Afghanistan Bank (Central Bank) although many of the less visible hawaladars are likely to continue offering their services with no immediate prospects for becoming registered.

Receiving money from abroad through the modern banking system requires the recipient to be a bank account holder whereas remittances could be received through the hawala system by anyone without a bank account and as long as they can prove to be the rightful recipient of the remittance.

Given the high level of trust placed by Afghans in the hawala system and the anonymity of the users of the system, the hawala system is likely to remain a strong contender in the remittance market in the short and perhaps the medium terms.

Modern banking system actors or regulators wishing to break into the remittance market will need to devise packages of incentives attractive enough to lure users away from the hawala system. Removal of commission for small amounts by banks and consumer awareness campaigns in the Netherlands and Afghanistan can play important roles in encouraging users to utilize modern banking system services.
Appendix 1: Interview Questions

Interviews with private banks:
1. What is the size of the flow of remittances from the Netherlands to Afghanistan? What trends are evident? Maximum amount vs. minimum.
2. What type of currency paid to recipients?
3. Who pays the interest? Sender or receiver?
4. What is the amount of interest paid/ per hundred/thousand?
5. What kind of legal documents are required to receive remittance?
6. By what means of communication recipients are informed? Phone, email, relatives?
7. Do recipients have to pay tax to the Afghanistan government if it exceeds some certain amount? If yes, how much tax do they have to pay?
8. Who are mainly the recipients? Households, merchants etc…
9. What is the role of financial institutions and legislation?

Interviews with Government banks:
1. What is the size of the flow of remittances from the Netherlands to Afghanistan? What trends are evident? Maximum amount vs. minimum.
2. What type of currency paid to recipients?
3. Who pays the interest? Sender or receiver?
4. What is the amount of interest paid/ per hundred/thousand?
5. What kind of legal documents are required to receive remittance?
6. By what means of communication recipients are informed? Phone, email, relatives?
7. Do recipients have to pay tax to the Afghanistan government if it exceeds some certain amount? If yes, how much tax do they have to pay?
8. Who are mainly the recipients? Households, merchants etc…
9. What is the role of financial institutions and legislation?
10. What kinds of initiatives are measured to legalize remittance?

Interviews with recipients:
1. Who is sending remittance from Netherlands? Relation, age of sender, ethnicity, occupation.
2. What percentage of their income do they send back to Afghanistan? Does the money come from stable (salary, pension, benefits) or accidental sources?
3. Which regions do you originate from? Province/years of stay in Kabul?
4. What purposes do they send remittance to Afghanistan?
5. What purposes this remittance money is spend on?
6. What is the intended use of remittance? How are they actually used/spent?
7. What are the major obstacles receiving remittances?
8. In addition, do you receive commodities?
Interviews with Local money brokers:

1. What is the size of the flow of remittances from the Netherlands to Afghanistan? What trends are evident? Maximum amount vs. minimum.
2. What type of currency paid to recipients?
3. Who pays the interest? Sender or receiver?
4. What is the amount of interest paid/ per hundred/thousand?
5. What kind of legal documents are required to receive remittance?
6. By what means of communication recipients are informed? Phone, email, relatives?
7. Do recipients have to pay tax to the Afghanistan government if it exceeds some certain amount? If yes, how much tax do they have to pay?
8. Who are mainly the recipients? Households, merchants etc...
9. What is the role of financial institutions and legislation?
10. Are commodities sent as well as money?
11. What channels are used to send remittances (formal/informal, legal/illegal)? Which actors are involved in the various stages?
Appendix 2: List of Key Informants and Organizations

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Name of institution</th>
<th>Type of business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Da Afghanistan Bank (Central Bank)</td>
<td>Government bank</td>
</tr>
<tr>
<td>2</td>
<td>Pashtani Bank</td>
<td>Government bank</td>
</tr>
<tr>
<td>3</td>
<td>Bank Mili Afghanistan</td>
<td>Government bank</td>
</tr>
<tr>
<td>4</td>
<td>KabulBank</td>
<td>Private bank</td>
</tr>
<tr>
<td>5</td>
<td>Bakhtar Bank</td>
<td>Private bank</td>
</tr>
<tr>
<td>6</td>
<td>Azizi Bank</td>
<td>Private bank</td>
</tr>
<tr>
<td>7</td>
<td>Local money dealer</td>
<td>Licensed currency exchange shop</td>
</tr>
<tr>
<td>8</td>
<td>Afghanistan Chamber of Commerce and Industry</td>
<td>National body to facilitate trade and investment in Afghanistan</td>
</tr>
<tr>
<td>9-13</td>
<td>Recipients</td>
<td>5 Households receiving remittances from the Netherlands</td>
</tr>
</tbody>
</table>
References


