# Afghanistan Remittance Overview and Trends

## Annex to

## Afghanistan Migration Profile

International Organization for Migration (IOM)

# AFGHANISTAN REMITTANCE OVERVIEW AND TRENDS

# ANNEX TO AFGHANISTAN MIGRATION PROFILE

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# ACRONYMS

| | |
|---|---|
| AISA | Afghanistan Investment Support Agency |
| AML/CFT | Anti-money Laundering and Combating the Financing of Terrorism |
| ANDS | Afghanistan National Development Strategy |
| BOP | Balance of Payments |
| DAB | Da Afghanistan Bank |
| EMI | Electronic Money Institution |
| FIU | Financial Intelligence Unit |
| FinTRACA | Financial Transactions and Reports Analysis Center of Afghanistan |
| FX | Foreign Exchange |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| IPS | Interbank Payment System |
| ITRS | International Transactions Reporting Systems |
| IVR | Interactive Voice Recognition |
| IVTS | Informal Value Transfer Systems |
| KYC | Know Your Customer |
| MFI | Microfinance Institution |
| MISFA | Microfinance Investment Support Facility for Afghanistan |
| MNO | Mobile Network Operator |
| MSP | Money Service Provider |
| MTO | Money Transfer Organization |
| NRVA | National Risk and Vulnerability Assessment |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| UNHCR | United Nations High Commissioner for Refugees |

# FOREWORD

This annex to the Afghanistan Migration Profile provides an overview of remittance trends, their implications for Afghanistan and the development trajectory of the country. Remittances, the money and goods sent from migrants living away from their places of habitual residence, can play an important role in contributing to economic resilience during conflict and post-conflict reconciliation and reconstruction phases. Remittances are unlike many other forms of financial flows, such as foreign direct investment and official development aid, in that they are countercyclical and less likely to evaporate during peaks in conflict. At the same time remittances are one of the least transparent sources of finance because they are generally private transfers between individuals. Such flows pose a number of challenges to governance and oversight authorities. While there is much debate about the most effective use of remittances and ways in which sustainable remittance use can be encouraged, the pivotal role of remittances in supplementing and buoying livelihoods and livelihood opportunities cannot be dismissed, especially in the Afghan context.

This special supplement starts from this notion: remittances can offer vital means of support to individuals and communities but have yet to be properly canvassed in the Afghan context. It is our hope that this special supplement will demonstrate not only the important characteristics and trends of remittance flows to Afghanistan but also the impacts of remittances on the livelihoods of recipients and non-recipients alike.

In line with the migration profile at large, this supplementary annex should also highlight sources of data and information that can be consulted on an ongoing basis. Much of the information in this report reflects only first attempts at large-scale data collection. Persistent insecurity over the last decades have considerably limited the capacities of the government, international organizations and civil society organizations to implement and maintain consistent data collection and reporting activities. With ongoing improvements to the security situation and increasing institutional capacity, many of the statistical sources consulted here may be further improved and expanded as well.

This annex has benefited enormously from the data and insights so generously shared by respondents from a number of institutions. We would like to extend particular thanks to respondents from Da Afghanistan Bank's Financial Supervision Department and Monetary Policy Department, M-Paisa and MTN for their willingness to provide ongoing information and consultation.

# EXECUTIVE SUMMARY

This annex provides a contemporary and comprehensive overview of the remittance situation in Afghanistan. Given the inherent complexities in measuring remittance flows and usage trends, particularly in a country like Afghanistan, this annex draws from a variety of information sources. A combination of desk research, household survey data, focus groups and in-depth interviews was used to collect the information presented in this annex. Following an introduction, this annex contains four key parts. Section 2 contains information on current knowledge about remittance flows and trends. Section 3 canvasses the operational infrastructure and management frameworks that facilitate and govern remittances. Section 4 analyses remittance usage and the potential impacts of remittances on household- and individual-level development. Section 5 provides a summary of the annex's key findings while explaining the implications those findings can have for policy; on this basis several recommendations are provided.

## A. REMITTANCE FLOWS

Despite the many challenges that confront the measurement of remittance flows, Da Afghanistan Bank has made important attempts to measure the movement of remittance transfers into and out of the country. According to remittance flows declared in the balance of payment (BOP) framework, net remittances amounted to USD 325 million in the 2011 fiscal year. Remittance outflows were measured at USD 354 million and inflows at USD 679 million, accounting for 1.6 per cent of gross domestic product in that year.

These reported values are likely to be considerable underestimates of true remittance flows, as the figures reported in the BOP framework represent only workers' remittances and compensation of employees remunerated through formal systems. Given the prominent position of informal value transfer systems such as *hawala* as key facilitators of cross-border payments as well as the limited employment of Afghan labourers in the neighbouring Islamic Republic of Iran and Pakistan in formal contract work, it is likely that the flows captured in BOP reporting are those connected to staff employed by international organizations working in Afghanistan. Based on a coherent framework taking into account statistics on migration and remitting behaviours the International Fund for Agricultural Development estimated that approximately USD 2.5 billion in remittances, accounting for 30 per cent of GDP, entered Afghanistan in 2006.

# B. REMITTANCE CHANNELS AND REGULATORY ENVIRONMENT

The post-Taliban period has been characterized by the growth of the formal remittance market and the introduction of a number of innovative remittance service providers. Key players in Afghanistan's formal financial sector include banks and microfinance institutions, money transfer organizations (MTOs), money service providers (MSPs) such as electronic money institutions (EMIs) and *hawala* businesses as well as foreign exchange dealers. While there is little indication of the share of remittance transfers enabled by each type of business, previous research and household surveys suggest that banks and MTOs such as Western Union have a limited role in the remittance market due to high transfer fees, inaccessibility in terms of location, identification requirements and low trust on behalf of consumers. Money service providers and foreign exchange dealers are likely responsible for the greatest number of remittance transfers leaving and entering Afghanistan. Most prominent among remittance service providers are *hawala* dealers, traditional financial service providers who enable remittance transfer through a trust-based network of agents. Money transfers sent via *hawala* are generally more affordable than those sent through other remittance channels and the traditional reliance on *hawala* has cultivated a large consumer base.

The development of mobile banking and mobile remittance transfer capabilities via short message system (SMS) has recently started in Afghanistan. While there is little information available on the volume of remittance transactions facilitated by electronic money institutions (EMIs), the innovative nature of EMI services could potentially attract a large customer base. Additional services are being designed by MNOs to further link EMIs to formal financial services: M-Paisa, for instance, has recently partnered with Azizi Bank and Habib Bank Ltd. in a scheme that will allow M-Paisa customers to deposit money from the m-wallet directly into a bank account without making a physical visit to a bank. As the mobile network spans areas of the country where formal financial services have withdrawn or simply never existed, the M-Paisa service could offer a range of financial services that have been largely unavailable to significant portions of the population.

The unique composition of the remittance market in Afghanistan has necessitated the creation of a regulatory environment suited to the various levels of risk presented by each channel. The development of national legislation and regulations that address remittance systems has occurred in conjunction with larger financial-sector reforms that have followed the transition to the post-

Taliban government and reinvestment in the neglected financial infrastructure. The following seven laws and regulations are the most important for their implications for remittance channel functioning and oversight:

- The Law of Banking in Afghanistan (2003)
- The Law of Da Afghanistan Bank (2003/2004)
- The Afghanistan Anti-Money Laundering and Proceeds of Crime Law (2004)
- The Afghanistan Law on Combating the Financing of Terrorism (2005)
- The Regulation on Money Service Providers (2006)
- The Regulation on Foreign Exchange Dealers (2008)
- The Regulation on Domestic Payment Operations in Afghanistan (2010)

## C. REMITTANCE USAGE

While measuring the effects of remittances on recipient households and individuals is fraught with methodological challenges, preliminary evidence seems to suggest that remittances can play an essential role in supporting recipient household. Through case studies and preliminary analysis of large-scale household surveys, several trends in remittance prevalence and use emerge.

### C.1. Profile of Remittance Senders

Remittance transfer trends are intimately linked to migration trends in general. This implies that just as the migration process is selective (in terms of who migrates and who stays), so, too, is remittance receipt. Household surveys provide particularly relevant insights into the characteristics of remittance senders; to this end the 2007/08 National Risk and Vulnerability Assessment and the 2011 IS Academy Survey have been used. The NRVA and IS Academy Survey data both demonstrate that remittance receipt is intimately tied to larger migration and labour trends. The young average age of remittance senders, predominance of male senders and residence in the Islamic Republic of Iran all mirror the trend of households supporting the migration of young, able-bodied men who can perform physical, temporary labour in neighbouring countries.

## C.2. Remittance Prevalence and Livelihood Supplementation

The overall prevalence level of remittance receiving across Afghanistan is relatively low, however, remittances often account for a significant portion of income in recipient households. Given the potential role of remittances in supplementing and stabilizing household income, it could be expected that certain indicators of household resilience change following the receipt of remittances.

Comparison between remittance-receiving and non-receiving households drawn from the IS Academy Survey reveal some differences. On average remittance-receiving households were larger than non-receiving households and were found in greater proportion in rural areas. Remittance-recipients were more likely to own their own home. Additionally, both the number of households owning land and the amount of land owned were larger among remittance-recipients. Despite this, remittance-receiving households reported a lower reliance on yield from own agricultural land for consumption. More individuals in remittance-receiving households were noted as being self-employed in an own business and less in paid work, which could suggest that receiving remittances enables investment in entrepreneurial activities while perhaps proving a disincentive to participate in paid work. The average monthly expenditures reported by both household types were similar but remittance-receiving households report lower per capita monthly expenditures. Average monthly income was also reported as higher in non-receiving households. Savings trends provide even sharper contrast than income trends: while more remittance-receiving households reported that the household saves in some way, the average amount of reported savings was more than twice as large in non-receiving households. Despite this, remittance-receiving households were generally more positive about their households' economic situation.

While more nuanced analysis would be necessary to isolate the role of remittances in fostering or restricting a household's economic possibilities, these simple comparisons suggest that remittances can affect the accumulation of assets, even if remittances do not significantly contribute to income and savings.

## C.3. Remittance Usage for Human Capital Investment

Remittance-receipt does not necessarily imply any change to the quality of life of the recipient. Given the limited data available about remittance-receipt and use in Afghanistan, it is difficult to assess how, if at all, remittances affect indicators of well-being.

Many previous studies, such as those of IOM (2008), Vadean (2007) and Siegel et al. (2010), note that remittances are most often used to meet daily needs like food and housing expenditures. Aside from basic consumption expenditures, remittances are also used to repair and improve housing, for special events like weddings and to meet emergency needs like urgent medical care. Respondents to the IS Academy Survey revealed similar remittance use behaviours. Daily needs, namely the purchase of food and drinks, were identified as the main use of remittance income. Remittances were also spent on education, debt payments, healthcare and housing/ land.

While human capital investments were not frequently reported, comparisons between remittance-receiving and non-receiving households reveal that human capital outcomes do differ slightly between household types. Remittance households were more likely to have a literate household head. Additionally, children were more likely to attend school and to achieve higher grades. While the role of remittances in these differences cannot be confirmed, there appears to be a correlation between remittance-receiving and the accumulation of human capital in the form of education. This is likely linked to the migrant selectivity phenomenon - literate individuals are more likely to have successful international migration attempts and households that can afford to finance migration may be more likely to possess the money and resources necessary to provide its members with education. The focus group data, gathered as part of the IS Academy Project, supports these findings. While the majority of respondents discussed the use of remittances to support basic consumption expenditures, many also referred to the enabling effects remittances play in education and healthcare expenditures.

The information collected about the use of remittances seems to suggest that migration is largely perceived as a survival strategy. Particularly in a country like Afghanistan where complicated and protracted humanitarian crises are often accompanied by environmental and economic events like droughts that can result in sharp spikes in food expenses, remittances can act as an essential buffer against these shocks. Overall household resilience is a key factor of human capital development: stability and the meeting of basic needs over a longer period of time will allow for investment in human capital in the future and remittances can play an important role in supporting households throughout that process.

# D. POLICY IMPLICATIONS AND RECOMMENDATIONS

There are several types of policies that can (and have) been developed to address remittances, the most important of which relate to the regulatory environment surrounding the remittance market and payment systems. Two desires fuel the development of these types of policies: the desire to increase the functionality of (international) payment systems to facilitate migrant transfers and the desire to minimize the risk of exploitation of (international) payment systems for illegal activities (particularly money laundering and terrorist financing). A mixture of these perspectives is especially important for a country like Afghanistan, which is faced with both unique opportunities and challenges to the reformation and reconfiguration of the financial system. The Government of the Islamic Republic of Afghanistan has already incorporated some of these standards into policy: the package of financial system reforms, particularly the regulations related to money service providers and foreign exchange dealers, addresses many of the standards articulated by the Financial Action Task Force (FATF) regarding the combating of money laundering and financing of terrorism. As Afghanistan's government and formal financial system continue to grow, transform and stabilize, remittance-related policy too must undergo changes to better accommodate the needs of the remittance market and the capacity of the government to regulate this market properly. As it does so a synthesis between the two approaches should be better forged - leveraging migrant remittances for development without compromising the integrity and security of the financial system.

Given the information documented by this profile, there are several implications for the further development or adjustment of remittance-related policy. These implications easily transform into the following recommendations, many of which are inherently related:

1. A more nuanced view of remittance flows - and of the senders and receivers that generate them - must be cultivated to better inform future regulation of remittance service providers.

2. Greater understanding of the actors that facilitate transfers should be gained so that money service providers and formal financial institutions can be better supported to extend the reach of their services into largely "unbanked" areas.

3. The continued regulation of the remittance market must balance greater regulatory oversight with facilitating features that incentivize compliance on behalf of both remittance service providers and consumers of remittance services.

4. As Afghanistan undergoes the transition of power and the security situation in the country changes, ongoing assessments should be made of how migration patterns and consequent remittance trends have shifted to accommodate these transitions.

5. The government should mainstream remittance concerns into future migration policies, particularly those that rely on bilateral commitments and agreements with states that currently host or plan to host a large number of Afghan migrants.

# 1. INTRODUCTION

As part of the first migration profile of Afghanistan, this annex provides a contemporary and comprehensive overview of the remittance situation in Afghanistan that can be consulted and updated at regular intervals. Remittances and migration are intimately linked: the characteristics of migrants and the nature of their migration choices affect the development of subsequent remittance flows, many of which are equally as complex and difficult to monitor as the migration episodes that bear them. The measurement of remittance flows and the potential consequences of those flows for development, are further complicated by the nature of remittances, which are largely private transfers sent between individuals. Assessment of remittances is made additionally difficult by the diversity of means through which remittance transfers move from sender to receiver. The services that enable remittance transfers - referred to as “channels” - can offer consumers unique advantages and disadvantages that largely arise as the result of the specific operational and regulatory frameworks that affect service provision. A remittance service provider’s operation as a formal (licensed and regulated) or informal (outside of the scope of state regulation) provider can pose additional challenges to canvassing the current state of the remittance market. The diversity of remittance channels, the service features of such channels and the obligations of such service providers within the legal and regulatory framework all complicate how well and completely the remittance transfers they enable are monitored and reported.

Given the inherent complexities in measuring remittance flows and usage trends, particularly in a country like Afghanistan, this annex draws from a variety of information sources. A combination of desk research, household survey data, focus groups and in-depth interviews was used to collect the information presented in this annex. Extensive assessment was conducted of previous research on remittance flows and prevalence rates, the remittance market, the legal and regulatory framework and remittance usage. Household survey data collected by the National Risk and Vulnerability Assessment (NRVA) and the IS-Academy Project was assessed to supplement and update information collected from previous studies. Where possible face-to-face and telephone interviews were conducted with key experts, including those from Da Afghanistan Bank, M-Paisa and MTN. Additional detail and insights were gleaned from focus group discussions held for the IS-Academy Project. This methodology proved highly appropriate for collecting information on remittance trends in Afghanistan. The country has undergone several rapid, radical changes - particularly to its financial system - over a short time span. This implies that research conducted 10 years ago, or even 5, can no longer be taken as representative of the present situation. The use of personal interviews to augment missing or out-dated information proved particularly helpful in overcoming such limitations.

This annex contains four key parts. Section 2 contains information on current knowledge about remittance flows and trends. In this section sources of remittance flow data will be canvassed, including balance of payment statistics, household surveys and country case studies. Section 3 discusses the operational infrastructure and management frameworks that facilitate and govern remittances. This section details the remittance channels that operate on the Afghan remittance market as well as the relevant legislative and regulatory environment in which those channels function. Section 4 then turns to remittance usage and the potential impacts of remittances on household and individual well-being. This section provides a profile of remittance senders (as drawn from household surveys), an overview of remittance prevalence rates and the use of remittances to support human capital investment. The final section, Section 5, provides a summary of the annex's key findings while explaining the implications those findings can have for policy and on this basis several recommendations are provided.

# 2. CURRENT KNOWLEDGE AND REMITTANCE TRENDS

## 2.1. MEASURING REMITTANCES: METHODOLOGICAL CHALLENGES

Remittances, the money sent from migrants living abroad to recipients in their countries of origin, represent an economic phenomenon that is difficult to accurately quantify (Orozco, 2007a). Official and unofficial remittance transfer channels each present unique constraints to the measurement of true remittance flows. Measurement of remittance flows can be complicated by a number of factors, the most basic of which include a lack of a consistent definition of remittances, limited and often ineffective monitoring of flows and limited data coordination among agencies (Orozco, 2006).

How remittances are defined naturally affects how remittance flows are measured. While within the migration and development literature remittances tend to be defined as transactions initiated by an individual living outside of his/her country of birth or origin to an individual or organization, the concept is more restrictively defined in remittance measurement frameworks. Perhaps the most commonly accepted definition of remittances is provided by the International Monetary Fund (IMF) in the Balance of Payments Manual, 5th Edition (BPM5) (IMF, 1993).

Within the BPM5 remittances are defined 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 latter is a component of income. In contrast, migrants' transfers are part of the capital account and are a component of capital transfers (Reinke, 2007).

This conceptualization of remittances can challenge attempts to record and report them, particularly in comparative country contexts. Adams (2006) notes that while the BPM5 is clear on how remittances should be categorized within the BOP framework, there is no consistent enforcement that central banks compiling BOP data record remittance flows as the same line items. Lack of consistency in recording remittances by line or category within BOP data can lead to certain countries reporting minimal inward remittance flows despite the presence of a large emigrant workforce (Adams, 2006). A more fundamental issue with the BMP5 conceptualization of remittances is that they are essentially reduced to household income supplied by temporary or permanent migrants working in foreign economies (IMF, 2009). As remittance data are compiled on the basis of official worker remittance flows, transfers sent via informal means are not represented within BOP statistics (Adams, 2006). Further, the migrants' transfers component of the provided definition only encompasses the movement of assets from one locale to another in which the possession of assets remains with the same individual. It does thus not account for the transfer of wealth (from the migrant abroad to a different recipient), which is one of the hallmarks of other remittance definitions (Orozco, 2006). How well the existing definition of remittances enables measurement of diverse remittance flows also affects how well remittance flows are monitored and reported.

Remittance data monitoring and reporting faces a range of additional challenges. The first lies in establishing the "universe" of potential remitters and intermediaries that facilitate remittance transfers to better understand the probable size and volume of remittance flows. This, in turn, relies on knowing the size of the emigrant worker population as well as their residency status, which most central banks responsible for compiling BOP statistics cannot know. A second challenge is in ensuring that data compilation actually occurs. As the BOP information on remittances compiled by central banks is drawn from financial reports provided by individual companies and agencies, the quality of the remittance estimates naturally reflects limitations in the data sources. In many countries not all money transfer operators are required to submit transaction reports unless the transferred values are above a certain threshold specified in law. Further, national laws often specify reporting requirements within a monitoring framework that has been designed for detecting suspected illegal activities like money laundering; types of transactions that fall beyond this realm of concern may escape mandatory reporting requirements. A similar problem relates to communication between and among central banks and other compilers of transfer data and money transfer operators that facilitate remittance transfer. As the majority of transfers facilitated by money service operators may fall outside mandatory reporting requirements, closer communication and coordination between data compilers and key actors in the remittance market could lead to a more complete view of the true scope of remittance flows. Communication beyond established reporting frameworks is seldom done, however, and many migrant transfers - particularly those of low values - may thus go unreported (Orozco, 2006). Despite the presence of a clear definition of remittances and specific guidelines on how remittance reporting should be conducted, large discrepancies exist between and among countries in terms of how completely remittance flows are recorded and reported. This is especially true for Afghanistan, which has only recently seen the development of a financial monitoring framework that would enable the recording and reporting of remittances.

The challenges inherent to measuring remittance information derived from macroeconomic data represent only one source of difficulty in measuring remittances and their impacts. Remittance information presented in macroeconomic statistics and indicators is generally derived from financial reports provided by government agencies, formal financial institutions and other institutions and agencies that have clear and consistent reporting requirements. The same cannot be said of individual remittance senders or recipients, the key respondents on whom household and community surveys rely to collect information on remittance behaviours.

Household survey data are key to estimating the true value of remittance flows into and out of any given country, especially in countries where large flows of remittance move through informal transfer channels that are outside the scope of normal monitoring and reporting activities. Household surveys can provide a direct estimation of the value of remittances sent and received by specific households, but the quality of collected remittance information can vary greatly. Two specific problems face collection of remittance data from household surveys: selection bias and underreporting. Depending on the country context (and specific phenomenon within countries such as spatial segregation of households by socioeconomic status), household survey data may systematically under-sample those households that receive remittances, particularly because many remittance-receivers or -senders may refuse participation in surveys due to confidentiality concerns (Freund & Spatafora, 2005). Inability to access certain households could also be a concern. Pfau and Long (2008), for instance, note that surveys may consistently fail to provide a representative sample of the entire population by failing to include internal migrant households that are either not legally registered (and thus not included in the sampling universe if the list of potential respondent households is derived from official registers) or because they have moved since the sampling lists were drawn (which is a particular concern in countries with rapid urban growth and high rates of internal migration). Failure to include migrant households can translate into truncated remittance data, as migrant households are more likely to send and receive remittances.

The second challenge presented by collection of remittance information from household surveys lies in inaccurate reporting of remittances. Respondents of household surveys tend to underreport sources of income in general and remittances are no exception (Freund & Spatafora, 2005). There are many reasons for underreporting: distrust in the interviewer, distrust in the use of collected data, fear of exploitation based on reported income, fear of taxation for unreported income sources and cultural taboos about discussion of household income with strangers are but a few of the reasons. Exclusion of remittance sending or receiving households from the survey sample and underreporting of remittance values among survey respondents can result in data on remittance flows and behaviours that encompasses only a slim portion of true remittance flows, which naturally contributes to continued uncertainty regarding the volume of remittance represented by informal flows.

These obstacles to measuring remittances, while generic to the entire remittance phenomenon, are present more so in Afghanistan than in many other countries. The persistence of conflict over the past 20 years has resulted in a weak formal financial system characterized by a severely damaged banking infrastructure (Maimbo, 2003). Despite the attempts over the past years to strengthen the formal financial system, Afghanistan's financial system is still modernizing and undergoing much-needed reform and expansion. While the system has improved considerably over the past years, the limited functionality of the formal financial system is reflected in the sparse information about remittances to and from Afghanistan that can be gleaned from official reporting sources. Remittance data derived from household surveys suffers similarly from the effects of conflict and insecurity. Mistrust is a persistent problem that has contributed to incomplete sharing of information in the course of household surveys, resulting in underestimation of the value of remittance flows on a household basis. Further, cultural norms may also play a role in Afghanistan in determining who shares information and how it may be shared, which in turn affects overall data quality. Women, for instance, may not be comfortable with sharing income information with interviewers (and indeed may not speak with male interviewers at all), which could lead to data loss if they are the most-knowledgeable respondents in the household. Additional information on underreporting of remittance information in household surveys will be further discussed in section 2.2.2. below.

# 2.2. REMITTANCES IN AFGHANISTAN: CURRENT STATE OF KNOWLEDGE

## 2.2.1. Remittance Flows: Balance of Payment Statistics

The World Bank, which provides yearly snap-shots of migration and remittance flows, does not provide information on remittance trends in Afghanistan (World Bank, 2011). The absence of remittance aggregates based on balance of payment (BOP) statistics makes present and historical remittance flows and trends difficult to ascertain and understand. The International Fund for Agricultural Development reported that remittances to Afghanistan amounted to nearly USD 2.5 billion in 2006, which would have represented nearly 30 per cent of GDP in that year (Orozco, 2007b). While this figure provides some indication of the volume of remittances moving into Afghanistan, it is a loose estimate that does not encompass true remittance flows.[1] The lack of reliable, internationally comparable aggregate remittance data challenges analysis of remittance trends and their implications for development.

The International Monetary Fund notes that main approaches to obtaining remittance data involve monitoring international transactions reporting systems (ITRS)[2], remittance service provider reporting, household surveys and secondary source data (such as macroeconomic indicators) (IMF, 2009). Fortunately all of these sources are available in Afghanistan, albeit with various levels of quality and representativeness.

Da Afghanistan Bank (DAB) has made particular strides forward in making use of ITRS and money service provider reports to estimate remittance flows. Since 2002, DAB has collected BOP statistics in accordance with international standards for reporting and analysis provided by the IMF in the Balance of Payments Manual (5th edition). Da Afghanistan bank collects information for BOP data from three sources: government organizations, ITRS and money

[1] The figure was calculated based on three estimates: the total number of migrants living abroad, the percentage of migrants that remit money and the annual value of remittances sent (Orozco, 2007a). The methodological note that accompanies this estimate does not specify the source of data for Afghanistan. Given the unreliable and scattered data available on even the most basic characteristics of migration from Afghanistan (such as number of migrants), the remittance figure provided is certainly only a very preliminary estimate.

[2] An international transactions reporting system is a data collection system that collects individual transaction records from banks and other entities that operate in the foreign currency market or that hold foreign assets. Such data are generally gathered from mandatory reports that document transactions channelled through the foreign exchange payment systems, including assets and liabilities connected to non-residents (IMF, 2009).

service providers (MSPs). The inclusion of data from both ITRS and remittance service providers provides timely and frequent estimations of remittance figures. Since 2006, DAB has included remittance data in BOP statistics according to two measures: workers' remittances and compensation of employees (Nabizada, personal communication, 2012). Using these two sources, DAB has reported the following remittance data for the 2006-2012 period:

**Table 1: Net remittance flows (BOP, in USD millions), 2006-2012**

| | 2006/07 | 2007/08 | 2008/09 | 2010/11 | 2011/12 |
|---|---|---|---|---|---|
| Net Remittances | - 21.8 | 394.9 | - 91.8 | - 104.0 | 325.2 |
| Received | 20.5 | 625.5 | 89.7 | 228.4 | 679.8 |
| Sent | 42.4 | 230.6 | 181.5 | 332.4 | 354.6 |
| Remittances as % of GDP | - 0.2 | 3.7 | - 0.7 | - 0.6 | 1.6 |

*Source:* Nabizada, personal communication, 2012.

Before interpreting this information, several notes should be made. The exclusive inclusion of workers' remittances and compensation of employees implies that certain remittance flows (those that would fall under the category of migrant transfers) are not captured in this data. Further, the collection of BOP data from ITRS and MSPs implies that informal flows are not captured and reported. While exclusion of informal flows is a problem in remittance reporting in general, informal flows likely make up a much greater proportion of remittance flows in Afghanistan. As is discussed in further sections, the formal financial sector in Afghanistan is still growing and improving and a great volume of financial transactions occur in the informal financial sector. While DAB has made great strides to formalize, license and monitor MSPs (most important among them *hawaladars*[3]), the number of MSPs outside DAB supervision is still significant. It should be assumed that a large volume of remittances move through informal channels and will thus not be incorporated in BOP statistics. This is by no means unique to Afghanistan, but the volume of remittances transferred informally may greatly exceed those transferred formally given the still-recovering financial sector, the prominent position of the *hawala* system and the very limited penetration of formal financial institutions.

A further note about interpretation of this data relates to its comprehensiveness. Afghanistan's BOP data are not widely disseminated by the World Bank or the IMF due to the limited coverage and accuracy of data. As noted in a 2011 country report on Afghanistan:

[3] *Hawala* is an informal value transfer system in wich money is transferred via a network of *hawaladars*. The system is based on trust whereby money can be made available internationally without actually moving it. The system will be discussed in more detail in Section 3 of this report

> Although improving, the compilation process suffers from a paucity of source data, low organizational capacity, and limited resources...additional work is required to improve the coverage and accuracy of the estimates to level that would make the data acceptable for broader dissemination (IMF, 2011: 15).

The reported remittance data can thus be expected to be just preliminary estimates of true remittance flows; as source data improve, so, too, will the scope of remittance data.

Despite such caveats, the above overview demonstrates several important features of remittance reporting in Afghanistan. As remittances are exclusively reported in BOP statistics on the basis of compensation of employees and workers' remittances, the flows may reflect wider labour migration trends. The negative net remittance values reported in several years could indicate changes in migration and migrant employment trends. The greater outward remittance flows reported in several years likely reflect the compensation of international staff working in Afghanistan, much of which is delivered to foreign bank accounts and is thus easily incorporated into official accounting. The relatively greater volume of remittances leaving the country make the net remittance value appear negative, but the reduction in remittance receipt from 2008 until 2011 also contributes to a negative net remittance value. The significant reduction of received remittances from the 2007/08 to 2008/09 reporting period is of particular note. The reduced inward remittance flows could mirror overall contracting of various economies during the global economic crisis. Reduced remittance flows could reflect declining new emigration flows, higher rates of migrant return, reduced wages of current migrants and higher unemployment of migrants. While the applicability of these reasons may be limited in the Afghan context because of specific characteristics of Afghan migration (for instance, circular movement to the neighbouring Islamic Republic of Iran and Pakistan may be unlikely to stagnate or change), they provide possible explanation for declining inward remittance flows during the heaviest crisis years. The relatively limited inward flows of remittances may also reflect specific features of labour migration trends. Many young Afghan men who migrate for labour purposes may be employed as day labourers, short-term employees or other forms of non-contracted worker. The informality of the employment may well reflect in employee remuneration, which is likely to be done in cash or in kind and unlikely to occur through a bank account. This could imply that key remittance flows are not monitored and reported in the BOP framework.

The net remittance values provide an interesting picture of remittance trends over the DAB reporting period, but it is difficult to assess how well they reflect true remittance values. While this is a problem all countries face (BOP statistics are generally acknowledged to underestimate remittance flows because of the definition of remittances used), it is especially difficult in Afghanistan to make any statement on how well these reported BOP statistics encompass remittance flows. The contrast between the 2006 DAB-reported remittance values and those estimated by the International Fund for Agricultural Development (IFAD) illustrate this well. The IFAD estimation of USD 2.5 billion deviates quite sharply from the USD 20.53 million reported by DAB and it is unclear if the exclusion of other sources of remittances aside from workers' remittance and compensation of employees as well as exclusion of remittances transferred via informal channels would be significant enough to bridge this gap.

As noted above, the BOP statistics have only been compiled for recent years since 2002 and remittance statistics have only been available since 2006; other historical statistics are largely absent. Showing the progression of remittance trends and flows is thus very challenging. Information of remittances is also not as complete as would be preferable. Presently DAB does not disaggregate remittance data declared in BOP statistics according to country of origin (for incoming remittance flows) or country of destination (for outgoing remittance flows). While DAB plans to make this information available in the near future, the lack of distinction of remittance flows makes it necessary to turn to other sources of remittance data for insights into the behaviour of remittance flows.

### 2.2.2. Remittance Flows: Household Surveys

As an alternative to BOP data as a source of remittance statistics, household surveys can provide additional information on remittance values and trends. While household surveys do not reflect large-scale remittance trends as well as BOP data potentially could, data derived from surveys are generally better disaggregated and reflect more diverse sources of remittances than just compensation of employees and workers' remittances.

Several key surveys can provide windows into remittance trends in Afghanistan. While Afghanistan has not had a full national census since 1979 (a pilot census was conducted in 2002), several smaller-scale surveys have been implemented that contain key remittance indicators. Two particular surveys will be evaluated here: the National Risk and Vulnerability Assessment (NRVA) and the IS Academy: Migration and Development survey, which was jointly funded by the International Organization for Migration (Kabul) and the Dutch Ministry of Foreign Affairs.

In lieu of a national census, the National Risk and Vulnerability Assessment provides the most comprehensive information available on households across

Afghanistan. The NRVA is a nationally representative survey that included 22,576 households in 34 provinces and 11 urban centres across Afghanistan when it was conducted in 2007/08. The NRVA was implemented by the Afghan Ministry of Rural Rehabilitation and Development (MRRD) and the Central Statistics Organization (CSO). The household survey conducted for the NRVA collected comprehensive information on participating households; the survey included 20 sections, each of which collected information on a specific theme like housing, assets, education, sources of household income or health. Perhaps more importantly for the present discussion on remittances, the NRVA included sections on emigration and sources of household income, including remittances (Icon-Institute, 2009).

Among the NRVA's respondent households, 6.3 per cent had received remittances from any source over the past year. Recipient households reported that they received an average of 2.32 transfers per year from each sender and while the average transfer value was not recorded, nearly 2 per cent of households reported that remittances received from someone living abroad constituted the most important source of household income. More than half of remittance senders were biological children of the household head and the vast majority (98%) of senders were male.

The geographical distribution of remittance senders provides additional insight into remittance patterns. The majority of remittance senders (68%) lived in the Islamic Republic of Iran, while only 4.4 per cent lived in Pakistan. This marked difference in remittance-sending patterns between the two countries mirrors migration trends in general, but it may also reveal larger underlying differences in the lives of migrants in each country. The NRVA notes that among the current migrants who left the household in the year preceding the survey, 8 per cent lived in Pakistan at the time of the survey and 72 per cent lived in the Islamic Republic of Iran. Among return migrants who had lived abroad in the five years preceding the survey, however, the pattern changes dramatically, with 31 per cent of migrants having lived in Pakistan and 67 per cent in the Islamic Republic of Iran (Icon-Institute, 2009). This shift in destination can be attributed to two trends. The first is that the Government of Pakistan had become increasingly hostile to Afghan migrants and less lenient toward unregistered migrants, which discouraged potential migrants from making a potentially expensive journey that could end in deportation. The second is that relatively more migrants had migrated to Pakistan to seek protection rather than to find work, which was the primary cause cited for migration to the Islamic Republic of Iran. This latter reason could also help explain differences in remittance-receiving patterns by source country. If more migrants living in the Islamic Republic of Iran had migrated there to find work and had succeeded in doing so, it would not be unreasonable that they would have more income to remit. On the same token, if individuals who migrated to Pakistan did so for security reasons, it may be more likely that whole families migrated together. It could then be that migrants to Pakistan are less likely to have family members remaining in Afghanistan to whom they can send remittances.

As the NRVA was designed to provide more contemporary data on a range of population characteristics, its focus was not exclusively on migration and remittance trends. The IS Academy: Migration and Development Project (hereafter referred to as the IS Academy Survey), on the other hand, was designed with the exclusive purpose of exploring the links among migration, return, remittances and development in Afghanistan. Conducted by Maastricht University and funded by the Dutch Ministry of Foreign Affairs and the International Organization for Migration in Afghanistan, the IS Academy Survey was conducted in partnership with the Afghanistan Central Statistics Office and implemented by Samuel Hall Consulting. While more limited in scope than the NRVA, the IS Academy Survey was designated to investigate migration and its associated phenomenon more specifically and in more depth. The survey was conducted in April and May of 2011 among 2005 households in five provinces (Balkh, Herat, Kabul, Kandahar and Nangarhar). The survey split the sample pool into non-migrant households, present-migrant households and return-migrant households to allow for systematic analysis of differences between and among groups.

The results of the survey reveal a low overall rate of remittance receipt that is not dissimilar to that reported by the NRVA. Of the surveyed households, 152 (7.6%) reported that they had received remittances from someone living abroad in the 12 months preceding the survey. Recipient households reported receiving remittances relatively infrequently, with 26 per cent reporting that they had received remittances once in the past year and an additional 24 per cent reporting that had received transfers on an irregular basis. A smaller proportion (16%) reported receiving remittances every three months, while 11 per cent reported receiving remittances every month. The value of received remittances differed significantly among respondents. The average value of each received transfer was USD 391 with a reported low of USD 6 and a reported high of USD 3,110. The total amount of remittance received by households also differed widely across households: while the average total value of remittances received in the past 12 months was USD 1,514, the total value received ranged from USD 18 to USD 17,644. As can be seen from Table 2, the majority of remittances were sent by individuals living in the Islamic Republic of Iran (75%), while a much smaller proportion (11%) were sent from individuals living in Pakistan. An additional 2 per cent of remitters lived in the United Kingdom and 2.5 per cent in Saudi Arabia.

A small number of remittance-receiving households (2.8%) reported sending some of the received remittances on to another household in Afghanistan. While this is a relatively small number of households, it is nonetheless an interesting trend, as it signals that remittances may have a wider reach than single intended recipient, which could in turn lead to larger second and third order effects.

**Table 2: Origin country of incoming remittance flows, IS Academy**

| Country | Number of Individuals | % of total flows |
|---|---|---|
| Islamic Republic of Iran | 124 | 73.3 |
| Pakistan | 20 | 11.8 |
| United Kingdom | 5 | 2.9 |
| Saudi Arabia | 4 | 2.4 |
| Belgium | 3 | 1.8 |
| Greece | 2 | 1.2 |
| Germany | 2 | 1.2 |
| United Arab Emirates | 2 | 1.2 |
| Austria | 1 | 0.6 |
| Canada | 1 | 0.6 |
| The Netherlands | 1 | 0.6 |
| Spain | 1 | 0.6 |
| Tajikistan | 1 | 0.6 |
| Turkey | 1 | 0.6 |
| United States | 1 | 0.6 |
| Total | 169 | 100.0 |

*Source:* IS Academy Survey, 2011.

The information collected about current remittance-receivers can be complemented by information about remittance-sending behaviours of return migrants. The IS Academy Survey asked retrospective questions to return migrants regarding their remittance-sending behaviours while abroad. Of the sample of 1,100 households with a return migrant, nearly 12 per cent (127 households) noted that the return migrant had sent remittances home while in the country of migration. The frequency of sending was reported for 28 per cent of returnees as being once every three months, while an additional 21 per cent sent money once every six months. In contrast to the experiences of current remittance-receivers, only a small proportion of return migrants (7%) reported sending remittances only irregularly. Values of reported remittances sent while abroad differed significantly among respondents, with a reported average of USD 220 sent on each occasion.

In addition to sending money home while abroad, 35 per cent of returnees also reported bringing money back to Afghanistan upon return. The values of these returned assets widely differed, from a low of less than USD 1 to a high of USD 20,000. Table 3 below summarize the remittance-sending behaviours of return migrants by country of residence abroad. The table notably highlights discrepancies in remittance-sending behaviours among individuals who had resided in different countries, which may reflect overall migration trends.

Knowledge of remittance trends and flows was further investigated in the IS Academy Survey by collection of information on the sending of remittances to households abroad. While a series of question on outgoing remittances was asked, only six households (less than 1%) indicated transferring money abroad. The remitted values ranged from USD 500 to USD 5,276 in total.

**Table 3: Remittance behaviour of return migrants, IS Academy**

| Country of Migration | Remittances Sent | | | Money Brought on Return | |
|---|---|---|---|---|---|
| | # | Average Frequency of Sending/Year | Average Amount Sent/Transfer (in $) | # | Average Amount (in $) |
| England | 1 | 4.0 | 882.2 | 1 | 20000.0 |
| Iran | 119 | 4.4 | 220.7 | 249 | 1032.3 |
| Tajikistan | 1 | 2.0 | 165.9 | 1 | 414.8 |
| Pakistan | 9 | 4.3 | 69.1 | 130 | 897.3 |
| Dubai | 0 | - | - | 1 | 622.1 |
| Saudi Arabia | 0 | - | - | 1 | 5444.9 |
| Not Identified | 5 | 3.6 | 247.9 | 10 | 2171.3 |

*Source*: IS Academy Survey, 2011.

The relative paucity of data on remittances derived from the survey is not entirely surprising, as the overall rate of current migrant households in the data stood at just over 10 per cent. Perhaps more importantly, however, it is clear that respondents underreported receipt of remittances. As discussed above, many respondents are hesitant to disclose financial information during the course of household surveys and the IS Academy Survey proved no exception. While it is difficult to estimate the degree of underreporting, a significant portion of households withheld remittance information from the interview team. Despite reluctance to share remittance and income information, the IS Academy Survey suggested that the volume of remittance moving into Afghanistan is significant.

## 2.2.3. Remittance Flows: Case Studies

Official balance of payment statistics and data gathered in the course of household and community surveys can also be combined with and augmented by data provided by country- and corridor-specific migration and remittance studies. Despite the sizeable Afghan populations abroad, relatively few recent studies have been conducted that report on the size (and use) of remittance flows between Afghanistan and countries host to large Afghan-origin populations. There are fewer still studies on the nature of out-going remittance flows from Afghanistan. What studies are available provide important insight on the size of remittance flows into and out of Afghanistan, however, and it will thus be helpful to describe them in brief in this section.

### *2.2.3.1. Islamic Republic of Iran - Afghanistan*

Given the long history of Afghan migration to the Islamic Republic of Iran, a number of studies have been produced about the retained links between Afghan migrants living in the Islamic Republic of Iran and their families who remain in Afghanistan via the sending and receiving of remittances. While many studies offer a glimpse of the monetary flows travelling across the border, many studies focus less on the volume and frequency of remittance transfers than on the myriad social functions remittances perform.[4] While no single study comprehensively surveys complex remittance trends, each contributes to greater understanding of this pivotal migration corridor. A short selection of studies will be presented here.

A 2006 ILO-UNHCR study among 1,505 Afghan households in 10 Iranian cities revealed that the rate of remittance sending to Afghanistan was relatively low, with less than 7 per cent of household reporting that they had sent remittances. This is largely due to the absence of immediately family members who have remained in Afghanistan (and who could then receive remittances), but it is also reflective of high costs of living in the Islamic Republic of Iran, low daily wages and a consequent inability to build savings. Among the individuals who reported sending remittances in the last year, the average amount remitted was approximately USD 960 (Wickramasekara et al., 2006).

[4] Monsutti (2004) notably documents the role of remittances in sustaining and reproducing social ties among Hazara migrants in the Islamic Republic of Iran.

In 2008, it was estimated that Afghan labourers working in the Islamic Republic of Iran sent roughly USD 500 million annually to their families in Afghanistan in the form of remittances, accounting for around 6 per cent of Afghanistan's GDP in that year (Majidi, 2008). This figure was derived from a study on Afghan labourers who had been deported from the Islamic Republic of Iran and given the very specific subpopulation on which it focused, the reported remittance values do not completely encompass the full remittance flow from the Islamic Republic of Iran to Afghanistan.

### *2.2.3.2. Pakistan - Afghanistan*

Despite the large number of Afghans residing in Pakistan, relatively little information is available on the characteristics of the remittance flow between the two countries. Several case studies conducted by the Collective for Social Science Research in Pakistan and the Afghanistan Research and Evaluation Unit (AREU) of Afghans living in Pakistan provide some cues to remittance sending behaviours. In a 2005 study of Afghan settlements in the Pakistani city of Karachi, remittances were not found to be sent often to family members remaining in Afghanistan. Many of the respondents described themselves as poor day labourers who seldom had extra money to remit, prompting the study's author to note: "the evidence of this fieldwork does not support the hypothesis that people in Afghanistan sent part of their families to earn in Pakistan and send back remittances" (Collective for Social Science Research, 2005: 36). A 2006 case study of Afghans living in the city of Peshawar found that remittances were seldom if ever sent to Afghanistan. The study found that rather than sending remittances to family members or friends who had remained in Afghanistan, some household in Peshawar's refugee camps and informal settlements relied on remittances received from family members working in Afghanistan to meet the household's basic needs. While many Afghan migrants had settled in Peshawar after fleeing insecurity in Afghanistan, some household members returned to Afghanistan for work due to lack of opportunities in Pakistan (Collective for Social Science Research, 2006).

A 2009 study conducted for UNHCR provides additional insights into the potential remittance flows moving between Pakistan and Afghanistan. Within this study a short survey was implemented among 2023 individuals crossing the Pakistan-Afghanistan border at one of two crossing points. The study found that less than 6 per cent of male Afghan migrants to Pakistan remit money back to Afghanistan and 19 per cent of all respondents reported having brought money back to Afghanistan after their last trip to Pakistan. While average remittance values were not reported, they can be expected to be low, as the average monthly savings of respondents was just USD 16 from a monthly wage of USD 112. The relatively low incidence of remittances reflects characteristics of the study sample group. The study's implementation among Afghan migrants crossing into Pakistan entailed that a large number of temporary and circular migrants were surveyed. The study revealed that the surveyed migrants regard movement to Pakistan as part of a low risk, low cost livelihood strategy. The majority of respondents (81.3%) described their migration as cyclical, with most reporting frequent trips between Afghanistan and Pakistan. Wage differentials between Pakistan and Afghanistan were not large and opportunities to build savings or remit wages were likewise reported as low. The availability of jobs rather than superior wages was the prime reason most respondents indicated for migrating to Pakistan, which would explain the limited remittance sending (Majidi, 2009).

### *2.2.3.3. United States - Afghanistan*

Large populations of Afghan migrants exist beyond the neighbouring states of the Islamic Republic of Iran and Pakistan, albeit in smaller numbers. The United States is home to a large number of Afghan-origin individuals; while population estimates vary, the 2011 American Community Survey enumerated over 89,040 Afghan-born residents in the United States (US Census Bureau, 2013). Hanifi (2006) notes that the Afghan diaspora in the United States estimates their own numbers at closer to 100,000 people. The size of the population could imply the size of potential remittance flows to Afghanistan; Hanifi notes that in 2004, the Afghanistan Investment Support Agency (AISA) estimated that the Afghan-origin population of the US and Canada was around 500,000 people. At an average contribution of USD 1,500 per person in remittances per year, AISA estimated that approximately USD 75 million per year were transferred between North America and Afghanistan in the form of remittances (Hanifi, 2006).

Despite the size of the Afghan diaspora living in the United States, relatively few studies have been conducted about their remittance-sending behaviour. Hanifi's 2006 study of a *hawala* dealer in Washington, D.C. revealed some key information about the remittance behaviour of Afghan residents of the United States. On the basis of 76 surveys conducted among Afghan clients of a particular *hawaladar*, Hanifi found that relatively large volumes were being transferred via the informal *hawala* transfer system to Afghanistan. While 64 per cent of the surveyed individuals reported sending less than USD 5,000 per year, 25 per cent reported sending between USD 5,000 and USD 10,000 and an additional 18 per cent reported transferring up to USD 20,000 per year (Hanifi, 2006). As the respondent pool was comprised entirely of *hawala* clients, these figures could suggest that large volumes of remittances are transferred to Afghanistan via channels that are not monitored or included in formal transfer statistics.

### *2.2.3.4. Germany/ The Netherlands - Afghanistan*

While much less has been written about the Afghan population living further afield, the considerable size of the Afghan migrant population living in parts of the European Union, notably Germany and the Netherlands, has called attention to remittances flowing to Afghanistan from Europe.

The Afghan community in Germany is the largest in Europe, with the German Federal Statistical Office estimating that approximately 145,000 Afghan-origin migrants were resident in 2011 (Statistisches Bundesamt, 2012). In a 2007 study of the Afghan community in Germany, Vadean suggested that significant remittance flows could be travelling between Germany and Afghanistan, particularly given the size of the Afghan-origin population. Statistics from the German Federal Bank estimated that EUR 22 million in workers' remittances alone were sent to Afghanistan in 2004. This estimate is based on cash hand-carried by foreign workers returning to Afghanistan as well as estimates of the number of Afghan foreign workers in Germany who are subject to social insurance deductions. Vadean notes that these estimates are likely to underestimate the true size of remittance flows from Germany to Afghanistan for several reasons. The first reason is that when foreign workers hand-carry cash to their countries of origin, they are not required to declare amounts of less than EUR 15,000 at customs. This would imply that smaller hand-carried values are never registered by customs authorities and as EUR 15,000 is a large sum of cash - particularly to hand-carry back to Afghanistan - it is likely that a large number of hand-carried amounts had a value under the reporting threshold. The second reason that the estimation may not encompass complete remittance flows is that estimations of workers' remittances based on mandatory social security deductions would miss workers with earnings below deduction thresholds, thus part-time workers and students (among others) may not be included in estimations. Third, German citizens are not included in estimations of workers' remittances. Approximately 40 per cent of all Afghan-origin residents in Germany have been naturalized, thus a significant proportion of potential remitters would be excluded from estimate of workers' remittances (Vadean, 2007).

A similar discussion can be had about flows of remittances from the Netherlands to Afghanistan. In 2009, a study of the remittance corridor between the Netherlands and Afghanistan was conducted and based on data provided by the Dutch Central Bank, remittance flows to Afghanistan from the Netherlands were estimated at EUR 80,000 for the 2008 fiscal year. While the volume of remittances between the Netherlands and Afghanistan would be expected to be smaller than the flow between Germany and Afghanistan due to differences in the size of the resident Afghan population, the volume of recorded remittances appears considerably lower than other evidence would suggest. The estimated EUR 80,000 reflects money that was transferred to Afghanistan through a formal financial channel registered with the Dutch Central Bank such as a bank or money service provider. Given the informal nature of remittance sending to Afghanistan, the estimate is likely to exclude the majority of remittance transfers. The household survey conducted within the remittance corridor study would seem to confirm this notion. Among the 47 participating households, around 40 per cent reported sending in-kind remittances and 54 per cent reported sending monetary remittances in the last year. Most of those households that sent in-kind remittance sent goods three to four times in the past year. The majority of those households that sent monetary remittances reported sending between one and two transfers in the same time period. While the average value of each transfer was reported at EUR 300 or less, some respondents reported average transfer values of over EUR 1000 and reported more frequent sending. The majority of respondents relied on friends or family returning to Afghanistan to hand-carry these remittances, thus such remittance transfers would not be reflected in central bank estimations (Siegel et al., 2010).

Given the limited information available on remittance flows to and from Afghanistan, it is difficult to understand the dynamics and potential impacts of remittances on receiving countries. Given limitations in reporting of remittances, the information available on remittance flows is patchy and must be derived from multiple sources. The table below summarizes remittance data from country studies according to the countries of origin and destination, the value of remittances, the reporting year and the source of information.[5]

[5] Note that remittance data derived from BOP statistics are excluded, as there is no indication of the source or destination countries of flows.

**Table 4: Remittance transfer corridor volumes**

| Country of Origin | Country of Destination | Sample Group | Value of Flow | Year | Source |
|---|---|---|---|---|---|
| Islamic Republic of Iran | Afghanistan | Deportees from the Islamic Republic of Iran | USD 500 million | 2008 | Study of Afghan labour migrants in the Islamic Republic of Iran (Majidi, 2008) |
| Pakistan | Afghanistan | - | - | - | - |
| United States | Afghanistan | Afghan diaspora members in the United States | USD 75 million | 2004 | Study of Material and Social Remittances to Afghanistan (Hanifi, 2006) |
| Germany | Afghanistan | Figures derived from workers' remittances | EUR 22 million | 2004 | Study of Afghans in Germany (Vadean, 2007) |
| The Netherlands | Afghanistan | Afghan-origin residents of the Netherlands | EUR 80,000 | 2008 | The Netherlands-Afghanistan Remittance Corridor Study (Siegel et al., 2010) |

# 3. REMITTANCE INFRASTRUCTURE AND MANAGEMENT FRAMEWORKS

## 3.1. REMITTANCE CHANNELS

The means through which remittances move from one side of a transfer corridor to the other is referred to as a remittance 'channel'. The channel through which a transfer moves is a pivotal aspect of the remittance discussion, as a channel's availability and characteristics can affect frequency and value of transfers as well as the transfer's capacity to affect the financial market at large. This is especially true in a country like Afghanistan, where limited geographic penetration of services coupled with regulatory barriers can imply that only certain channels can be used to move money from a specific origin to a specific destination.

In discussing characteristics of the Afghan remittances market, it is especially important to distinguish among the different remittance channels that are available to facilitate transfer. A starting point to this is distinguishing between two types of channels: formal and informal. Formal remittance transfer channels are those that are regulated within the country in which they are operating. In general this implies registration and monitoring of businesses as well as compliance with specific monetary policies. Informal channels, in contrast, are those that function outside of an established legislative framework. While informal channels are not necessarily unregulated, they do not face the same formalized compliance measures that formal transfer channels do. These generic descriptions of formal and informal channels are further elaborated below, as within the Afghan context the distinction between formal and informal channels is an imperative yet subtle one. As regulation is one of the key distinguishing features of remittance channel type, remittance channel regulation and management frameworks should immediately be discussed in brief.

Present governance of remittance channels in Afghanistan is intimately tied to widespread reconfiguration of governance infrastructure and institutions initiated by the 2001 political transition. The financial and banking systems were in particular need of updating and reform. The banking system had been crippled both by physical destruction and by restrictions placed by the Taliban regime, which disallowed banks to pay or charge interest in adherence to Sharia law. Commercial banks thus essentially ceased all lending activities during the Taliban years and the six banks that were licensed at the end of 2001 were largely inactive (Pavlovic & Charap, 2009). The formal financial system was placed under additional strain during the years of the Taliban regime by international sanctions against Afghanistan, which disrupted the international payments system and isolated Afghan banks from international banking relationships (Maimbo, 2003). Further, "the banks lacked connectivity, reliable information on assets and liabilities and did not follow commonly agreed and accepted accounting standards." (Pavlovic & Charap, 2009: 7) In an attempt to strengthen the financial sector and boost the development of commercial banking, Da Afghanistan Bank's mandate was updated in 2003. The Law of Da Afghanistan Bank established DAB as a fully autonomous entity from the Government of the Islamic Republic of Afghanistan. This autonomy was accompanied by the capacity to enact regulations relating to the financial sector (Islamic Republic of Afghanistan, 2003a).

While DAB does maintain autonomy, its overall strategic orientation is aligned with that of the government, which is reflected in more recent reforms in the banking sector that coincide with the priorities and goals outlined in the Afghanistan National Development Strategy (2008-2013) (ANDS). Starting with the Afghanistan Compact and Interim Afghanistan National Development Strategy first endorsed in 2006, the current ANDS outlines strategic goals for 17 sectors, six strategies for cross-cutting issues and 38 strategies for line ministries and agencies (UNDP, 2008). The ANDS addresses the financial system and its regulation in sections outlining the macroeconomic framework and economic and social development, where the role of DAB, fostering expansion of banking institutions and maintaining oversight over financial transactions, is explicitly discussed (Islamic Republic of Afghanistan, 2008). The types of regulations and reforms pursued by DAB go far beyond what is discussed in the ANDS and addresses specific aspects of financial transactions, particularly as they relate to international standards on anti-money laundering and combating the financing of terrorism (AML/CFT).

Of particular relevance to remittances are those regulations passed by DAB that relate to money service providers (MSPs) and foreign exchange dealers (FX dealers). The first regulations for MSPs and FX dealers were issued in 2004 by the Supreme Council of DAB and have since been updated to reflect changes in the money transfer market. While a number of institutions and agencies within the Afghan government affect remittance infrastructure and its regulation, DAB is the most relevant given its authority "to issue or register the license and to regulate and supervise banks, foreign exchange dealers, money service providers … and such other persons as shall be submitted to its oversight in accordance with the law."[6] The regulations elaborated for supervision of each type of financial service is discussed below by the type of provider.

Given the general supervisory framework that has recently been established in Afghanistan, it is particularly important to understand how supervision and monitoring help distinguish remittance channels. Afghanistan is home to a number of formal and informal remittance channels, including commercial banks, microfinance institutions, money transfer operators, the *hawala* system and electronic money institutions. While each category is easy to theoretically distinguish, in operation the boundaries between each type of channel are not so discrete.

### 3.1.1. Banks and Microfinance Institutions

The formal financial system has improved considerably in Afghanistan over the past years. Progressive regulatory and monitoring reforms have contributed to a more reliable banking network that has experienced significant growth. In 2008, there were 15 licensed commercial banks with 183 service branches in 20 out of 34 provinces (Pavlovic & Charap, 2009). As of August 2011 there were 17 licensed and permitted banking organizations in Afghanistan, of which 10 were private banks, two were relicensed state banks and five were branches of foreign banks. Collectively these 17 banking organizations were represented by 745 banking facilities operating in all 34 provinces and Kabul (DAB, 2011).

**Table 5: Banking facilities, 2011**

| Type of Facility | Number |
|---|---|
| Deposit-only facility* | 215 |
| Limited-service branch | 178 |
| Full-service branch | 173 |
| Other facilities** | 94 |
| Automated teller machine | 85 |
| Total | 745 |

*Source:* DAB, 2011.

*Notes:* * DAB designates this as a Type 23 facility, "…which only receives cash from the public for deposit into the account of different person or legal entity…" (DAB, 2011: 1).

** This includes facilities of type 21, 24 and 25; see DAB, 2011 for details.

The saturation of facilities is clearly not the same throughout all provinces, but there are no figures that provide a better overview of the facility coverage by province. Despite improvements in the banking sector, bank usage rates have

[6] Article 2, subclause 2.2.5 of the Afghanistan Bank Law (Islamic Republic of Afghanistan, 2003q: 2).

remained low. The International Finance Corporation (IFC) estimates that only around 3 per cent of the Afghan population can be considered 'banked' (IFC, 2009). This is due, in part, to the limited regional penetration of banks and bank branches as well as persistent insecurity associated with the use of banks.

Minimum balance requirements, usage fees and strict policies may further make banks difficult for average Afghans to access and trust. The higher administrative burden associated with bank use could also act as a deterrent for Afghans, especially considering the high illiteracy rates[7] that persist across the country (Thompson, 2006). The formal banking system is thus also not a significant player in the remittance market. Limited usage of banks in general translates into banks receiving a smaller market share of remittance transfers, which is perhaps reflected in the limited interest of the banking sector in expanding remittance services. Rather than offering remittance services directly, most commercial banks focus on partnerships with MTOs to capture remittance business (see section 3.1.2.1). This is not due to lack of infrastructure: all of Afghanistan's registered banks are now equipped to make inter-bank transfers using SWIFT[8] protocols and standards, which efficiently link Afghan banks with a number of correspondent banks. Inter-bank transfers via the SWIFT network are relatively more expensive for the consumer, however, and consequently generally only merchants and businessmen with large transaction values make use of this system (Qyami, personal communication, 2011). Transfers made via SWIFT do present a valuable source of revenue for commercial banks, however, but it does not seem to incentivize banks to expand services for small remittance value transfers. In a 2009 interview[9], Dr. Samuel Maimbo, an expert on the Afghan informal financial system, noted:

> ...These banks are really moving in to capture the development money that is flowing into the country, so their client base remains primarily international organizations and employees of international organizations and really very large, substantial transactions. There are very few institutions at this stage who are opening nation-wide bank branches... For the remainder of the country, people still rely on the *hawala* system.

Despite recent improvements and expansions, the commercial banking sector is still not widely used by non-business local populations and is instead better geared to capture trade, investment and aid flows. This may slowly be changing, however, as commercial banks partner with innovative service providers in other sectors such as mobile telecommunications to facilitate service use via non-traditional means (see section 3.1.3). Further improvements to

[7] In 2006, Thompson noted a literacy rate of 36 per cent; no newer estimates are available from traditional sources such as UNICEF or the Human Development Index.
[8] Society for Worldwide Interbank Financial Telecommunication.
[9] Conducted by the author for the Netherlands-Afghanistan remittance corridor study (see Siegel et al., 2010).

smaller consumer-oriented banking may come in the form of expanded banking formats, however. In addition to the 17 regulated banking organizations, a number of microfinance institutions (MFIs) operate across the country. As of this writing, MFIs are not licensed and regulated by DAB due to the unique position of MFIs in the Afghan financial system. Most MFIs operate within the framework of the Microfinance Investment Support Facility for Afghanistan (MISFA), which was established in 2003 at the behest of the Afghan government. The aim of MISFA is to coordinate international donors wishing to provide funding and technical assistance for the microfinance sector. The organization functions as an independent apex organization that realizes activities via implementing partners. These partner MFIs are registered as non-profit organizations that are members of the Afghanistan Investment Support Agency (AISA). The specific legal status and monitoring and oversight conducted by MISFA excuses MFIs from DAB regulations (MISFA, 2011). In 2011, MISFA had nine partner MFIs operating in 23 provinces (DAB, 2011).

The link between microfinance institutions and remittances may not seem obvious, but particularly in countries with a weak formal financial infrastructure, limited use of banking institutions and a large number of rural poor, remittances and MFIs can provide a very dynamic coupling. The International Fund for Agricultural Development notes that remittances can play a key role in financial sector outreach: linking remittances to other financial services and products (like microcredits) can help not only contribute to capacity development among (rural) financial institutions but also help lower transaction costs for remittance transfers (Sander, 2006). While Afghanistan has not yet seen explicit attempts to couple remittance services and MFIs (via provision of micro-remittance services, for instance), the electronic money institution M-Paisa (see below) has already been used to facilitate repayment and dispersal of microfinance loans. The M-Paisa[10] service, which also supports the transfer of remittances, may then become a possible bridge between remittances and MFIs.

### 3.1.2. Money Transfer Operators/ Money Service Providers

Within the Afghan context, money transfer operators (MTOs) and money service providers (MSPs) are financial service agents (individuals and business entities) that conduct fund transfers and, optionally, cheque cashing

[10] Roshan Telecommunications, the operator of M-Paisa, has taken a number of steps to couple mobile use with expanded financial service provision. In addition to its partnerships with three MFIs, Roshan has recently partnered with Azizi Bank and Habib Bank Limited (HBL) to link M-Paisa users' m-wallets with saving accounts at banks. The envisioned service would allow customers to transfer money directly from their m-wallets into bank accounts without having to physically visit a bank. This could help expand savings opportunities to the formerly unbanked (Khoja et al., personal communication, 2012).

and safekeeping services (Qyami, personal communication, 2012). Given the importance of traditional value transfer systems in Afghanistan, it is key to make a clear distinction between MTOs and MSPs in the Afghan context. For our purposes MTOs are those organizations that only offer money transfer services and function through the formal financial system. Money service providers, on the other hand, provide a range of financial services and can be regulated or unregulated. While there is some overlap between MTOs and MSPs (all MTOs are MSPs, but not all MSPs are MTOs), this section will be split into two sections to facilitate better understanding of remittance facilities in Afghanistan relative to their role in the economy as a whole. The section on MTOs will include only Western Union and MoneyGram, while the section on MSPs will cover the system of *hawala*.

#### *3.1.2.1. Money Transfer Operators: Western Union and MoneyGram*

The coverage of MTOs in Afghanistan in extremely limited, as Western Union and MoneyGram are the only registered *non-hawala* MSPs in the country. Both Western Union and MoneyGram are firmly tied to the commercial banking sector: point-of-sale offices for both companies are exclusively on bank premises. Of the 17 registered banks in Afghanistan, 16 provide Western Union service and only one, the Afghanistan International Bank, provides MoneyGram services. Access to these MTOs is limited as most are hosted only in the main offices of banks, excepting New Kabul Bank and Azizi Bank that also offer Western Union services at some of their branch locations (Qyami, personal communication, 2011).

In addition to limited regional penetration of MTO services, both Western Union and MoneyGram are regarded as being relatively more expensive. In addition to a base transfer fee applied to every transaction, the overall cost for sending a given transfer value is not entirely transparent because of undeclared foreign currency conversion rates. Western Union, for instance, states that the currency conversion rate applied to any given transaction is set by Western Union; if at the time of pay out that rate has changed and differs from the rate quoted to the initiator of the transfer, any surplus generated by exchange rates will be kept by Western Union or its agents (Western Union, 2013). The online Western Union cost quote tool[11] can be used to demonstrate potential service costs. A USD 200 transfer sent from the United States to Afghanistan ranges from USD 10 to USD 15, depending on the speed and transfer method (the most expensive service is conducted online via Visa, MasterCard or Discovery and is

[11] Available for transfers originating in the United States here: https://wumt.westernunion.com/WUCOMWEB/

delivered to the recipient agent location in minutes; the USD 10 fee is accrued for in-person and telephone initiated transfers that are delivered within minutes). On a USD 200 transfer these fees amount to 7.5 per cent and 5 per cent, respectively.

There is no information on the volume of remittances that either enter or leave Afghanistan via MTOs. While the transfer values and characteristics of transfers are documented and reported by DAB as part of the BOP statistics, there is no indication of what volume of total remittances MTOs aid in transferring. Given the limited regional penetration of MTOs and the firm tie between MTOs and formal financial institutions, it can be assumed that fewer transactions are processed by MTOs. With that said, MTOs may offer a few advantages that encourage senders to make relatively large transactions. The relatively higher security and transfer tracking possible in MTOs could encourage large transfers, so while MTOs may not facilitate the most significant number of transactions, it is possible that a larger volume of transfer could be sent via MTOs. Again, lacking disaggregated data from DAB on remittance volume by channel, this is not possible to prove, however.

#### *3.1.2.2. Money Service Providers: Hawala*

In contrast to MTOs, MSPs are much more significant players in the Afghan remittance market. To better understand the key role of MSPs in the remittance market, it is important to understand the role of informal value transfer systems (IVTS) in general and the *hawala* system in particular in facilitating financial transactions.

Informal value transfer systems are methods of monetary transfer that generally operate outside of the institutional channels that are supervised and monitored by government authorities (Passas, 2003). Many traditional IVTS were developed as a means of facilitating trade across regions that lacked conventional banking instruments. Today traditional IVTS persist where the formal financial sector has experienced limited growth due to restrictive financial policies and inefficient financial institutions. While the form IVTS may take varies by region, the hallmarks of each system include transfer speed, affordability, potential anonymity, range of services and cultural appropriateness (El Qorchi et al., 2003).

*Hawala*, which literally means transfer in Arabic, is the traditional (informal) value transfer system much beloved across the Indian sub-continent (Passas, 2004). In the absence of a functional, formal financial system - and in a country where only 10 to 20 per cent of economic activity around 2005 took place in the formal sector - the *hawala* system has provided Afghanistan with a consistently reliable method for remittance transfer, cash payments and currency exchange (Thompson, 2006). Money exchange dealers and service providers across Afghanistan offer a number of financial and non-financial services alike. While they have traditionally offered fund transfer, money exchange services, microfinancing, trade financing and depository activities, many now often also provide trade assistance, communication facilities like telephone, fax and internet services (Maimbo, 2003). *Hawaladars*, the agents of the *hawala* system, have played an imperative role not only in enabling international and regional financial activities, but also in enabling and facilitating communication and trade within and across Afghanistan's regions. While the *hawala* system offers much of the same financial services that a formal financial institution does, the money transfer aspect of *hawala* has received the greatest attention.

The *hawala* system provides transfer services using a straightforward yet sophisticated operational framework. For the sender of a transfer, the process is simple: a sender can visit a *hawaladar* or an associate agent and request a transfer to a location where the *hawaladar* conducts business. Rather than paying a service fee, the sender is quoted an exchange rate or payout amount in the destination currency that includes the transaction fee[12] (Passas, 2005). In a study of *hawaladars* in Kabul, Maimbo found that this fee generally accounted for 1 to 2 per cent of the transfer value, depending on the destination and the security situation in the destination (Maimbo, 2003). Once the fee has been settled, the *hawaladar* collects money in cash from the sender and details the transaction in a ledger. At the end of the day the *hawaladar* compiles payment instruction sheets that specify the transfer amount and details of the recipient, which is then transmitted (via fax, email or phone) to the *hawaladar's* counterparts in the transfer destination. Once these instructions are received, the counterpart *hawaladar* will pay out the transfer, either through home delivery of the funds or pickup by the recipient. Depending on the destination and urgency of the transfer, delivery of transfers generally takes between a few minutes and 48 hours (Passas, 2005). A notable feature of the *hawala* system is that money is rarely physically moved during the initial transaction: *hawaladars* typically maintain a pool of cash from which they pay recipients and *hawaladars* reconcile their accounts with each other, representing many cumulative transactions, separately from individual transactions.

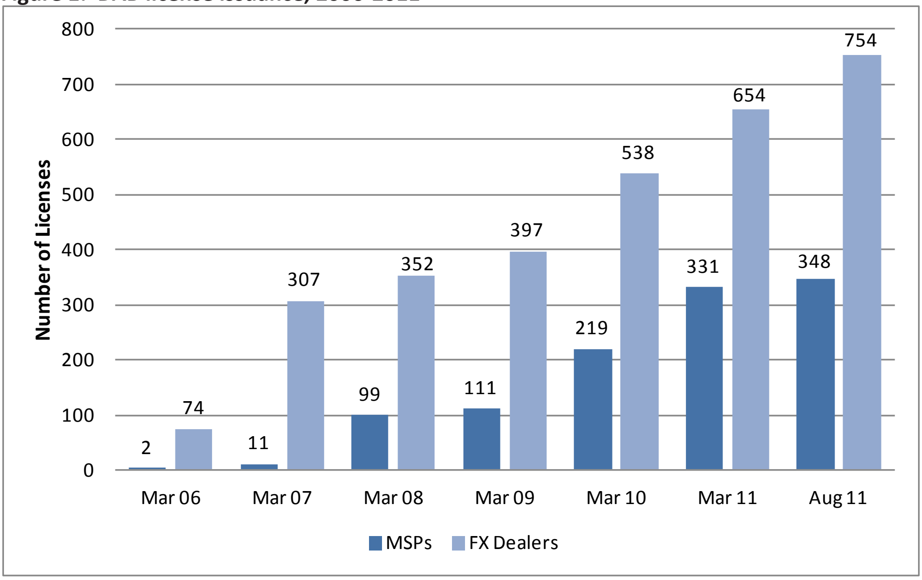
[12] Unfamiliarity with explicit fees has made customers of newer remittance methods like M-Paisa question the legitimacy of fee structures. Chipchase and Lee (2010) note that users of M-Paisa may mistake the standard transaction fee as a bribe and the perception of the newer channel as being less trustworthy because of unfamiliarity with the system may help *hawala* maintain its appeal.

The essentially informal nature of both the customer transfer and post-transfer settlement aspects of *hawala* has drawn concern in the post-2001 era. Increased calls for greater supervision and regulation of informal value transfer systems have resulted in the development of a number of regulations, laws and recommendations that directly address concerns relating to money laundering and terrorist financing (Maimbo, 2004). In Afghanistan this has coincided with a number of reforms launched after the fall of the Taliban regime. A 2002 financial sector reform package initiated greater financial oversight and introduced a number of laws that would lead to greater monitoring of financial agents. The package included the Law of Banking (2003) and the Afghanistan Bank Law (2003), the latter of which granted Da Afghanistan Bank autonomy and the right to formulate, pass and enforce policy and regulations. One of the provisions in the Afghanistan Bank Law that is particularly relevant to the discussion of regulation of money service providers is Article 2(6), which granted DAB the power to "issue or register the licence and to regulate and supervise banks, foreign exchange dealers, money service providers… and such other persons as shall be submitted to its oversight in accordance with the law…" (Islamic Republic of Afghanistan, 2003a: 2). In recognizing both its integral role in facilitating financial transactions and keeping the economy functioning as well as its risk of being utilized for illegal fund transfer, Da Afghanistan Bank has been progressive in drawing the *hawala* system into the formalized financial system.

In the past the *hawala* system was entirely self-regulated. The system is largely based on trust, (kinship) networks and mutuality. These features of the system provide individual *hawaladars* with sufficient incentive to comply with "industry norms" such as low fee structures, timely delivery and guaranteed delivery. To violate the trust of the customer base would invite exclusion or reprisal from the community and network and with such a wealth of *hawaladars* to choose from, customers could abandon an offending business and find a replacement without problem (Pavlovic & Charap, 2009). The lack of legal and supervisory structures in Afghanistan prior to 2001 also contributed to the absence of legislation that specifically addressed informal value transfer systems. Against the backdrop of mounting international pressure to address concerns relating to drug trafficking and terrorist financing as well as larger financial sector reforms, DAB began formulating a strategy to formalize *hawala* in 2004. The legislation designed to register MSPs and FX dealers has resulted in an increasingly larger number of *hawala* businesses across the country falling under DAB supervision.

As of September 2011, DAB had registered 605 MSPs in 21 provinces over the last four years. Of this number 194 are registered in Kabul; 119 are provincial headquarters, 258 are branches of businesses in other provinces that are headquartered in Kabul and 34 are branches of businesses head-quartered outside of Kabul with offices in other provinces. In addition to MSPs, DAB has registered 810 foreign currency exchange dealers (FX dealers) (Qyami, personal communication, 2011). As of August 2011, DAB reported that of 754 licensed FX dealers, 255 operated in Kabul and 499 operated in the provinces (DAB, 2011). While the business of MSPs and FX dealers may overlap, particularly if the MSP offers foreign remittance service, a business that offers both money transfer and currency exchange must hold licenses for both activities (refer to section 3.2 below on licensing requirements of MSPs and FX dealers). Da Afghanistan Bank has made licensing of MSPs and FX dealers one of its key priorities over the last six years and the growth in yearly business registration attests to DAB's efforts to maintain oversight over businesses through licensing requirements. The following chart provides an overview of the growth in licenses since 2006:

**Figure 1: DAB license issuance, 2006-2011**




*Source*: DAB, 2011.

Registration and licensing are one of the key areas DAB has focused on in the post-Taliban period. While the registration process has brought a significant number of *hawala* businesses[13] under the supervision of DAB, a much greater number still function outside of any formal legal framework. Only those MSPs

[13] In 2006, it was estimated that approximately 900 significant *hawala* shops existed across the country (Thompson, 2006); should a similar number of *hawala* shops be operating now, DAB's licensing would be remarkably encompassing.

that are registered provide transaction overviews to DAB, thus the remittance data provided by DAB is limited to those *hawala* agents that have already been formalized. Given the importance of the regulatory environment in enabling or constraining different actors within the remittance market, the regulations and laws pertaining to the regulation of *hawala* are discussed in section 3.2 below.

### 3.1.3. Electronic Money Institutions

In the past years Afghanistan has become home to a small number of electronic money institutions (EMIs), legal entities that accept monetary deposits in exchange for e-money. E-money is any monetary value stored in an electronic medium (such as a server or card) that acts as a multipurpose payment instrument via electronic movement (Athanassiou & Mas-Guix, 2008). In Afghanistan EMIs are further defined by regulation of DAB as any non-commercial bank (or depository MFI) that accepts e-money and facilitates its transfer. While commercial banks and depository MFIs may offer clientele access to funds via an electronic medium, such institutions are not considered EMIs (Qyami, personal communication, 2012).

The service format and conversion of physical currency into what is essentially electronic credit enables EMIs to offer products and services that change the remittance transfer process. Mobile network operators (MNOs) have been the first types of businesses to tap into the EMI market in Afghanistan. The first institution to receive an EMI license from DAB is Mobile Services Development Afghanistan Limited (MSDA), the EMI "branch" of Roshan Telecommunications (Qyami, personal communication, 2012).[14] Three other MNOs (Etisalat, MTN and AWCC) have more recently also introduced their own mobile money products. AfTel will soon be the fifth mobile provider to launch such a product (Rynecki, 2013).

Given the slow entrance of other companies into the EMI market in Afghanistan, the products and services offered by EMIs must be evaluated on the limited basis of the M-Paisa service offered by MSDA. M-Paisa's pilot service was launched in the early months of 2007 and in 2008 the full commercial service was launched (IFC, 2009). The service was initially licensed by DAB as an MSP, but as the service matured it became clear that the unique risks associated with EMIs would necessitate the elaboration of EMI-specific regulations. Money

[14] To ensure an accountable and transparent management structure, DAB regulations require that EMIs are fully separate legal entities and/or wholly owned subsidiaries of parent companies. As an example, Roshan was a functional mobile network operator with its own registration and management regulations prior to the launching of the M-Paisa service, thus it was required to create and register M-Paisa as a separate corporate entity for the EMI license to be issued (Qyami, personal communication, 2012).

service provider regulations were revised to include specific stipulations for EMIs at the end of 2011. As M-Paisa was launched before these regulations were introduced, it was given a 12 month grace period to meet the new standards, which include a capitalization requirement of USD 1 million and a registration fee of USD 200,000 (Qyami, personal communication, 2011). Despite the regulatory change, M-Paisa has used the mobile money platform to extend a range of financial services to generally under-served populations. From its inception the service has targeted clients of microfinance institutions and Roshan partnered with the First Microfinance Bank of Afghanistan to facilitate loan repayment at the beginning of the service launch. The emphasis on the use of the service in microfinance activities is hardly surprising, as Roshan's majority shareholder is the Aga Khan Fund for Economic Development (IFC, 2009). Since its launch in 2008 the services offered by M-Paisa have grown to include the ability to receive and repay microfinance loans, the ability to make peer-to-peer transfers, the ability to receive salary payment, the purchase of mobile airtime and the ability to pay bills using a mobile phone. M-Paisa has also recently partnered with Azizi Bank and Habib Bank Ltd. to help users build up savings. The new scheme will allow M-Paisa customers to deposit money from the m-wallet (the mobile account containing e-money) directly into a bank account without needing to make a physical visit to a bank (Khoja et al., personal communication, 2012).

While each of these services can be seen as a form of remittance transfer, the peer-to-peer transfers and the purchase/transfer of airtime credits are perhaps the most relevant in the remittance discussion. Peer-to-peer transfers refer to the transfer of e-money between users' m-wallets. The M-Paisa service relies on the e-money platform developed by Vodafone for use in countries such as Tanzania, India, South Africa, Egypt and Kenya. While the platform has proved to work well in the Afghan context, it has required a few adjustments to meet the local needs better (Khoja et al., personal communication, 2012). Peer-to-peer transfers are facilitated by short message service (SMS) and interactive voice recognition (IVR) software (Roshan, 2013). The IVR feature was developed in response to two factors: first, the system menu could not be provided in Dari because of the limited character set available. But more importantly, persistent low literacy rates entailed that many consumers could not navigate text-based menus regardless of language settings. The IVR feature allows customers to choose a transaction type by listening to a spoken options menu, which is available in Dari, Pashto and English (IFC, 2009). While M-Paisa customers are currently able to make peer-to-peer transfers only within Afghanistan, Roshan is currently evaluating possibilities to partner with a third party to use M-Paisa as a means of receiving inbound international remittances[15] (Khoja et al., personal communication, 2012).

The mobile money platforms adopted by EMIs allow these businesses to offer customers services through institutional partnerships. M-Paisa, for instance, has partnered with the Ministry of the Interior to enable payment of the Afghan National Police salaries over the mobile platform. A grant has recently been given from USAID to MTN for a similar initiative, where the Ministry of Education, Culture and Science would make use of the MTN network to transfer salaries to teachers in 10 provinces. USAID has also given a grant to Etisalat to foster cooperation with the Afghan electricity utility that would allow consumers to pay for electricity via mobile phone. An additional USAID grant has been given to Roshan to extend the M-Paisa service's capacities as a microloan repayment method, with Roshan partnering with a microfinance consortium to expand the microcredit market to areas that would generally be too difficult or costly to reach with loan officers (Shah, 2011). Based on the early success of EMI salary payment schemes, the Afghan government has plans to expand the electronic salary payment to all government employees (Qyami, personal communication, 2012).

[15] EMI regulations presently prohibit the transfer of internal remittance funds *from* Afghanistan.

**Box 1: M-Paisa and Mobile Remittance Transfer**

The M-Paisa service offers customers a unique means of accessing, sending and receiving money using a mobile money platform that has been modified to meet the needs of the Afghan context. As it is the first EMI to enter the Afghan market, the M-Paisa service can provide insight into how EMIs can function in specific remittance markers. This box will provide a brief summary of the M-Paisa service, how it works and its key features.

Subscribers of the Roshan mobile telecommunications service can subscribe to the M-Paisa service; as the service relies on the Roshan mobile network, customers must be subscribed to Roshan to use M-Paisa. Upon subscribing, customers are issued with an M-Paisa-enabled SIM (subscriber identity module) card and PIN (personal identity number) code, which are unique to the subscriber and form part of the "know your customer" (KYC) protocol. Once the SIM is registered, a subscriber can carry out a number of transactions using M-Paisa, including cash deposits, sending and receiving of transfers, fund withdrawal, airtime purchase, loan dispersal and payment and purchase of goods or services using the bill pay function.

Many of the transactions require subscribers to visit an M-Paisa agent. In the case of cash depositing, an M-Paisa agent will deposit cash received from a subscriber in that subscriber's M-Paisa Funds Account. Agents are also responsible for cash-out transactions in which money is withdrawn from a subscriber account. Transfers between service subscribers can occur without the use of an agent, however, as transfers can be initiated by SMS and the crediting/debiting of Funds Accounts occurs automatically if both sender and recipient are M-Paisa subscribers. If the recipient is not an M-Paisa subscriber, he or she must visit an agent to cash the transfer token (Roshan, 2012).

Subscribers must pay for certain types of transactions. While cash deposits and airtime purchases are free, the transfer of funds is not. The fee levied on the transfer depends on the value of the transfer and whether the recipient is an M-Paisa subscriber. Transfer fees range from USD 0.75 for transactions ranging from USD 1 to USD 5 and USD 10 for transactions from USD 501 to USD 1,000, if both sender and recipient are M-Paisa subscribers. Transfer fees are slightly higher if the recipient is not a registered M-Paisa customer: the lowest fee, for transactions from USD 1 to USD 5, is USD 1 and the fee for transactions from USD 501 to USD 1,000 is USD 10.50 (Vodafone, 2011).

As was mentioned prior, Afghanistan's financial infrastructure, while improving, still faces considerable weaknesses that make EMIs an innovative and valuable solution to traditional formalized remittance transfer methods. In 2008, an estimated AFN 2.5 million had access to a mobile phone (IOM, 2008). As of late 2011, that number had ballooned to 15 million people and an estimated 85 per cent of the entire Afghan population lives within the mobile network range provided by the country's four largest telecommunications firms (Shah, 2011). Roshan's network alone spans over 230 cities and towns in all 34 provinces and its customer base exceeds 5.7 million subscribers. The network reaches high-threat areas where banking services are unavailable, making it uniquely positioned to reach a large portion of the unbanked population (Khoja et al., personal communication, 2012). The ease of access to mobile networks, the lower barriers to entrance to service use and the relative security with which mobile networks are accessed all make EMIs using mobile service networks highly useful financial tools for a large number of Afghan people.

This is not to say that EMIs are without their challenges. It is indeed too soon to evaluate the effectiveness and sustainability of EMIs in Afghanistan given the short time span in which they have been in operation. There are, however, a few barriers that have already arisen in the short time in which EMIs have been in operation. Mobile networks are not isolated from the security situation in the country at large and mobile network infrastructure has recently fallen victim to terrorist attacks across the country. Mobile transmission masts have been targeted by insurgents wishing to disrupt mobile service to delay villagers from reporting insurgent activities to the police. Hub relay towers in particular have been targeted for destruction, resulting in extended periods of mobile service unavailability in certain locales (Boone, 2011). The consequences of network infrastructure damage on the operation of EMIs are clear: without adequate infrastructure to support service provision, EMIs simply cannot function.

Other challenges to EMIs exist on the regulatory side. Know your customer (KYC) requirements can be restrictive in a country like Afghanistan where identification requirements could be difficult for consumers to meet. While identification requirements are more flexible when existing customers perform transactions, they are relatively rigid during the establishment of an account. In accordance with KYC requirements, M-Paisa customers must provide a valid passport or national ID card in addition to two colour photographs to open an account. Customers are further screened against additional sources like the Dow Jones watch list (Leischman, 2009). Many customers do not have access to formal forms of identification and even those who do may not be able to meet additional KYC requirements. The lack of a centralized database or registry against which provided customer identification can be checked and confirmed also implies that the individual M-Paisa agents are responsible for confirming the legitimacy of provided identification details yet do not have an easy means to do so (Khoja et al., personal communication, 2012; Chipchase & Lee, 2010).

### 3.1.4. Other Transfer Methods

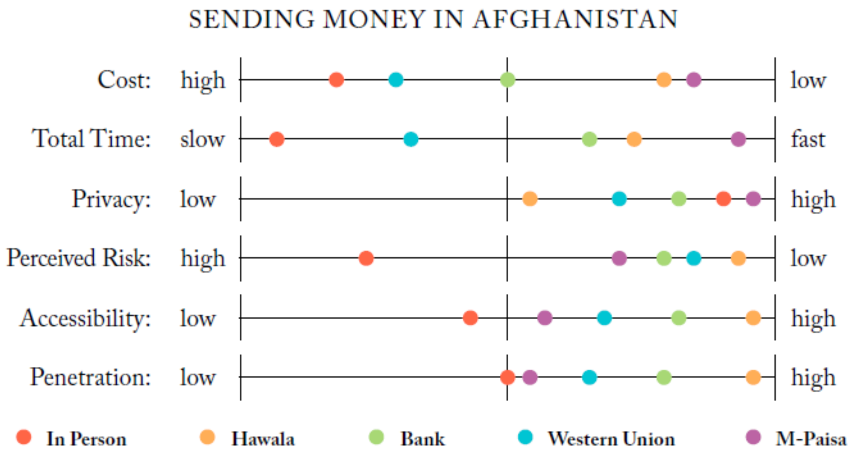
While the channels discussed above are the most relevant institutional actors in the Afghan context, other remittance transfer channels exist. Remittances can be sent via stored value cards, which can include credit/debit/ATM cards as well as prepaid cards. While there is no indication of how widespread the use of stored value cards is as a remittance transmission method, it can be assumed to be appreciably low. As of August 2011 DAB recorded 348 credit cards in circulation and over 56,000 debit cards (DAB, 2011). Given the limited number and locations of automatic teller machines (ATMs), the use of these stored value cards is likewise limited for remittance transfer purposes.

A more common means of sending remittances is through hand-carrying of the transfer, in which a sender physically transports the money him or herself (or via a trusted acquaintance) to the recipient. Given the highly personal and in-transparent nature of this remittance transfer method, it would be difficult to estimate the total number and value of remittance transfers facilitated by hand-carrying. Estimates can be derived from customs declarations of money carried into the country, but if the value of the money is below the mandatory declaration value (which is likely given the level of risk involved in physically transporting large sums of cash), most remittances will not be registered.

### 3.1.5. Channel Use: Advantages and Disadvantages

Each remittance transfer channel has its unique advantages and constraints. Given the environment in which remittance transfer channels operate in Afghanistan, the lessons learned about the functionality of channels in other countries rarely apply. A 2010 evaluation of the mobile remittance system in Afghanistan surveyed a number of remittance channels and the comparison among channels drawn by this study provides an interesting overview of channel functioning in Afghanistan:

**Figure 2: Remittance service provider comparison**




*Source*: Chipchase & Lee, 2010.

Within this figure, five remittance transfer methods are assessed according to several criteria: cost, transfer time, privacy, perceived risk, accessibility and penetration of the service. As this figure displays, each remittance channel performs differently according to each criterion. This figure, while imperfect, provides a convenient starting point for the discussion of the overall performance of each remittance service provider on the Afghan remittance market.

Contrary to what would be expected based on the description provided above, Chipchase and Lee rated banks as having relatively high penetration, being relatively accessible and being relatively low risk. This assessment does not seem completely accurate, as the regional penetration of banks is limited, remittance transfer services are generally only available to bank account holders (and the vast majority of the population does not have a bank account) and banks can be perceived as higher risk because of the risk of kidnapping associated with being a bank customer (and thus more likely to be a higher-value target for random purposes). Also in contrast to the assessment of banks being relatively low cost, the fees associated with banks are often high, particularly in international transfers where correspondent banks can levy transaction fees that are not necessarily declared to the sender of the transfer. As the interbank payment system in Afghanistan continues to improve and banks continue to expand their network of correspondent and partner banks linked through the SWIFT network, the costs associated with making domestic and international interbank transfers may decline. In the meantime the assessment provided in the figure above seems optimistic.

The assessment provided by Chipchase and Lee seems more accurate in regard to Western Union, which is one of the MTOs discussed briefly above. As MTO points-of-service are housed exclusively in bank branches, the regional penetration of MTOs is limited and so, too, is the level of accessibility. Transfer speed likewise suffers from the location of MTOs in bank branches. While the transfer itself may take several days, the pickup of the transfer could take much longer, as recipients must travel to one of few specific locations that house a Western Union operation. The fees associated with use of MTOs is also high; if the online Western Union comparison tool can be used as any indication, service fees can account for up to 7.5 per cent of the total transfer value. While in many countries Western Union and MoneyGram are relatively more cost-effective and timely than other remittance service providers, these services are perhaps the least efficient in Afghanistan. This may be largely due to the fact that formal remittance channels in general are not as efficient in conflict and post-conflict environments and the relatively high fees may reflect limited service usage (and thus relatively higher operational costs per individual transfer).

The assessment provided by Chipchase and Lee was written in 2010, not long after the introduction of EMIs into the remittance market. Since their writing the M-Paisa service has expanded and more agents currently operate across the country. While the geographic coverage of M-Paisa agents has increased significantly as the service has matured, the service penetration is likely still limited compared to that of *hawala*. The number of agents and subscribers has increased at a steady pace since the service's introduction, but certain features of the M-Paisa business model and regulatory environment cultivated by DAB appear to act as deterrents to further expansion. As is discussed in Section 3.2 below, the regulations developed for EMIs are relatively strict and the level of transparency and internal accountability required of licensees carries over to any EMI's adopted business model. During the licensing process, applicants for an EMI license are required to submit a detailed list of all anticipated partners, merchants and agents. The Regulation on Money Service Providers makes explicitly clear that the applicant must bear full responsibility for each agent and that agents' compliance or non-compliance with the stipulations set forth in the regulation. This entails that potential agents should be carefully selected to minimize the risk each individual m-money agent poses to the EMI. Early selection of M-Paisa agents was conducted from within the pool of existing Roshan airtime dealers, but only those who met a set of specific criteria (like the ability to deposit at least USD 500 into each retail outlet's cash float, the ability to provide two part-time staff members, willingness to participate in product and AML training programmes) were selected to become m-money agents (IFC, 2009). While finding potential agents with adequate capacity to run a lower-risk m-money outlet is already challenging, an additional problem lies in inspiring potential agents to invest in the e-money business. Individual agents are responsible for maintaining each retail outlet's e-money float, the pool of e-money from which transactions are reconciled. When an adequate float is not maintained to reconcile outstanding e-money liabilities, cash out transactions cannot be performed - as Chipchase and Lee (2010) detailed in a case study of an M-Paisa customer. Such regulatory and administrative barriers may limit the growth of EMI services, which can be further complicated by mobile network disruptions. Additional challenges to service expansion lie in cultivating a customer base that is already largely loyal to the *hawala* system and has expectations informed by the unique aspects of that service. The fees associated with M-Paisa transactions, for instance, have inspired suspicion from some customers, who assume that the fee is actually a bribe. The fee system is unfamiliar to many potential customers, as the fees associated with making a *hawala* transaction are not declared and simply incorporated into the quoted pay-out value (Chipchase & Lee, 2010). Despite such challenges the potential advantages of EMIs are clear. The e-money platform coupled with unique service features creates great potential to engage individuals who would normally be beyond the reach of formal financial services. In the case of M-Paisa, the IVR system, agent network throughout all regions and growing partnerships between EMIs and banks, MFIs and employers provide innovative solutions to some of the pervasive challenges faced by other formal financial institutions in Afghanistan. Given the current monopoly of the M-Paisa service in the EMI market and the relatively recent introduction of the service, it is difficult to assess how well EMIs have met these challenges. As the EMI environment expands and matures, however, it will be possible to assess it more realistically.

A few words on remittance channels should naturally be dedicated to the *hawala* system. As the traditional facilitator of a range of essential financial transactions, *hawala* bears little resemblance to other remittance transfer channels operating in Afghanistan and indeed it is difficult to assess it according to the same criteria. *Hawala's* advantage lies in its efficiency: the expansive network of *hawaladars* with operations both across and beyond Afghanistan contributes to fast transfer times, convenient pick-up locations and a greater possibility to discriminate among different agents. Depending on whether or not the business possesses an MSP or FX dealer license, customers of *hawala* are generally faced with flexible identification requirements and low administrative barriers to usage. The highly trust-based nature of the *hawala* system also means that perceived levels of risk (of the transfer not arriving, for instance) is low and the mechanism for seeking correction in the case of problems is clear and quick. While the flip side of this can be a minimized sense of privacy, reported levels of confidence in the system are nevertheless high. The high level of trust in this traditional system has sometimes translated into higher mistrust of formal channels, as was discussed above in relation to M-Paisa service fees. The issue of fees is one that invites further comment. While the cost of sending a transfer via a *hawaladar* is generally considered as low (Maimbo reported an average of 1 to 2 per cent in 2003), the cost is negotiable and dependent on a number of aspects of the transaction such as the familiarity of the *hawaladar* with the customer, the security situation in the destination and the request of additional services (such as an expedited transfer). The main disadvantage of the *hawala* system exists less on the customer side than on the regulatory one. While the regulatory environment has developed to formalize *hawala* and bring transparency to the system, considerable challenges remain in monitoring it.

The strengths and weaknesses of the various remittance channels can be further explored through household survey data. The 2011 IS Academy Survey asked remittance-receivers about the channels through which they had received remittances in the past year as well as their level of satisfaction with that channel. As can be seen in Table 6, an interesting mix of channels had been used to facilitate remittance transfer and the usage and satisfaction trends suggest several insights.

**Table 6: Remittance channel usage and satisfaction, IS Academy**

| | Household members | | Non-household members | |
|---|---|---|---|---|
| | # | % | # | % |
| ***Remittance channel*** | | | | |
| Shop keeper/call house/*hawala* (informal) | 100 | 62.5 | 5 | 35.7 |
| Friend/relative brought it | 26 | 16.3 | 6 | 42.9 |
| Bank | 25 | 15.6 | 3 | 21.4 |
| Money transfer operator (for example Western Union) | 5 | 3.1 | 0 | 0.0 |
| Brought it him/her self | 4 | 2.5 | 0 | 0.0 |
| ***Satisfaction with transfer method*** | | | | |
| Very unsatisfied | 9 | 5.6 | 2 | 14.3 |
| Unsatisfied | 5 | 3.1 | 1 | 7.1 |
| Neutral | 3 | 1.9 | 0 | 0.0 |
| Satisfied | 72 | 44.7 | 4 | 28.6 |
| Very satisfied | 72 | 44.7 | 7 | 50.0 |

*Source:* IS Academy Survey, 2011.

**Table 7: Level of satisfaction with remittance channel, IS Academy**

| Remittance channel | Very unsatisfied | Unsatisfied | Neutral | Satisfied | Very satisfied |
|---|---|---|---|---|---|
| ***Remittances received from household members*** | | | | | |
| Shop keeper/ call house/*hawala* | 7 | 3 | 2 | 46 | 42 |
| % | 7.0 | 3.0 | 2.0 | 46.0 | 42.0 |
| Friend/relative brought it | 2 | 1 | 1 | 7 | 15 |
| % | 8.0 | 3.8 | 3.8 | 26.9 | 58.0 |
| Bank | 0 | 1 | 0 | 15 | 9 |
| % | 0.0 | 4.0 | 0.0 | 60.0 | 36.0 |
| Money transfer operator | 0 | 0 | 0 | 3 | 1 |
| % | 0.0 | 0.0 | 0.0 | 75.0 | 25.0 |
| Brought it him/herself | 0 | 0 | 0 | 1 | 3 |
| % | 0.0 | 0.0 | 0.0 | 25.0 | 75.0 |
| ***Remittances received from non-household members*** | | | | | |
| Shop keeper/call house/*hawala* | 1 | 1 | 0 | 2 | 1 |
| % | 20.0 | 20.0 | 0.0 | 40.0 | 20.0 |
| Friend/relative brought it | 1 | 0 | 0 | 2 | 3 |
| % | 16.7 | 0.0 | 0.0 | 33.3 | 50.0 |
| Bank | 0 | 0 | 0 | 0 | 3 |
| % | 0.0 | 0.0 | 0.0 | 0.0 | 100.0 |

*Source:* IS Academy Survey, 2011.

The majority of recipients received remittances through some informal value transfer system, most importantly *hawala*. An almost-equal proportion of remittances were sent via hand carrying from a friend or relative or via bank. A minimal number of recipients had received remittances either from the migrant directly (who had hand carried it on a visit to Afghanistan) or from a money transfer operator such as Western Union or MoneyGram. No respondents reported use of other channels such as postal transfer or stored value cards. The channel use suggests that *hawala* is likely the most accessible for both sender and receiver, as it was used in the majority of cases. The low usage rates of MTOs likely suggests that they are not as efficient channels for the particular corridors through which remittances were sent. While it is not possible to tell the reason for dissatisfaction from the survey, it is likely due to high transfer costs and restrictive identification requirements from the sending side and limited point-of-sale locations on the receiving side. A relatively high number of respondents did list being very unsatisfied with *hawala* or a similar informal service. Likely reasons may relate to the lack of privacy of the service and unpredictability of fees. Knowing the reasons for dissatisfaction would be helpful to incentivizing the use of formal services, particularly if they represent gaps that formal services can uniquely fill.

## 3.2. LAWS AND REGULATIONS

As a preface to the discussion on the legislative and policy framework accompanying the development and supervision of the formal remittance market, it should be noted that the remittance market in Afghanistan exists in a unique and highly context-specific policy environment that is largely incomparable to any other. After decades of conflict Afghanistan is now faced with the development of a policy framework and governance system characterized by mistrust in public authorities, limited institutional capacity to implement and enforce legislation, reliance on foreign aid to create and maintain institutional policy-support mechanisms and a formal financial system that must compete against a more mature, trusted and efficient informal counterpart. Against these constraints and challenges, the Government of the Islamic Republic of Afghanistan has made commendable strides forward, particularly in creating a responsive and responsible policy environment in which the financial system can mature. The challenges Afghanistan has faced may perhaps have created an opportunity for innovation that can be seen in the creation and regulation of electronic money institutions (as just one example). The series of financial reforms introduced since 2003 has enabled Afghanistan to incorporate best practises from other countries into its own legislation. The complete overhaul of the financial system, while by no means smooth, has resulted in a policy framework that addresses key aspects of oversight and regulation without being prohibitively rigid. While the long-term implications of the policy environment on the health and transparency of the financial system cannot yet be evaluated, the post-Taliban financial system already stands in stark contrast to that which existed even 10 years ago.

The governance of remittances has gradually evolved in Afghanistan to include a large number of individual regulations and pieces of legislation enacted mostly by and within Da Afghanistan Bank. While much of this legislation has been discussed in its relation to specific remittance transfer channels, each regulation or piece of legislation and its impacts on remittance regulation and management will be briefly summarized here.

- ***Law of Banking in Afghanistan (2003)[16]***

The Law of Banking in Afghanistan, which came into force in September of 2003, established the legal framework for the operation of commercial banks in Afghanistan. A cornerstone of this legal framework involved granting Da Afghanistan Bank the authority to register, regulate and monitor commercial

[16] The full text can be found online at: http://www.centralbank.gov.af/pdf/UpdatedOfBankingLaw.pdf

banking institutions. In addition to authorizing DAB to act as the central bank of Afghanistan responsible for overseeing the development and enactment of banking regulations, the Law of Banking in Afghanistan established the framework of licenses and permits required for legal establishment of a commercial banking institution. It further specified how banks should be organized in terms of ownership and administration, the operational requirements banks must meet to remain licensed and accounting and reporting guidelines for banks.

As the first in a package of key financial system reforms, the Law of Banking was a comprehensive piece of legislation containing 101 articles relating to various aspects of the financial system and its functioning. Its impacts on the regulation of the remittance market are thus widespread, particularly as it relates to the creation, monitoring and enforcement of financial institutions that enable remittance transfer. While much of this law directly addressed the operation of commercial banks, specific articles and provisions relating to the functioning of commercial banks will not be discussed in detail here given the limited participation of the commercial banking sector in the remittance market.

- ***Law of Da Afghanistan Bank (2003/2004)***[17]

Introduced in December of 2003 and enacted in February of 2004, the Law of Da Afghanistan Bank granted autonomy to Da Afghanistan Bank and outlined the specific responsibilities and obligations of DAB as the central bank of Afghanistan. The Law of Da Afghanistan Bank, as the next step in the financial reform package launched with the updated Law of Banking, further bolstered the capacity of DAB to perform banking oversight and monetary policy functions. While the Law is extensive and explicitly addresses the range of DAB's functions, the following key responsibilities of DAB are outlined in the Law: 1) to develop, adopt and implement monetary policy in Afghanistan, 2) to develop, adopt and implement foreign exchange policy and exchange arrangements, 3) to hold and manage Afghanistan's foreign exchange reserves, 4) to print and issue currency, 5) to act as the fiscal agent of the State, 6) to license, regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, securities transfer system operators and other financial actors required by law to be overseen by DAB and 7) to develop, maintain and promote systems for the clearing and settlement of payment and securities transfers.

[17] The full text can be found online at: http://www.centralbank.gov.af/pdf/UpdatedOfDaAfghanistanBankLaw_1_.pdf

A fairly comprehensive piece of legislation, the Law of Da Afghanistan Bank contains 134 articles detailing DAB's objectives and tasks, organization and administration and financial affairs, currency, monetary policy and operations, foreign exchange controls and exchange rate policy, banking regulation, payment, clearing and settlement, securities services and transfer systems, accounts, financial statement and audit reports, settlement of financial disputes and miscellaneous and transitional provisions. Given the encompassing nature of this law and its further elaboration of the financial system framework, many articles and provisions directly affect the regulation and monitoring of the remittance market. The Law of Da Afghanistan Bank established a specific oversight framework including licensing, regulation and supervision of financial services. While individual pieces of legislation for specific types of financial institutions (such as MSPs) were later introduced, the Law of Da Afghanistan Bank established a minimum regulatory framework and granted legitimacy to Da Afghanistan Bank as the central bank.

- ***Afghanistan Anti-Money Laundering and Proceeds of Crime Law (2004)*** [18]

This law, passed by decree late in 2004, was developed to protect financial institutions from being used for money laundering and the financing of terrorism purposes. The law was intended to bring Afghanistan into compliance with international treaties and conventions related to the monitoring and reporting of financial transactions. In so doing the Law on Anti-Money Laundering and the Proceeds of Crime sought to increase institutional capacities to protect the integrity of the Afghan financial system from potential misuse. The Law contains 75 articles, which importantly: specify what constitutes a money laundering offence, establish the institutions and professions subject to the law (namely financial institutions, DAB, lawyers, real estate agents), establish a reporting framework related to the transfer of funds via financial institutions and electronic means, establish standards for currency reporting at the border, prohibit anonymous accounts, specify standards for customer identification, specify standards for monitoring of transactions and book-keeping and establish standards for transaction reporting. The law further established the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) as a financial intelligence unit (FIU) to support the detection of money laundering.

The Anti-Money Laundering and Proceeds of Crime Law is a key piece of legislation that has far-reaching implications for the operation of various

[18] The full text can be found online at: http://www.centralbank.gov.af/pdf/EnglishVersionAML-14-Oct2004.pdf

remittance service providers offering services in or to Afghanistan. This law further elaborated on transaction reporting guidelines, establishing the thresholds above which a transaction must be reported as well as the standards for reporting of suspicious transactions. Its additional clarification of customer identification and KYC requirements further specified the standards that money transfer operators must meet to be considered compliant with the law. One of the most important contributions of this law to the regulation of the financial market as a whole and the remittance market specifically was in the creation of FinTRACA, which should be discussed in some detail here.

While the AML and Proceeds of Crime Law established FinTRACA as a semi-autonomous body, it is administratively housed within the DAB, is considered as a department within DAB's service authority and reports to the DAB Executive Council. Its FIU functions are enacted through the financial intelligence division, which is itself comprised of three sub-departments: a compliance unit, an administration and information technology unit and an analyses and liaison unit.

As an FIU the responsibilities of FinTRACA include analysis of reports on cash transactions above specified thresholds (as designated by DAB regulation), reports of suspicious transactions (both attempted and completed) and information on financial activities provided by governments, both domestic and foreign. If in the course of analysis a financial transaction is suspected of representing illegal use of the financial system, FinTRACA then engages in investigation and prosecution activities in conjunction with law enforcement. In addition to these core functions, FinTRACA also contributes to the development of national laws and regulations relating to AML. It further cooperates with international and regional entities in developing AML standards, countermeasures and typologies. The organization is currently a member of the Asia/Pacific Group on Money Laundering (APGML) and once its capacities are better developed it will apply for membership in the Egmont group of FIUs (FinTRACA, 2013).

- ***Afghanistan Law on Combating the Financing of Terrorism (2005)***[19]

This law, enacted in 2005, can be seen as a thematic extension of the Anti-Money Laundering and Proceeds of Crime Law in that it further specifies how abuse of the financial system via financing of terrorist activities will be treated and punished. Unlike the previous law, which provided extensive elaboration on supervision and monitoring frameworks, this law has few provisions that relate directly to reporting and documentation requirements of money service providers

[19] The full text can be found online at: http://www.centralbank.gov.af/pdf/4AF%20CFT%20Law%20English.pdf

and other facilitators of remittances. Rather than fixing its focus exclusively on the financial system, this law is directed at individuals and organizations that provide financial support to terrorist activities. The law's 34 articles detail aspects such as scope and definitions, penalties and coercive measures for suspected financiers of terrorism (including provisions for confiscations and disposal of funds and properties), the jurisdiction of Afghanistan's courts, international cooperation and miscellaneous measures.[20]

Given this law's focus on the legal environment surrounding the identification and prosecution of individuals and organizations suspected of financing terrorism, there are relatively few articles that relate directly to the remittance market as such. With that said, several articles found under the chapter on miscellaneous measures could potentially impact remittance flows and channels. Articles 25-27, for instance, detail the registration process for non-profit organizations as well as their obligations of financial recording and reporting. This law requires that NGOs receiving or transferring funds (from donations or grants for example) and property must be registered and any transactions exceeding a specified value must be recorded and accompanied by details on the donor. This could entail that collective remittances and individual remittances sent in larger quantities to NGOs would be recorded and documented per donor, which could act as a disincentive for remitting in low-trust, post-conflict settings like Afghanistan. This law's relevance for the remittance market is even clearer in article 29, which specifies the information that must be collected in the course of a wire transfer. This article specifies that all cross-border and domestic transfers must be traceable to the individual ordering the transfer by the name of the ordering client and reference number of the transaction. An extension of earlier KYC provisions, this article is also further elaborated in other laws relating specifically to MSPs and MTOs.

- ***Regulation on Money Service Providers (2006)***[21]

An integral part of the financial reform package that explicitly addresses remittance service providers, the Regulation on Money Service Providers is the cornerstone of remittance channel regulation released by Da Afghanistan Bank. The regulation was first introduced in 2006 and has since been updated

[20] Specific aspects of the Anti-Money Laundering and Proceeds of Crime Law and the Law on Combating the Financing of Terrorism were elaborated in the Regulation on Responsibilities of Financial Institutions in the Fight Against Money Laundering and Terrorist Financing, which was passed in March of 2006. Given the regulation's reiteration of much of the content of the two laws it supports, its contents will not be evaluated here. The full text of this regulation can be found on the website of Da Afghanistan Bank at: http://www.centralbank.gov.af/pdf/AMLResponsibilitiesRegulation.pdf

[21] The full text can be found online at: http://www.centralbank.gov.af/pdf/MoneyServiceProvider_English.pdf

in 2009 and 2011, with the latest amendments including specific provisions for electronic money institutions.

The regulation, issued under the Law of Da Afghanistan Bank, is comprised of seven subsections: 1) authority, 2) issuance of license, 3) activities, 4) registry and supervision, 5) application requirements for an EMI license, 6) EMI operations and procedures and 7) EMI fees, charges and penalties. The 2011 update of the regulation introduced a number of provisions for EMIs, which now make up half of the regulation. Within this regulation money service providers are defined as any individuals or entities that provide value transfer services and, optionally, cheque-cashing and safekeeping services. Within this regulation MSPs are prohibited from offering activities that fall outside of this scope, perhaps the most important of which include money exchange services. This implies that businesses that offer money services included in this regulation as well as payment in foreign currency would need to obtain both an MSP and foreign exchange dealer license, which could raise the administrative barrier for formalization of *hawaladars* who have traditionally offered both services.

The regulation states that an MSP must obtain a license to operate and it elaborates on the required contents of the license application. In addition to providing DAB with adequate personal identification information of the applicant and the proposed business, applicants must provide a business plan detailing the proposed services and start dates, proposed locations for business operation, a list of proposed individuals (agents, associated and employees) who may conduct business under the licensee's name, identifying details of the banks accounts used to enable MSP activities, a filing fee (the fees associated with holding licenses can be seen in Table 9 below) and a signed money service providers licensing agreement. Part of this agreement entails a commitment to prevent money laundering via provided money services, including training of staff on detecting suspicious transactions and submission of reports to FinTRACA on suspicious transactions.

The regulation provides additional guidance on the supervision of MSPs beyond monitoring of registration details. Each license holder is required to submit monthly reports to the Financial Supervision Department of DAB that document the number and total value of transactions facilitated over the past month. These transactions must be detailed by the direction of the transfer (inbound or outbound), location of the transfer (domestic or international) and the currency in which money was transmitted. Further, signed duplicate copies of monthly transactions must be provided, using the official record books provided by DAB. In addition to this mandatory monthly reporting, MSPs must inform the DAB about changes to the business structure, including changes in service locations and authorized agents, suspension of the business due to force majeure and failure to facilitate any transactions or transactions the cumulatively amount to less than AFN 10,000 in a given month. Enforcement of these reporting requirements is supported by a system of fees and penalties (outlined in Table 10 below) as well as on-site inspections of licenses and operations by members of DAB's Financial Supervision Department.[22]

Additional standards and obligations apply to electronic money institutions and it is this aspect of the Money Service Providers Regulation that is of particular interest when considering the unique remittance market in Afghanistan. As was noted above, the M-Paisa service was already operational when EMI-specific provisions were added to this regulation and indeed it was the M-Paisa service that reinforced the importance of formulating EMI-specific regulations. While the services offered by EMIs share many similarities with those of regular MSPs, they differ in several key aspects, the most basic of which is the conversion of banknotes, coins or other payment instruments into e-money (monetary value stored on an electronic decide or server). Given the nature of e-money and its transfer methods, which generally rely on technologies and infrastructures that are not used by normal MSPs, electronic money institutions tend to have a different institutional profile than regular MSPs. That the only applicants for EMI licenses in Afghanistan so far have been mobile network operators is no coincidence: such companies have the existing infrastructure and capacity to facilitate e-money transfers and the implementation of e-money platforms fits well within their existing technologies and services. This implies a high level of coordination between EMI services and other services offered by MNOs simply because they rely on the same mobile network and physical hardware, but for oversight purposes the two businesses need to be disentangled. To this end DAB introduced the regulation that EMI applicants must be established as stock corporations that are entirely independent from or wholly owned subsidiaries of a parent company. Additionally, the regulation specifies the minimum internal organization and composition of EMIs to ensure structural transparency and internal monitoring.

Given the different institutional profile of EMIs and the relatively higher risk they carry, the regulation establishes more stringent requirements than are levied on normal MSPs. As can be seen in Table 9, EMIs face more (and higher) fees and financial requirements than generic MSPs. Any business applying

[22] While the number of on- and off-site monitoring agents will be expanded to 15 people within the coming months, as of April 2012 only two people were available to conduct these inspections (Qyami, personal communication, 2012).

for and retaining an EMI license must be capitalized by at least USD 1 million at all times and it must pay a series of application, licensing and assessment fees to obtain and maintain a license. In addition to more diverse and higher financial requirements, EMIs are required under this regulation to provide more information on the business structure. Applicants must submit a business plan that reflects the applicant's long-term business objectives and capacity and capability to actually reach these goals. They additionally must provide lists of all business partners, merchants (points of sale and users of the service) and agents (individuals or business who will expand the mobile money business).

Reporting and documentation requirements for EMIs are likewise more extensive than those of MSPs. All e-money transactions completed by EMIs must be kept in a readily available electronic format that DAB can access for at least six months. All data must be stored offline for a further 10 years. As with normal MSPs, EMIs are also required to submit a monthly report summarizing transactions. The reports, which must be submitted to DAB, FinTRACA and AML/CFT councils, must document the following for all e-money transactions: user's beginning balance, inflows or cash-in activities, payments, e-money transfers, outflows or cash-out activities, net flows (inflows to outflows) and end-of-month balance. Additional reporting must provide monthly overviews of use of EMI services for payment for goods and services, salary payments, bill payments, MFI loan dispersals and MFI loan repayments. In addition to these mandatory monthly reporting requirements, EMIs must report large singular incoming or outgoing transactions of AFN 10,000 or more[23] to FinTRACA. Penalties for non-compliance with any of the reporting or operational requirements set forth in the regulation are steep: in addition to the levying of monetary fees (which are outlined in Table 10) and the threat of license revocation, the management of non-compliant EMIs may also face criminal liability and prosecution depending on the nature of the violation.

In addition to outlining institutional monitoring mechanisms, the regulation also specifies how certain aspects of the licensed business must be organized. The regulation imposes transaction limits, for instance, which restrict the value of each transaction and the total number of transactions that can be conducted in a single day. Further restrictions are placed on the e-money balance any single user can maintain; these limits can be seen in Table 8 below.

[23] Also considered large cash transactions are any two transactions that occur between the same sender and recipient within two business day that cumulatively amount to or exceed AFN 10,000.

**Table 8: EMI transaction limits**

| Transfer direction | Maximum transaction volume | Number of allowable daily transactions | Maximum e-Wallet balance |
|---|---|---|---|
| Business - business | No limit | No limit | AFN 150,000 |
| Business - consumer | No limit | No limit | |
| Consumer - consumer | AFN 15,000 | 10 | |
| Consumer - business | No limit | 10 | |

*Source:* DAB, 2011.

The regulation also outlines the know-your-customer procedures EMIs must follow. In addition to large cash transaction reporting, EMIs must adhere to further KYC procedures formulated by DAB. One of the most interesting aspects of the EMI-specific KYC provisions is that customer identification is risk-based: customers in different risk categories face different identification requirements. The risk categories defined in the regulation apply only to customer-to-customer (or peer-to-peer) transactions. The low risk category is defined by a maximum transaction value of AFN 2,500. Customers in this category are required to provide a simple customer ID, which could be a state-issued identification document or a privately issued document (like a university ID, utility bill) that accurately portrays the customer's identity. Customers who fit into the medium risk category, which is defined by maximum transaction value of AFN 12,500, are required to provide a Tazkera ID (a national identification card issued by the state that confirms Afghan citizenship). Customers of the highest risk category, defined by the maximum allowable transaction value of AFN 15,000, must adhere to the identification requirements stipulated in banking regulations. The flexibility of identification requirements is an important provision in the MSP and EMI regulations, as strict formal identification requirements can result in already marginalized potential users of formal financial services not being able to use the service.

While the Regulation on Money Service Providers contains much more detail than can be adequately canvassed here, the aspects of the regulation that have been discussed highlight how DAB has attempted to formulate policy that reacts to the unique needs and constraints of the Afghan financial market. Much of the MSP regulation was designed with the explicit goal to formalize *hawala* and bring agents under the supervision of DAB. The essential role of *hawala* in facilitating a range of financial services challenges the formulation of effective regulation. Regulation must not be so unduly restrictive as to discourage formalization and drive businesses further underground, but must also not be so flexible as to result in expensive yet inefficient monitoring and enforcement capabilities. Samuel Maimbo, who was involved in the formulation of MSP regulations, has noted that the sheer size of the informal economy and the key role of *hawala* in enabling it necessitates that DAB approach regulation pragmatically (Maimbo, 2004). Some aspects of the regulation reflect attempts at pragmatism: the flexible identification requirements for customers of different risk classes are one example. These concessions do not act as an incentive, however, for businesses to become licensed. Some businesses were incentivized to become licensed when the regulation was first enacted by increased access to foreign currency offered by DAB, but as the regulation has matured, it is unclear what direct advantages businesses can gain from becoming licensed (Siegel et al., 2010). The threat of business closure and fines may encourage some MSPs to file and maintain a licence, but ongoing security challenges across the country coupled with low institutional capacity to seek out and document unlicensed MSPs may weaken the strength of such a threat.

**Table 9: Licensing and application fees**

<table>
<tr><th>Type of Institution</th><th>Capitalization Requirement</th><th>Deposit in Trust</th><th>Application Fee</th><th>Licensing Fee</th><th>Annual License Assessment Fee</th></tr>
<tr><td rowspan="3">Money Service Provider</td><td rowspan="3">-</td><td>Major cities: AFN 50,000</td><td rowspan="3">AFN 15,000</td><td rowspan="3">-</td><td>First licensed location: AFN 10,000</td></tr>
<tr><td rowspan="2">Other primary locations in Afghanistan: AFN 25,000</td><td>Each additional licensed location: AFN 5,000</td></tr>
<tr><td>Each authorized agent, associate or employee: AFN 1,000</td></tr>
<tr><td rowspan="3">Electronic Money Institution</td><td rowspan="3">AFN equivalent of USD 1,000,000</td><td rowspan="3">-</td><td rowspan="3">AFN 25,000</td><td>First 5 years of operations: AFN 10,000,000</td><td rowspan="3">AFN 250,000</td></tr>
<tr><td>For operation years 5 through 10: AFN 5,000,000</td></tr>
<tr><td>For operation years 10 through 15: AFN 3,000,000</td></tr>
<tr><td rowspan="2">Foreign Exchange Dealer</td><td rowspan="2">-</td><td>Major cities: AFN 50,000</td><td rowspan="2">AFN 6,000</td><td rowspan="2">-</td><td rowspan="2">AFN 3,000</td></tr>
<tr><td>Other primary locations in Afghanistan: AFN 25,000</td></tr>
</table>

**Table 10: Non-compliance fees and fines**

| Type of Institution | Failure to submit monthly reports on time | Failure to submit report for entire month | Failure to submit annual license assessment | Operation under expired or no license |
|---|---|---|---|---|
| Money Service Provider | First 3 months: Warning letter | AFN 25,000 + notification of possible suspension or revocation of license | First 15 days: Letter of warning | - |
| | Consequent monthly offence: AFN 5,000/day | | After 30 days: AFN 1,000/ location | |
| | Failure to submit on time for 3 consecutive months: Potential suspension or revocation of license | | After 90 days: AFN 5,000/location + notification of possible suspension or revocation of license | |
| Electronic Money Institution | First 30 days of late reporting: AFN 5,000/ day | First month: AFN 500,000 + warning letter | - | - |
| | | Second month: AFN 1,000,000 + warning letter | | |
| | | Third month: AFN 2,500,000 + warning letter + one month unpaid suspension of compliance officer | | |
| | | After 3 months: Flat monthly fee of AFN 500,000 + fees accumulated over previous 3 months + revocation of EMI license | | |
| Foreign Exchange Dealer | - | - | - | AFN 20,000 + immediate business closure |

- ***Regulation on Foreign Exchange Dealers (2008)[24]***

The regulation on the licensing, regulation and supervision of foreign exchange (FX) dealers was approved by the Supreme Council of Da Afghanistan Bank in July of 2008. Within this regulation a foreign exchange dealer is defined as “any person who engages in the business of buying and selling foreign

[24] The full text can be found online at: http://www.centralbank.gov.af/pdf/ForeignExchangeDealersRegulation_english_.pdf

currencies, forward exchange contracts, options, swaps or other derivative contracts involving a foreign currency, or arranging for payment in foreign currency..." (Section 1.1.4, Subsection E:2).

This regulation provides explicit guidance for money exchange dealers through six parts: general regulations and definitions, issuance of licenses, activities, supervision, enforcement and miscellaneous and transitional provisions. Given the specified definition of a foreign exchange dealer, particularly as it relates to arrangement of payment in foreign currencies, this regulation could potentially encompass a significant portion of remittance service providers, particularly *hawaladars*. Given its implications for the standards and practises a business must meet to become (and remain) licensed, specific aspects of this regulation should be outlined.

The Regulation on Foreign Exchange Dealers specifies that any FX dealer wishing to operate in Afghanistan must obtain a licence from DAB. To obtain a license, an applicant must provide a series of documents. While the complete list can be found in the text of the regulation under Section 1.2.3 Content of Application, some of the key documents required include: the name, address, date and place of birth, copy of national identification card and a photograph of the exchange dealer, the history of the exchange dealer's business, a list of provinces in which the exchanger dealer has or plans to offer services, a copy of the exchange dealer's National Taxpayer Identification Number (TIN) certificate and tax certificate and receipts for payment of the licensing fee and licensing deposit. The cost of the licensing fee for the first license is AFN 6,000; the licensing deposit, which must be made by the FX dealer to a DAB trust account, costs AFN 50,000 for licensees headquartered in Kabul, Kandahar, Herat, Jalalabad and Mazar-i-Sharif and AFN 25,000 for those headquartered in other primary locations in Afghanistan. This amount must be held in trust until the FX dealer chooses to leave the business. Licenses must be renewed every year and with the renewal the FX dealer must provide a police verification report (to confirm that the applicant was not involved in illegal activities), a copy of the National Identification Card and an application processing fee (of AFN 3,000).

In addition to the range of activities discussed within the sections on permissible and mandatory activities that an FX dealer must perform, this regulation specifies several provisions that relate directly to the transparency of the foreign exchange operation and, by extension, the constraints they may face particularly as remittance service providers. Within the section on activities, it is stated that FX dealers must record the details of daily transactions, which should be used to prepare quarterly reports on the number and total volume of transactions processed. Lists of large singular transactions exceeding AFN 250,000 must also be compiled and filed with DAB every quarter. Further, the regulation states that licensed dealers must "take all necessary measures for the effective prevention of money laundering", including installing adequate customer identification policies, training of staff on identify signs of money laundering, record retention and submission of suspicious transaction reports to DAB.

Given the structure of Afghanistan's financial system and the prominent role of *hawala* in facilitating a range of financial transactions (many of which overlap), the standards established by this regulation could potentially affect a large number of money service providers. As a further step in the financial reform package, the Regulation on Foreign Exchange Dealers sought to extend formalization introduced in the MSP regulation to FX dealers, most of whom are *hawala* agents. The standards established by this regulation could be difficult for FX dealers to meet, however, and the lack of enforcement capacity coupled with limited incentives to comply may result in low licensing of FX dealers. While the consequences of non-compliance with the regulation are explicitly outlined in the regulation, it is unclear to what extent non-compliance has actually been monitored and punished, as well as to what extent this engagement has lead to a reduction in informal FX dealer operations.

- ***Regulation on Domestic Payment Operations in Afghanistan (2010)[25]***

The final regulation that will be discussed, the Regulation on Domestic Payment Operations in Afghanistan, was introduced in March of 2010. The regulation specifies how domestic payment operations in Afghanistan are facilitated and monitored, particularly through the interbank payment system (IPS) operated by DAB. This regulation establishes that the regulatory framework and regulatory oversight that applies to domestic payment systems is provided by DAB. As DAB operates the IPS, it is responsible for processing interbank payments, recording IPS transfers and reconciling interbank accounts, among other responsibilities. Within this regulation participation in the IPS is largely restricted to DAB and licensed banks, but other registered financial services can be included at the discretion of DAB. The regulation additionally specifies general provisions applying to domestic payment operations, specifications of IPS, payment by current and other bank accounts, payment services provided by the post office, risk management in the IPS and transitional provisions.

[25] The full text can be found online at: http://www.centralbank.gov.af/pdf/RegulationOnPayOpsV5_03_10_WITH%20EDITS.pdf

The Regulation on Domestic Payment Operations in Afghanistan details the overall functioning of the domestic (interbank) payment system in Afghanistan, which has only limited implications for the transfer of remittances. While some transfers facilitated by the IPS may indeed be remittance transfers, registered banks are a small player in the remittance market and are generally not used by individual remitters. With that said, the participation of financial institutions relying on the IPS in the remittance market may grow as the financial system further matures and expands, both in terms of geographical penetration and customer inclusion. This regulation could affect how efficiently banks make use of the IPS to facilitate remittance transfers, thus it is worth mentioning here.

The regulatory environment in Afghanistan has undergone fundamental transformation in the past decade. The key pieces of legislation and regulation mentioned in this section have provided operational frameworks to a remittance market that has traditionally been largely self-regulated. The degree to which these regulations and laws have actually achieved the objectives they were formulated to meet is uncertain, particularly in relation to AML/CFT concerns and the licensing of MSPs and FX dealers. As the regulatory environment matures, its effectiveness and efficiency in maintaining optimal control of the remittance market and its actors should be monitored.

# 4. REMITTANCE USAGE

Measuring the impacts of remittances is a complex process made additionally challenging by the lack of large-scale panel data about migration and remittances in Afghanistan. While a number of small-scale studies lend important insight into the role of remittances in the economic resilience of recipients, the lack of quantitative data makes it difficult to develop a broad view of how remittances affect larger economic trends in Afghanistan.

Aside from the unique constraints faced within the Afghan-specific context, assessing how remittances affect recipients is a process normally fraught with methodological dilemmas. Measurement of remittance impacts naturally relies on the remittance data from which correlation can be derived: poor quality or limited data can handicap subsequent interpretations of its impacts. Even with high-quality and comprehensive data, other methodological dilemmas remain. One of the most basic relates to the fungibility of remittances. Remittances act like any other form of cash income. Isolating how any individual income source affects household expenditure behaviour is difficult and remittances are no exception. An additional problem relates to measuring the second- and third-order effects of remittances on recipient communities. The impacts of remittances extend beyond the immediate recipients: through the purchase of goods and services on the local market, remittances can bolster the local economy and affect wages and employment. Linking changes at the community-level economic context to the purchase of goods and services with remittance money has seldom been done, however, which can again be related to the fungible property of remittances. Finally, remittance information is generally collected at one particular moment in time and does not track the progress of individual recipients' expenditure behaviour over time nor does it account for seasonality of flows or short-run events that affect remittance behaviours temporarily (Adams, 1998). While both problems can be countered by the collection of panel data and sampling conducted in multiple seasons, much remittance data are collected in the course of other surveys that may not be designed with these particular concerns in mind. Despite these methodological concerns, there have still been valuable connections drawn between remittances and positive impacts on recipient individuals, communities and societies.

Remittances can act as an important source of capital not only for individual recipients but for the financial system as a whole. When remittances are transferred via formal transfer channels, the central bank in the recipient country gains access to capital that can be used to securitize against future loans, expanding the potential for financial institutions in that country to borrow money from international lenders. This in turn can improve the country's credit worthiness and increase external financing (Ratha, 2006). Remittances as a source of foreign exchange can also help pay for imports, thus reducing balance of payment burdens (Bugamelli & Paternó, 2005; Ratha, 2003, 2006). In Afghanistan remittances have had a considerable impact on the macroeconomic environment. Thompson (2006) notes that in 2005, remittances were Afghanistan's third major source of externally generated income behind unregulated trade of legitimate goods and opium production/trafficking. Remittance inflows have been essential in ensuring that the Afghani currency introduced by the Da Afghanistan Bank in 2002 has remained stable by buoying foreign exchange reserves (Thompson, 2006). Additionally, it was estimated that remittances from Afghans living abroad financed up to 3 per cent of new investments in 2005, which would likely increase given a more secure investment climate (IOM, 2008).

Perhaps more pivotally in a country like Afghanistan, remittance transfers behave in a more predictable way than other forms of foreign capital. While other forms of external financing like foreign direct investment may decrease or cease altogether during periods of conflict or disaster, remittances often behave counter-cyclically and continue unabated during turbulent times. Ratha (2003) notes that remittances intended for consumption within recipient households may be particularly impervious to pro-cyclical dips and may in fact spike during times of need. During times of economic hardship and particularly in contexts in which recipients rely on remittances as a primary source of income when they live at or near subsistence level, migrant remittances may increase and cushion recipients against economic shocks (Ratha, 2003). Remittances have been found to spike during times of financial and social crisis to accommodate the increased need of recipients, as was found by Clarke and Wallsten (2003) after natural disasters and Yang (2005) during the 1997 Philippine financial crisis. Interviews among Afghans living in the Netherlands revealed that remittances often spike during times of need, such as during the winter period when power is less certain and livelihood opportunities are limited. Some individuals reported sending more remittances during episodes of heightened insecurity and tension such as during elections, after wide-scale deportation and resettlement episodes and during times of crop failure (Siegel et al., 2010).

This section will provide an overview of remittance usage in Afghanistan. As it is beyond the scope of this supplement to evaluate how remittance receipt affects macroeconomic indicators given data limitations, this section on the usage and impacts of remittances will focus on household- and individual-level trends.

## 4.1. PROFILE OF REMITTANCE SENDERS

Before specific aspects of remittance prevalence and use in Afghanistan can be evaluated, it should be noted that remittance transfer trends mirror migration trends in general. This implies that just as the migration process is selective (in terms of who migrates and who stays), so, too, is remittance receipt a selective process. As de Haas (2007) notes:

> Because of the costs and risks associated with migration, it is generally not the poorest who migrate the most, and certainly not internationally. As migration is a selective process, most direct benefits of remittances are also selective and tend not to flow to the poorest members of the communities… (de Haas, 2007: 10).

While remittances can certainly be transferred from someone living abroad to an individual or household to whom the sender bears no relationship, it is more common that remittance senders and receivers are in some way related, whether by kinship, communal or other social ties.

Given this strong link between remittance senders and receivers and the larger social trends that they may inadvertently embody given their inclusion in the migration process, it is important to understand more about who sends and who receives remittances. Using the 2007/08 National Risk and Vulnerability Assessment (NRVA) and 2011 IS Academy Survey as a basis, this section will explore remittance selectivity by providing an abbreviated profile of remittance senders.

The 2007/08 round of the National Risk and Vulnerability Assessment provides excellent insight into some key characteristics of remittance senders. As the NRVA was a nationally representative, large-scale survey that collected information on a range of personal characteristics, it can provide key guidance into any differences that distinguish remittance senders from the population at large.

**Table 11: Characteristics of remittance senders, NRVA**

| Characteristic | Frequency | Percentage |
|---|---|---|
| ***Area/Country of residence*** | | |
| Islamic Republic of Iran | 642 | 63.7 |
| Arabian Peninsula | 160 | 15.9 |
| Elsewhere in Afghanistan | 122 | 12.1 |
| Other | 49 | 4.9 |
| Pakistan | 35 | 3.5 |
| ***Gender*** | | |
| Male | 1,002 | 99.4 |
| Female | 6 | 0.6 |
| ***Relationship to household head*** | | |
| Son/ daughter | 577 | 57.3 |
| Sibling | 223 | 22.1 |
| Household head | 96 | 9.5 |
| Spouse | 53 | 5.3 |
| Other | 34 | 3.4 |
| Parent | 24 | 2.4 |
| ***Reason for migration*** | | |
| To find work/better work | 960 | 95.3 |
| Joined military | 24 | 2.4 |
| Other | 23 | 2.3 |
| ***Occupation*** | | |
| Day labourer | 695 | 69.0 |
| Private sector salaried worker | 147 | 14.6 |
| Public sector salaried worker | 34 | 3.4 |
| Self-employed | 18 | 1.8 |
| Employer | 5 | 0.5 |
| Unpaid family worker | 4 | 0.4 |
| Unemployed | 7 | 0.7 |
| Do not know | 97 | 9.3 |
| ***Highest education attainment*** | | |
| No formal education | 677 | 67.2 |
| Primary school | 187 | 18.6 |
| Secondary school | 70 | 6.9 |
| High school | 59 | 5.9 |
| Tertiary education | 14 | 1.4 |

*Source*: NRVA, 2007/08.

The NRVA reveals a number of interesting characteristics of remittance senders, most of which correspond to what would be expected given existing migration trends. Among the collected sample of 1008 remittance-senders, the majority (64%) of international migrants lived in the Islamic Republic of Iran and an additionally significant portion (16%) lived in one of the countries of the Arabian Peninsula. Less than 1 per cent of remittance senders were female. The average age of a remittance sender was 28.9 years, which mirrors the general expectation that migrants are more likely to be of prime working age.[26] This relatively young average age also corresponds to the reason for migration, which was listed as trying to find work or better work by over 95 per cent of respondents. The high proportion of remittance-senders living in the Islamic Republic of Iran is likely also reflective of this trend. Over half (57%) of remittance senders were children (mostly sons) of the household head and nearly one quarter (22%) were siblings of the household head. In rarer cases (among nearly 10% of respondents) the remittance sender was considered the household head despite being abroad.

Information about the highest level of education completed by remittance senders provides additional detail. Over 67 per cent of remittance senders had no formal education and an additional 18.5 per cent had completed only primary school. A similar number (143 individuals, or 14.2%) had completed secondary school or above, but of this number only a small portion completed tertiary education. This seems to be in line with the averages reported for the population at large. The educational profile of remittance senders also seems in line with remittance senders' reasons for migration and sectors of occupation abroad - nearly 70 per cent were employed as day labourers.

The IS Academy Survey provides further insight into the characteristics of remittance senders. Table 12 displays some of the key characteristics of remittance senders:

**Table 12: Characteristics of remittance senders, IS Academy**

| Characteristic | Frequency | Percentage |
|---|---|---|
| ***Gender*** | | |
| Male | 173 | 96.1 |
| Female | 7 | 3.9 |
| ***Relationship to household head*** | | |
| Family (blood related) | 157 | 87.2 |
| Household head | 21 | 11.7 |
| Other | 2 | 1.1 |

[26] Among the NRVA sample as a whole, the average age was 20.4 years.

| | | |
|---|---|---|
| ***Marital status*** | | |
| Unmarried | 113 | 62.8 |
| Married | 67 | 37.2 |
| ***Parental status*** | | |
| No children | 142 | 78.9 |
| Children | 38 | 21.1 |
| ***Employment status*** | | |
| Employed | 96 | 53.3 |
| Unemployed | 84 | 46.7 |
| ***Highest educational attainment*** | | |
| No formal education | 82 | 46.6 |
| Primary school | 38 | 21.6 |
| Secondary school | 51 | 29.0 |
| Tertiary education | 5 | 2.8 |

*Source:* IS Academy Survey, 2011.

As one would expect given migration and employment trends, remittance senders were overwhelmingly male, with only 4 per cent of all remittance senders recorded as female. Nearly 88 per cent of remittance senders were related by blood to the household head and nearly 12 per cent of senders were considered to be the household head despite being abroad. This confirms the earlier statement that remittance senders and receivers are likely to be related and share many of the same characteristics: of all remittance senders, only two were not related by blood to someone in the recipient household. The average age of a remittance sender was 26.8 years; while the oldest remittance sender was 70 years old, the average age well reflects the notion that migrants are often of prime working age. Over one third of remittance senders were reported to be married and less than a quarter (21%) reported having children.

The highest level of educational attainment among remittance senders is slightly higher than the highest levels of educational attainment among respondents as a whole; with an average of four years of schooling, remittance senders had an average of one more year of schooling than the population average of 2.98 years. While the rates of no formal education and completion of primary school are similar between remittance senders and the population as a whole, remittance senders had a slightly higher rate of both secondary and tertiary education completion. With that said, the highest number of years of education was listed as 23 for the population at large, while among remittance senders the highest reported number of years of education was 16.

Duration of stay abroad can give additional information about remittance-sending habits and trends. The average duration of the remittance sender's stay abroad was well over two years (29.29 months) and while the minimum stay abroad was two months, the maximum was 96 months (or eight years). Given that many of the larger contemporary migration movements occurred over eight years ago, it is interesting to note that no remittance-sender was reported to be abroad for longer than this time period. This could indicate - as other studies have done - that remittances taper off the longer a migrant remains abroad. It could also indicate, however, that migrants who live abroad for longer periods of time are more likely to (eventually) bring their families with them, which would result in the absence of potential remittance-receivers in the country. Another explanation could be that Afghan migrants abroad from specific migration "cohorts" share certain characteristics (like low educational attainment, low literacy levels, lack of certifications) that affect their employment possibilities, thus reducing the possibility for those individuals to generate income to remit. While it is beyond the scope or intention of this section to confirm the reason for this trend, it is interesting to observe against the other characteristics of the remittance sender.

The demographic profile of remittance senders fits in well with what is known about general migration trends, particularly when it is correlated to countries of residence abroad. More than three quarters of remittance senders lived in the Islamic Republic of Iran, which is logical considering the large number of migrants living in the country in general as well as the tendency of migrants to move there in search of work.[27] Given the large number of remitters living in the Islamic Republic of Iran, the average age and duration of stay abroad seem to match common migration dynamics.

The NRVA and IS Academy Survey data both demonstrate that remittance receipt is intimately tied to larger migration and labour trends. While there do not appear to be radical differences between remittance senders and members of the population at large in terms of characteristics like educational achievement, stark differences may exist between remittance-receiving and non-receiving households. The next section will address this by discussing the prevalence of remittance receipt and the implications remittance-receiving may have on household income.

[27] The remaining 25 per cent of remittance senders were distributed across a number of countries: Pakistan (11.5 per cent), Saudi Arabia (2.6 per cent), United Kingdom (1.9 per cent), Greece (1.3 per cent) and several other countries with less than 1 per cent of remittance senders.

## 4.2. REMITTANCE PREVALENCE AND LIVELIHOOD SUPPLEMENTATION

The development impacts of remittances can often be best measured on the household or individual recipient level. Afghanistan has been plagued by consistently low human development indicators and while there are many complex processes that influence these indicators, income is one influential factor.

Afghanistan is categorized as a low-human development country by the Human Development Index (HDI), where it ranks 175 out of 186 countries according to indicators spanning the categories of health, education and living standards. The gross national income per capita is USD 1,000 per year or roughly USD 2.7 per day (UNDP, 2013). The low per capita income, while not necessarily indicative of low human development, can limit the capacity of individuals to achieve certain human development goals. From this perspective, evaluating the role of remittances in affecting material wealth can be an important starting point in the discussion of remittance usage.

Remittances are a valuable source of household income, especially in societies characterized by limited livelihood opportunities, low wages and limited job security. A number of studies over the past decade have demonstrated the incidence of remittance receipt across households in Afghanistan and while the overall prevalence level of remittance receiving may be low, remittances often account for a significant portion of income in recipient households.

On the basis of the 2003 National Risk and Vulnerability Assessment conducted among 11,200 households across rural Afghanistan, the World Bank constructed a rural poverty profile for Afghanistan that provided some key insights into the role of remittances in individual households. The poverty profile revealed that approximately 15 per cent of the surveyed population reported receiving remittances and while the likelihood of receiving remittances was smaller for the lowest expenditure quintile, remittances accounted for a larger proportion of total expenditures (30%) in these households. This would suggest that remittances are relatively more important for households at the lower end of the income and expenditure spectrum (World Bank, 2005).

A 2008 study among Afghan deportees from the Islamic Republic of Iran revealed that the remittances sent from Afghan labourers in the Islamic Republic of Iran back to their families in Afghanistan constitute an imperative source of income for recipient households. More than a third of recipient households in Afghanistan reported that remitted wages from kin working in the Islamic Republic of Iran was their exclusive source of income, while an additional third of recipient households reported that remittances formed more than three quarters of the household's income. Remittances constituted half of household income for a further 28 per cent of recipient households, while only 4 per cent of recipient households noted that recipients accounted for less than a quarter of their total income (Majidi, 2008). These figures naturally reflect underlying migration dynamics. Most of the migrant labourers working in the Islamic Republic of Iran were heads of households, indicating that the household members remaining behind were not economically active or were not primary earners in the household.

The receipt of remittances changes significantly when the scope is widened to the population at large and not just migrant labourers. As was noted in an earlier section, the 2007/08 National Risk and Vulnerability Assessment revealed that remittances were received by 6.3 per cent of all surveyed households. Among those recipient households, nearly 2 per cent reported that the remittances received from household members living permanently abroad constituted their household's most important source of income.

Data from the 2011 IS Academy Survey similarly reveal that a relatively small number of households in the five surveyed regions reported receiving remittances. Of the 2005 surveyed households, 152 (7.6%) reported that they had received remittances from a household or non-household member living abroad in the 12 months preceding the survey. While the reported frequency of remittance sending was low (26% of recipients reported receiving remittances only once in the past year and an additional 24% reported that they had received transfers only irregularly), the value of such transfers as a proportion of household income is sizeable. Of all recipient households, nearly 30 per cent reported that remittances received from someone abroad constituted the most important source of household income.

Given the potential role of remittances in supplementing and stabilizing household income, it could be expected that certain indicators of household resilience change following the receipt of remittances. While it is difficult to document the precise changes experienced by a household following the receipt of remittances without appropriate pre- and post-remittance data, it is possible to contrast the characteristics of remittance-receiving and non-receiving households to establish potential correlations between remittance receipt and change in indicators of household well-being. Using the IS Academy Survey data, the economic situation of households that receive remittances and those that do not can be contrasted. Tables 13 and 14 below provide an overview of key economic characteristics of households as well as characteristics that may affect household economic status:

**Table 13: Economic characteristics of remittance-receiving and non-receiving households, IS Academy**

| Characteristic | Remittance-receiver | | Non-remittance-receiver | |
|---|---|---|---|---|
| | # | % | # | % |
| ***District type of residence*** | | | | |
| Urban | 60 | 39.5 | 943 | 50.9 |
| Peri-urban | 23 | 15.1 | 477 | 25.7 |
| Rural | 69 | 45.4 | 502 | 23.4 |
| ***Province of residence*** | | | | |
| Balkh | 53 | 34.9 | 347 | 18.7 |
| Herat | 36 | 23.7 | 365 | 19.7 |
| Kabul | 33 | 21.7 | 369 | 19.9 |
| Nangarhar | 23 | 15.1 | 379 | 20.5 |
| Kandahar | 7 | 4.6 | 393 | 21.2 |
| ***Household member's primary daily activity**** | | | | |
| In education | 294 | 22.9 | 3,488 | 23.8 |
| Self-employed (business) | 142 | 11.4 | 1,166 | 7.6 |
| In paid work | 72 | 5.6 | 916 | 6.3 |
| Self-employed (agriculture) | 32 | 2.5 | 360 | 2.4 |
| Unemployed and actively looking for a job | 34 | 2.7 | 270 | 2.0 |
| Unemployed, wanting a job, but not actively looking for a job | 12 | 0.9 | 116 | 0.9 |
| ***Child works outside of household**** | | | | |
| No | 313 | 90.5 | 3,895 | 90.8 |
| Yes | 33 | 9.5 | 395 | 9.2 |
| ***Household's self-rated economic situation*** | | | | |
| Finding it very difficult | 4 | 3.3 | 98 | 5.3 |
| Finding it difficult | 27 | 17.8 | 363 | 19.6 |
| Coping (neutral) | 82 | 53.9 | 1,061 | 57.3 |
| Living comfortably | 36 | 23.7 | 315 | 17.0 |
| Living very comfortably | 2 | 1.3 | 16 | 0.9 |

| | | | | |
|---|---|---|---|---|
| ***Household's self-rated economic situation compared to other community members*** | | | | |
| Among the poorest | 7 | 4.6 | 183 | 9.9 |
| Below average | 45 | 29.6 | 615 | 33.2 |
| About average | 83 | 54.6 | 954 | 47.6 |
| Above average | 17 | 11.2 | 176 | 9.6 |
| Among the richest | 0 | 0.0 | 8 | 0.4 |
| ***Household member possesses bank account*** | | | | |
| Yes | 28 | 18.4 | 86 | 4.6 |
| No | 124 | 81.6 | 1,767 | 96.4 |
| ***Household saves in some way*** | | | | |
| Yes | 24 | 15.8 | 246 | 13.3 |
| No | 128 | 84.2 | 1,607 | 86.7 |
| ***Household is able to obtain USD 100 for an emergency within one week*** | | | | |
| Yes | 99 | 65.1 | 1,103 | 59.5 |
| No | 53 | 34.9 | 750 | 40.5 |

*Source:* IS Academy Survey, 2011.
*Note:* *Note that numbers in these rows reflect the number of individuals within each type of household, not the number of households with a given characteristic.

**Table 14: Household characteristics of remittance-receiving and non-receiving households, IS Academy**

| Characteristic | Remittance-receiver | Non-remittance-receiver |
|---|---|---|
| Average household size | 9.3 | 8.2 |
| Average monthly expenditure | AFN 12,065.1 (USD 240) | AFN 12,004.7 (USD 239) |
| Average monthly expenditure, per capita | AFN 1,427.4 (USD 28) | AFN 1,729.4 (USD 34) |
| Average monthly income | AFN 7,205.5 (USD 144) | AFN 11,072.3 (USD 221) |
| Total amount of savings accumulated in last 12 months | AFN 65,623.5 (USD 1,308) | AFN 145,568.4 (USD 2,900) |
| Total number of rooms (excluding kitchen & bathroom) | 3.1 | 2.9 |

*Source:* IS Academy Survey, 2011.

A quick scan of these tables reveals a few interesting differences between households that receive remittances and those that do not. While some of these differences may be attributable to other features of the households that are not apparent given the selected variables of interest, there are some discrepancies in response trends that likely are linked to remittance receipt.

Before the role of remittances can be discussed in isolation, other household characteristics must be acknowledged that are likely to affect the household's economic situation. As the tables show, remittance-receiving households had one more family member on average than non-receiving households. This could suggest that larger households are more likely to produce a labour migrant as an income-generating activity. Remittance-receiving households were found in greater proportion in rural areas, where 45 per cent of remittance-receivers resided. The provincial distribution of remittance-receiving households also differs from that of non-receivers: while the latter household type was almost uniformly distributed across the five sample provinces, the former were concentrated in greater numbers in Balkh and Herat and very few (4.6%) were located in Kandahar. This distribution mirrors larger migration trends, which differ considerably across the country given differences in, for example, proximity to state borders, ethnic composition of the population and historical migration patterns.

These general characteristics of households may be linked to the household's overall economic situation, but the receipt of remittances can also provide plausible explanations for certain observed differences. When asked about the primary daily activity in which household members were involved, more individuals in remittance-receiving households were noted as being self-employed in their own business and less in paid work. This could suggest that remittance receipt enables investment in entrepreneurial activities while perhaps proving a disincentive to participate in paid work. Different labour outcomes between households to do not seem to extend to child labour, however, as both remittance-receiving and non-receiving households reported similar levels of children working outside of the home.

The discussion of employment characteristics leads naturally into the discussion of income and expenditure patterns within households. The average monthly expenditures reported by both household types was similar at over AFN 12,000 (approximately USD 240). While the reported expenditures were slightly higher in remittance-receiving households, the largest difference in expenditure patterns can be seen when expenditure is calculated on a per capita basis. Given the slightly larger average household size of remittance-receiving households, it is unsurprising that per capita monthly expenditures are lower at AFN 1,427 (USD 28) than the AFN 1,729 (USD 34) reported among non-remittance-receivers. Average monthly income was also reported as higher in non-receiving householdsat, on average AFN 11,072 (USD 221), while remittance-receiving households reported significantly less at AFN 7,205 (USD 144) per month. This difference in income is particularly interesting when considering the higher number of household members in remittance-receiving households, as this could suggest higher dependency ratios in remittance-receiving households or a higher rate of economic inactivity in such households. Another potential explanation of lower reported incomes in remittance-receiving households could be that the income generated from self-employment (the primary activity in which more members of remittance-receiving households than non-receiving household were engaged) is lower than that generated from other activities. Savings trends provide even sharper contrast than income trends: while a slightly larger number of remittance-receiving households reported that the household saves in some way, the average amount of reported savings was more than twice as large in non-receiving households at AFN 145,568 (USD 2,900).

Despite these differences in income and savings, remittance-receiving households in general rated their households' economic situations as being better than that reported by non-receiving households. While the majority of households of both types reported that their households were "coping" with economic needs, fewer remittance-receiving households reported finding it very difficult or difficult to meet the household's needs and a significantly larger proportion indicated living comfortably. Similar responses were given regarding the self-assessed economic position compared to other households in the community: fewer remittance-receivers reported being among the poorest or below the economic average and a larger proportion indicated being average.

A household's economic status is naturally not limited to measures such as expenditure, income and savings. The possession of durable assets such as housing is an important indicator of economic status, as are the facilities available within households. Table 15 provides an overview of housing and land ownership and housing characteristics:

**Table 15: Housing and facilities of remittance-receiving and non-receiving households, IS Academy**

| Characteristic | Remittance-receiver | | Non-remittance-receiver | |
|---|---|---|---|---|
| | # | % | # | % |
| ***House ownership status*** | | | | |
| Owned and completely paid for | 123 | 80.9 | 1,325 | 74.7 |
| Rented | 19 | 12.5 | 361 | 20.4 |
| Used in exchange for services | 5 | 3.3 | 87 | 4.9 |
| ***Household owns land*** | | | | |
| Yes | 39 | 25.7 | 376 | 20.3 |
| No | 113 | 74.3 | 1,477 | 79.7 |
| ***Amount of consumed food produced from own land*** | | | | |
| None | 10 | 25.6 | 73 | 19.4 |
| Some | 26 | 66.7 | 232 | 61.7 |
| Quite a lot | 3 | 7.7 | 59 | 15.7 |
| Almost all | 0 | 0.0 | 12 | 3.2 |
| ***Type of sanitation facility used by household*** | | | | |
| Private pit/ latrine | 130 | 85.5 | 1,548 | 83.5 |
| Own flush toilet | 16 | 10.5 | 148 | 8.0 |
| Shared pit/ latrine | 4 | 2.6 | 127 | 6.8 |
| Shared flush toilet | 1 | 0.7 | 12 | 0.7 |
| ***Type of cooking fuel used by household*** | | | | |
| Gas | 66 | 43.4 | 747 | 40.3 |
| Wood | 47 | 30.9 | 647 | 34.9 |
| Straw/shrubs/grass | 18 | 11.8 | 210 | 11.3 |
| Animal dung | 14 | 9.2 | 152 | 8.2 |
| Charcoal | 2 | 1.3 | 59 | 3.2 |
| Kerosene | 3 | 2.0 | 20 | 1.1 |
| Electricity | 2 | 1.3 | 17 | 0.9 |
| ***Type of lighting used by household*** | | | | |
| Electricity (public) | 71 | 48.0 | 937 | 52.4 |
| Kerosene, gas, candle | 56 | 37.8 | 662 | 37.1 |
| Electricity (private generator) | 19 | 12.8 | 170 | 9.5 |
| Electricity (combined) | 2 | 1.4 | 17 | 0.9 |

*Source:* IS Academy Survey, 2011.

Notable differences appear between remittance-receiving and non-receiving households in regard to housing. Home ownership rates appear the starkest: while just over 71 per cent of non-remittance-receivers reported owning and paying for their housing in full, over 80 per cent of remittance-receiving households reported the same. This could reflect several trends, the most obvious of which is that house ownership is more likely in rural areas, where a large number of remittance-receivers are concentrated. It could certainly also reflect diversification of household income, however, which could enable more sustainable investments. In addition to increased housing ownership, the number of rooms in the homes of remittance-receivers is also slightly greater than among non-remittance-receivers.

Another asset that should be considered is land ownership, which over 25 per cent of remittance-receiving households and 20 per cent of non-receivers reported. Just as a greater percentage of remittance-receivers than non-receivers owned land, the amount of land owned was greater among remittance-receivers. Non-remittance-receivers owned an average of 4.65 jeribs (.93 hectares or 9300 $m^2$) of land and remittance-receivers owned 6.58 jeribs (1.32 hectares or 13,160 $m^2$) on average. Despite the greater likelihood of owning land and the greater quantity of land owned, remittance-receiving households reported a lower reliance on yield from own agricultural land for consumption - over 25 per cent reported that none of the food their household consumes is from own production.

Differences can be seen between households in terms of housing facilities as well. Among remittance-receiving households, nearly 11 per cent reported possessing a private flush toilet while less than 8 per cent of non-remittance-receivers reported the same. While for both groups a private pit or latrine was reported as the most common form of sanitation, remittance-receiving households reported slightly lower rates of using shared sanitation facilities. The types of fuels households relied on for cooking were more uniform across both types of households. While fewer remittance-receiving households reported relying on charcoal and wood and more reported use of gas, kerosene and animal dung, the differences in usage rates were not stark. The same applies to source of lighting. While more remittance-receiving households reported lighting the house from a private electricity source, the response patterns were similar across household types. Such differences may not be reflective of remittance receipt but of housing locale: again, as a larger proportion of households were located in rural areas, the use of private electricity sources may simply reflect inaccessibility of a public electricity grid.

The results provided by the IS Academy Survey suggest some interesting preliminary differences in the economic situations of remittance-receiving and non-receiving households. While more nuanced analysis would be necessary to isolate the role of remittances in fostering or restricting a household's economic possibilities, the simple outcome comparisons presented here do suggest that remittances can affect the accumulation of assets, even if remittances do not significantly contribute to income and savings.

## 4.3. REMITTANCE USE AND HUMAN CAPITAL INVESTMENT

Remittance receipt does not necessarily imply any change to the quality of life of the recipient. While the tendency may be to assume that remittances have a positive impact on living standards because they are an additional source of income that can contribute to greater consumption and investment, the channels through which remittances can affect poverty and human capital are often complex and difficult to measure (McKenzie & Sasin, 2007). Given limited data available on the use of remittances in Afghanistan, measuring the impacts of remittances on the lives of recipients is additionally difficult. The little information available on remittance receipt and use tells an interesting story about potential links between remittances and development, however.

Much of the discussion about the role of remittances in stimulating development centres around remittances as a potential means of reducing poverty. Previous literature has well documented the use of remittances to support basic consumption activities and most studies on patterns of remittance use in Afghanistan likewise find that remittances are most often used to meet basic daily subsistence needs.

A review of literature on remittance use in Afghanistan by IOM (2008) notes that remittances are most often used to meet daily needs like food expenditures. Aside from basic consumption expenditures, remittances are also used to repair and improve housing and for special events like weddings. Vadean (2007) made similar observations among Afghan remittance senders in Germany, who stated that they mostly sent remittances to Afghanistan to support day-to-day consumption or to meet emergency needs like urgent medical care. Participants in the Netherlands-Afghanistan corridor study revealed similar remitting patterns. Over 60 per cent of respondents stated that their main reason for sending remittances was to contribute to the daily consumption of recipients. Most common secondary reasons for sending remittances included to pay for healthcare (34%) or to pay for educational expenditures (25%). Among interviewed households that received remittances from family members in the

Netherlands, all reported spending the most significant portion of each transfer on consumption-smoothing activities (Siegel et al., 2010).

Respondents to the  Survey revealed similar remittance use behaviours. Daily needs, namely the purchase of food and drinks, were identified as the main expenditure for which remittances were used in 78 per cent of cases. The second most common expenditure for which remittance money was used was debt repayment, which was indicated as the most important expenditure only 8.9 per cent of the time. Aside from meeting basic consumption needs, respondents reported that the second most important types of expenditures on which remittances were spent as education (20.9%), debt payments (23.3%), healthcare (18.6%) and housing/land (16.3%).

**Table 16: Remittance usage, IS Academy**

| | Frequency | Percentage |
|---|---|---|
| ***Primary use of remittances*** | | |
| Daily needs | 114 | 78.1 |
| Debt payments | 13 | 8.9 |
| Ceremonies (such as marriage, funerals) | 12 | 8.2 |
| Healthcare | 3 | 2.0 |
| Other | 2 | 1.4 |
| Housing/land | 1 | 0.7 |
| Investment/ business | 1 | 0.7 |
| ***Secondary use of remittances*** | | |
| Debt payments | 20 | 23.3 |
| Education | 18 | 20.9 |
| Healthcare | 16 | 18.6 |
| Housing/land | 14 | 16.3 |
| Ceremonies (such as marriage, funerals) | 6 | 7.0 |
| Daily needs | 6 | 7.0 |
| Other | 4 | 4.6 |
| Savings | 2 | 2.3 |

*Source:* IS Academy Survey, 2011.

While remittance-receivers seldom indicated the use of remittances to support expenditures like education and healthcare, comparisons between remittance-receiving and non-receiving households reveal that human capital outcomes do differ slightly between household types. While the role of remittances in these differences cannot be confirmed, there appears to be a correlation between remittance-receiving and the accumulation of human capital in the form of education. While use of healthcare services is not necessarily a human capital outcome, it could be argued that good health is a necessary requisite for further human capital accumulation, thus a household's use of healthcare services is a form of investment that should be contrasted between household types.

**Table 17: Education and health outcomes of remittance-receiving and non-receiving households, IS Academy**

| Characteristic | Remittance-receiver | | Non-remittance-receiver | |
|---|---|---|---|---|
| | # | % | # | % |
| ***Literate household members*** | | | | |
| Yes | 482 | 43.1 | 4,317 | 38.6 |
| No | 636 | 57.8 | 6,895 | 61.4 |
| ***Highest educational attainment*** | | | | |
| No formal education | 568 | 51.5 | 6,015 | 53.5 |
| Any primary school | 285 | 25.9 | 2,864 | 25.5 |
| Any secondary school | 230 | 20.9 | 1,973 | 17.6 |
| Any graduate education | 19 | 1.7 | 191 | 1.7 |
| ***Child attending school*** | | | | |
| Yes | 236 | 45.5 | 2,759 | 41.8 |
| No | 283 | 54.5 | 3,837 | 58.2 |
| ***Child grades*** | | | | |
| Below average (0-65%) | 22 | 9.4 | 391 | 13.8 |
| Average (66-79%) | 142 | 60.9 | 1,782 | 62.9 |
| Above average (80-100%) | 69 | 29.6 | 658 | 23.2 |
| ***Household use of health clinic*** | | | | |
| Yes | 125 | 82.2 | 1,486 | 80.2 |
| No | 27 | 17.8 | 367 | 19.8 |
| ***Household use of hospital*** | | | | |
| Yes | 128 | 84.2 | 1,513 | 81.7 |
| No | 24 | 15.8 | 340 | 18.3 |

*Source:* IS Academy Survey, 2011.

As Table 17 above shows, remittance-receiving households reported more often that someone in the household made use of a health clinic or hospital. While there is little indication of the consistency of health care service use, the fact that a health service is used at all is perhaps an important indicator of access. Particularly as such a large number of households that receive remittances are located in rural areas, the higher use of healthcare services is interesting to note.

The link between remittances and education seems a little stronger than that between remittances and health service use. Households that reported receiving remittances more often had literate members than households that did not receive remittances. This is likely linked to the migrant selectivity phenomenon - literate individuals are more likely to have successful international migration attempts and households that can afford to finance migration may be more likely to possess the money and resources necessary to provide its members with education. Despite the lower illiteracy rate, the levels of highest educational attainment do not differ significantly between remittance-receiving and non-receiving households. While remittance-receiving households were slightly more likely to have a member with some form of secondary education, the rates of attaining higher educational levels were slightly lower.

While it could be expected that remittance-receipt, as a proxy for migration, would be correlated with the educational attainment of any household member, a more compelling link between remittances and human capital investment is in child educational outcomes. Given the usual caveat that no causation can be inferred from these preliminary comparisons, there are interesting differences between households that receive remittances and those that do not in terms of child school enrolment. More households that receive remittances reported that a child in the household had attended school in the last week - at nearly half of all remittance-receiving households, this outcome is quite positive. In addition to more households reporting child school attendance, less children currently attending school were noted as having below-average and average grades than their cohorts in non-receiving household. This could suggest that children in remittance-receiving household have better access to educational inputs such as adequate nutrition and safe housing conditions, that children in such households are under less pressure to perform household tasks agricultural activities or to seek work outside of the home and that other household members in remittance-receiving household are more likely to have had some form of education themselves and can thus provide better educational support to young household members. While the information provided is inadequate to explain the relationship, there are a number of factors explicitly linked to migration and remittances that could be further investigated.

The relatively little available information regarding remittance receipt and use in Afghanistan makes it difficult to discuss how remittances can contribute to human capital investment and development, particularly as what little information does exist tends to emphasize the importance of remittances in supporting consumption expenditures. As can be noted from the results reviewed above, education is often cited as a secondary or tertiary expenditure category for remittance use. While there is little indication of the volume of remittance funds used for this purpose, it is interesting to note that education is financed by remittances at all considering the predominant use of remittances to meet immediate needs. The use of remittances for educational expenditures could potentially and indirectly support poverty alleviation. In preliminary analysis of the 2003 NRVA data, the World Bank found that household heads who were literate experienced a lower incidence of food consumption poverty. Higher food consumption was also positively correlated with migration abroad, which is perhaps not surprising as international migration was also associated with better education (World Bank, 2005). This could suggest that remittances contribute to development through the accumulation of human capital, but lacking better qualitative data to confirm this relationship, it is uncertain how remittances received in Afghanistan can contribute to poverty alleviation through human capital formation.

Lacking quantitative data, some insights into the role of remittances in supporting better well-being and human capital investment can be gleaned from qualitative data. Focus groups conducted among return migrants and remittance-receivers in Afghanistan for the IS Academy Project revealed that monetary and social remittances can indeed play an important role in human capital formation, mainly through alleviating basic consumption burdens that would make it otherwise impossible for the household to support additional expenditure activities.

In one focus group session among five female remittance-receivers, all respondents stated that receiving remittances has been essential for the survival of their (and their extended families') households. As one respondent stated: "There is no other way we could feed 23 people in the household and send all the children to school!" The use of remittances to pay for school expenses was mentioned by other participants as well, most of whom confirmed that feeling that remittances were the only thing that enabled the households' children to attend school. As a 60 year old, unemployed man in Poshtebagh (Balkh) so poignantly stated:

> Money being sent is critical – if we do not get this money, our situation will get worse. Since we have been receiving money, I have been able to increase our expenses every month, with more and better food and all my children are now attending school. If the income level was any lower, the first thing that I would cut off would be their schooling.

While schooling often appeared to be regarded as a luxury expenditure that would be reduced if the need arose, one female remittance-receiver from Jalalabad, whose husband digs wells in Saudi Arabia, stated that there is consensus within the household that remittances should be used to support schooling:

> …we all agree that our children should go to school. They are all enrolled in grades 2, 5, 7, 12… they will all finish high school. So that is the main priority, along with the health of our family members.

As this statement well reflects, respondents often also addressed the role that remittances have played in enabling healthcare expenditure, which many seem to regard as a luxury that would otherwise be out of their reach. A female remittance-receiver noted:

> It is essential. If we did not receive remittances, my household would still be in debt and we would not be able to pay for my mother's medical treatment. It would have been a matter of life and death.

Many respondents noted that while healthcare was simply not accessible before the household received remittances, the use of remittances to pay for healthcare has meant that the overall quality of life for all members of the household has not changed. A male remittance-receiver from Injil (Herat) whose son works in the Islamic Republic of Iran stated:

> Most of the money is spent on my wife's illness, so otherwise we have not seen such an improvement in our overall economic situation, our other expenses have not increased – the difference is now that my wife can be treated for her illness...

While many respondents reported a marked increase in their standard of living and the use of remittances to pay for investments like healthcare and education, a larger portion indicated that the remittances their households receive have been used to pay back loans. Some respondents indicated that while their household's receipt of remittances has greatly alleviated the constant pressure felt to repay debtors, the household's economic situation has not significantly changed otherwise because the remittances do not support additional expenditure, this was as well expressed by this female focus group participant from Poshtebagh (Balkh):

> … we are so hugely indebted that he has to work for us to be able to pay these loans back… our overall economic situation has not improved: we do not buy more goods and our expenses have not gone up. However, we are paying back these loans and at least our situation is not getting any worse. The prospects are better now than they ever used to be.

Several respondents discussed the peace of mind and sense of relief that repayment of debts via remittances have brought. As one female remittance-receiver whose son works in the Islamic Republic of Iran noted:

> (His migration) is the only way we have to repay our debts and to calm down those people. They started harassing us and the only solution we could come up with was to send (him) to Iran. He will stay a migrant until we completely repay the debts; so there is a clear objective we want him to reach.

Another common theme respondents discussed was the sense of dependence on remittances - both as a form of relief and a burden. A woman in Jalalabad whose father was working in the Islamic Republic of Iran emphasized that remittances have had a hugely positive effect on their household by relieving a large debt burden:

> Before, we had a lot of debts to pay back, now that we have paid them, we are no longer dependent on anyone but on ourselves. We can cover the medical costs for my mother and even all the other expenses.

Remittances as an essential source of income can also be negative, however, as one male focus group participant whose son works as a farmer in the Islamic Republic of Iran noted:

> The downside is that it has made us a bit lazy. Although I work myself as a farmer, I work less now than I used to. So I put less pressure on myself to work, I work half the time that I used to before because I know I can count on the money being sent to us.

A female focus group participant in Mazar-i-Sharif confirmed the sentiment:

> ...we are too dependent on the remittances sent to us... when last year they did not manage to send us anything, it was a disaster and a huge crisis. But now we have learned from that and we know we cannot just depend on their money.

The data derived from previous studies, household surveys and focus groups all confirm the basic idea that migration and its proceeds are often perceived as a survival strategy, one which the household has seized upon as an unwanted but necessary solution. While a great deal of discussion is directed at criticizing the expenditure of remittances on unsustainable consumption expenditures, it should be considered that these daily expenditures are important factors in well-being and human development. Particularly in a country like Afghanistan where complicated and protracted humanitarian crises are often accompanied by environmental and economic events like droughts that can result in sharp spikes in food expenses, remittances can act as an essential buffer against these shocks. Overall household resilience is a key factor of human capital development: stability and the meeting of basic needs over a longer period of time will allow for investment in human capital in the future and remittances can play an important role in supporting households throughout that process.

# 5. KEY FINDINGS, POLICY IMPLICATIONS AND RECOMMENDATIONS

## 5.1. KEY FINDINGS

### 5.1.1. Current Knowledge on Remittance Flows

Despite the many challenges that confront the measurement of remittance flows, Da Afghanistan Bank has made important attempts to measure the movement of remittance transfers into and out of the country. According to remittance flows declared in the balance of payment framework, net remittances amounted to USD 325 million in the 2011 fiscal year. Remittance outflows were measured at USD 354 million and inflows at USD 679 million, accounting for 1.6 per cent of gross domestic product in that year.

This value is significant for two reasons: it represents the increasing capacity of DAB to measure remittance flows using an internationally standardized framework while simultaneously highlighting potential methodological shortcomings in the measurement of remittances. Small-scale migration corridor studies and household surveys would seem to suggest that the flow of remittances entering Afghanistan could easily exceed the USD 679 million registered in 2011. Remittances sent from migrants in the Islamic Republic of Iran were estimated at USD 500 million alone in 2008; while this number is indeed only a loose estimation, it does suggest that the existing remittance measurement system has failed to include vital remittance flows.

Such a discussion of the measurement of remittance flows lends itself to several key insights:

1. **The existing definition of remittances used to inform balance of payment reporting is inadequate and fails to encompass the most relevant remittance flows:**

   In Afghanistan remittances are reported within the balance of payments framework based on two components: workers' remittances and compensation of employees. The recording and reporting of remittances based on these two components is inadequate for several reasons. The first is that both workers' remittances and compensation of employees are visible only when the flows move through formal financial channels. Remittances that are not sent or received by institutions that are part of the international transactions reporting system or are not registered money service providers will not be reported and included in the balance of payments framework. The second reason that the existing definition of remittances is inadequate is that it ties remittances to the residency and employment status of the sender. Day labourers, agricultural workers and other individuals who work on a non-contract, flexible and impermanent basis will likely not be remunerated in a way that is consistent with reporting guidelines. Further, informal work trends are likely an expression of informal migration trends. Many Afghan migrants, particularly those who live and work in the Islamic Republic of Iran and (to a lesser degree) Pakistan migrate on a circular basis and do not possess adequate legal documents. These individuals may likewise be discounted in reporting frameworks that rely on residency status as a proxy for migration status. These factors, taken together, imply that significant remittance flows are not recorded. While this is by no means a problem unique to Afghanistan, the large volume of money that moves through informal value transfer systems likely exceeds remittances that are transferred via formal channels many times over. The result is a remittance figure that significantly underestimates the true value of remittance flows moving into the country.

2. **The representation of remittance flows in balance of payment statements should be better disaggregated to lend additional insight into the size, composition and nature of the remittance market:**

   The remittance information provided by DAB within the BOP framework is derived from a number of institutions, both international and domestic, that participate in the international transactions reporting system and are bound by national legislation and regulation to provide regular transaction reports. While there is a wealth of information about the remittance market that can be gleaned from this information, current reporting of remittances is done in aggregate, leading to a loss of information about the size and composition of the remittance market. Within the current reporting framework, incoming remittance transfers are not disaggregated by country of origin and outgoing remittances are not disaggregated by the country of destination. The channels through which transfers occur are likewise not distinguished in reporting. While it is assumed that banks and MTOs are responsible for a relatively smaller number of individual transactions than MSPs, the recorded remittance values are not presented according to the channel through which they were enabled. Given the increased focus on formalizing *hawala* businesses and bringing informal transfer channels under greater regulatory supervision, disaggregation of remittance flows by channel would be a helpful signal of how effective new regulatory regimes actually are.

### 5.1.2. Remittance Channels

The last decade has seen significant growth in the remittance market in Afghanistan that has been largely enabled by substantial investments in the formal financial infrastructure. In the post-Taliban period a number of financial channels have begun to recover and some even to thrive. While the number of players participating in the remittance market has grown, the participation of each player in the remittance market varies considerably:

1. **Banks and Microfinance Institutions:**

   As of August 2011 there were 17 licensed and permitted banking organizations in Afghanistan that were collectively represented by 745 banking facilities operating across all 34 provinces and Kabul. In addition to these banking facilities, nine recognized microfinance organizations operate in 23 provinces in partnership with the Microfinance Investment Support Facility for Afghanistan. Despite the growing number of banks and MFIs, the penetration of these services is limited, particularly in areas plagued by persistent insecurity. Bank usage rates appear relatively low, with the IFC estimating in 2010 that only 3 per cent of the population could be considered as 'banked'. Limited use of bank services may be linked to high barriers to access that include limited geographic availability of services, minimum balance requirements, usage fees, strict policies and reliance on written communication, which could be problematic in a county with low adult literacy rates.

   The formal banking system is not a significant player in the remittance market, both due to limited use of banking services in general and to limited interest in small-scale remittance services on behalf of banks. Most commercial banks have forged partnerships with MTOs to capture remittance business, despite having the capabilities to facilitate international transfers. All of Afghanistan's registered banks are now equipped to make inter-bank transfers using SWIFT protocols and standards, which efficiently link Afghan banks with a number of correspondent banks. Inter-bank transfers via the SWIFT network are relatively more expensive for the consumer, however, and consequently generally only merchants and businessmen with large transaction values make use of this system. As the formal banking system continues to expand, the role of banks and MFIs in the remittance market may also grow.

2. **Money Transfer Operators and Money Service Providers:**

Given the structure and history of the Afghan financial system, it is important to distinguish between money transfer operators and money service providers. In the Afghan context the term money transfer operator (MTO) is used to refer only to Western Union and MoneyGram, businesses that only offer money transfer services. The term money service provider (MSP), in contrast, refers to individuals or businesses that offer money transfer services as well as cheque-cashing and safekeeping services, which generally restricts the use of the term to *hawala* businesses.

The use of MTOs to facilitate remittance transfers is limited. Both Western Union and MoneyGram are tied to the commercial banking sector, as point-of-sale offices for both companies are exclusively on bank premises. Of the 17 registered banks in Afghanistan, 16 provide Western Union services and only one provides MoneyGram services. Access to these MTOs is limited as most are hosted only in the main offices of banks, excepting New Kabul Bank and Azizi Bank that offer Western Union services at some of their branch locations. This translates into limited representation of MTO services across Afghanistan. The costs associated with use of MTOs are relatively high: transfer fees can amount to between 5 and 7.5 per cent of the total transfer value, depending on the speed and method used to initiate the transfer as well as the locations of transfer origin and destination. The limited regional representation of MTO services coupled with high usage fees are likely factors that diminish the role of MTOs in the remittance market.

Money service providers, namely *hawala* businesses, are much more significant players in the remittance market. The widespread *hawala* system has long provided Afghanistan with consistently reliable financial services over years of conflict and transition. *Hawala* businesses offer a number of financial and non-financial services alike, including fund transfers, money exchange services, microfinancing, trade financing, depository activities, trade assistance, communication facilities like telephone and fax and, more recently, internet services. The system has traditionally been self-regulating, trust-based and both time- and cost efficient for the consumer. The *hawala* system enables fund transfer in much the same way any other remittance service provider does, but the informal nature of the system has inspired calls for greater oversight and regulation to combat the use of the system for illegal purposes such as money laundering and financing of terrorist activities.

Da Afghanistan Bank has responded to these calls by developing regulations for money service providers and foreign exchange dealers that aim to bring *hawala* under greater supervision. Attempts to formalize *hawaladars* has resulted in the licensing and registration of 605 MSPs in 21 provinces and 810 foreign currency exchange dealers across the country. While there is no indication of what proportion of the remittance market MSPs control, it is likely that they facilitate the greatest number of individual remittance transactions. Depending on the use of *hawala* by international organizations, NGOs and businesses, which are more likely to send larger singular transactions to cover operational expenses, it could be that *hawala* also facilitates that largest volume of transactions. Based on reported remittance flows, which are not disaggregated by channel, it is not possible to determine the market share *hawala* controls, however.

### 3. Electronic Money Institutions

Electronic money institutions (EMIs) are the newest players on the remittance market; the oldest one, Roshan's M-Paisa service, has been in operation since 2008 and is, as of December 2012, facing three, soon to be four, competitors. The service format offered by EMIs deviates from those of other remittance service providers, as the service relies on the conversion of cash and other physical financial instruments into e-money. Using this e-money, EMIs enable a number of different financial transactions such as receipt and repayment of microfinance loans, peer-to-peer (customer-to-customer) transfers, salary dispersal, the purchase of mobile airtime and customer-to-business transfers (bill pay). Additional services are being designed by MNOs to further link EMIs to formal financial services: M-Paisa, for instance, has recently partnered with Azizi Bank and Habib Bank Ltd. in a scheme that will allow M-Paisa customers to deposit money from the m-wallet directly into a bank account without making a physical visit to a bank. The service features and platform offered by EMIs provide several clear advantages in the Afghan market. As the M-Paisa service relies on the Roshan mobile network, the potential geographical spread of the service is extensive. As the mobile network spans areas of the country where formal financial services have withdrawn or simply never existed, the M-Paisa service could offer a range of financial services that have been largely unavailable to significant portions of the population. As of December 2012 remittance services were restricted to transfers conducted within Afghanistan, but there were plans to expand the M-Paisa service to facilitate international transfers. While there is little information available on the volume of remittance transactions facilitated by EMIs, the innovative nature of EMI services could potentially attract a large customer base. As additional EMIs enter the market, increase the geographical spread of services and expand institutional partnerships, the position of EMIs on the remittance market could be further strengthened.

The M-Paisa commercial service was launched in 2008 and in the four years since the service's introduction, the need for specific regulation of EMIs has become clear. In 2011, the MSP regulation issued by DAB was updated to include specific provisions for EMIs, including operational, liquidity and reporting requirements that have contributed to a relatively strict regulatory environment. The introduction of EMIs to the remittance market and the development of regulations to accompany them place Afghanistan in a unique position as one of only a few countries that have harnessed the potential of mobile technology to facilitate remittances.

### 5.1.3. Laws and Regulations

The development of national legislation and regulations that address remittance systems has occurred in conjunction with larger financial-sector reforms that have followed the transition to the post-Taliban government and reinvestment in the neglected financial infrastructure. Within the package of financial system reforms introduced in 2002, several key pieces of legislation and regulation affect the functioning of the remittance market. The following seven laws and regulations, which are summarized in brief, are the most important for their implications for remittance channel functioning and oversight:

1. **The Law of Banking in Afghanistan (2003):**

   The first in the package of financial reforms, the Law of Banking in Afghanistan established the legal framework for the operation of commercial banks in Afghanistan. It granted Da Afghanistan Bank (DAB) the authority to register, regulate and monitor commercial banking institutions, authorizing DAB to act as the central bank of Afghanistan responsible for overseeing the development and enactment of banking regulations. This law further established the framework of licenses and permits required for legal establishment of a commercial banking institution, specified how banks should be organized, proposed operational requirements banks must meet to remain licensed and established accounting and reporting guidelines for banks.

2. **The Afghanistan Bank Law (2003/2004):**

   Introduced in December of 2003 and enacted in February of 2004, the Law of Da Afghanistan Bank granted autonomy to Da Afghanistan Bank and outlined the specific responsibilities and obligations of DAB as the central bank of Afghanistan. This law further bolstered the capacity of DAB to perform banking oversight and monetary policy functions. The following key responsibilities of DAB are outlined in the Law: 1) to develop, adopt and implement monetary policy in Afghanistan, 2) to develop, adopt and implement foreign exchange policy and exchange arrangements, 3) to hold and manage Afghanistan's foreign exchange reserves, 4) to print and issue currency, 5) to act as the fiscal agent of the State, 6) to license, regulate and supervise banks, foreign exchange dealers, money service providers, payment system operators, securities service providers, securities transfer system operators and other financial actors required by law to be overseen by DAB and 7) to develop, maintain and promote systems for the clearing and settlement of payment and securities transfers.

3. **Afghanistan Anti-Money Laundering and Proceeds of Crime Law (2004):**

   This law was developed to bring Afghanistan into compliance with international treaties and conventions related to the monitoring and reporting of financial transactions. In so doing the Law on Anti-Money Laundering and the Proceeds of Crime sought to increase institutional capacities to protect the integrity of the Afghan financial system from potential misuse. The Law contains 75 articles, which importantly: 1) specify what constitutes a money laundering offence, 2) establish the institutions and professions subject to the law (namely financial institutions, DAB, lawyers, real estate agents), 3) establish a reporting framework related to the transfer of funds via financial institutions and electronic means, 4) establish standards for currency reporting at the border, 5) prohibit anonymous accounts, 6) specify standards for customer identification, 7) specify standards for monitoring of transactions and book-keeping and 8) establish standards for transaction reporting. The law further established the Financial Transactions and Reports Analysis Center of Afghanistan (FinTRACA) as a financial intelligence unit (FIU) to support the detection of money laundering.

4. **Afghanistan Law on Combating the Financing of Terrorism (2005):**

   This law further specifies how abuse of the financial system via financing of terrorist activities will be treated and punished. Unlike the previous law, which provided extensive elaboration on supervision and monitoring frameworks, this law has few provisions that relate directly to reporting and documentation requirements of money service providers and other facilitators of remittances. Rather than fixing its focus exclusively on the financial system, this law is directed at individuals and organizations that provide financial support to terrorist activities. The law's 34 articles detail aspects such as scope and definitions, penalties and coercive measures for suspected financiers of terrorism (including provisions for confiscations and disposal of funds and properties), the jurisdiction of Afghanistan's courts, international cooperation and miscellaneous measures.

5. **Regulation on Money Service Providers (2006):**

   The Regulation on Money Service Providers is the cornerstone of remittance channel regulation released by Da Afghanistan Bank. The regulation was first introduced in 2006 and has since been updated in 2009 and 2011, with the latest amendments including specific provisions for electronic money institutions. The regulation, issued under the Law of Da Afghanistan Bank, is comprised of seven subsections: 1) authority, 2) issuance of license, 3) activities, 4) registry and supervision, 5) application requirements for an EMI license, 6) EMI operations and procedures and 7) EMI fees, charges and penalties.

The 2011 update of the regulation introduced provisions explicitly for EMIs, which now make up half of the regulation.

The MSP regulation brought several important changes to the Afghan remittance market, the most obvious of which is a framework for formalization of traditional informal value transfer systems like *hawala*. This regulation provided an explicit set of standards MSPs must meet to acquire and maintain a license, which establishes the legal right for business operations. The regulation provides explicit guidance both on the criteria a business must meet to receive a license and on the reporting requirements MSPs face to maintain a license. This regulation incorporates elements of AML/CFT regulation, KYC requirements and other aspects of previous legislation and regulations into the MSP regulatory environment. The 2011 adjustments to this regulation saw the introduction of highly specific and restrictive requirements specifically for electronic money institutions. The second half of the regulation outlines the application, operational and reporting requirements levied on EMIs while specifying the penalties accompanying non-compliance.

**6. Regulation on Foreign Exchange Dealers (2008):**

Introduced in 2008, this regulation further extended the ITVS formalization objectives embodied by the regulation on money service providers by specifying standards for the licensing, regulation and supervision of foreign exchange dealers. This regulation provides explicit guidance for money exchange dealers through six parts: 1) general regulations and definitions, 2) issuance of licenses, 3) activities, 4) supervision, 5) enforcement and 6) miscellaneous and transitional provisions. Like the earlier MSP regulation, the regulation of FX dealers provides a list of criteria that a business must meet to obtain and keep a license. Within this regulation FX dealers are defined as any person who buys and sells foreign currencies, forward exchange contracts, options, swaps or other derivative contracts involving a foreign currency or who arranges for payment in a foreign currency. The narrow list of activities FX dealers are allowed to perform implies that a *hawala* business that provides both money transfer services and payment arrangement in a foreign currency must have both an MSP and FX dealer license to be considered compliant with both regulations.

7. **Regulation on Domestic Payment Operations in Afghanistan (2010):**

   The 2010 Regulation on Domestic Payment Operations in Afghanistan specifies how domestic payment operations in Afghanistan are facilitated and monitored, particularly through the interbank payment system (IPS) operated by DAB. This regulation establishes that the regulatory framework and regulatory oversight that applies to domestic payment systems is provided by DAB. As DAB operates the IPS, it is responsible for processing interbank payments, recording IPS transfers and reconciling interbank accounts, among other responsibilities. Within this regulation participation in the IPS is largely restricted to DAB and licensed banks, but other registered financial services can be included at the discretion of DAB. The regulation additionally specifies general provisions applying to domestic payment operations, specifications of IPS, payment by current and other bank accounts, payment services provided by the post office, risk management in the IPS and transitional provisions. As this regulation details the overall functioning of the domestic (interbank) payment system in Afghanistan, it has only limited implications for the transfer of remittances. While some transfers facilitated by the IPS may indeed be remittance transfers, registered banks are a small player in the remittance market and are generally not used by individual remitters.

### 5.1.4. Remittance Usage

While measuring the effects of remittances on recipient households and individuals is a process fraught with methodological challenges, preliminary evidence would seem to suggest that remittances can play an essential role in supporting recipient household through periods of economic turbulence. Through case studies and preliminary analysis of large-scale household surveys, several trends in remittance prevalence and use emerge.

1. **Profile of remittance senders**

   Remittance transfer trends are intimately linked to migration trends in general, which implies that just as the migration process is selective (in terms of who migrates and who stays), so, too, is remittance receipt. Given this strong link between remittance senders and receivers and the larger social trends that they may inadvertently embody given their inclusion in the migration process, it is important to understand more about who sends remittances to understand potential distribution patterns of remittances within the population.

Household surveys provide particularly relevant insights into the characteristics of remittance senders. To this end the 2007/08 National Risk and Vulnerability Assessment (NRVA) and the 2011 IS Academy Survey have been used as a source of information on remittance senders. Both the NRVA and IS Academy Survey data reveal a few common trends exhibited by remittance senders, most of which synchronize with larger migration trends. The majority of remittance senders (64% of the NRVA sample and over 75% of the IS Academy Survey sample) had sent remittances from the Islamic Republic of Iran in the 12 months preceding the survey. The vast majority of remittance senders (over 96% in both surveys) were male. The average age was 28.9 years old in the NRVA sample and 26.8 years old in the IS Academy Survey sample. Most remitters were directly related to the recipient household, with the NRVA data revealing that over half (57%) of remittance senders were children (mostly sons) of the household head and nearly one quarter (22%) were siblings of the household head. In both survey samples, the levels of highest educational attainment were similar between remittance senders and the population in general, with the greatest portion of the population reporting that they had not completed any level of formal education. While the rates of no formal education and completion of primary school were similar between remittance senders and the population as a whole, remittance senders had a slightly higher rate of both secondary and tertiary education completion. This relatively young average age and generally lower educational attainment corresponds to the reason for migration, which over 95 per cent of NRVA remittance-senders noted as being to find work or to find better work.

The NRVA and IS Academy Survey data both demonstrate that remittance receipt is intimately tied to larger migration and labour trends. The young average age of remittance senders, predominance of male senders and residence in the Islamic Republic of Iran all mirror the trend of households supporting the migration of young, able-bodied men who can perform physical, temporary labour in neighbouring countries.

## 2. Remittance prevalence and role in income supplementation

The overall prevalence level of remittance receiving across Afghanistan is relatively low: the 2007/08 NRVA data revealed that 6.3 per cent of all surveyed households reported receiving remittances in the last year and 7.6 per cent of the sample of the IS Academy Survey reported the same. While the overall incidence level of remittance receiving is low, remittances often account for a significant portion of income in recipient households. Among remittance recipient households of the NRVA, nearly 2 per cent reported that the remittances received from household members living permanently abroad constituted their household's most important source of income. That proportion increased to nearly 30 per cent among IS Academy Survey respondents.

Given the potential role of remittances in supplementing and stabilizing household income, it could be expected that certain indicators of household resilience change following the receipt of remittances. The comparison between remittance-receiving and non-receiving households drawn from the IS Academy Survey reveals that some indicators of economic well-being do differ for remittance-receiving households. While some of these differences may be attributable to other (latent) household characteristics, there are some discrepancies in response trends that likely are linked to remittance receipt.

On average remittance-receiving households were larger than non-receiving households by one member. Remittance-receiving households were found in greater proportion in rural areas, where 45 per cent of remittance-receivers resided. These characteristics may influence the household's overall economic situation, but the receipt of remittances can also provide plausible explanations for certain observed differences. More individuals in remittance-receiving households were noted as being self-employed in an own business and less in paid work, which could suggest that remittance receipt enables investment in entrepreneurial activities while perhaps proving a disincentive to participate in paid work. The average monthly expenditures reported by both household types was similar at over AFN 12,000 (approximately USD 263), but when calculated on a per capita basis, remittance-receiving households report lower per capita monthly expenditures at AFN 1,427 (USD 31) compared to the AFN 1,729 (USD 38) reported among non-remittance-receivers. Average monthly income was also reported as higher in non-receiving households, which reported receiving AFN 11,072 (USD 243) on average compared to the remittance-receiving household average of AFN 7,205 (USD 158) per month. This difference in income is particularly interesting when considering the higher number of household members in remittance-receiving households, as this could suggest higher dependency ratios or a higher rate of economic inactivity in such households. Savings trends provide an even sharper contrast than income trends: while more remittance-receiving households reported that the household saves in some way, the average amount of reported savings was more than twice as large in non-receiving households at AFN 145,568 (USD 3,189).

Despite these differences in income and savings, remittance-receiving households in general rated their households' economic situations as being better than that reported by non-receiving households. Fewer remittance-receiving households reported finding it very difficult or difficult to meet the household's needs and a significantly larger proportion indicated living comfortably. Similar responses were given regarding the self-assessed economic position compared to other households in the community: fewer remittance-receivers reported being among the poorest or below the economic average and a larger proportion indicated being average. In addition to differences between household on the basis of expenditures, incomes and savings, remittance-receiving households are also distinguishable on the basis of possession of durable assets.

Notable differences appear between remittance-receiving and non-receiving households in regard to housing. Home ownership rates appear the starkest: while just over 71 per cent of non-remittance-receivers reported owning and paying for their housing in full, over 80 per cent of remittance-receiving households reported the same. Another asset that should be considered is land, which over 25 per cent of remittance-receiving households and 20 per cent of non-receivers reported ownership of. The amount of land owned was greater among remittance-receivers; while non-remittance-receivers owned an average of 4.65 jeribs (.93 hectares or 9300 $m^2$) of land, remittance-receivers on average owned 6.58 jeribs (1.32 hectares or 13,160 $m^2$) on average. Despite the greater likelihood of owning land and the greater quantity of land owned, remittance-receiving households reported a lower reliance on yield from own agricultural land for consumption - over 25 per cent reported that none of the food their household consumes is from own production. Remittance-receiving households also reported differences in terms of housing facilities. Among remittance-receiving households, nearly 11 per cent reported possessing a private flush toilet while less than 8 per cent of non-remittance-receivers reported the same. Remittance-receiving households further reported slightly lower rates of using shared sanitation facilities. The types of fuels households relied on for cooking were more uniform across both types of households. While fewer remittance-receiving households reported relying on charcoal and wood and more reported use of gas, kerosene and animal dung, the differences in usage rates were not stark. The same applies to source of lighting. While more remittance-receiving households reported lighting the house from a private electricity source, the response patterns were similar despite household type.

These results suggest some interesting potential differences in the economic situations of remittance-receiving and non-remittance-receiving households. While more nuanced analysis would be necessary to isolate the role of remittances in fostering or restricting a household's economic possibilities, the simple outcome comparisons suggest that remittances can affect the accumulation of assets, even if remittances do not significantly contribute to income and savings.

### 3. Remittance usage for human capital investment

Remittance receipt does not necessarily imply any change to the quality of life of the recipient, despite the augmentation of household income and potential accumulation of assets enabled by remittance receipt. Given the limited data available about remittance receipt and use in Afghanistan, it is difficult to assess how, if at all, remittances affect indicators of well-being. With that said, what little information is available on remittance usage provides interesting cues about the link between remittances and development.

Many previous studies, such as those of IOM (2008), Vadean (2007) and Siegel et al. (2010), note that remittances are most often used to meet daily needs like food and housing expenditures. Aside from basic consumption expenditures, remittances are also used to repair and improve housing, for special events like weddings and to meet emergency needs like urgent medical care.

Respondents to the IS Academy Survey revealed similar remittance usage behaviours. Daily needs, namely the purchase of food and drinks, were identified as the main expenditure for which remittances were spent in 78 per cent of cases. The second most common primary expenditure for which remittance money was used was debt repayment, which was indicated as the most important expenditure only 9 per cent of the time. The second most important types of expenditures on which remittances were spent included education (20.9%), debt payments (23.3%), healthcare (18.6%) and housing/land (16.3%).

While remittance-receivers seldom indicated expenditures like education and healthcare to be the most important expenditures on which remittances were spent, comparisons between remittance-receiving households and non-remittance-receiving households reveal that human capital outcomes do differ slightly between household types. While the role of remittances in these differences cannot be confirmed, there appears to be a correlation between remittance receiving and the accumulation of human capital in the form of education. Households that reported receiving remittances more often had a literate respondent than households that did not receive remittances. This is likely linked to the migrant selectivity phenomenon as literate individuals are more likely to have successful international migration attempts and households that can afford to finance migration may be more likely to possess the money and resources necessary to provide its members with education. Despite the lower illiteracy rate, the levels of highest educational attainment do not differ significantly between remittance-receiving and non-remittance-receiving households. While remittance-receiving households were slightly more likely to have a member with some form of secondary education, the rates of attaining higher educational levels were slightly lower. There are, however, interesting differences between households that receive remittances and those that do not in terms of child enrolment. Nearly half (47%) of households that received remittances reported that a child in the household had attended school in the last week and fewer children currently attending school were noted as having below-average and average grades in remittance-receiving households than in non-remittance-receiving households.

Information collected in the course of focus groups conducted for the IS Academy Project largely confirm the trends highlighted by quantitative data. While the majority of respondents discussed the use of remittances to support basic consumption expenditures, many also referred to the enabling effects remittances play in education and healthcare expenditures. Most respondents who discussed the use of remittances to pay for child education or healthcare seemed to regard these forms of investment as a luxury that would be out of reach if not for the receipt of remittances and indeed education appears to be one of the most expendable expenditures during times of economic pressure.

The information collected about the use of remittances seems to suggest that migration is largely perceived as a survival strategy. Remittances generated in the course of migration are often regarded as essential sources of income that sustain the household's very basic needs and functions and while the use of remittances on consumption expenditures is often criticized as being unsustainable and unlikely to generate lasting development impacts, it should be considered that these daily expenditures are important factors in well-being and human development. Particularly in a country like Afghanistan where complicated and protracted humanitarian crises are often accompanied by environmental and economic events like droughts that can result in sharp spikes in food expenses, remittances can act as an essential buffer against these shocks. Overall household resilience is a key factor of human capital development: stability and the meeting of basic needs over a longer period of time will allow for investment in human capital in the future and remittances can play an important role in supporting households throughout that process.

## 5.2. POLICY IMPLICATIONS AND RECOMMENDATIONS

The implications of these key findings for policy are not always clear, particularly as remittances - generally private monetary flows between individuals - are difficult to mainstream into realizable policy. There are several types of policies, however, that can (and have) been developed to address remittances, the most important of which relate to the regulatory environment surrounding the remittance market and payment systems.

Two dual desires often fuel the development of these types of policies: the desire to increase the functionality of (international) payment systems to facilitate migrant transfers and the desire to minimize the risk of exploitation of (international) payment systems for illegal activities (particularly money laundering and terrorist financing). These two perspectives, while not mutually exclusively, can result in policies that transform the remittance market in fundamentally different ways.

The General Principles for International Remittances Services produced by the World Bank Committee on Payment and Settlement Systems in 2007 well-represents the former desire (World Bank, 2007). These principles, which aim to optimize the market for remittance transfers by reducing transaction costs, provide guidance regarding aspects of international remittance services such as transparency, accessibility and security. The rationale behind formulating these principles is that remittances can act as an important source of income in developing countries, but inefficiencies in the international remittance market constrain individual migrants in sending remittances the most cost-effective way, which reduces the potential development impacts of remittances. The latter perspective - which views remittance service provider regulation as a means of protecting international payment systems from misuse - is perhaps best represented by the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation formulated by the Financial Action Task Force (FATF, 2012). These standards propose a framework of measures that countries can adopt to combat money laundering and terrorist financing. The included measures address issues like risk identification, preventative measures for the financial sector, allocation of powers and responsibilities to competent authorities and international cooperation. Both sets of principles and standards attempt to provide diverse countries (with diverse legal and administrative capacities) with a common, minimum baseline upon which national legislation and regulation can grow.

A mixture of these perspectives and standards is especially important for a country like Afghanistan, which is faced by both unique opportunities and challenges with the reformation and reconfiguration of the financial system. The Government of the Islamic Republic of Afghanistan has already incorporated some of these standards into policy: the package of financial system reforms, particularly the regulations related to money service providers and foreign exchange dealers, address many of the standards articulated by FATF regarding the combating of money laundering and financing of terrorism. As Afghanistan's government and formal financial system continue to grow, transform and stabilize, remittance-related policy too must undergo change to better accommodate the needs of the remittance market and the capacity of the government to regulate this market properly. As it does so, a synthesis between the two approaches should be better forged, leveraging migrant remittances for development without compromising the integrity and security of the financial system.

Given the information documented by this profile, there are several implications for the further development or adjustment of remittance-related policy. These implications transform into the following recommendations, many of which are inherently related:

1. **A more nuanced view of remittance flows - and of the senders and receivers that generate them - must be cultivated to better inform future regulation of remittance service providers.**

- Key remittance corridors - such as that between the Islamic Republic of Iran and Afghanistan - should be better monitored, as the remittance flows that move through these corridors are likely sizable and unique to the needs and constraints of the sending and receiving populations. There are currently no reliable estimations of the volume of money being transferred within key corridors, nor are the characteristics of these flows (such as transfer frequencies, places of origin, places of destination) well understood. These features can inform the development of an optimal regulatory environment that is neither unduly restrictive nor unduly permissive by giving a better understanding of the scope of the remittances phenomenon.

- Emerging remittance corridors - such as that between the United Arab Emirates and Afghanistan - should be investigated to better understand potential volumes of incoming and outgoing remittance flows, the remittance service providers that emerge as facilitating actors within those corridors and how remittance flows mirror larger migration and development trends. As the emigration stream from Afghanistan diversifies to include fewer refugees and more labourers - particularly those whose movement is facilitated by bilateral labour exportation agreements - remittance flows will diversify as well. This could entail the development of a specific remittance market that accommodates the unique needs of this population but at the same time challenges the effectiveness of existing international payment system regulations. For the regulatory environment to remain effective and encompassing, it will be important for remittance flows within specific corridors to be monitored early on.

2. **Greater understanding of the actors that facilitate transfers should be gained so that money service providers and formal financial institutions can be better supported to extend the reach of their services into largely “unbanked” areas.**

- Different remittance channels extend different services and opportunities to the population. Depending on the services offered, the government may want to provide incentives for financial institutions to foster partnerships with institutions or agencies that will help extend key financial services to previously ‘unbanked’ populations. The linkages sought between EMIs and MFIs provide a good example of how this can occur, but further partnerships should be encouraged, particularly among financial service providers (like *hawaladars*) that already have wide regional scope and a trusted network of users.

- As remittance service providers extend the geographic scope of their services beyond Afghanistan’s borders, regulation can either facilitate or constrain the development of effective international remittance services. To avoid disincentivizing remittance service providers by introducing regulation that establishes unrealistically high thresholds to market entry, regulation should introduce progressively restrictive provisions that will give new providers time to meet challenging requirements (as was done for M-Paisa following the implementation of the updated MSP regulation). Particularly as specific types of service providers like EMIs expand into the international market, regulation should (at least initially) provide an incubating environment that encourages rather than punishes that growth. A key aspect of this could involve engaging in bilateral discussions with the states in which international remittance transfer services will be offered so that regulatory frameworks can be coordinated and the supervisory burden spread.

3. **The continued regulation of the remittance market must balance greater regulatory oversight with facilitating features that incentivize compliance on behalf of both remittance service providers and consumers of remittance services.**

- The adequacy of the current regulatory environment should be evaluated in terms of how well it has served to bring informal remittance service providers under monitoring of Da Afghanistan Bank. While the growth in number of issued MSP and FX dealer licenses attests to the success of the regulations in formalizing such providers, a formal evaluation should be conducted that measures the proportion of all providers that have been registered, their adherence to regulatory standards and the enforcement of non-compliance actually enacted by Da Afghanistan Bank.

- The needs and characteristics of senders and receivers in key and emerging remittance corridors should be considered more holistically as regulations change. Much of the regulation introduced in the past years has concentrated on formalizing remittance service providers and encouraging the use of formal remittance channels. While the effectiveness of such regulation rests largely on the compliance of remittance service providers with these regulations, its overall effectiveness will be reduced if such formalization drives consumers of the service away. Low literacy rates and limited access to forms of identification are examples of characteristics that could limit the use of certain remittance service providers. To avoid incentivizing already marginalized consumers to use informal services with more flexible services, regulations should allow remittance service providers a certain degree of flexibility in aspects like know your customer standards.

4. **As Afghanistan undergoes the transition of power and the security situation in the country changes, ongoing assessments should be made of how migration patterns and consequent remittance trends have shifted to accommodate these transitions.**

- In future large-scale household surveys such as the NRVA or a national census, the government should champion the inclusion of migration and remittance-related questions to ensure consistency of data gathering activities. There is a marked need for more comprehensive, contemporary and representative data on migration and remittance trends and the importance of having such data will increase as the economic and security situations continue to change. As fluctuations in emigration and return often occur in response to the economic and security situations, the dynamic situation will be both hard to predict and especially pertinent to monitor.

- Existing sources of statistical information on remittances could be improved to provide more detailed information on remittances. While Da Afghanistan Bank does report remittance information within the

Balance of Payments framework, the information provided should be better disaggregated so that the nature of these flows can be better understood. Especially as foreign employees of NGOs and international organizations begin leaving the country, the remittance data reported in BOP statistics will likely shift. As it does so it will be important to have an accurate and disaggregated breakdown of remittances sources and destinations so that the shift, if it does occur, can be monitored.

5. **The government should mainstream remittance concerns into future migration policies, particularly those that rely on bilateral commitments and agreements with states that currently host or plan to host a large number of Afghan migrants.**

- The negotiation of mutual commitments regarding issues such as refugee registration, social benefits extended to refugees and repatriation of undocumented migrants could include provisions that relate to the development of cross-border remittance facilities that will help foster remittance transfers using formal channels. Agreements between and among governments and international organizations in particular would provide excellent opportunities for the Afghan government to establish cooperative regimes relating to the development of more efficient remittance service providers in high traffic, low security areas like the porous borders with the Islamic Republic of Iran.

- As bilateral labour migration agreements - such as that recently concluded between Afghanistan and Qatar - enter into force in the coming years, the Government of the Islamic Republic of Afghanistan should carefully monitor how such bilateral agreements affect migration trends and corresponding remittance behaviours. While the degree to which either the Afghan government or its partners in such a labour scheme should be involved in the director monitoring of remittance flows is extremely limited, both governments should support the development of low cost, transparent and cost effective remittance facilities that are made accessible to participants in such labour schemes. By incorporating the development of remittance support facilities into labour exchange agreements and schemes, the Government of the Islamic Republic of Afghanistan could also help combat labour exploitation by maintaining oversight of compensation of employees expressed in remittance measurement frameworks.

- Future diaspora engagement policies could include initiatives or measures aimed at encouraging migrant remittances, promoting remittance investment in development projects or investment of remittance funds into sustainable financial instruments such as CD accounts and bonds. As the financial infrastructure improves and the level of confidence and trust in the government improves, such forms of diaspora engagement could provide both remittance senders and receivers with a valuable opportunity to couple remittances with longer-term financial goals.

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