Uganda’s Remittance Corridors from United Kingdom, United States, and South Africa

Challenges to Linking Remittances to the Use of Formal Services

Isaku Endo
Jane Namaaji
Anoma Kulathunga
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# Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AML</td>
<td>Anti-money laundering</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated teller machine</td>
</tr>
<tr>
<td>BOU</td>
<td>Bank of Uganda</td>
</tr>
<tr>
<td>BRCA</td>
<td>Bilateral Remittance Corridor Analysis</td>
</tr>
<tr>
<td>BSA</td>
<td>Bank Secrecy Act (United States)</td>
</tr>
<tr>
<td>CFT</td>
<td>Combating the financing of terrorism</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (United Kingdom)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FATF</td>
<td>Financial Action Task Force on Money Laundering</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation (United States)</td>
</tr>
<tr>
<td>FICA</td>
<td>Financial Intelligence Centre Act (South Africa)</td>
</tr>
<tr>
<td>FinCEN</td>
<td>Financial Crimes Enforcement Network</td>
</tr>
<tr>
<td>Forex</td>
<td>Foreign exchange</td>
</tr>
<tr>
<td>FSA</td>
<td>Financial Services Authority (United Kingdom)</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross national product</td>
</tr>
<tr>
<td>GTZ</td>
<td>Gesellschaft für Technische Zusammenarbeit (Germany)</td>
</tr>
<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue and Customs (United Kingdom)</td>
</tr>
<tr>
<td>ID</td>
<td>Identification</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JMLSG</td>
<td>Joint Money Laundering Steering Group (United Kingdom)</td>
</tr>
<tr>
<td>MLR</td>
<td>Money Laundering Regulations (United Kingdom)</td>
</tr>
<tr>
<td>MSB</td>
<td>Money services business</td>
</tr>
<tr>
<td>MTO</td>
<td>Money transfer operator</td>
</tr>
<tr>
<td>ODA</td>
<td>Official development assistance</td>
</tr>
<tr>
<td>RSP</td>
<td>Remittance service provider</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SOCA</td>
<td>Serious Organized Crime Agency</td>
</tr>
<tr>
<td>UBOS</td>
<td>Uganda Bureau of Statistics</td>
</tr>
<tr>
<td>UGX</td>
<td>Uganda shilling</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UKFIU</td>
<td>United Kingdom Financial Intelligence Unit</td>
</tr>
<tr>
<td>UNAA</td>
<td>Ugandan North American Association</td>
</tr>
<tr>
<td>UNHS</td>
<td>Uganda National Household Survey</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
</tr>
<tr>
<td>USA PATRIOT ACT</td>
<td>Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001</td>
</tr>
<tr>
<td>ZAR</td>
<td>South African rand</td>
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CURRENCY CONVERSION
(as at July 9, 2007)

US$1 = 1,632.5 Ugandan shilling (UGX)
US$1 = 0.4962 British pound (£)
US$1 = 6.973 South African rand (ZAR)
Workers’ remittances have been recognized as an important source of international financial flows—even more so for many developing countries. To understand the characteristics of remittance flows and to develop public policies to maximize the impact of remittances, it is necessary to have profound understandings of the characteristics of migrants, available options for sending and receiving remittances, remittance market landscapes, and regulatory environments, including anti-money laundering (AML) and combating the financing of terrorism (CFT). A proper set of public policies and market conditions enable remittances to be an entry point for expanding financial services. The use of mobile phones for remittances is an example of such expansion of access to financial services, especially among low-income clientele.

Over the years, the Financial Market Integrity Unit (FPDFI) of the Financial Systems Department within the World Bank has analyzed 14 bilateral remittance corridors, covering 25 different countries. This extensive analytical work has created a very valuable repository of findings related to characteristics of remittance markets, remittance service providers and their business models, senders and recipients of remittances and regulation, and supervision of the remittance markets.

In this report, a challenging approach was chosen as three remittance corridors to a single destination country are analyzed simultaneously: United Kingdom–Uganda, United States–Uganda, and South Africa–Uganda. More importantly, this study was conducted through an in-depth partnership with the local authorities. The report builds on lessons learned from international experiences on remittances. Extensive interviews with government authorities, financial regulators, market participants, Ugandan migrant communities, NGOs, and local communities receiving remittances have contributed a wealth of information to this study.

The report highlights a set of key policy recommendations to address the identified challenges. In the short term, expansion of access to financial services, removal of market entry barriers, capacity building in the area of anti-money laundering in the financial sector, and financial education are recommended. In the medium term, the policy recommendations are focused on the establishment of a robust AML/CFT regime in Uganda. The absence of an anti-money laundering law in Uganda poses a significant hindrance to the effort of the government of Uganda to fight money laundering. Another important medium-term recommendation is to enhance the payment systems to further expand the delivery of financial services. In the long term, the government is encouraged to continue its efforts to enhance the quality of data, as it has already made a strong effort in this area. There are also several recommendations for remittance-sending countries. One key recommendation is to improve data on migrant populations, which helps to estimate remittance flows to a specific country.

My hope is that this report will be useful to the supervisory authorities in Uganda to implement proper policies to foster financial inclusion for the larger population, while mitigating risks of money laundering and terrorist financing. In addition, it will provide a sound basis for policy discussions and formulation of effective policies.

Console Rusagara
Director, Financial Systems Department
Financial and Private Sector
Development Vice Presidency
Acknowledgments

This report was prepared by a team by Isaku Endo (World Bank) with Jane Namaaji (Bank of Uganda) and Anoma Kulathunga (consultant, World Bank). It was developed as a part of Bilateral Remittance Corridor Analysis (BRCA) to expand existing knowledge on workers’ remittances to developing countries.

Peer reviewers of the report were David Kihangire (Bank of Uganda) Michael Fuchs, Dino Leonardo Merotto (World Bank), Gregory Watson (Inter-American Development Bank), and Elija Muwanga-Zake (Bank of Uganda, Makelele University). Emiko Todoroki also provided comments on the whole report. We owe them special thanks for their comments and insights offered during the peer review process.

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Executive Summary

This report, Uganda’s Remittance Corridors from United Kingdom, United States, and South Africa: Challenges to Linking Remittances to the Use of Formal Services, analyzes and compares three bilateral remittance corridors. The comparison highlights similarities and differences and the significance of the remittance-sending countries to Uganda in terms of volume, corridor formality, risks, and vulnerability to money laundering. It also describes Uganda as a remittance-receiving country and outlines the remittance flows, market players, distribution network, access and usage of remittance, regulatory framework, and measures taken toward anti-money laundering and combating financing of terrorism (AML/CFT). The issues and challenges faced by Uganda are identified, and policy recommendations are made for both Uganda and remittance-sending countries.

Undocumented workers use either money transfer operators (MTOs) or other informal mechanisms such as cash couriers and other Hawala-type mechanisms. Dominant in all three corridors, the MTOs are attractive to the undocumented worker due to lower cost, relaxed know-your-customer requirements, and convenience. However, such cash-to-cash transfers inhibit linking remittances to other financial services in Uganda and, more importantly, pose money laundering risks.

Analyzing the remittance flows for this report proved difficult due to the many undocumented migrants who mostly use informal remittance transactions. The difficulty in evaluating the remittance flows was also due to lack of recorded and accurate data and methodologies. Hence, estimations of the number of migrants and remittance volumes are rudimentary at best. Notwithstanding this limitation, the information presented in this report should help to better understand the dynamics of the three bilateral corridors. The results should also help to spot vulnerabilities in the systems as well as identify information and data gaps that need to be addressed.

The Importance of Remittance to Uganda

Recorded remittance inflows to Uganda have been increasing. In 2008, the inflows were officially recorded at US$723.5 million, which accounts for approximately 5 percent of Uganda’s gross domestic product (GDP). Remittance flows have grown faster than both foreign direct investment (FDI) and official development assistance (ODA). Average monthly wages in Uganda range between a low of US$14 to a high of US$153. Available data shows that average monthly remittance from migrants in the United States ranges from US$500 to US$1,000. At the macrolevel, remittances contribute to smoothing the balance of payments in Uganda. At the microlevel, remittances are mostly distributed in cash and are used mainly for consumption and education. Overall, it could be stated that remittance flows have supported wealth creation and contributed toward increased welfare gains to recipients.

The Remittance Senders and Market Structure in the Three Corridors

The United Kingdom, the United States, and South Africa have different migration generations of both documented and undocumented Ugandans. Identifying the size of the Ugandan migrant population, especially the undocumented workers, is difficult, which consequently makes the estimation of remittances flows complicated.
Immigration policies of the three countries have made it difficult for low-skilled migrants to seek temporary employment there; hence, many low-skilled workers do not have proper immigration documentation, which leads to limited or no access to formal financial services. Also, due to high costs necessary to maintain bank accounts in Uganda, both remitters and recipients choose informal remittance mechanisms that do not require bank accounts.

In the United Kingdom and the United States, registered money service businesses (MSBs) are allowed to provide remittance services. In South Africa, only authorized dealers, namely banks and foreign exchange bureaus (many of which are part of banks) are allowed to conduct remittance services. In South Africa, MoneyGram and Western Union are the only international MTOs providing remittance services by collaborating with banks and foreign exchange bureaus. In the United Kingdom–Uganda corridor, local MTOs dominate the market while international MTOs and banks lead the market in the United States–Uganda and South Africa–Uganda corridors.

The Challenges Facing Uganda

Uganda faces many challenges in harnessing the potential economic and welfare benefits by developing the remittance markets. Some challenges are development-related, creating and managing labor exports, overcoming barriers and obstacles to remittance market, addressing challenges to linking remittances, using formal financial intermediaries without driving the market underground, and improving financial outreach through remittances. Other risk-related challenges include developing the payment system and related infrastructure, formalizing the remittance channels, and managing exposures and vulnerabilities to fraud.

Promoting labor exports is not without ramifications. Uganda will have to carefully balance the welfare gains with social costs. Poor geographic coverage and lack of affordability of banking services are obstacles to financial service accessibility, which influences a remitter’s choice of a transmission channel in a sending country. Deficiencies in the infrastructure and lack of customer-friendly instruments have made access to financial services more difficult. Not having an efficient nationwide payment system and remittance distribution network and affordable financial services are major impediments to remittance-based contribution to the development of financial outreach.

Lack of bank accounts by remittance recipients also prevents senders from using banking channels in sending remittances to Uganda. As a result, mostly informal cash-to-cash channels thrive. This exacerbates the concerns over money laundering and terrorism financing. On the other hand, too stringent requirements and regulations could drive the market underground. Lack of an AML/CFT law raises concern of money laundering in Uganda in spite of efforts by the Bank of Uganda (BOU) to issue guidelines against this crime. The banking sector also runs serious risk of losing correspondent relationships with foreign banks due to this lapse because corresponding banks want to be assured that AML/CFT policies and procedures are in place in Uganda. Further, lack of reliable data on remittances and migration hampers reliable assessment of access and usage of remittances.

Improving the Remittance Market in Uganda

In order to facilitate the migration process, Uganda should examine the possibility of providing pre-migration training, life insurance and pension plans, medical insurance, and other benefits with a view to ensuring safety and stability of migrants and their families. In due course, this would improve the chances of the migrants returning home, thus minimizing social costs.
One key requirement is passing the AML law. In addition to strengthening the AML/CFT regime, the law should be implemented in a balanced way so the integrity of the financial sector and access to financial services are achieved. Uganda should also carry out awareness-building campaigns to educate stakeholders and the public on AML/CFT issues. They should remove regulatory barriers that stymie entry in and exit from the remittance market, which could then foster competition, leading to cost and operating efficiencies. Banks in Uganda should be encouraged to develop banking products that are related to remittances and savings. Banking services should be expanded to rural areas. These moves would improve financial outreach as well as encourage remitters and recipients to move toward formal mechanisms for remittance-related transactions.

The BOU should continue to develop its national payment systems and improve access to financial services. Policies should not only improve the systems, but also provide incentives to use electronic payments. This could be accomplished by substantially reducing the price of electronic payments. Further developments in infrastructure should include the pursuit of mobile phone banking and other customer-friendly services.

In the long term, the BOU should continue to collaborate with relevant authorities to enhance quality of data on remittances and to assess the impact of remittances on poverty reduction. The remittance-sending countries are encouraged to improve estimates on migrant population, including undocumented workers. By improving these statistics, each government would be better able to undertake specific policies on migration and remittances.

**Concluding Remarks**

Understanding the dynamics of the Ugandan remittance market will help improve efficiency and mitigate risks. While BOU plays an important role in leading such development initiative, the banking sector, private sector, Diaspora, and others also need to work diligently and in a coordinated effort. It is hoped that the information presented in this report is useful in successfully carrying out this initiative.
Remittances of migrant workers in developing countries are increasingly considered an important source of income, both for migrant families’ households and the countries’ economies. Migrant workers use both formal and informal transmission mechanisms for remittance purposes. In many countries, using a formal remittance channel requires proper identification, documentation, and higher transaction costs. In some cases, requirements are more stringent, and services are inconvenient and expensive. Thus, the undocumented population without bank accounts tends to use the informal channels more extensively.

Regulatory oversight of these informal channels hardly exists. Transparency of such systems is minimal. Therefore, there are growing concerns that these unregulated and obscure remittance flows could attract illegal activities such as money laundering and terrorism financing. In order to enhance the existing knowledge on remittances to developing countries, the Financial Market Integrity Unit (FPDFI) of the World Bank launched the Bilateral Remittance Corridor Analysis (BRCA). The intention of these series of reports is to use the accumulated knowledge to develop schemes of good practice that will protect the integrity of remittance markets and improve efficiency and transparency of transfer channels for remittance flows.

Remittance Corridors to Uganda: United Kingdom, United States, and South Africa is the first in the BRCA series to analyze and compare together three bilateral remittance corridors: the United Kingdom–Uganda, the United States–Uganda, and South Africa–Uganda. The comparison highlights similarities and differences of the three remittance corridors and the significance of the sending countries to Uganda in terms of volume, formality of remittance corridor, and risks and vulnerability to money laundering.

The population dynamics reveal that the Ugandan population and its labor force will continue to grow around 3 percent annually in the next two decades, which indicates that Uganda will be able to increase labor export in future years. This would mean that the worker remittances, which accounted for around 5 percent of gross domestic product (GDP) in 2008, would continue to generate increased welfare gains and contribute to investment and wealth creation. Hence, understanding the dynamics of the Ugandan remittance market will enable the authorities to improve efficiency of the remittance market as well as mitigate related risks.

Barriers in the banking system inhibit the growth of the remittance industry and curtail financial outreach. These barriers include lack of an efficient nationwide payment system, infrastructure, remittance distribution network, and affordable financial services. As a result, informal cash-to-cash channels thrive, exacerbating concerns over money laundering and terrorism financing. The BOU has issued guidelines on anti-money laundering and combating financing of terrorism (AML/CFT). The guidelines are meant to encourage financial institutions to improve preventive measures; however, the absence of an AML/CFT law makes compliance weaker. As such, perceived risks have a negative impact on the credibility of the Ugandan banking system.

Lack of access to financial services due to immigration status in the remittance-sending countries has resulted in the use of informal channels for remittance transactions.
and limited use of account-based financial services. Currently in Uganda, available and affordable financial services ranging from basic bank accounts to housing finance is confined to limited high- and middle-income populations in urban areas. Commercial banks have limited geographical coverage, especially in rural areas. Because operational costs are high, it seems difficult for banks to set up full branches in rural areas.

The BOU has made significant efforts to shift the remittance market from an informal to a formal sector and to improve remittance data collection efforts. It has introduced regulations and guidelines for informal remittance transfers by foreign exchange bureaus, taken steps to initiate national payment systems, and undertaken initiatives to encourage the use of electronic payments for utility bills. Such efforts have shown improvements in the quality of remittance data collected. A shift from informal to formal channels would also reduce the system’s vulnerability to money laundering and other illicit activities.

The banking system of Uganda, as a catalyst, should facilitate the development of remittance services. Potential key reforms include reduction of high intermediary costs, recognition for the remittance inflows as stable income sources, improvement to the payment systems and infrastructure, and development of innovative, remittance-related, customer-friendly instruments, healthy investment habits, and regulatory framework (for example, enactment of an AML law).

Informal channels exist in the remittance corridors because they meet the needs of both senders and recipients effectively. Several common factors influence the use of formal remittance channels in the three corridors. Reliable and convenient services are common in all three sending countries. MTOs are leading players because they do not require a bank account to send and receive remittances at both ends, have convenient locations, and, in some cases, apply low know-your-customer measures. Using a bank is more difficult than using MTOs. Banks require customers to have bank accounts in order to use remittance facilities. Opening a bank account requires documentation that undocumented workers most often do not have, so bank accounts are not an option. Furthermore, in Uganda, opening and maintaining a bank account is expensive, and banking services are nonexistent in rural areas. As a result, cash-to-cash transfers, rather than account-to-account transfers, are common in the three corridors. Cash-to-cash transfers also make it impossible to link remittances to other financial services in Uganda that could benefit the migrant family and the economic growth of the country.

**Report Scope and Objectives**

This BRCA report is a joint effort between the BOU (at their request) and the World Bank. The purpose of this study is to gather a broad spectrum of remittance data related to Uganda and the three remittance corridors and compile such information in a comprehensive report with a view to sharing knowledge and expertise. In addition to knowledge sharing, it is expected that the information and findings in this report will assist the authorities in developing the Ugandan remittance market and mitigating related risks. Being the first BRCA report to be conducted with the partnership of a local authority adds to the significance of the endeavor.

The report evolved from an original focus on the United Kingdom–Uganda remittance corridor and then expanded to include the United States–Uganda and South Africa–Uganda corridors (by subsequent request of the BOU). Initial remittance data from a pilot household survey (UBOS 2006) indicated that a large volume of remittances seems to originate in the United States and anecdotal evidence of remittance flows from South Africa. The expanded reporting allows comparison of a North-South corridor (United Kingdom–Uganda and United States–Uganda) and South-South corridor (South Africa–Uganda). A mission was jointly conducted in the United Kingdom and the United States.
The report data is based on fieldwork conducted in Uganda, the United Kingdom, the United States, and South Africa. Additional resources were gathered from interviews with government authorities, international organizations, private sector entities (banks, MTOs, and research organizations), nongovernmental organizations, and Ugandan migrants. The BRCA team collaborated with the Uganda Bureau of Statistics in developing a pilot household survey on remittances. With respect to statistical data on remittances, the team uses official data from Ugandan authorities, the World Bank, and the IMF.

Organization of the Report

This report comprises five chapters with supporting annexes. This introductory chapter continues with data showing remittance trends from a global perspective and in sub-Saharan Africa and their comparison with those of Uganda. Chapter 2 analyzes and compares the three remittance-sending countries in terms of remittance flows, remittance mechanisms and related costs, and regulations and AML/CFT requirements. Chapter 3 focuses on Uganda as a remittance-receiving country, describing the remittance flows, market players, distribution network, access and usage of remittance, the regulatory framework, and the status of AML/CFT in Uganda. Chapter 4 summarizes the main findings and observations. The developmental and risk mitigating challenges faced by Uganda are examined in terms of managing labor exports, barriers to remittance industry, challenges to linking remittances and formal financial intermediaries, exposures and vulnerabilities to fraud, remittance as means to improve financial outreach, data quality and availability, and demand for remittance services. Some of the policy responses toward development of the remittance market are also highlighted. This report presents policy recommendations (short-, mid-, and long-term) for Uganda as well as for remittance-sending countries in the final chapter. Background material can be found in the supporting Annexes A–D.

Global Trends on Remittance Flows

Having increased over the past years, global remittance flows were estimated to be around US$338 billion in 2008 (Table 1.1), which is around 15 percent increase over recorded remittances in 2007 (World Bank 2009b). It is important to note that these estimates are based on the recorded remittances based on formal transmission mechanisms. Because migrant workers use both formal and informal transmission mechanisms for remittance purposes, total remittance flows would be much larger if informal mechanisms were recorded. As of 2008, remittance inflows for all developing countries were estimated to be US$337.8 billion, or 76.2 percent of the global remittance inflows.

### Table 1.1. Global Remittance Flows (US$ billions)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inward remittance flows</td>
<td>167,494</td>
<td>204,529</td>
<td>237,523</td>
<td>275,179</td>
<td>317,313</td>
<td>384,789</td>
<td>443,514</td>
<td>420,110</td>
</tr>
<tr>
<td>All developing countries</td>
<td>112,609</td>
<td>140,420</td>
<td>164,370</td>
<td>198,932</td>
<td>235,403</td>
<td>289,376</td>
<td>337,761</td>
<td>317,237</td>
</tr>
<tr>
<td>Outward remittance flows</td>
<td>131,375</td>
<td>146,537</td>
<td>166,640</td>
<td>185,089</td>
<td>213,467</td>
<td>249,348</td>
<td>276,040</td>
<td>-</td>
</tr>
<tr>
<td>All developing countries</td>
<td>18,740</td>
<td>21,927</td>
<td>29,135</td>
<td>33,666</td>
<td>42,292</td>
<td>54,245</td>
<td>65,011</td>
<td>-</td>
</tr>
</tbody>
</table>

*Note: Column 2009e contains estimated data.*

*Source: World Bank (2009a).*
Cross-border remittances have been recognized as growing international finance influx for developing countries in recent years. Many researchers and scholars have contributed to the discussions of international remittances under the dimensions of poverty reduction, financial sector development, and AML/CFT issues. Notably, Ratha (2003) examines the relative importance of worker remittances as a source of development finance and discusses the measures that can be taken by industrial and developing countries to increase such remittances. Ratha identifies that the worker remittances are the second-largest source of external funding behind FDI for developing countries. Examination of the global remittance trends confirms this position (Figure 1.1).³

Remittances in Sub-Saharan Africa

Past studies on remittance flows have drawn attention to Africa. Sander and Maimbo (2003) reiterate obstacles such as inefficiency in the financial systems and policy environment, which leads to the wider use of informal mechanisms. Gupta, Pattillo, and Wagh (2007) discuss the significance of remittances as a positive determinant of financial development. Genesis Analytics (2006a) analyzes remittance flows from South Africa to neighboring countries.

Out of the estimated US$337.8 billion of remittance flows to developing countries in 2008, US$21.1 billion went to sub-Saharan Africa. This is 6.3 percent of the total flow to developing countries and nearly 4.8 percent of the global flows of US$443.5 billion. In 2008, remittance inflows to sub-Saharan Africa amounted to 2.2 percent of the GDP (World Bank 2009a). The inflow is slightly higher than the total developing countries inflow of 1.9 percent of their GDP (World Bank 2009b). Although remittance flow to the Africa region as a percentage of the total flows to developing countries has remained largely unchanged over time, informal remittance flows are not accounted for in these calculations.
Figure 1.2 shows trends on remittance inflows and outflows in sub-Saharan Africa. Remittance inflows have more than doubled since 2002 while remittance outflows have not changed significantly. Over the years, net flows have also increased significantly.

Nigeria with US$10.0 billion, Sudan with US$3.1 billion, and Kenya with US$1.7 billion were the top three recipients of remittances in 2008. Senegal, South Africa, Uganda, and Lesotho follow these top three countries (Figure 1.3). However, when taken as a percentage of GDP, Lesotho is on top (Figure 1.4).

Remittances in Uganda

With GDP growth averaging 6 percent in the last decade, Uganda has emerged as one of the top performers in the Africa region. The International Development Association (IDA) has ranked Uganda third among IDA countries in Africa in terms of country performance, institutional capacity, and management.

Uganda is among the top ten sub-Saharan African countries that receive a large volume of remittances proportionate to GDP. (Refer back to Figure 1.4.) The remittance trends over the last five years show that the inward remittances grew rapidly while outward remittances remained stable. Inward remittances doubled from US$323.5 million in 2005 to US$723.5 million in 2008. This increase is partly attributable to new data collection methods and data adjustments as explained in Chapter 3. In 2008, remittance inflows and outflows accounted for 5 percent and 2.2 percent, respectively, of the GDP. Net flows of 2.8 percent of the GDP are well above the sub-Saharan African net flows (1.2 percent) and the developing countries net flows of 1.5 percent.

In addition to the growth of absolute volume of remittances, the significance of remittances relative to FDI and ODA has been increasing. In 2006, the size of remittance
Figure 1.3. Total Remittance Inflows to Sub-Saharan Africa by Country in 2008 (US$ million).


Figure 1.4. Remittances Proportionate to GDP in Sub-Saharan Africa: Top Five Countries and Uganda, 2008

inflows was nearly 90 percent of the ODA flows. Inflows of remittances have constantly been higher than FDI flows. The ratio of remittances to GDP was around 6.8 percent in 2006.

Sander (2004) identifies the contribution of remittance flows to investment and wealth creation. Aggarwal and others (2006) identify a positive relationship between remittances and financial development. Ratha (2003) has iterated that migration generates substantial welfare gains and reduces poverty. Benefits to countries of origin are mostly through remittances (World Bank 2006b). A preponderance of the literature provides evidence that increase in remittances can lead to wealth creation, more investment opportunities, and welfare gains. Population and labor statistics reveal that growth rates for Uganda continue to improve and are better than the regional as well as world trends (Table 1.2 and Figure 1.5).

### Table 1.2. Population and Labor Force Growth in Uganda (annual percentage)

<table>
<thead>
<tr>
<th></th>
<th>Growth</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td></td>
<td>3.16</td>
<td>3.20</td>
<td>3.22</td>
<td>3.23</td>
<td>3.23</td>
<td>3.21</td>
</tr>
<tr>
<td>sub-Saharan Africa</td>
<td>Population</td>
<td>2.52</td>
<td>2.53</td>
<td>2.49</td>
<td>2.50</td>
<td>2.48</td>
<td>2.50</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td>1.25</td>
<td>1.25</td>
<td>1.21</td>
<td>1.22</td>
<td>1.18</td>
<td>1.22</td>
</tr>
<tr>
<td>Uganda</td>
<td></td>
<td>3.00</td>
<td>3.12</td>
<td>3.07</td>
<td>3.23</td>
<td>3.27</td>
<td>3.14</td>
</tr>
<tr>
<td>sub-Saharan Africa</td>
<td>Labor force</td>
<td>2.50</td>
<td>2.42</td>
<td>2.88</td>
<td>2.64</td>
<td>2.66</td>
<td>2.62</td>
</tr>
<tr>
<td>World</td>
<td></td>
<td>1.60</td>
<td>1.50</td>
<td>1.73</td>
<td>1.63</td>
<td>1.52</td>
<td>1.60</td>
</tr>
</tbody>
</table>


### Figure 1.5. Population and Labor Force Growth in Uganda, 2002–2006 (annual percentage)

Data shows that population growth of Uganda averaged around 3.21 percent while annual labor force growth averaged around 3.14 percent over the last five years. Both are higher than world and sub-Saharan Africa averages. Projected population rate changes of four other countries with similar GDP levels were compared with Uganda data. The results show that average annual rate change in Uganda will be higher than the other countries in the next two decades (Table 1.3).

The Uganda National Household Survey (UNHS) 2005/2006 reveals that median monthly nominal wages averaged US$14.40 to US$153.14. Comparing these wages with the average monthly remittances of US$500 from an undocumented migrant in the United States and US$1,000 from a documented migrant in the United States, it is evident that remittances enhance the welfare gains of the recipient families in a big way.

With the assumption that the population and labor force in Uganda would continue to grow unabated in the next two decades, Uganda’s capacity to export labor would also grow, thus creating opportunity for additional welfare gains and wealth creation through increase in remittances. Increased remittance activity would trigger better investment opportunities and increase financial outreach. In order to reap these benefits, Uganda should take steps to improve the efficiency of the remittance system by making it affordable as well as less risky so users and operators will have confidence in the system.

### Table 1.3. Estimated Average Annual Rate of Change in Population of Selected Countries with Similar GDP Levels (percentage)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>3.24</td>
<td>3.21</td>
<td>3.14</td>
<td>2.89</td>
<td>3.12</td>
</tr>
<tr>
<td>Senegal</td>
<td>2.46</td>
<td>2.23</td>
<td>2.00</td>
<td>1.81</td>
<td>2.13</td>
</tr>
<tr>
<td>Jamaica</td>
<td>0.54</td>
<td>0.46</td>
<td>0.37</td>
<td>0.25</td>
<td>0.41</td>
</tr>
<tr>
<td>Zambia</td>
<td>1.91</td>
<td>1.84</td>
<td>1.86</td>
<td>1.70</td>
<td>1.83</td>
</tr>
</tbody>
</table>

Source: UN (2007).

Deficient Data on Remittance Flows and Migration

Quantifying the remittance flows is a challenging task due to lack of proper methodologies, accuracy of recorded data, and extensive use of informal mechanisms. Although balance of payments data on remittances are commonly used for this purpose, they could be misleading because remittance flows are not accounted for in these calculations. This problem is aggravated further by the difficulty in estimating the flow of migrants, especially undocumented migrants. This issue of remittance flows is further analyzed in Chapter 2, where remittance flows from the United Kingdom, the United States, and South Africa are estimated from available data. Estimations are also made of migrant populations. Annex A gives estimations for each of the three remittance-sending countries.

In all three countries, the unknown number of undocumented Ugandan migrant population makes the estimation of remittances flows complicated. Interviews with Ugandan communities, embassies, and government authorities suggest that the approximate number of undocumented migrants could be as large as the number of documented migrants. Naturally, identifying the number of undocumented workers would help improve the estimations of remittance flows.

Uganda experienced intra-regional migration in the late colonial period and international emigration since the 1970s. East Africa has a long history of labor migration between and within countries that coaxed workers to cotton and coffee plantations in Uganda, the mines of the Democratic Republic of Congo and Uganda, and, seasonally,
to pastoralist communities in Uganda, Tanzania, and Kenya (DFID and DRC 2004). After its independence in 1962, Uganda needed a skilled work force for development. In the early 1960s, most of skilled workers were from overseas: five thousand Europeans and ten thousand Indians and Pakistanis.9 There was no significant emigration of Ugandans in that period.

Under the Idi Amin regime, forty thousand Asians were expelled from Uganda in 1972. In the 1970s, educated and professional Ugandans, facing a lack of economic opportunities, began to emigrate, mainly to Kenya. In the early 1980s, because Kenyans with higher education began to fill local labor markets, skilled Ugandans moved to other locations within and outside Africa (Russell et al. 1990). It is still true that education provided by the universities in Uganda does not necessarily match the needs of the labor market (Mayanja 2002). Thus, university graduates face difficulties in finding jobs in Uganda. Ugandans have traditionally migrated to Kenya, Tanzania, and South Africa and then to Botswana and other African countries (Black et al. 2004). Considered at one point to be coming to an end, migration to South Africa has recently been on the rise, based on anecdotal information. The major migration destinations for Ugandans have been the United Kingdom, the United States, Canada, Denmark, Germany, Sweden, Japan, and the United Arab Emirates.10 In the past four years, Iraq has become a new destination, especially for private security workforce. However, reliable data is not readily available to assess the size of the migrant population of Uganda.

It has been a challenge to obtain reliable figures of overseas Ugandan populations from the destination countries. Reportedly, there are a half-million Ugandans overseas, which includes refugees and migrants (Black et al. 2004). The Ugandan High Commission conducted an informal survey that estimated documented Ugandans in the United Kingdom to be between seventy thousand and one hundred thousand, while the census findings show that Ugandan-born population in the country was 55,213 in 2001. According to the 2000 United States Census, there were 11,740 Ugandan-born people in the United States. It is estimated that approximately 35,700 migrants (both documented and undocumented) were in the United States by 2008. In South Africa, there is no data available on current Ugandan migrants. Details of estimation methodologies and related facts are specified in Annex A under each country.

Considering these facts, it is evident that it is extremely difficult to enumerate the Ugandan migrant population with any degree of accuracy, both from the Ugandan perspective and the perspective of the remittance-sending countries.

Analyzing the remittance flows is also a difficult task. Evidence suggests that remittance flows are underreported in all corridors. Lack of recorded and accurate data and methodologies and the undocumented workers who prefer to use informal channels for remittances contribute to the difficulties. Calculations in the World Development Report 2007 suggest that the informal remittance sector is at least 50 percent of the official sector (World Bank 2006b). The heavy use of informal transfer mechanisms has been a policy issue for the government of Uganda. The government has recognized the significance of remittances and initiated a number of policies to regulate informal transfers and improve data. For example, foreign exchange bureaus, many of which are engaged in informal money transfer business, are now required to obtain a license to conduct money transfer business. The Statistics Bureau and the Central Bank have carried out a series of surveys to gather remittance data. Despite the efforts by the authorities, many remittances are directed through informal channels where cash transactions are dominant.

Notes

1 The Uganda National Household Survey (UNHS) 2005/2006 is the first nationwide household survey in Uganda that included remittances.
2 The German *Gesellschaft für Technische Zusammenarbeit* (GTZ) provided financial support for the missions.
3 Private debt and portfolio equity does not play a significant role in developing countries.
4 Uganda inflows of US$0.9 billion are based on World Bank (2008a) data. The BOU estimates, however, are around US$0.58 billion. This discrepancy reflects the difficulty in data collection as well as inconsistencies among recorded data.
5 IDA is the part of the World Bank Group that provides interest-free credits and grants to the world’s poorest countries.
6 Uganda is a source country for remittances to Sudan, Rwanda, Burundi, Democratic Republic of Congo, Tanzania, Kenya, and others. In 2005, stock of immigrants in Uganda was 1.8 percent of the total population (World Bank 2008a).
7 Findings from a BOU-conducted pilot household survey show that remittances originate largely in the United Kingdom and other European countries, the United States, and the Middle East. In addition, South Africa is perceived to be a source of remittances because of migration during Apartheid and recent migration trend. However, supportive data is scarce.
8 The Ministry of Gender, Labour, and Social Development is responsible for the migration and employment abroad policies. As a temporary measure to easy youth unemployment, the government promotes labor exports.
9 Center for Migration Studies of New York (1965).
10 UBOS (2006), the University of Sussex.
CHAPTER 2

Analysis of Three Remittance-Sending Countries

To better understand functions and technicalities of the three remittance corridors, this chapter provides an analysis of the overall market structure of the remittance industry in terms of number of senders, nature of the flows and active service providers, remittance costs, and the regulatory framework pertaining to remittances. This chapter compares these dimensions in the United Kingdom, the United States, and South Africa as remittance corridors with Uganda.

Certain similarities resonate in all three countries. Bank accounts are available to documented migrant workers. Documented workers tend to be permanent residents or intend to reside permanently in these countries rather than being temporary documented workers. Uganda is not a significant remittance destination for all three countries in terms of remittance flows. Remittance costs from the three countries to Uganda are not cheapest and most competitive at the global level.

On the regulatory front, all three countries have comprehensive regulations. The United Kingdom and South African regulatory frameworks are centralized while the United States has several different regulatory authorities layered at state and federal levels. Similarly to other financial sector activities, remittance systems face risks of misuse from money laundering or financing of terrorism. All three countries have AML/CFT laws and regulations, but they are not equivalent. Anonymous transactions, weak recordkeeping, nontransparent settlement systems, and absence of regulatory oversight make remittance systems, especially informal ones, attractive vehicles for illicit activities.

Standards issued by the Financial Actions Task Force (FATF) on money laundering calls upon all countries to take the necessary steps to bring their national systems for combating money laundering and terrorist financing into compliance with the new FATF recommendations and to effectively implement these measures (FATF 2003a). The FATF Standards contain some flexibility, and countries are expected to implement the general guidance based on their specific circumstances.

Detailed analysis of remittance markets includes types of remittance channels, remitters’ preferences, and incentives to choose a certain mechanism and cost analysis. Each remittance-sending country has different market participation. In the United Kingdom–Uganda market, ethnic money transfer companies are dominant players. International MTOs are market leaders in the United States–Uganda and South Africa–Uganda markets. Access to formal remittance services, particularly by undocumented workers, is available in the United Kingdom and the United States, but not in South Africa. Table 2.9 at the end of this chapter gives a summary of the salient features of the remittance senders, flows, mechanisms, service providers, costs, and regulatory framework.
Remittance Senders

The flow of migrants, especially undocumented migrants, is dynamic and reticent. The Ugandan migrant population in each remittance-sending country is estimated using census data where available and interviews with government authorities and Diaspora communities. The estimated number of Ugandan migrants in the United Kingdom is seventy thousand to one hundred thousand. In the United States, it is about 35,700. In South Africa, it is less than ten thousand. Because the actual numbers of undocumented Ugandan migrants are unknown, these estimates can be considered conservative. Characteristics of migrants help to identify immigration status, access to financial services, labor-skill levels, and remittance-sending behaviors.

The three countries have multiple migration generations of both documented and undocumented Ugandans. Over past decades, the United Kingdom and the United States had three generations of migrants come for educational, political, and economic purposes. More recent times have seen two generations come to South Africa for professional and a mix of other opportunities. Each generation has different characteristics with regard to motivation and intention of migration, skill levels, and legal status.

Ugandan migrants in the United Kingdom, the United States, and South Africa consist of permanent migrants and temporary migrants. Immigration policies of the three countries have made it difficult for low-skilled migrants to seek temporary employment, unlike South Asian temporary workers in the Gulf countries. As a result, the majority of temporary and low-skilled workers do not have proper immigration documentation, which leads to limited or no access to formal financial services.

Documented migrants have full access to formal financial services while undocumented workers in all three countries have limited or no access to formal financial services; however, access to remittance services varies. Many of the Ugandans in the earlier migration generations had permanent residency or citizenship in the host countries, so their financial behavior was similar to the general population of the host countries. These Ugandans therefore had full access to financial services and took advantage of savings, housing finance, and other financial instruments. The undocumented Ugandans in the United Kingdom and the United States have access to formal remittance facilities if they send low amounts of remittances without identification.

Most migrants send remittances monthly, biweekly, and/or quarterly. Migrants in the United Kingdom tend to send monthly and/or quarterly remittances and increase amounts during festive seasons and school openings. The migrants in the United States tend to send more frequently and larger amounts. Information of remittance trends from South Africa is not available.

Even though established in host countries, Ugandan Diasporas in all three countries appear to be interested in investing in businesses and some of them are preparing for retirement in Uganda. In addition to supporting their families, most Ugandans have shown preferences to keep closer ties with Uganda through investments and preparation for retirement in Uganda.

In all three countries, Ugandan communities seem to concentrate around certain geographical areas. London and suburbs in the United Kingdom, Boston in the United States, and Gauteng region (Johannesburg and Pretoria) in South Africa seem to have the largest concentration of Ugandan community. Ugandan associations are mostly ethnically based in the United Kingdom and geographically based in South Africa. In the United States, there is mainly one central association, local chapters of the Ugandan North American Association (UNAA).

Remittance Sending: The United Kingdom

A conservative estimation of the current Ugandan population in the United Kingdom is seventy thousand. Different institutions and surveys give different estimations.
According to the 2001 United Kingdom Census, Ugandans constituted the fifth largest Black African group in the United Kingdom. The 2001 United Kingdom Census data shows the Ugandan-born population to be 55,213, while a source at the Ugandan High Commission estimates the number of documented workers to be in the range of seventy thousand to one hundred thousand. Other independent sources put the total number (both documented and undocumented) in the range of one hundred and forty thousand to two hundred thousand. The International Organization for Migration (IOM 2006) reporting on Ugandan communities in the United Kingdom put the range between one hundred and eighty thousand and three hundred and fifty thousand. The actual size of undocumented Ugandan population is unknown. However, interviews with the Ugandan High Commission, the Ugandan community, and some RSPs signal that the volume of the undocumented workers could be as large as that of the documented Ugandans. Each migrant community tends to claim its size larger than its actual size, so the remittance market players view these figures cautiously.

The Ugandan communities in the United Kingdom are concentrated in and around London. According to the IOM (2006) report, 85 percent of the Ugandan community lives in London with the highest concentrations in Forest Gate and Mitchum. This high concentration suggests ample business opportunities within the community.

The Ugandan community is diverse, comprising people who migrated to the United Kingdom in the 1950s and 1960s, then a wave of asylum seekers in the 1970s, and a further wave in the 1990s. Each generation of Ugandan migrants have different characteristics and motivations for migrating (Figure 2.1). For example, Ugandans who came in the 1950 and 1960s were mainly elites and with higher education. In the 1970s, Ugandans left the country because of the Idi Amin regime. Ugandan migrants in the 1970s include Asian Ugandans. Ugandans in the 1980s were mostly economic refugees. After the 1990s, most of the Ugandans sought better economic and educational opportunities. At the same time, substantial numbers of undocumented Ugandans began to migrate to the United Kingdom in the 1990s (Elam and Chinouya 2000).

Source: BRCA team interviews in Uganda and the United Kingdom.
Undocumented Ugandans engage in blue-collar work such as cleaning, porter, and moving. Undocumented workers and low-skilled migrant workers earn less than £1,500 a month. Companies that are in labor-intensive work and face low retention rates appear to hire undocumented and low-skilled workers to fulfill their needs. Some undocumented workers find that they receive much lower wages than documented workers in the same workplace because employers take advantage of their lack of documentation.

The Ugandan communities in the United Kingdom tend to be divided and organized along ethnicity, tribes, and clans. The community is broadly divided in half: the Bantu speakers from the South and the Nilotics from the North. Clan members are regarded as family and offer a close-knit support network to the fellow migrants. With many still separated from their families, Ugandans maintain strong links. Sending money home to support family and relatives is a standard practice.

Ugandans form ethnic-oriented associations to support their own population in the United Kingdom as well as in Uganda. Ugandan ethnic associations have developed programs to support their home communities. Associations of Ugandans from the northern and eastern regions strongly support their communities because these regions are less economically developed. The Iteso Welfare Association was formed in the 1990s as a Diaspora group. Registered as a nonprofit organization in the United Kingdom in 1999, the Association supports Iteso Ugandans in the United Kingdom and engages in community development in the Teso region in eastern Uganda and in some parts of Kenya.

Remittance Sending: The United States

Compared to other regions, Africa receives a small proportion of remittances from the United States. This is a consequence of the relatively small proportion of African-born population in the United States. Of the foreign-born population in the United States, Africa accounts for only 2.8 percent, while Latin America and Asia account for 51.7 percent and 26.4 percent, respectively (Table 2.1).

According to the 2000 United States Census, 11,740 people born in Uganda were living in the United States. This figure includes both naturalized American citizens and non-American citizens. Of the 11,740 Ugandans, 6,310 (53.7 percent) were black or African American; 4,350 (37.1 percent) were Asians; and 400 (3.4 percent) were white. Figure 2.2 illustrates the Ugandan-born population by period of entry to the United States (based on the 2000 United States Census): 5,590 Ugandans living in the United States entered between 1990–2000; 3,030 entered between 1980–1989; and 3,120 entered before 1980.

It is estimated that approximately twenty-four thousand Ugandans have entered and remained in the United States since the 2000 United States Census. Available statistics show

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>881,300</td>
<td>2.8</td>
</tr>
<tr>
<td>Asia</td>
<td>8,226,255</td>
<td>26.4</td>
</tr>
<tr>
<td>Europe</td>
<td>4,915,555</td>
<td>15.8</td>
</tr>
<tr>
<td>Latin America</td>
<td>16,086,975</td>
<td>51.7</td>
</tr>
<tr>
<td>Northern America</td>
<td>829,440</td>
<td>2.7</td>
</tr>
<tr>
<td>Oceania</td>
<td>168,045</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31,107,570</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

that 41,300 visas (38,770 nonimmigrant and 2,530 immigrant visas) were issued to Ugandans after the 2000 Census (Table 2.2). It is assumed that all 41,300 visa-holding Ugandans entered the United States and that 13 percent of nonimmigrant visa holders (2,592) who arrived between 2000 and 2004 did not return to Uganda.\(^6\) Adding these migrants and the total nonimmigrant visa holders (18,831) who arrived between 2005 and 2008 and the immigrant visa holders (2,530) indicate that approximately twenty-four thousand Ugandans have remained in the country with either nonimmigrant or immigrant visas since 2000.

The conservative estimate of the size of the Ugandan population in the United States is approximately 35,700.\(^7\) Interviews with Ugandans in the United States and literature review (Muwanga-Zake 2004) indicate that the Ugandan population in North America could be around fifty thousand. These interviews suggest that the Ugandan population would be much smaller than that of Nigerians (134,940) and relatively smaller than that of Kenyans (40,680).\(^8\) It is also known that some Ugandans came to the United States as nationals of neighboring countries such as Rwanda. Hence, the total number of Ugandans could be more than the estimated figure of 35,700.

Ugandan migration to the United States, like that in the United Kingdom, has three different generational characteristics. In the 1960s, the first generation of Ugandan migrants arrived to pursue higher education. In the 1970s, the second wave of migration was mainly by refugees who fled the Idi Amin regime (1971–1979). Many of the refugees were Ugandans of Asian origin. After the 1980s, Ugandans continued migrating in search of higher education and job opportunities.

### Table 2.2. US Visas Issued to Ugandans, FY2000–2008

<table>
<thead>
<tr>
<th>Year</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonimmigrant Visas</td>
<td>4,627</td>
<td>4,239</td>
<td>3,422</td>
<td>3,566</td>
<td>4,085</td>
<td>3,974</td>
<td>4,335</td>
<td>4,852</td>
<td>5,670</td>
<td>38,770</td>
</tr>
<tr>
<td>Immigrant Visas*</td>
<td>231</td>
<td>206</td>
<td>256</td>
<td>190</td>
<td>247</td>
<td>261</td>
<td>321</td>
<td>384</td>
<td>434</td>
<td>2,530</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,858</td>
<td>4,445</td>
<td>3,678</td>
<td>3,756</td>
<td>4,332</td>
<td>4,235</td>
<td>4,656</td>
<td>5,236</td>
<td>6,104</td>
<td>41,300</td>
</tr>
</tbody>
</table>

* Immigrant visas issued at foreign service posts, all categories (by foreign state chargeability).

Box 2.1. Ugandan North American Association: A Ugandan Diaspora Group

The Ugandan North American Association (UNAA) was established in 1990. The principal goals of UNAA are to promote the general well-being by encouraging members to engage in activities that promote their own welfare, such as investment clubs and immigration forums, by participating in the dissemination and sharing of information and ideas on any relevant subjects through the UNAA newsletter and electronic chat room and active educational campaigns. The UNAA holds an annual convention to bring together Ugandans in North America.


Although Ugandans are dispersed across the United States, cities have relatively higher concentration of Ugandans. The largest number of Ugandans in the United States is located in Boston and its outskirts. It seems that many Ugandan students sought higher education in the Boston area and stayed in the same area after graduation. The headquarters of the Ugandan North American Association (UNAA) is also located in Boston (Box 2.1). It is also known that California, Minnesota, New York, Texas, and the District of Columbia have sizable Ugandan communities although the actual population size of Ugandans in each state is unknown. However, unlike Ugandans in the United Kingdom, the concentration of the Ugandan community is relatively low.

Documented and undocumented Ugandans have different characteristics and financial behaviors. Documented Ugandan migrants have established or have tried to establish themselves as permanent US residents. Some are naturalized US citizens. The documented Ugandans, in particular, are educated and have jobs that require skills and high educational training (Figure 2.3). The financial behavior of the documented Ugandans is different from the undocumented Ugandans. The documented Ugandans use American financial services such as savings, credit cards, mortgages, and investments. As a result, remittances to support their families and relatives in Uganda constitute a smaller percentage of their income. On the other hand, the undocumented Ugandan migrants have came to the United States for mainly economic purposes, that is, to work, earn higher wages, and support their families back in Uganda. Hence, remittances from the undocumented migrants to Uganda are a larger percentage of their income.

Figure 2.3. Ugandan Population by Level of Education and Type of Job

Undocumented Ugandan migrants in the United States engage in jobs that require only lower-skill levels. They work in restaurants, hotels, and other service industries. Female migrants work as domestic helpers as well. Undocumented workers earn relatively low salaries ranging from US$1,500 to US$2,000 per month. An interview with staff of the Embassy of Uganda revealed that, unlike the documented and established workers, these Ugandan workers in the United States tend to send a larger portion of their salary to Uganda by keeping their living expenses low while away from home.

For undocumented Ugandans, a passport, if available, is the only legal identification they have while in the United States. The Embassy of Uganda does not issue a consular card, unlike the Mexican and Guatemalan consulates. Ugandans, particularly undocumented migrants, may have a passport, Ugandan national identification, and American driver’s license (for some limited states only). The American financial institutions do not accept Ugandan national identification as a form of identification. Since passing of the Real ID Act of 2005, American states have imposed tougher requirements to verify identification when issuing a driver’s license. Social security number, address of residence, utility bills, and other documents are required but almost impossible for the undocumented migrant workers to obtain. Hence, it is difficult for undocumented Ugandans to gain access to formal financial institutions, mainly banks.

**Remittance Sending: South Africa**

Ugandan Diaspora in South Africa is much smaller than those in the United Kingdom and the United States. The actual number of Ugandan population is unknown because an unaccounted number of Ugandans entered legally and illegally to South Africa after the Apartheid regime ended. An estimate of the Ugandan population provided by a Ugandan association and the Ugandan High Commission in South Africa is less than ten thousand. This estimation is based on the population of Ugandan migrants who historically entered South Africa, accounting for those who may have returned to Uganda.

Migration of Ugandan workers to South Africa began in the 1980s. Skilled and educated Ugandans migrated to South Africa in the 1980s as teachers, lawyers, doctors, nurses, and engineers, mainly for better wages. Some migrants brought their families with them. After 1986, skilled migrants from sub-Saharan Africa, including Uganda, came as temporary or permanent residents to South Africa’s then-nominally independent Homelands (Waller 2006). The Apartheid regime supported migrant entry to South Africa in order to improve the Homelands’ education and health systems. Map 2.1 marks the areas established as Homelands in South Africa. During 1980s, a little more than one thousand Ugandans arrived in South Africa.

Family members who had already settled in South Africa would typically sponsor other Ugandan migrants who arrived in the 1980s and the early 1990s. When Ugandan migrants came to South Africa, some arrived with visitor passes and then applied for jobs and work permits. During the period of job search, family members who were already in South Africa financially supported the new migrants and provided accommodations. The new wave of migrants typically took responsibility for their own travel expenses and documentation.

In the 1990s, the next-generation wave of Ugandan migrants arrived in South Africa. Diversification of Ugandan migrants began in 1990s when businesspeople and tourists started visiting South Africa. Thousands of Ugandans migrated to South Africa during this decade. During Apartheid, all Ugandans were forced to register and live in the Homelands. When Apartheid ended, both skilled and unskilled Ugandans arrived in South Africa legally and illegally. The actual number of Ugandans who moved to South Africa after Apartheid is difficult to determine because there was no longer required registration in the Homelands.

There are four regions where Ugandans are relatively concentrated. The largest concentration of Ugandans lives in Gauteng, mainly in Johannesburg and Pretoria.
Map 2.1. The Homelands in South Africa under the Apartheid Regime

Cape hosts the second-largest Ugandan Diaspora. Durban in Kwazulu Natal and Cape Town in Western Cape also have many Ugandans. These cities are located near the Homelands, except for Cape Town.12

South African immigration policy and labor market competition are barriers faced by Ugandans, as well as other nationals who migrate to South Africa. In order to migrate to South Africa, Ugandans and other nationals need to overcome strict South African immigration policy and competition with migrants from countries in the Southern African Development Community (SADC) who speak Afrikaans language, which is commonly used in South Africa. In addition, the level of economic development of South Africa and historical Ugandan migration flows to South Africa seem to have created a misperception by Ugandans that there are abundant economic opportunities for migrant workers in the South Africa.13

Phony migration business and smuggling of migrants are concerns in the South Africa–Uganda corridor. Some groups misuse the perception of abundant opportunity as a marketing tool for phony migration business. In a too-often used ploy, smugglers take advantage of the strict immigration policy in South Africa, which prevents Ugandans from entering the country. These groups collect fees from potential migrants and transport them to a South African border. South African border control denies entry of the Ugandan migrants because of lack of proper documentation. In the meantime, the smugglers cross the border with the collected fees, leaving the migrants stranded.14
Remittance Flows

Remittance flows used in this report are calculated using estimated migrant populations. Details of estimations for each country are given in Annex A.

Uganda is not a major remittance destination for any of the three countries of the reported corridors in this paper. For Uganda, however, the United Kingdom and the United States are significant sources of remittances. South Africa plays an important role as a regional source of remittances and as a sending country in a South-South remittance corridor.

In all three countries, the unknown number of undocumented Ugandan population makes the estimation of remittances flows complicated. The United Kingdom is the largest source of remittances to Uganda with estimations of US$127 million to $296.3 million. This is 19 to 45 percent of the total inflows (2006). The estimated remittance flow from the United States is US$70 million to $162.4 million, which is 11 to 24 percent of the total inflows. Remittance flows from South Africa could not be estimated due to unavailability of information on the migrant population. Average monthly remittances per sender in the United Kingdom are US$605 and US$800 to US $1,000 in the United States. No data is available for South Africa.

Remittance Mechanisms

Detailed analyses of remittance channels include remitters’ preferences and incentives to choose a certain mechanism for each country.

Documented migrants in all three countries enjoy full access to all remittance facilities. In the United Kingdom and United States, undocumented migrants have access to certain formal services such as MTOs. In South Africa, due to lack of official documentation required of the country’s foreign exchange control, undocumented workers have to use informal methods.

Ugandans in the United Kingdom prefer the ethnic-based MTOs while those in the United States and South Africa use international MTOs and commercial banks depending on remittance volume and needs. In the United Kingdom, ethnic MTOs are able to provide a more competitive service with cultural sensitivity and personal touch to the Ugandan community. In the United States and South Africa, the international MTOs provide services that meet the needs of the Ugandan community such as convenience, fair pricing, and speed. Some Ugandans prefer MTOs rather than banks because recipients do not have bank accounts in Uganda.

Remittance Mechanisms: The United Kingdom

Many Ugandan migrants in the United Kingdom prefer to use ethnic MTOs as their remittance channel to Uganda.15 Ethnic MTOs provide simple and convenient services to walk-in customers while bank services are subject to holding an account and fulfilling know-your-customer rules by way of identification such as passport, utility bills, physical address, and driving permit. Some ethnic MTOs may apply minimum know-your-customer rules based on their knowledge of senders. In addition, ethnic MTOs only charge foreign exchange spread, and the amount and frequency of remittances does not affect fees. Hence, remittance senders have the option to choose the sending amount and frequency without considering fee structures at the counter. Remitters send a larger amount through banks that charge a flat fee so that percentage of fees proportionate to a principal amount is lesser, while smaller amounts that are more frequent would be remitted through the MTOs using the smaller proportionate fee structure to their advantage.

Such services offered by the MTOs are more competitive than High Street banks because of acquaintance, speed, and affordability. Remittance senders, regardless of their immigration status, feel more secure and safe when using MTOs because Ugandans own these services. Proximity of these MTOs is also advantageous due to the perceived sense of security because they operate in the community where Ugandans are concentrated.
At the operational level, remittance services offered by ethnic MTOs are supported by generic software that facilitates transactions by connecting the sending and receiving operators online. Customers are assigned codes that make it possible to retrieve information when required. Each remittance request is assigned a reference. This reference is entrusted to both the paying money transfer company and the beneficiary in Uganda. Delivery is usually on the same day. The business thrives on trust. The MTOs must have a trustworthy partner at the pay points. Settlement is mainly on net basis, books are balanced regularly, and any outstanding values are offset through the banking system, goods, services, or any other agreed method.

In terms of mechanisms, some companies use bundle remittances method. Under the bundle arrangement, the MTO collects remittances from multiple individuals and transmits it as a single transfer to Uganda through a banking channel. A few United Kingdom banks offer transfer services to MTOs. The MTOs can fragment charges by the bank into small portions proportionate to the amount remitted by each remittance sender. As a result, the MTO is able to offer competitive remittance services at a low fee. The bundled remittances are sent to an account of a partner service provider in Uganda who disburses the payments to recipients based on the instructions received from the United Kingdom–based MTO. The United Kingdom postal system (money orders) is not used as a remittance mechanism as there is no agreement between the two countries.

Box 2.2 describes the remittance mechanism used by Masterlink, an ethnic MTO operating in the United Kingdom.

Informal money transfer companies operate in the United Kingdom–Uganda corridor to send remittances to Uganda. It is well known that firms with a United Kingdom–Uganda link, such as Ugandan family-owned law firms and trading companies, operate remittance services as a side business. Unregistered Hawala-type informal operators also exist as part of the network. Individual operators may or may not have an office premise for the operations. Some operators do business using only a mobile phone. Usually, informal operators do not undertake any know-your-customer measures. The size of informal flows could be significant; however, actual size is unknown. These informal operators are vulnerable to money laundering.

**Remittance Mechanisms: The United States**

In the remittance market, international money transfer operators and commercial banks are dominant in the United States–Uganda corridor. Interviews and survey responses suggest that most Ugandans in the United States (over 95 percent of respondents) use formal RSPs. Among formal channels, most Ugandans use either Western Union or MoneyGram when they send relatively small amount of remittances. The proximity of MTO offices also attracts more customers. Because MTOs set thresholds for identification verification, services are open for undocumented workers. Western Union sets a threshold of US$3,000; MoneyGram sets a US$900 threshold.17 The United States postal system (money orders) is not available as a remittance mechanism as there is no agreement between the two countries.

Banks are used for relatively large remittances. The UNAA questionnaire results reveal that one-third of respondents use a bank for remittances to Uganda. Ugandans use commercial banks to remit relatively large amounts of money because the fee charged for the bank draft or telegraphic transfer is cheaper than that of MTOs due to the banks’ flat fee structure on foreign exchange transfers.

The undocumented migrants cannot use commercial banks for lack of proper documentation. Lack of proper immigration documentation prohibits undocumented Ugandan migrants from opening a bank account. As part of customer identification procedures prior to opening bank accounts, banks impose requirements for proper identification, which includes proof of age (eighteen years or older), United States citizenship or resident alien status, United States address, social security number (or tax identification number), and state-issued ID or passport. Most of the required documents are only available to documented migrants.
Box 2.2. Masterlink Remittance Model

The ethnic-based MTO, Masterlink, has set up a proprietary network for remittance services (diagrammed below). The network comprises Masterlink, a bureau de change, and a United Kingdom bank, along with a partnering MTO and bank in Uganda. Every day, Masterlink collects remittances from individual senders and transfers bundled remittances (in pound sterling) through Ghana International Bank in London to a bank account of a partner MTO in Uganda.

Ghana International Bank uses a bureau de change for collection of cash, which also ensures adherence to AML measures. Any risks associated with transporting cash from the Masterlink office to Ghana International Bank are also reduced. Masterlink also sends a message containing information of senders and recipients to the partner MTO in Uganda. On receipt of this message, the partner MTO disburses the money received. Masterlink profits from the foreign exchange spread. In Uganda, the day’s foreign exchange rate is applied. This rate is normally the same as the official buying rate for the United Kingdom pound.

![Masterlink Remittance Model Diagram](image)

*Sources: BRCA team interviews with Masterlink and Ghana International Bank.*

Fewer informal RSPs operate in the United States–Uganda corridor. Dispersion of Ugandan migrants across the country seems to make it difficult for informal operators to develop a sustainable remittance business. The informal operators that were in business some time ago have disappeared due to loss of trust. A Ugandan migrant states, “If something wrong happens with Western Union or MoneyGram, he can scream to get money back, but, if that happens with informal guys, screaming does not help much, and he needs to spend time and money to recover the loss.” Ugandan migrants thus prefer secure and reliable channels in the United States.

Remittance Mechanisms: South Africa

The remittance market in South Africa can be grouped into three different segments: domestic, regional (SADC), and international remittance markets. Much background study is available on domestic and regional remittance markets. In this section, focus is more on international remittances, touching on domestic and regional markets for comparison.

The most popular formal method of sending remittances from South Africa to Uganda seems to be MTOs and physical cash transfer through informal channels either by the migrant...
earner, family members, or friends. Table 2.3 summarizes available remittance channels in South Africa. Limited access to financial services by the beneficiaries in Uganda makes these means popular. Ugandans feel that remittance distribution outside of Johannesburg, the capital, is unreliable, which may not be necessarily the reality.

Commercial banks are the dominant players in the formal remittance market in South Africa. Commercial banks are fully authorized foreign exchange dealers. Under South African regulations, only authorized dealers are allowed to conduct foreign exchange transactions. Large South African banks are found in other sub-Saharan African countries and possess a competitive platform to provide remittance services.

There are two layers of obstacles in sending remittances through banking channels for the unbanked: bank accounts at the sending and receiving ends. Because remittances through banks require accounts on both ends, Ugandans in South Africa prefer not to use them. Without proper documents, opening a bank account in South Africa is impossible. Even if the sender has a bank account but the beneficiary does not have one, remittances through the bank are not feasible.

There are thirty-two authorized foreign exchange dealers in South Africa. Twenty-five dealers are divisions of either domestic or foreign banks, and seven are foreign exchange offices. These foreign exchange dealers mainly serve corporate clients that conduct trade and travel businesses. Thus, remittance products are limited to telegraphic transfers and drafts that are the same as those offered by commercial banks. Some foreign exchange offices partner with international MTOs as agents.

Western Union reentered the remittance market in South Africa in 2008, partnering with Absa Bank. Until recently, MoneyGram was the only international MTO that conducted business in South Africa. Western Union once ceased its operations in South Africa because meeting the exchange control requirements increased operational costs and reporting requirements posed difficulty on maintaining its agent network of kiosks and retail shops (Genesis Analytics 2006a).

MoneyGram employs Standard Bank and Bidvest Bank (formerly Rennies Foreign Exchange Bank) as their agents. MoneyGram International is not an authorized foreign exchange dealer in South Africa and therefore unable to operate in South African rand (ZAR) currency. MoneyGram agent banks convert the fees from United States dollars to ZAR outside the MoneyGram system and apply a foreign exchange margin to the conversion that adds approximately 4 percent to the fees.21

Postal services are not available for remittances from South Africa to Uganda due to lack of an agreement between South Africa Post Office and Posta Uganda. South Africa Post Office network exceeds two thousand outlets and provides paper- and electronic-based money orders and telegraphic money orders. However, although the institutions and the

Table 2.3. Available Remittance Channels for Three Remittance Markets in South Africa

<table>
<thead>
<tr>
<th></th>
<th>Uganda</th>
<th>Domestic</th>
<th>Regional (SADC)</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal channel</strong></td>
<td>Banks MTO</td>
<td>Banks Post office MTO</td>
<td>Banks* (13.3%) Post office MTO</td>
<td>Banks Post office MTO</td>
</tr>
<tr>
<td><strong>Informal channel</strong></td>
<td>Self Friends/family</td>
<td>Bus operators Taxi operators</td>
<td>Self (46.8%) Friends/co-worker (26.2%)</td>
<td>Self Friends/family</td>
</tr>
</tbody>
</table>

* Combination of TEBA spouse account, TEBA worker’s account, bank in home country, and bank in South Africa. TEBA offers a savings account to migrant mine workers.

mechanisms exist, because of no bilateral agreement, such services are not available in the South Africa–Uganda remittance corridor. Although it is slower, many other countries use postal system for remittance purposes because it is often cheaper than using a bank. The way the system works in South Africa (other than for remittance) with paper- and electronic-based money orders, there is no purchase limit on number of money and postal orders, although there is a limit on value up to ZAR2,000 for each money order. International electronic-based money orders require a PIN to redeem the money order. For telegraphic money orders, a recipient receives a message delivered to their address. The recipient can collect the funds at the post office as advised.

Informal remittance transfers are mostly physical cash transfers by friends and family members. Informal operators are not identified in the South Africa–Uganda remittance corridor. One reason is the relatively small size of the market. Interviews in both countries did not identify any informal money transfer services. In other corridors between South Africa and SADC countries, informal operators such as taxi drivers provide remittance services (Genesis 2005). Although remittances through taxi drivers are associated with risks of losing money, they seem to offer competitive services without paperwork. Thus, if a sender has a trustworthy driver, he uses the driver to send remittances.

Remittance Costs

This section looks into remittance costs in the three corridors. Remittance costs are composed of fees in both ends, the foreign exchange spread. The average principal amount in each corridor was chosen for this comparison. For the comparison, remittance costs against principal amounts were calculated.

Remittance costs in the United Kingdom and South Africa are substantially higher than the costs in the United States. The formal remittance market in South Africa lacks competition, having only one international MTO, commercial banks, and their subsidiary forex bureaus. The United Kingdom has higher competition in general. In the United Kingdom–Uganda corridor, international MTOs have an advantage in overall pricing while ethnic MTOs are more competitive. However, when foreign exchange spreads are taken into consideration, overall costs are not as low as in the United States–Uganda remittance corridor. In the United States–Uganda market, international MTOs provide competitive services because they consider Africa as a single market and are competitive in all corridors to Africa.

Remittance Costs: The United Kingdom

Masterlink, an ethnic MTO, and MoneyGram, an international MTO, set competitive pricing in the market. High Street banks and international MTOs, except for MoneyGram, charge higher fees for remittances. Table 2.4 gives a comparison of remittance fees in sending £300 (US$605) from the United Kingdom to Uganda.

Remittance Costs: The United States

In terms of remittance fees, MTOs offer very competitive services in the United States–Uganda remittance corridor. Remittance fees from the United States to Uganda as well as other sub-Saharan Africa countries can cost US$8 for transferring up to US$100. These fees apply to all corridors to sub-Saharan African countries. Although the United States–Uganda is not a large corridor like the United States–Mexico, MTOs set competitive fees because corridors to Africa collectively have a large number of competitors. A comparison of the fee structure is given in Table 2.5.

Consumers can access information on remittance fees through the respective Web sites of Western Union, MoneyGram, and iKobo. These Web sites provide information on fees, estimated distributed amount in local currency, and estimated foreign exchange conversion.
However, users should visit each Web site independently for comparison of fees and other information. This service is relatively new to the financial industry and has had rapid development in the United States. Since 2008, the World Bank has a database on remittance prices. The database is updated periodically and expanding its coverage now to one hundred and seventy-eight county corridors, as of first quarter of 2010. Among the three corridors, price data in the United Kingdom–Uganda corridor is available in the database.22

Remittance Costs: South Africa

All banks apply flat rates with minimum and maximum amounts for remittances while MTOs have a fee structure based on principal amounts. Bank remittance fees at the counter range from ZAR150 to ZAR205. Banks charge commission for currency conversion, telegraphic transfer fees, and foreign exchange spread conversion from South African rand to United States dollars.23 The receiving bank in Uganda charges administrative fees ranging from US$10 to US$25 and foreign exchange spread from United States dollar to Ugandan shilling. In the past few years, remittance costs from South Africa have declined by US$5 (MoneyGram) and up to ZAR80 (banks) for remittances of US$200 or equivalent. Table 2.6 provides a comparative picture of the fee structures of major remittance service providers.

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Table 2.4. Comparison of Costs to Remit £300 (US$605) from United Kingdom to Uganda

<table>
<thead>
<tr>
<th>RSP</th>
<th>Product</th>
<th>UK Fees (£)</th>
<th>Time</th>
<th>Forex Spread* (%)</th>
<th>Fees in Uganda</th>
<th>Total (US$)</th>
<th>Equivalent (US$)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>MIM³</td>
<td>27.00</td>
<td>10 min.</td>
<td>3.39</td>
<td>0</td>
<td>37.17 (£)</td>
<td>74.91 £</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td>MIM (agent)</td>
<td>27.00</td>
<td>10 min.</td>
<td>3.39</td>
<td>0</td>
<td>37.17 £</td>
<td>74.91 £</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td>2 days (agent)</td>
<td>14.90</td>
<td>2 days</td>
<td>3.39</td>
<td>0</td>
<td>25.07 £</td>
<td>50.48 £</td>
<td>8.4</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>10 minutes (online)</td>
<td>9.99</td>
<td>10 min.</td>
<td>2.67</td>
<td>0</td>
<td>18.00 £</td>
<td>36.28 £</td>
<td>6.0</td>
</tr>
<tr>
<td>Masterlink</td>
<td>-</td>
<td>None</td>
<td>1 min.</td>
<td>6.15²</td>
<td>0</td>
<td>18.45 £</td>
<td>37.18 £</td>
<td>6.2</td>
</tr>
<tr>
<td>Masterlink</td>
<td>(Transfer to bank account)</td>
<td>-</td>
<td>None</td>
<td>1 min.</td>
<td>6.15</td>
<td>5,000 (UGX)</td>
<td>18.45 £ + 5,000 (UGX)</td>
<td>40.24</td>
</tr>
<tr>
<td>Barclays¹</td>
<td>Standard</td>
<td>20.00</td>
<td>Up to 8 days</td>
<td>4.3</td>
<td>5.00 (US$)</td>
<td>32.90 (£ + 5 (US$)</td>
<td>71.30</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>Priority</td>
<td>35.00</td>
<td>Up to 7 days</td>
<td>4.3</td>
<td>5.00 (US$)</td>
<td>47.90 (£ + 5 (US$)</td>
<td>101.53</td>
<td>16.8</td>
</tr>
</tbody>
</table>

* Forex spread between wholesale rate and a rate applied by each RSP. It is important to note that not all providers have access to wholesale rates.
² Money in Minutes (MIM) service is provided online.
³ Masterlink charges are included in the forex spread.
⁴ sendmoneyhome.org.

Note: Periodically updated remittance prices are available at online databases such as the World Bank’s remittance prices database (http://remittanceprices.worldbank.org), Sendmoneyhome (www.sendmoneyhome.org), and MoneyMove (www.moneymove.org).
Sources: Internet research, direct phone calls, MTO brochures, and sendmoneyhome.org.
Table 2.5. Comparison of Fees: Remittance of US$500 from the United States to Uganda

<table>
<thead>
<tr>
<th>RSP</th>
<th>Product</th>
<th>Sending location</th>
<th>US Fees (US$)</th>
<th>Time</th>
<th>Forex Spread&lt;sup&gt;a&lt;/sup&gt; (%)</th>
<th>Uganda Fees (US$)</th>
<th>Total (US$)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Union</td>
<td>MIM&lt;sup&gt;b&lt;/sup&gt;</td>
<td>Massachusetts</td>
<td>10.50</td>
<td>10 min.</td>
<td>1.40</td>
<td>0</td>
<td>17.50</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>MIM</td>
<td>Minnesota</td>
<td>10.50</td>
<td>10 min.</td>
<td>1.40</td>
<td>0</td>
<td>17.50</td>
<td>3.5</td>
</tr>
<tr>
<td></td>
<td>MIM</td>
<td>Texas</td>
<td>51.00</td>
<td>10 min.</td>
<td>1.40</td>
<td>0</td>
<td>58.00</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td>MIM</td>
<td>Washington, D.C.</td>
<td>51.00</td>
<td>10 min.</td>
<td>1.40</td>
<td>0</td>
<td>58.00</td>
<td>11.6</td>
</tr>
<tr>
<td></td>
<td>Agent</td>
<td>New York City, Atlanta, and Houston</td>
<td>10.50</td>
<td>10 min.</td>
<td>1.40</td>
<td>0</td>
<td>17.50</td>
<td>3.5</td>
</tr>
<tr>
<td>iKobo</td>
<td>N/A</td>
<td>Any United States location</td>
<td>20.00</td>
<td>10 min.</td>
<td>0.58</td>
<td>1.99 (ATM withdrawal)</td>
<td>24.89</td>
<td>5.0</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>eMT SDS&lt;sup&gt;c&lt;/sup&gt; (Internet)</td>
<td>Any United States location</td>
<td>31.00</td>
<td>1 day</td>
<td>2.15</td>
<td>0</td>
<td>41.75</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td>eMT ES&lt;sup&gt;d&lt;/sup&gt; (Internet)</td>
<td>Any United States location</td>
<td>15.00</td>
<td>3 days</td>
<td>2.15</td>
<td>0</td>
<td>25.75</td>
<td>5.2</td>
</tr>
<tr>
<td></td>
<td>Ten-minute service</td>
<td>Any United States location</td>
<td>9.99</td>
<td>10 min.</td>
<td>2.15</td>
<td>0</td>
<td>20.74</td>
<td>4.2</td>
</tr>
<tr>
<td>Coinstar Money Transfer</td>
<td>Any United States location</td>
<td>10.00</td>
<td>-</td>
<td>Unknown</td>
<td>0</td>
<td>Unknown</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Bank of America</td>
<td>Wire transfer (USD)</td>
<td>Any United States location</td>
<td>45.00</td>
<td>3–5 days</td>
<td>3.40&lt;sup&gt;c&lt;/sup&gt;</td>
<td>10–25</td>
<td>72.02–87.02</td>
<td>14.4–17.4</td>
</tr>
<tr>
<td>Citibank</td>
<td>Wire transfer (CitiGold account holder)</td>
<td>Any United States location</td>
<td>20.00</td>
<td>3–5 days</td>
<td>3.40&lt;sup&gt;c&lt;/sup&gt;</td>
<td>10–25</td>
<td>47.02–62.02</td>
<td>9.4–12.4</td>
</tr>
<tr>
<td></td>
<td>Wire transfer</td>
<td>Any United States location</td>
<td>30.00</td>
<td>3–5 days</td>
<td>3.40&lt;sup&gt;c&lt;/sup&gt;</td>
<td>10–25</td>
<td>57.02–72.02</td>
<td>11.4–14.4</td>
</tr>
</tbody>
</table>

<sup>a</sup> Bloomberg Commercial Wholesale Rate is used to calculate forex spread (Kalan and Aykut 2005).
<sup>b</sup> MIM (Money In Minutes) (Internet).
<sup>c</sup> eMT SDS (eMoney Transfer Same Day Service).
<sup>d</sup> eMT ES (eMoney Transfer Economy Service).
<sup>e</sup> Forex spread applied by Stanbic Bank in Uganda, as an example.
The following discussion on the regulatory framework of each remittance-sending country focuses on three dimensions: regulatory institutions that are important for the remittance businesses, the relevant legal/regulatory framework, and the AML/CFT measures.

The United Kingdom and South Africa have centralized regulatory frameworks for remittance market while United States regulations are fragmented among authorities and layered at the federal and state levels. In the United Kingdom, registered or authorized payment institutions, money service businesses (MSBs), are allowed to provide remittance services. In the United States, MSBs are required to be licensed in a state and register at the federal level. In South Africa, only authorized dealers, namely banks and foreign exchange bureaus (mostly part of banks), and postal administration are allowed to conduct remittances. In South Africa, MoneyGram and Western Union, among international MTOs, provide remittance services by collaborating with banks.

All three countries have AML/CFT laws and regulations in place. However, they are not similar. In the area of remittances, the FATF requires countries to ensure that money transfer businesses are registered or licensed. The United Kingdom requires MSBs, including MTOs, to register with or be authorized by FSA for payment services and register with HMRC for AML/CFT. The United States requires MSBs to be licensed by the state regulator and to register with the federal regulator. And South Africa requires these services to be licensed.

Since its creation, the FATF has spearheaded the effort to adopt and implement measures designed to counter the use of the financial system by criminals. It established a series of recommendations in 1990 and revised them in 1996 and 2003 to ensure their relevance to the evolving threat of money laundering. These forty recommendations provide a complete set of countermeasures against money laundering, covering the criminal justice system and law enforcement, the financial system and its regulations, and international cooperation. In 2001, adding to the FATF mission, nine special recommendations were added to address the development of standards in the fight against financing of terrorism. Overview of the forty AML recommendations and nine CFT recommendations are given in Box 2.3.

Table 2.6. Fee Comparison: Remittance of ZAR1,400 (US$200) from South Africa to Uganda

<table>
<thead>
<tr>
<th>RSP</th>
<th>Product</th>
<th>Fees in South Africa</th>
<th>Time</th>
<th>Forex Spread* (%)</th>
<th>Fees in Uganda (US$)</th>
<th>Total (US$)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoneyGram</td>
<td>10 min.</td>
<td>US$15**</td>
<td>10 min.</td>
<td>2.6**</td>
<td>0</td>
<td>20.12</td>
<td>10.1</td>
</tr>
<tr>
<td>Western Union</td>
<td>Min</td>
<td>US$18**</td>
<td>Immediate</td>
<td>3.1**</td>
<td>0</td>
<td>24.20</td>
<td>12.1</td>
</tr>
<tr>
<td>FNB</td>
<td>Wire transfer</td>
<td>ZAR200</td>
<td>Up to 7 days</td>
<td>2.64</td>
<td>10–25</td>
<td>43.98–58.98</td>
<td>25.0–29.5</td>
</tr>
<tr>
<td>ABSA</td>
<td>Wire transfer</td>
<td>ZAR150</td>
<td>Up to 7 days</td>
<td>2.60</td>
<td>10–25</td>
<td>36.72–51.72</td>
<td>18.4–25.9</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>Wire transfer</td>
<td>ZAR210</td>
<td>Up to 7 days</td>
<td>2.51</td>
<td>10–25</td>
<td>45.15–60.15</td>
<td>22.6–30.1</td>
</tr>
<tr>
<td>Ned Bank</td>
<td>Wire transfer</td>
<td>ZAR205</td>
<td>Up to 7 days</td>
<td>2.15</td>
<td>10–25</td>
<td>43.71–58.71</td>
<td>21.9–29.4</td>
</tr>
</tbody>
</table>

Note:
* Foreign exchange spread (discrepancy between interbank rate and exchange rate applied by a financial institution) for banks is a combination of South African bank’s forex spread for ZAR to USD conversion and Ugandan Forex Bureau’s average for USD to UGX conversion.
** MoneyGram and Western Union are not authorized foreign exchange dealers. Thus, they can only accept USD. A customer converts South African rand to United States dollars at the exchange rate offered by an agent of MoneyGram or Western Union. Forex conversions are from United States dollar to Ugandan shilling.
Sources: Authors’ research and calculation.
Box 2.3. FATF Recommendations

Issues covered by the AML Recommendations

Addressing the legal systems
- Scope of the criminal offence of money laundering (Recommendations 1 and 2)
- Provisional measures and confiscation (Recommendation 3)

Measures to be taken by financial institutions and non-financial businesses and professions
- Customer due diligence and recordkeeping (Recommendations 4, 5, 6, 7, 8, 9, 10, 11, and 12)
- Reporting of suspicious transactions and compliance (Recommendations 13, 14, 15, and 16)
- Other measures to deter money laundering and terrorist financing (Recommendations 17, 18, 19, and 20)
- Measures to be taken with respect to countries that do not or insufficiently comply with the FATF Recommendations (Recommendations 21 and 22)
- Regulation and supervision (Recommendations 23, 24, and 25)

Institutional and other necessary measures
- Competent authorities, their powers, and resources (Recommendations 26, 27, 28, 29, 30, 31, and 32)
- Transparency of legal persons and arrangements (Recommendations 33 and 34)
- International cooperation (Recommendation 35)
- Mutual legal assistance and extradition (Recommendations 36, 37, 38, and 39)
- Other forms of cooperation (Recommendation 40)

Issues covered by the nine special CFT Recommendations
- Ratification and implementation of United Nations instruments
- Criminalizing the financing of terrorism and associated money laundering
- Freezing and confiscating terrorist assets
- Reporting suspicious transactions related to terrorism
- International cooperation
- Alternative remittance
- Wire transfers
- Nonprofit organizations
- Cash couriers

Special Recommendation VI: Alternative Remittances

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil, or criminal sanctions.

Source: www.fatf-gafi.org
All three countries have AML/CFT laws and regulations that require RSPs to have internal AML/CFT control, including customer due diligence and recordkeeping, and to file suspicious transaction reports. The United Kingdom and the United States require MSBs to register while South Africa grants a license to banks and foreign exchange bureaus for foreign exchange transactions and money remittances. The United Kingdom and the United States set threshold amounts for obtaining and recording information of identification and transactions, so both documented and undocumented migrants have access to formal RSPs for remittance purposes. South Africa has stricter customer due diligence requirements for AML and foreign exchange control, which prevents undocumented workers from using formal RSPs. Opening a bank account in all three countries requires verification of identification. Thus, undocumented Ugandans are not able to open bank accounts or are afraid of establishing relationships with banks due to their illegal immigration status.

**Regulatory Framework: The United Kingdom**

**Institutions**

The United Kingdom Financial Services Authority (FSA) and Her Majesty’s Revenue and Customs (HMRC) regulate the remittance market. The FSA regulates financial service providers, including commercial banks providing money remittances, bureau de change services, check cashing, and other MSBs (UKRWG/DFID 2005). Licensing of banks is subject to both on-site and off-site verification for compliance with the banking code. However, the Financial Services and Markets Act 2000, which prescribes the FSA functions, does not cover money remittance businesses. Under the new Payment Services Regulations 2009, all money transfer companies come under the FSA. The HMRC is a regulator for MSBs for AML/CFT purposes. Figure 2.4 illustrates the United Kingdom remittance regulatory framework.

The Bank of England is concerned with the financial stability of the overall financial system. By monitoring and analyzing the behavior of participants in the financial system

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**Figure 2.4. United Kingdom Remittance Regulatory Framework**

<table>
<thead>
<tr>
<th>Regulator</th>
<th>UK banks</th>
<th>County specific banks</th>
<th>MSBs (Payment Institution)</th>
<th>MSBs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>FSA</td>
<td>HMRC</td>
</tr>
<tr>
<td>Money laundering</td>
<td>Money Laundering Regulations 2007</td>
<td>JMLSG Guidance Notes</td>
<td>HMRC Notice MSB2</td>
<td></td>
</tr>
<tr>
<td>FSA powers to gather information, investigate and prosecute breaches of the Money Laundering Regulations (except in Scotland)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumer protection</td>
<td>Payment Services Regulations 2009</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>Payment Services Regulations 2009</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: United Kingdom Remittance Working Group/DFID (2005) and authors’ revisions.*
and the wider financial and economic environment, the Bank of England aims to identify potential vulnerabilities and risks with a view to making the system stronger. The Bank of England’s role includes oversight of payment systems, a crucial part of the financial system that facilitates transactions between individuals, businesses, and financial institutions. Its focus is not on individual financial institutions. Individual financial institutions and exchanges are monitored and regulated by the FSA.

The United Kingdom Financial Intelligence Unit (UKFIU) is housed in the Serious Organized Crime Agency (SOCA) but operates independently. The UKFIU receives and analyzes suspicious activity reports and disseminates them to law enforcement agencies. All regulated entities under the Money Laundering Regulations are required to submit suspicious activity reports to UKFIU. The records reveal that 153 suspicious activity reports contributed to Operation OVERT, which led to the arrest of 24 people for suspected terrorist offences in August 2006 (DLA Piper 2007).

Legal Framework and Requirements
The Payment Services Regulations 2009 came into full force in November 2009 in order to implement the Payment Services Directive of the European Union. The Payment Services Regulations created a new class of firms authorized or registered to provide payment services called payment institutions (FSA 2009). When in operation, there will be two types of payment institution among money transfer companies: authorized payment institutions and registered payment institutions (also referred to as small payment institutions).

For money transfer companies, the new regulations require them to either obtain the authorization from the FSA as an authorized payment institution or to register with the FSA as a small payment institution. Money transfer companies, which are authorized as payment institutions, are allowed to operate in the European Economic Area without any other licenses from other countries (known as passporting). Small payment institutions can operate in the United Kingdom and send and receive remittances to and from other countries outside the country; however, they cannot operate in the European Economic Area under its registration. A qualification for becoming a small payment institution is that:

The monthly average of the total amount of payment transactions carried out by the applicant (including by agents on their behalf) over the preceding 12 months must not exceed €3 million (FSA 2009).

The following are among the requirements to have for being an authorized payment institution:

- Program of operations
- Business plan
- Initial capital (£20,000 for a money remitter)
- Safeguarding measures
- Governance arrangements, internal controls, risk management, and money laundering controls
- Structural organization
- Directors and persons responsible for payment services
- Honesty, integrity, and reputation
- Competence, capability, and experience
- Financial soundness
- Auditors and audit arrangements
- Location of offices
- Close links
- Money laundering registration (with HMRC)
The Money Laundering Regulations 2007, which replaced those of 2003, outline duties of reporting entities with regard to monitoring, reporting, and disclosure of information. The 2007 Regulations also introduce a risk-based approach. Regarding customer due diligence, RSPs are required to conduct know-your-customer measures when establishing business relationships, carrying out occasional transactions of €15,000 or more, suspecting money laundering and terrorism financing, and doubting the veracity or adequacy of documents, data, or information previously obtained for purposes of identification or verification. RSPs are also required to apply customer due diligence anytime on a risk-sensitive basis. For example, EU Payments Regulation 2007 requires that for all transactions over €1,000 (not made from an account), information must be verified on the basis of documents, data, or information obtained from a reliable and independent source. Under Money Laundering Regulations 2007, in order for a MSB to be registered, an applicant must satisfy a fit-and-proper test, which includes disclosure of past criminal records and bankruptcy.

In addition to the above legislation, Proceeds of Crime Act 2002 (Part 7) and the Terrorism Act 2000 (Section 21 A), as amended by the Anti-Terrorism and Crime and Security Act 2001, are used by HMRC for the purpose of confiscating/freezing of assets related to money laundering and terrorism financing activities.

MSBs, including money remitters, are also required to register with the HMRC for anti-money laundering purposes. The registration with the HMRC is separate from an authorization from or a registration with the FSA. The HMRC registration requirements for MTOs include certificate of incorporation as money transfer company, trading identification license, fixed business address, and payment of annual registration fees per premise. Other operational requirements include maintenance of records for revenue inspection, submission of returns for tax purposes (because operators do not submit regular returns), and notification on changes in registration particulars. Harmonization of payment systems within the European Union is expected to result in licensing of most of the unlicensed service providers, such as companies offering bill payment services under the Payment Services Directive. Both present and proposed payment systems are accommodative rather than restrictive, focusing on how to improve financial inclusion. Before the Payment Services Regulations, money transfer companies were required to register only with the HMRC.

RSPs must satisfactorily verify new customers’ identities under the Money Laundering Regulations 2007. Specifics on implementation of identification of customers are articulated in the HMRC-issued guidelines (Notice MLR8) and guidance by the Joint Money Laundering Steering Group (Table 2.7). The identification procedures of the 2007 Regulations apply when RSPs and customers form business relationships. Customers due diligence requirements, as set out by Money Laundering Regulations 2007, specify remittance service providers satisfy the following:

- Identify their customers and verify their identity
- Identify, where applicable, the beneficial owner involved in the business or transaction (when someone is acting on behalf of another person), or establish the ownership of corporate bodies or other entities and take risk-based and adequate measures to verify their identity
- Obtain information on the purpose and intended nature when a business relationship is being established (for example, information on the source of funds and purpose of transactions)

RSPs and other financial firms are obligated to obtain full name, residential address, and date of birth when collecting personal customer identification and verify against government-issued ID; however, the type of ID is, to some extent, flexible. Identification is typically issued by a government agency or courts. Nongovernment-issued documented evidence complementing identity should only be accepted if it originates from a public
sector body or another regulated financial services firm or is supplemented by knowledge that the firm has documented verification of the person or entity (JMLSG 2007).

The Joint Money Laundering Steering Group (JMLSG) has been producing AML/CFT Guidance for the financial sector since 1990. This was done initially in conjunction with the Bank of England and lately to provide regularly updated guidance on the various AML regulations in force. The JMLSG has periodically reviewed and updated its guidance. A major revision took place in December 2003 to reflect the implementation of the Proceeds of Crime Act 2002 and the Money Laundering Regulations 2003. The Treasury of the United Kingdom published Money Laundering Regulations in January 2007. The Treasury decided to repeal the Money Laundering Regulations 2003 and create a completely revised framework. This necessitated reordering the JMLSG Guidance to support the new regulations in the most logical way. In addition, guidance on compliance with the EU Wire Transfer Regulation was added to the revised regulations (JMLSG 2007). The purpose of the JMLSG Guidance is to:

- Outline the legal and regulatory framework for AML/CFT requirements and systems across the financial services sector
Interpret the requirements of the relevant law and regulations and how they may be implemented in practice
Indicate good industry practice in AML/CTF procedures through a proportionate, risk-based approach
Assist firms to design and implement the systems and controls necessary to mitigate the risks of the firm being used in connection with money laundering and/or the financing of terrorism

**Regulatory Framework: The United States**

**Institutions**
The Financial Crimes Enforcement Network (FinCEN) and applicable state regulators regulate MSBs. The United States Treasury Order Number 105–08 established FinCEN in April 1990. Its original mission was to provide a government-wide, multi-source intelligence and analytical network to support the detection, investigation, and prosecution of domestic and international money laundering and other financial crimes. In May 1994, its mission was broadened to include regulatory responsibilities. FinCEN uses counter–money laundering laws such as the Bank Secrecy Act (BSA) to require reporting and recordkeeping by banks and other financial institutions. A final rule issued in 1999 by the Secretary of the Treasury revised the regulatory definitions of certain non-bank financial institutions for purposes of the BSA and grouped the definitions into a separate category of financial institution called MSB. A business that meets one or more definitions of a type of MSB is considered a MSB and must comply with requirements of the BSA. There are six types of MSB under existing BSA regulations. Their products (services) include money order (issue, sell, and redeem); traveler’s checks (issue, sell, and redeem); money transmission; check cashing; currency exchange; currency dealing; and stored value (issue, sell, and redeem).

The United States bank regulations are highly fragmented and regulated at both the federal and state level. Deposit-taking institutions that are federally insured face multiple regulatory bodies. Depending on a banking organization’s charter type and organizational structure, it may be subject to numerous federal and state banking regulators. For banking institutions, Federal Reserve Board, Federal Deposit Insurance Corporations (FDIC), Office of the Comptroller of the Currency (OCC), and the Office of Thrift Supervision (OTS) are the primary federal regulators. Banks are also subject to the regulation and supervision of the state regulatory agencies.

**Legal Framework and Requirements**
There are two layers of regulations by the federal and state governments. The federal regulatory framework, which is anchored in the BSA and the USA PATRIOT Act, regulates money transfer businesses in the United States. The purpose of these acts is to prevent financial institutions from being used for money laundering purposes. Under these key acts for anti–money laundering, MSBs are required to register with the FinCEN and set up an AML/CFT program.

FinCEN has nine requirements for MSBs that focus on implementation of AML/CFT measures:
- Registration
- Submitting an agent list
- Filing SARs
- Establishing AML compliance program
- Filing currency transaction report
Maintaining monetary instrument log (maintaining information on sale of monetary instruments such as a money or traveler’s check in amounts of US$3,000 to US$10,000)

- Keeping Funds Transfer Rules (maintaining information for fund transfers, such as sending or receiving a payment order for a money transfer of US$3,000 or more, regardless of payment method)
- Maintaining currency exchange record (maintaining records for each exchange in excess of US$1,000)
- Record retention

MSBs are required to develop, implement, and maintain an effective AML/CFT program. The program should incorporate policies, procedures, and internal controls; designate a compliance officer; provide education and/or training of appropriate personnel concerning their responsibilities; and provide for independent review to monitor and maintain an adequate program.38

Figure 2.5. AML/BSA Framework in the United States

Note: All suspicious activity reports (SARs) and currency transaction reports (CTRs) are stored in a database housed in the IRS for historical reasons. At the time, when BSA regime was created, no authorities but the IRS has sufficient database and data-storing capacity.

**Acronyms:** United States Secret Service (USSS); Drug Enforcement Agency (DEA); Department of Homeland Security (DHS); Federal Bureau of Investigation (FBI); Internal Revenue Service (IRS); Commodity Futures Trading Commission (CFTC); Federal Deposit Insurance Corporation (FDIC); Federal Reserve Board (FRB); National Credit Union Administration (NCUA); Office of the Comptroller of the Currency (OCC); Office of Thrift Supervision (OTS); Securities and Exchange Commission (SEC); and WebCBRS (Web Currency and Banking Retrieval System).

**Source:** United States Government Accountability Office (2006).
The BSA established requirements for recordkeeping and reporting by private individuals, banks, and other financial institutions. The Act was designed to help identify the source, volume, and movement of currency and other monetary instruments transported or transmitted into or out of the United States or deposited in financial institutions. The statute sought to achieve that objective by requiring individuals, banks, and other financial institutions to file currency reports with the United States Treasury Department, properly identifying persons conducting transactions, and maintaining a paper trail by keeping appropriate records of financial transactions. The BSA provides the United States government with tools to fight drug trafficking, money laundering, and other crimes.

The Customer Identification Program Rule requires financial institutions to verify and record the identification of customers before concluding any transaction. The rule provides that a “customer” generally is “a person that opens a new account.” A bank is required to retain the identifying information obtained about the customer at the time of account opening for five years after the date the account is closed (FinCEN 2004). With regard to RSPs, banks are subject to the rules of the Customer Identification Program. MSBs are required to verify customer identity and record information about the transaction, including beneficiary information, if received, for funds transfers of more than US$2,000.

Under the BSA, financial institutions are required to file a SAR. The financial institutions (depository institution, MSBs, casinos and card clubs, securities and future industries, insurance companies, and mutual funds) are required to submit these reports to FinCEN. The SAR is important for identifying potential and actual illegal activities, detecting and preventing flows of illicit funds, and establishing emerging threats through analysis of patterns and trends. Banks are required to file SARs when suspicious transactions are conducted or attempted by, at, or through the bank and involve or aggregate at least $5,000. Certain MSBs (businesses that provide money transfers or currency dealing or exchange or businesses that issue, sell, or redeem money orders or traveler’s checks) must report suspicious activity involving any transaction or pattern of transactions of US$2,000 or above (US$5,000 or more for issuers reviewing clearance records) or more.

### Table 2.8. Status of BSA Regulations for RSPs

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Subject to BSA Rules?</th>
<th>Requirements</th>
<th>Must Have AML Program?</th>
<th>Must File SAR?</th>
<th>Must File CTR?</th>
<th>Must File 8300?</th>
<th>Must Have a CIP?</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSB</td>
<td>Yes</td>
<td>Title 31 CFR § § 103.11, 20, 22, 23, 24, 25, 27, 28, 29, 33, 37, 41, and 125</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Bank**</td>
<td>Yes</td>
<td>Title 31 CFR § § 103.11, 18, 22, 23, 24, 25, 26, 27, 28, 33, 120, 177, 181, and 183</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* IRS Form 8300, Report of Cash Payments over $10,000 Received in a Trade or Business.
** Depository financial institutions including commercial banks, savings and loan associations (or thrifts), and credit unions.

Financial institutions, including MSBs and casinos, are required to file currency transaction reports on transactions or series of transactions involving currency over US$10,000. Multiple transactions must be treated as a single transaction if the financial institution has knowledge that the transaction is by (or on behalf of) the same person and it results in either currency received (cash in) or currency disbursed (cash out) by the financial institution totaling more than US$10,000 during any one business day.

Most of the states have regulatory framework for MSBs. Although state regulators have made efforts to harmonize requirements, each state has its own requirements for a MSB license. A state license is intended to ensure safety and soundness of financial systems and protecting consumers. For such purposes, many states require MSBs to submit bonds and net worth/capital.

Regulatory Framework: South Africa

Institutions

The South African Reserve Bank administers the foreign exchange control regulations. The National Treasury (Ministry of Finance) grants licenses to these institutions. Currently, twenty-five banks and seven foreign exchange bureaus are authorized dealers of foreign exchange in South Africa.

The Financial Intelligence Centre was established as the national center of AML/CFT under the Financial Intelligence Centre Act 38 of 2001. Becoming operational in February 2003, the Financial Intelligence Centre includes amendments stating that the principle objective of the Financial Intelligence Centre is to assist in the identification of the proceeds of unlawful activities and the combating of money laundering activities. The other objectives of the Centre are to collect and make information available to investing authorities, supervisory bodies, the intelligence services, and the South African Revenue Service to facilitate the administration and enforcement of the law of the Republic and to exchange information with bodies with similar objectives in other countries regarding money laundering activities, the financing of terrorist and related activities, and similar activities.

Legal Framework and Requirement

Regulatory framework for the remittance market in South Africa is centered upon two main regulations: Foreign Exchange Control and AML/CFT. South African regulations only allow institutions with a banking license and foreign exchange reporting system to conduct remittance businesses. It is also important to note that, under the Postal Services Act 1998, the post office (post bank) can provide remittance services within and outside South Africa.

Under the Foreign Exchange Control Regulations, only authorized banks and foreign exchange bureaus can conduct foreign exchange and money transfer businesses. The control is to prevent the loss of foreign currency resources through the transfer abroad of real or financial assets held in South Africa. The Exchange Control Regulations of 1961 govern foreign exchange transactions including cross-border remittance transactions. However, there are no authorization (either registration or licensing) requirements for money transfer companies or persons who provide services domestically (FATF 2009).

Foreign exchange control has implications not only to RSPs, but also to users of remittance services. All residents and non-residents of South Africa are required to provide detailed information of transactions. The control only allows legal immigrants to have access to formal financial institutions for foreign exchange transactions. Thus, undocumented and illegal immigrants have to use informal channels for remitting
money. The government of South Africa is committed to gradual liberalization of foreign exchange control.

Immigration regulations also affect the migrant population and, therefore, their remittance habits in South Africa. The legality of the presence of a migrant in South Africa is an absolute and insurmountable requirement for that person to gain access to formal remittance products whether from an exchange control or from an AML perspective. The Immigration Act 13 of 2002 regulates immigration to South Africa. Acquiring citizenship or permanent residency in South Africa requires the individual to follow a time-consuming process, similar to that applicable in other countries Genesis Analytics (2005).


The Prevention of Organized Crime Act enables the following:

- Criminalizing racketeering and establishing offenses relating to activities of criminal gangs
- Criminalizing money laundering
- Obligating general reporting for businesses that come in possession of suspicious property
- Providing mechanisms for criminal confiscation of proceeds of crime and civil forfeiture of proceeds and instrumentalities of offenses

The Financial Intelligence Centre Act seeks to implement the FATF Recommendations and the recommendations of the Basel Committee on Banking Supervision. The Financial Intelligence Centre Act 2001 provides for establishing a financial intelligence unit, imposing duties on certain institutions to introduce AML/CFT measures, training employees, reporting suspicious transactions to the Financial Intelligence Centre, and retaining client information. The Regulations under the Financial Intelligence Centre Act 2001 supplement the Act with detailed definition and procedures.

South Africa’s AML/CFT regime was strengthened by the implementation of amendments to the Financial Intelligence Centre Act in 2008. In a 2003 evaluation, the FATF recommended that South Africa should give “appropriate and adequate responsibilities and powers to supervisory bodies to enforce the provisions of the Financial Intelligence Centre Act and that South Africa must amend sector-specific legislation granting authority to supervisors to enforce compliance with Financial Intelligence Centre Act provisions.”

The Financial Intelligence Centre Act amendments strengthened effectiveness by addressing the deficiencies in supervision of compliance with the Financial Intelligence Centre Act 2001.

Banks have an exemption from the know-your-customer requirements in low-risk transactions. However, the exemption does not apply to cross-border transactions. By developing a risk framework, banks are conditionally exempted from know-your-customer requirements for low-risk customers. For example, the four major South African banks and the post office launched the Mzansi account in October 2004 as part of an initiative to improve access to financial services for the poor in South Africa. The Mzansi account is used mainly by low-income population and is priced significantly lower than current bank offerings. It is intended to promote savings and make transacting easier. The account is considered a low-risk product. By mid-May 2005, more than a million Mzansi accounts were opened (Genesis Analytics 2005).
### Table 2.9. Salient Features in the Three Sender Countries on Remittance Markets and Regulatory Framework

<table>
<thead>
<tr>
<th>Migration/Remittance Senders</th>
<th>United Kingdom</th>
<th>United States</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Migration/Remittance Senders</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Migration Record</strong></td>
<td>Three generations</td>
<td>Three generations</td>
<td>Two generations</td>
</tr>
<tr>
<td></td>
<td>1970s: Political</td>
<td>1970s: Political</td>
<td>1990s and beyond: Mixed</td>
</tr>
<tr>
<td></td>
<td>1980s and beyond: Economic</td>
<td>1980s and beyond: Economic</td>
<td></td>
</tr>
<tr>
<td><strong>Number of Migrants</strong></td>
<td>70,000—100,000 (based on data from Uganda High Commission)</td>
<td>35,700 (based on United States Census and number of visas issued)</td>
<td>Less than 10,000 (based on interviews with High Commission and Ugandan association in South Africa)</td>
</tr>
<tr>
<td></td>
<td>55,213 (foreign-born population) (based on OECD: 2001 United Kingdom Census)</td>
<td>50,000 (based on literature review and Ugandans in Canada)</td>
<td></td>
</tr>
<tr>
<td><strong>Characteristics of Senders</strong></td>
<td>Documented</td>
<td>Documented</td>
<td>Documented</td>
</tr>
<tr>
<td></td>
<td>Varied characteristics</td>
<td>Send on average US$1,000 per month (US$650 per transaction)</td>
<td>Many who came before early 1990s have dual citizenship with South Africa and Uganda</td>
</tr>
<tr>
<td></td>
<td>Most send remittances monthly or quarterly</td>
<td>About 50% send remittances once a month</td>
<td>Undocumented</td>
</tr>
<tr>
<td></td>
<td>Higher amounts sent during festive seasons and school opening season</td>
<td>One-third send once in two weeks or more</td>
<td>Unknown number who began to come in the late 1990s</td>
</tr>
<tr>
<td></td>
<td>Undocumented</td>
<td>Use international MTOs and banks depending on remittance amount and fees</td>
<td>Some seem to have been smuggled into the country over land</td>
</tr>
<tr>
<td></td>
<td>Number of undocumented Ugandans could be as many as documented</td>
<td>Undocumented</td>
<td>Unknown transmission amounts</td>
</tr>
<tr>
<td></td>
<td>Engage in low-skilled jobs</td>
<td>Earn US$1,500–US$2,000 per month</td>
<td>A few ethnic-based groups</td>
</tr>
<tr>
<td></td>
<td>Earn less than £1,500 per month</td>
<td>Send US$500 per month</td>
<td>Mainly geography-based associations</td>
</tr>
<tr>
<td><strong>Ugandan Associations</strong></td>
<td>Mainly ethnicity-based associations</td>
<td>Mainly with UNAA with local chapters</td>
<td></td>
</tr>
<tr>
<td><strong>Remittance Flows</strong></td>
<td>Not significant</td>
<td>Not significant</td>
<td>Not significant</td>
</tr>
</tbody>
</table>

(Continued)
### Table 2.9. (Continued)

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>United States</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Uganda as Source of Remittance</strong></td>
<td>Highly significant source of remittances Estimated at US$127 million to US$296 million (19% to 45% of the total inflows)</td>
<td>Significant source of remittances Estimated at US$70 million to US$162 million (11% to 24% of the total inflows)</td>
</tr>
</tbody>
</table>

### Remittance Mechanisms and Service Providers

<table>
<thead>
<tr>
<th>Access to Financial Services</th>
<th>Documented migrants enjoy full access. Undocumented workers have access to certain formal financial services such as MTOs.</th>
<th>Documented migrants enjoy full access. Undocumented workers have access to certain formal financial services such as MTOs that allow remittance transfers without ID if under threshold.</th>
<th>Documented migrants enjoy full access Undocumented workers have no documentation, so they use informal RSPs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSPs</td>
<td>Banks International Ethnic-based MTOs Informal RSPs</td>
<td>Banks International MTOs: Western Union and MoneyGram Fewer informal RSPs</td>
<td>Banks International MTOs: MoneyGram and Western Union Authorized forex dealers (some are subsidiaries of commercial banks) Post Bank (postal services) Informal (friends and family)</td>
</tr>
</tbody>
</table>

### Remittance Amounts and Costs

<table>
<thead>
<tr>
<th>Average Monthly Principal Amount Remitted to Uganda</th>
<th>US$605</th>
<th>US$400–US$600</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of Remittances</td>
<td>Comparatively high (ranges from 6.0% to 16.8% of the principal amount)</td>
<td>Comparatively low (ranges from 3.5% to 17.4% of the principal amount)</td>
<td>Comparatively high (ranges from 16.2% to 33.9% of the principal amount on average)</td>
</tr>
</tbody>
</table>

### Regulatory Framework

<table>
<thead>
<tr>
<th>Customer Due</th>
<th>Opening bank account</th>
<th>Opening bank account</th>
<th>Opening bank account and sending remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Diligence or ID Requirements</strong></td>
<td>Customer’s full name and photograph, and</td>
<td>State-issued ID, passport, alien ID card, other official document evidencing nationality or residence</td>
<td>Full names (national/foreign)</td>
</tr>
<tr>
<td></td>
<td>Either residential address, or</td>
<td>Address</td>
<td>Date of birth (national/foreign)</td>
</tr>
<tr>
<td></td>
<td>Date of birth</td>
<td>Social security number (or tax identification number)</td>
<td>ID number (national)</td>
</tr>
<tr>
<td></td>
<td>Verification of employment (for foreigners applied by banks)</td>
<td>Eighteen or older (applied by banks)</td>
<td>Passport number (foreign)</td>
</tr>
<tr>
<td>Sending remittances</td>
<td>United States address (applied by banks)</td>
<td>Nationality (foreign)</td>
<td>Tax registration number (national)</td>
</tr>
<tr>
<td></td>
<td>Verification of ID above threshold</td>
<td>Residential address (national/foreign)</td>
<td>South African income tax registration number (foreign)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sending Remittances</th>
<th>Verification of ID for funds transfer of more than US$3,000</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>AML/CFT Measures</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>AML/CFT Framework</th>
<th>Financial Intelligence Unit (Serious Organized Crime Agency)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Money Laundering Regulations 2007 introduces a risk-based approach. Businesses are required to identify risk factors and apply proper measures based on risks. MSBs are required to satisfy a fit-and-proper test to register with the authority.</td>
</tr>
<tr>
<td></td>
<td>Financial Crimes Enforcement Network</td>
</tr>
<tr>
<td></td>
<td>Customer identity program rule requires verification of and recording of consumers identity before conclusion of transaction.</td>
</tr>
<tr>
<td></td>
<td>Suspicious transaction report filed by financial institutions and some MSBs, including money remitters and postal services</td>
</tr>
<tr>
<td></td>
<td>Suspicious transaction report threshold: US$5,000 for banks and US$2,000 for MTOs</td>
</tr>
<tr>
<td></td>
<td>Currency transaction report threshold: US$10,000</td>
</tr>
<tr>
<td></td>
<td>Recordkeeping for five years</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Intelligence Centre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed information on foreign exchange transactions</td>
</tr>
<tr>
<td>Several institutions responsible</td>
</tr>
<tr>
<td>Suspicious transactions and terrorist reports</td>
</tr>
<tr>
<td>Recordkeeping for at least five years</td>
</tr>
</tbody>
</table>
Notes

1 In all three countries, reliable data are not readily available to assess the size of the complete migrant population.

2 In the 2001 United Kingdom Census data, Ugandans of Indian origin are counted as Indians (approximately thirty thousand).

3 Idi Amin’s Nationalist government ordered the persecution of several Ugandan tribal groups and expelled all Asian Ugandans out of Uganda (From CNN report, August 18, 2003).

4 Interview with a Ugandan association.


6 Former United States Ambassador to Uganda Jimmy Kolker observed in an address at a 2004 UNAA convention that, “[T]he remittances from Ugandans overseas are, by far, the largest source of Uganda’s foreign exchange earnings. The money that you send to your families, to your villages, and to the orphans, churches, schools and charities that you’re supporting is the single largest benefit to Uganda from the world economy.” He further pointed out that “[A] recent informal survey ... of successful visa applicants showed that 13 percent had not returned to Uganda as our law requires.”

7 Census data (11,740) plus estimated migrant population (24,000).

8 2000 United States Census.

9 Adepoju (2004) and BRCA team interview with the Ugandan High Commission in South Africa.

10 In 1951, the Bantu Authorities Act established a basis for ethnic government in African reserves, known as Homelands. The Homelands were created by the South African Apartheid regime to establish an independent state for the black population.

11 BRCA team interviews with Ugandan migrants who arrived in South Africa in the 1980s.

12 Interview with a Ugandan Association in Eastern Cape.

13 Perceptions revealed during interviews with the Ugandan communities as well as authorities.

14 Authors’ interview with the Ugandan High Commissioner in Pretoria, South Africa.

15 Some ethnic MTOs are formal and registered with Her Majesty’s Revenue and Customs. They form the Ugandan Remitters Association. Ugandan ethnic-based MTOs have organized themselves into a similar organization, the Uganda Money Remitters Association UK Ltd. The association was incorporated in 2005 under the Companies Act 1985.

16 BRCA team interviews with shops and passersby in Kampala.


18 BRCA team interview with a UNAA member in Washington, D.C.


20 In July 2006, MoneyGram had 326 outlets (258 with Standard Bank and 68 with Rennies).

21 MoneyGram South Africa.


23 Commissions account for approximately 40 percent of fees charged at the counter, while telegraphic transfer fees account for about 60 percent.

24 FATF Special Recommendation VI.

25 For more information, access www.fatf-gafi.org.

26 The Payment Services Directive fosters a single market in retail payment services across the European Economic Area by removing barriers to entry.

27 Payment institutions must implement one of the following two measures: (a) segregate the funds received for payment services from others and, when held at the end of the business day on which they were received, place them in an account with an authorized credit institution or in assets held by an authorized custodian and (b) arrange for the funds received for payment services to be covered by an insurance policy or by a comparable guarantee from a United Kingdom or European Economic Area authorized insurer, bank, or building society (FSA 2009).

28 Close links are defined as a parent undertaking of the applicant, a subsidiary undertaking of the applicant, a parent undertaking of a subsidiary of the applicant, and a subsidiary undertaking of a parent undertaking of the applicant (FSA 2009, paragraphs 3.71–3.74).

29 A business relationship is defined in the Money Laundering Regulations as a business, professional, or commercial relationship between a firm and customer, which is expected by the firm when contact is established to have an element of duration. A relationship need not involve the firm in an actual transaction. Giving advice may often constitute establishing a business relationship (JMLSG 2007).

30 For details, see www.hmrc.gov.uk/mlr/guides.htm.
31 The Payment Services Directive ensure that payments within the EU—in particular credit transfers, direct debit, and card payments—are made more easy, efficient, and secure as domestic payments within a member state by providing the legal foundation to make the Single Euro Payments Area possible. For details, see www.hm-treasury.gov.uk.


33 For more on FinCEN, go to www.fincen.gov.

34 Money orders, traveler checks, money transmission, check cashing, currency exchange, currency dealing and store value.

35 For more information, see www.msb.gov.

36 The Title III of the US PATRIOT ACT was a comprehensive enhancement to the Bank Secrecy Act. At state level, the principal rationale inspiring the state laws is consumer protection.

37 An AML program must be in writing and, at minimum, include (a) development of internal policies procedures, and controls, (b) designation of a compliance officer, (c) ongoing employee training program, and (d) independent audit function to test programs (US PATRIOT ACT and FinCEN).


39 Federal Deposit Insurance Corporation (FDIC).

40 Code of Federal Regulations, Title 31 103.28, Identification Required.

41 A suspicious activity is any conducted or attempted transaction or pattern of transactions that a person knows, suspects, or has reason to suspect meets any of the following conditions: (a) involves money from criminal activity, (b) is designed to evade BSA requirements, whether through structuring or other means, (c) appears to serve no business or other legal purpose and for which available facts provide no reasonable explanation, and (d) involves use of the money services business to facilitate criminal activity  See A Quick Reference Guide for Money Services Businesses (FinCEN).

42 CFR, Title 31, 103.18, Reports by Banks of Suspicious Transactions.


45 Section 3, FICA Amendments

46 Ibid.

47 Consultation Document: Proposed Amendments to the Financial Intelligence Center Act, 2001 (Financial Intelligence Center, 2006).

48 Exemption 17 (amended) is applicable to only low-risk transfers in South Africa and rand.

49 The four banks are Absa, FNB, Standard, and Nedcor.
CHAPTER 3

Analysis of Uganda as a Remittance-Receiving Country

This chapter focuses on Uganda as a remittance-receiving country in terms of remittance flows, market structure, distribution networks, access and use of remittances, regulatory framework, and AML/CFT measures pertaining to the remittance market.

Since 2003, recorded remittances have been increasing at a growing rate. The significance of remittances relative to its GDP and other economic indicators is also advancing. The regulatory reforms undertaken to regulate foreign exchange bureaus as a remittance service company resulted in more remittances being reported to the Central Bank.

Remittance Flows

In 2008, remittances to Uganda were US$723.52 million in balance of payments, equivalent to about 5 percent of GDP. Balance of payment estimates of remittances for 2000 to 2008 averaged US$386.1 million per annum. Between 1996 and 2000, remittance inflows averaged US$175.4. Figure 3.1 show remittance inflows to Uganda from 1996 to 2008. The increase in remittance flows may be partially attributed to the gradual liberalization of the foreign

Figure 3.1. Remittance Inflows to Uganda, 1996–2008

exchange market that culminated in full liberalization of the capital account in 1997. With liberalization, foreign exchange bureaus joined the market at the retail end, thus enhancing competition in the market. The increase may also be explained by weakened Ugandan shillings against international currencies as well as strong British pounds, which is the largest inflow currency.

The BOU has made an effort to improve a method of estimating remittances. Until 2006, official data on worker remittances is generated as a residual item in the balance of payments account in the BOU. However, the revised method includes estimation based on household survey data on remittances. In 2006, remittance inflows to Uganda were estimated at US$884.9 million. However, it was later revised to US$411.0 million. The BOU and the Uganda Bureau of Statistics continue to periodically conduct household surveys to measure remittances. The next household survey will be undertaken in 2010.

Estimation of the market share of any of the remittance corridors or country is not possible using the balance of payment data or the market players. Attempts to obtain data on remittances through the MTOs have been made; however, banks cited lack of appropriate software to perform such disaggregation and other difficulties for not being able to segregate remittances by country. Recently, the BOU began to collect transaction data from local MTOs in Uganda, which enable the BOU to understand market share among MTOs. Market players reveal that most inflows originate from the United Kingdom, other European countries, and the United States. In addition to these countries, remittances come from Kenya, Japan, Middle East countries, and South Africa (UBOS 2006). Banks underline the difficulties in isolating inward workers' remittances, suggesting it may be easier to do so at the point of origination. The problem is compounded by lack of appropriate mechanisms to facilitate the desired level of disaggregation.

Figure 3.2 illustrates the remittance-originating countries based on responses to the UBOS pilot household survey; however, the percentage share is strictly based on the number of responses received and hence represents indicative market shares only. The BRCA team did not find any bilateral agreements on remittances and migrations in the three bilateral corridors covered in this report. Some studies suggest that such agreements

---

**Figure 3.2. Remittance-Originating Countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>3%</td>
</tr>
<tr>
<td>India</td>
<td>3%</td>
</tr>
<tr>
<td>Australia</td>
<td>4%</td>
</tr>
<tr>
<td>South Africa</td>
<td>5%</td>
</tr>
<tr>
<td>Middle East</td>
<td>12%</td>
</tr>
<tr>
<td>U. S. A.</td>
<td>13%</td>
</tr>
<tr>
<td>Europe (excl. UK)</td>
<td>14%</td>
</tr>
<tr>
<td>Kenya</td>
<td>18%</td>
</tr>
<tr>
<td>U. K.</td>
<td>23%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: This above figure is based on the number of responses to the household survey. Therefore, the percentages do not represent the volume of remittance inflows from respective countries. 
could greatly benefit migrant workers, especially the temporary workers, and could reduce illegal migrations. Other studies argue that this would lead to loss of productivity for the country from where the migrants come.

**Remittance Market**

Table 3.1 at the end of this section on the remittance market in Uganda gives a summary of the salient features of the incoming remittance services by type of institutions in the country.

Local MTOs dominate the United Kingdom–Uganda corridor while banks and international MTOs are more popular in the United States–Uganda and South Africa–Uganda corridors. Although there are international RSPs interested in entering the Ugandan remittance markets, due to exclusivity contracts signed with the dominant international MTOs, it is difficult for these providers to find a local agent with a wide distribution network. This is a phenomenon happening in other countries as well. (Annex D describes the Mexican experience.) In the United Kingdom–Uganda corridor, due to the networks buildup based on ethnicity, local MTOs account for almost 80 percent of the business. Comparatively, local MTOs have a smaller market share in the distribution of remittances in the other corridors, which are served mainly by international MTOs and banks. A large portion of inward remittances originating in the United States is channeled through banks and international MTOs.

Following the enactment of the Foreign Exchange Act 2004, local money transfer companies were able to engage in money remittance. Prior to this enactment, money exchangers operated as RSPs outside the provisions of their license, especially for remittances originating from the United Kingdom. With the revised law in place, some of these money exchangers became licensed and started legal money remittance services. At the same time, many remain operating informally without a money transmission license. This may be due to the regulatory obstacles and costs involved in licensing faced by forex bureaus and newcomers with small capital bases. Some of the general merchandise shops and travel agencies also keep offering informal remittance services. Friends and relatives are another channel of money transmission. Interviews with both senders and service providers revealed that hand-carrying is common along all corridors. Remittance transaction without a license is prohibited under the law.

Utilizing ethnic and cultural backgrounds advantageously, United Kingdom–based ethnic money transfer operators and local operators in Uganda have developed an effective remittance network in the United Kingdom–Uganda corridor. The network provides competitive services to the Ugandan community. This type of remittance business has thrived, and, as a result, the local MTO market share in the corridor has rapidly expanded.

Commercial banks also play an important role with their network and correspondent relationships with international banks. Remittances from the United States, South Africa, and other European countries are mainly channeled through commercial banks or international MTOs. All fifteen commercial banks in Uganda provide services of incoming remittances.

There are barriers to entry in the form of exclusivity contracts signed by existing international MTOs, so newcomers find it difficult to find a local partner. This is a phenomenon repeated in other countries as well. Example below illustrates one such instance when even banking giants are faced with such situations as when Citicorp learned this lesson in Mexico.

It's not easy to break into the business, as Citigroup well knows. Back in 1986, Citicorp invested $10 million to launch its own stand-alone money transfer business. The game plan was simple: The bank would undercut the competition by 20%. By March of 1998, Citicorp had scrapped the plan because Western Union had snared exclusive contracts with most of the huge network of independent outlets that collect and pay out the
Table 3.1. Incoming Remittance Services by Type of Institutions in Uganda

<table>
<thead>
<tr>
<th>RSP</th>
<th>Transfer Method</th>
<th>Rate</th>
<th>Mode of Payment</th>
<th>Level of Documentation</th>
<th>Data Disaggregation</th>
<th>Distribution Network</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial banks</td>
<td>Technical transfer (SWIFT)*</td>
<td>US$10 to US$25 per transfer US$5 by Barclays for transactions in British pounds</td>
<td>Cash</td>
<td>Deposit on account Electronic withdrawal</td>
<td>High Internal AML policies Know-your-customer principles</td>
<td>Not adequate but possible with appropriate mechanisms</td>
</tr>
<tr>
<td>MoneyGram</td>
<td>Telegraphic transfer</td>
<td>Paid at source and none in Uganda</td>
<td>Cash</td>
<td>Internal checks Identification</td>
<td>Possible but not disclosed because of internal policy</td>
<td>Over 100 outlets in total Anticipated expansion of Stanbic to over 60 branches</td>
</tr>
<tr>
<td>Western Union</td>
<td>Telegraphic transfer</td>
<td>Paid at source and none in Uganda</td>
<td>Cash</td>
<td>Internal checks * Identification</td>
<td>Possible but not disclosed because of internal policy</td>
<td></td>
</tr>
<tr>
<td>Posta Uganda</td>
<td>International money order (only to and from East Africa)</td>
<td>N/A</td>
<td>Cash</td>
<td>Minimal Formal identification</td>
<td>Possible</td>
<td></td>
</tr>
<tr>
<td>Local MTOs</td>
<td>Bulk transfer Value transfer</td>
<td>Included in foreign exchange rate</td>
<td>Cash</td>
<td>Deposit on account BOU official receipts</td>
<td>Possible if accurately compiled</td>
<td>Centered in Kampala Friends/relatives do actual distribution</td>
</tr>
<tr>
<td>Unregistered operators</td>
<td>Informal money order</td>
<td>Paid at source</td>
<td>Cash</td>
<td>Low Password Reference number Formal ID in some cases</td>
<td>Possible with appropriate software</td>
<td>272 post offices Mostly local remittances Presence all over the country Post cash interstate service available at Kampala General Post Office and Jinja, Masaka, Mbole, and Mbara Regional Post Offices</td>
</tr>
<tr>
<td>Courier services</td>
<td>Letter/parcel</td>
<td>Paid at source For outgoing transfers, charges per letter or parcel (UGX7,000 to UGX12,000)</td>
<td>Cash</td>
<td>Formal receipt</td>
<td>Not possible</td>
<td>Regional Mainly urban centers Dependent on road network</td>
</tr>
</tbody>
</table>

* Society for Worldwide Interbank Financial Telecommunication (SWIFT)
money it transfers. Now, Western Union controls three-quarters of the worldwide market . . . Hard to believe, but the industry was once even more concentrated. Western Union’s parent, First Data Corp., bought MoneyGram from American Express Co. in 1995, but was forced by antitrust regulators to divest the business . . . [T]he two leading players are so far ahead that any competitor will have to invest big to catch up. Western Union has 101,000 agents worldwide, MoneyGram 37,000. In the U.S., the two have signed up everyone from check-cashers to grocery stores to Kmart and 7-Elevens. Outside the country, local law often requires them to have a relationship with a bank (BusinessWeek 1961).

Few financial products related to remittances have been developed. Some banks have begun to offer new products for Ugandan Diaspora and remittance recipients. New products such as the Orient Bank’s foreign exchange accounts provide opportunities for attracting remittances into the formal system as well as enhance data quality (Box 3.1). Only a few banks have come up with new products. Some informal service providers offer a wide range of other services, such as payment of school fees and family and project maintenance. With such arrangements, senders do not have to worry about safety of their remittances.4

Several microfinance deposit-taking institutions distribute remittances in agency partnerships with international MTOs. Microfinance deposit-taking institutions serve as agents of international MTOs for distributing remittances. For example, FINCA Uganda is a Western Union agent and distributes remittances. However, their operational limitation is that microfinance deposit-taking institutions do not cross-sell or link remittances with their products. Uganda’s Microfinance Deposit-Taking Institution Act 2003 prohibits these institutions from taking deposits in foreign exchange.5

**Distribution Network, Access, and Usage of Remittance**

In Uganda, cash is the main payment instrument. Checks are a distant second. About five thousand checks per day are cleared through the National Payment Systems Department at the BOU. The same number was cleared in 1970.6 Not many people have bank accounts, understandable in a country without an established banking culture. Bank accounts lack favor because of high maintenance cost and lack of banking facilities. This has prompted preference for placing value in fixed assets. In an effort to change this culture, it would be important to improve the use of banking facilities by development of newer instruments, reforms aimed at cost reduction, increased availability, and efficiency. This shift must restore faith among Ugandans in the banking system.

Ugandan authorities have initiated action to develop the country’s payment system by formulating councils, committees, and teams to execute a National Payment System

<table>
<thead>
<tr>
<th>Box 3.1. Orient Bank’s Foreign Exchange Accounts</th>
</tr>
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<tbody>
<tr>
<td>Orient Bank’s two types of United States dollar savings accounts are directly linked to remittances and restricted to individuals. One account features a minimum balance of US$1,000 and interest rate of 2 percent; the other account features a minimum balance of US$3,000 and interest rate of 3 percent. The product allows one free withdrawal per month; extra withdrawals will have a surcharge of US$5 per transaction. The advantages of these accounts are that customers both in Uganda and the Diaspora can save in United States dollars with good returns and mitigate the exchange risk. Ugandans can keep their savings in Uganda, get free banking services, and earn interest. Although requirements for opening and maintaining these accounts seem high, this type of product is worth noting.</td>
</tr>
</tbody>
</table>

*Source: Orient Bank.*
Box 3.2. Institutional Framework for Payment System Development

The institutional framework of the National Payment System project includes the following:

**National Payment System Council (NPSC).** Drawn from different payment system stakeholders, NPSC is the highest policymaking body on all matters pertaining to Uganda's payment system reform and development. The NPSC is chaired by the governor with the deputy governor as vice chairman.

**National Strategy Team (NST).** The NST is the technical arm of the NPSC. Its membership is drawn from stakeholders. The NST is split into three constituent committees: operations, technology and standards, and legal and regulatory.

**Payment System Policy Committee (PSPC).** The PSPC is a BOU internal committee that is charged with overseeing and tendering advice on matters related to payment system activities. Like the NPSC, the PSPC is chaired by the governor with the deputy governor as vice chairman.

**National Payment System Secretariat (NPSS).** The NPSS is responsible for administration of the National Payment System project activities. It also serves as secretary during the NPSC, PSPC, and NST meetings. The NPSS also works closely with Uganda Bankers' Association on matters related to payment system development.

**Regional and international institutions.** With a view to developing a payment system that is in consonance with international standards and a facilitator of regional economic integration, the NPSS has liaised and coordinated with a number of regional and international bodies: East African Payment System Harmonization Committee (subcommittee of the Monetary Affairs Committee of the East African Community), International Standards Organization, Bank for International Settlements, German Technical and Development Agencies (GTZ and KFW), and Association of Payment and Clearing Services of the United Kingdom.

Source: Bank of Uganda.

(Box 3.2). Uganda is taking steps to improve remittance services through development of payment systems and other services. The financial sector is exploring ways of increasing usage of an electronic payments system for utilities and school fees, which are being paid now by the direct debit system. The 230 ATMs spread across the country allow for network withdrawals, pre-payment for utilities, loading airtime, and credit card authorization, although there is lack of interoperability between the two switches that are used by tier one and tier two banks (USAID 2006). Some banks (Standard Chartered, Crane, and Orient) also have point-of-sale terminals at selected supermarkets, hotels, and petrol stations. One bank uses the electronic pass (smart) card. Box 3.3 highlights some of the ongoing payment system projects in Uganda.

**Mobile Phone Services in Remittances**

According to the UBOS household survey 2005/2006, banking facilities are not available in some communities. Over 86 percent (nearly 23.4 million) of the population live in rural areas (Genesis Analytics 2006). Only 4 percent of the communities reported presence of microcredit institutions in their communities. Post offices are available in only 1 percent of the communities. There is a lack of geographical coverage by banks across the country, especially in rural areas.

Mobile phones could provide a solution for remittance distribution and later bridge the poor and financial services in rural areas in Uganda. The number of mobile phone subscribers surpassed that of fixed landline in 1999 and reached 8.5 million in December 2008 (Figure 3.3). According to the Uganda Communications Commission, the penetration of mobile subscriptions was 29.47 percent in December 2008. The growth rate of mobile
Box 3.3. Ongoing Payment System Projects in Uganda

**Electronic clearing data transmission.** To further improve efficiency in retail electronic clearing, the BOU is currently working with commercial banks to introduce electronic transmission of clearing data to the clearinghouse.

**Payment system legal review.** In 2002, BOU engaged a team of consultants to develop legal and regulatory framework that can support the operations of a modern payment system. The team recommended amendments to the Law of Evidence and Bills of Exchange. An enabling National Payment System Law, which would confer payment system oversight powers to the Central Bank, will be enacted. A policy paper is currently under review as a rationale for the proposed draft laws before being submitted to the Minister of Finance for consideration and subsequent presentation to Parliament.

**Expansion of electronic clearing to the whole country.** The BOU is working with the commercial banks to expand electronic check clearing to cover the whole country. With the centralized electronic clearing system that was adopted in Uganda, expansion of electronic clearing to the whole country should lead to a uniform three-day clearing cycle. This is expected to further promote the use of non-cash instruments as customers will be able to receive money in a relatively short time.

**Glink.** This is a facility for handling intra-day, real-time gross settlement payments affecting the BOU accounts. It is an interface between the Uganda National Interbank Settlement (UNIS) and the BOU General Ledger. Any real-time gross settlement transactions affecting BOU accounts will be automatically posted to the General Ledger from the UNIS System.

**Perago pay.** This is a project to link government payments and receipts to the UNIS system.

*Source: Bank of Uganda.*

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Figure 3.3. Growth of Subscribers of Mobile Cellular Phones and Fixed Phone Lines, 1996–2008

*Source: Uganda Communications Commission.*
phone subscribers between December 2006 and December 2008 was 217 percent, and continuous growth is expected. Mobile phones for remittance distributions could also reduce risks of carrying cash and fraud by couriers. However, infrastructure problems are yet to be solved in order to expand this service across the country. Infrastructure solutions may come from private providers. Recently, Uganda Electricity Transmission Company has applied to the Uganda Communications Commission for a public infrastructure provider license to establish, operate, and maintain infrastructure for the provision of communication services.

Originally, there were three mobile phone service providers in Uganda: MTN Uganda (with 63 percent market share), Uganda Telecom (with 20 percent market share), and Celtel Uganda (with 17 percent market share). In April 2007, a new mobile phone operator, House for International Technology and Systems (HITS), received a license that allows the company to provide telecommunication services, including data and voice (East African 2007). Warid Telecom also commenced operations in January 2008. Mobile phone subscriptions are expected to grow robustly in coming years in Africa. In many developing countries, including Uganda, low-income customers are already familiar with mobile phones and keep the phones always on. Mobile phone operators know how to handle cash transactions for customers through selling airtime (CGAP 2006).

Infrastructure solutions for communication may also come from private developers. Uganda Electricity Transmission Company has applied to the Uganda Communications Commission for a public infrastructure provider license. If granted, the license will enable the electricity transmission company to make available the fiber optics for commercial use by telecommunications companies and ISPs. Already, providers in the telephony and data service sectors in Uganda have approached Uganda Electricity Transmission Company to discuss capacity-carrying possibilities (Kisambira 2008).

Recently, MTN Uganda introduced MTN Mobile Money, a money transfer service through its mobile phones for up to UGX1,000,000 per day. Tariffs are as low as UGX800 for transfers to mobile money registered users. This service allows users to send money to any mobile phone users within Uganda. Global experience from the Philippines, Kenya, and other remittance-recipient countries shows that mobile phones can be successful in remittance distribution. Although the service does not allow users to receive international remittances, it could address a lack of financial service coverage in remote areas.

Simba Cash by Simba Telecom is an example of domestic money transfer service using a network of the telecom’s retail outlet. Simba Telecom, in association with USAID Rural Savings Promotion and Enhancement of Enterprises Development Program, launched a local money transfer service. The service targets rural poor who do not have bank accounts. Simba Cash is an instant money transfer service that operates under the Simba Forex Bureau. This service uses Simba Telecom’s large retail outlet to provide convenient and instant money transfer services around the country. In transferring money, a sender deposits cash at one of Simba Telecom’s sixty outlets and notifies the recipient. The recipient goes to his nearest Simba Telecom outlet, presents the password and identification, and receives the cash. The service is available across Uganda and the fee is about 4 percent of the transferred amount. Although Simba Forex Bureau is a licensed foreign exchange bureau, this service might raise concerns of money laundering because a large volume of money transfers over UGX10,000,000 can be sent and there is no AML law.

Use of Remittance Funds

The main uses of remittances are consumption and investment in education, health, and other forms of human capital. The 2006 national household survey showed that most recipients (51.7 percent) use the money for purchase of consumption goods and services,
Table 3.2. Recipients by Purpose and Origination of Remittances (%)

<table>
<thead>
<tr>
<th>Main Purpose of Remittances</th>
<th>Origination of Remittances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
</tr>
<tr>
<td>Purchase consumption goods and services</td>
<td>63.4</td>
</tr>
<tr>
<td>Pay for education expenses</td>
<td>13.6</td>
</tr>
<tr>
<td>Pay for health expenses</td>
<td>6.6</td>
</tr>
<tr>
<td>Working capital for non-farm enterprises</td>
<td>0.9</td>
</tr>
<tr>
<td>Purchase building materials</td>
<td>0.5</td>
</tr>
<tr>
<td>Buy land</td>
<td>0.1</td>
</tr>
<tr>
<td>Buy farm inputs, tools and implements</td>
<td>0.6</td>
</tr>
<tr>
<td>Pay for ceremonial expenses</td>
<td>1.1</td>
</tr>
<tr>
<td>Other</td>
<td>13.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


followed by payments for education (26.1 percent). Sander and Maimbo (2003) also observed this tendency in their study. Table 3.2 gives usage patterns in terms of their origination.

Remittances are important sources to pay for school fees and, as such, continuation of education. In an economy with a GDP per capita of US$280, costs of schooling, excluding day primary school, are relatively high. Average cost of primary-level boarding school is as high as gross national product (GNP) per capita while cost for secondary-level boarding school is higher than per capita GNP. Annex B provides further details on the use of remittance funds on education.

Ugandan migrants send money for investment and other business purposes; however, remittances do not seem to have contributed to the development of housing finance in Uganda through financial intermediaries or related products. One-fifth of the respondents in the United States indicated sending money home for investment and business projects, including construction. With a growth rate of 13 percent, the construction sector is one of the fastest growing in the Ugandan economy. Liberalization of the housing sector has seen the emergence of commercially operated property management firms, assured property rights, and enforceable contracts resulting in improvements to accessibility and affordability. Key players include the National Housing Construction Corporation, the National Social Security Fund, Housing Finance Company, DFCU Bank, and private property developers. However, remittances do not seem to have contributed to the development of housing finance in Uganda. Anecdotal information shows that remittances are used to obtain and build houses in Uganda without being channeled through financial intermediaries. One key reason is that banks and mortgage companies do not recognize remittances as regular source of income when assessing the repayment capacities. Annex C has further details on the housing market in Uganda.

**Remittance Costs**

The cost of disbursing remittances channeled through banks to a beneficiary is very high compared to other RSPs. (See rate comparison in Table 3.1.) Many commercial banks charge US$10 to US$25 for incoming remittances, in addition to fees paid by senders. One of the advantages that commercial banks offer is a foreign exchange account that a remittance beneficiary can maintain in hard currency. However, maintenance charges are higher for
such accounts when compared to local currency accounts. In its effort to satisfy the know-
your-customer measure, a bank may require a beneficiary to open an account for remittance
receipts if it is more than US$100.

Furthermore, the cost of maintenance and operation of a local currency bank account is high in Uganda. Table 3.3 gives comparative cost structure in the Africa Region in terms of bank affordability. It is evident that Uganda has high bank intermediation costs. This would inhibit the people from using banking facilities for their needs.

### Regualtory Framework

Full liberalization of the capital account was implemented in Uganda in 1997. Both residents and non-residents are free to bring in and take out foreign exchange, maintain foreign exchange accounts with local or overseas commercial banks, and hold foreign exchange–denominated instruments without restrictions. Liberalization and operation of a free exchange rate regime resulted in the gradual unification of the inter-bank and foreign exchange bureaus exchange rates and narrowing of the spread between buying and selling exchange rates. Although it may not be possible to determine the size of the informal market in foreign exchange, it is evident that liberalization attracted and increased the number of players in the formal sector.

Commercial banks and MTOs who are licensed by the Central Bank can conduct money transfer businesses. The Financial Institution Act 2004, the Foreign Exchange Act 2004, and the Foreign Exchange Regulations 2006 regulate money transfer businesses. The Financial Institution Act regulates remittance businesses by commercial banks. The Foreign Exchange Regulations does not apply to banks licensed under the Financial Institutions Act. Banks offer remittance services through correspondents and, in some cases, have relationships with international MTOs.
The Foreign Exchange Act 2004 and the Foreign Exchange Regulations 2006 offer a new legal framework for licensing and supervising forex bureaus and money remitters. The new legislation, which amended and consolidated the previous law relating to foreign exchange business in Uganda, provides for dealing in foreign currencies, making international payments, and other related and incidental matters. The Act and Regulations require forex bureaus and international money remittance businesses to obtain authorization from the BOU before engaging in money remittance operations.\footnote{The Foreign Exchange Act 2004 and the Foreign Exchange Regulations 2006 provide for a tier system. Class A, B, C, or D of money transfer services allow licensees to offer specified foreign exchange services applicable to the approved range. Table 3.4 summarizes the requirements for each of the five tiers under the Foreign Exchange Regulations. By December 31, 2006, the BOU had licensed twenty-nine institutions to engage in money remittance.\footnote{Licensed institutions were forex bureaus that had been appointed earlier as agents or subagents of Western Union.}

The Foreign Exchange Regulations 2006 provide for a tier system. Class A, B, C, or D of money transfer services allow licensees to offer specified foreign exchange services applicable to the approved range. Table 3.4 summarizes the requirements for each of the five tiers under the Foreign Exchange Regulations. By December 31, 2006, the BOU had licensed twenty-nine institutions to engage in money remittance.\footnote{Licensed institutions were forex bureaus that had been appointed earlier as agents or subagents of Western Union.}

### Table 3.4. Categorization of Money Remittance Licenses under Foreign Exchange Regulations 2006

<table>
<thead>
<tr>
<th>Class</th>
<th>License</th>
<th>Requirements</th>
</tr>
</thead>
</table>
| A     | International money transfer agency\(^a\) | - Limited liability company incorporated in Uganda  
- Principal must have clear license to operate in base country, a good record of accomplishment in conducting money transfer business, and a recommendation from regulatory authority in base country  
- Agency agreement  
- Formal, reliable, and transparent mode of remittance  
- Minimum capital of UGX50 million  
- Security deposit (with BOU) of UGX50 million  
- Operational manual  
- Ability to comply with AML/CFT Guidelines |
| B     | Forex bureau and money remittance\(^b\) | - Two-year proven track record as forex bureau  
- Fit-and-proper shareholders, directors, and staff  
- Separation of bureau and money remittance business and serving public interest  
- AML/CFT, manuals, capital, and security deposit as in Class A  
- A disclosed, supervised, and regulated correspondent in foreign country or countries |
| C     | Direct entrants\(^c\) | - Not direct agents or subagents of international money transfer companies  
- Not licensed as forex bureau  
- Criteria similar to Classes A and B in terms of operational manuals, AML/CFT, capital, security deposit, fit-and-proper requirements, and serving public interest |
| D     | Sub-agency | - Appointed by direct agents (Class A)  
- Acceptance agency agreements with principal  
- Other requirements as in Class C |

\(^a\) Under this arrangement, direct agents of international MTOs, like Western Union and MoneyGram, can only do money remittance business in Uganda through a locally incorporated company.

\(^b\) For licensed bureau that undertakes money transfer business on own accord and as principal

\(^c\) For local companies interested in doing money transfer business on their own accord and as own principal

\textit{Source:} Bank of Uganda.
Uganda’s Remittance Corridors

and MoneyGram International and others that applied and obtained Class B licenses. Microfinance deposit-taking institutions and credit institutions operating as subagents of the international MTOs were also formalized with licensing requirements. Under the Act, microfinance deposit-taking institutions and microfinance institutions require separate license to engage in money transfer business.

The Foreign Exchange Regulations 2006 has facilitated the licensing of local MTOs. Twenty-nine companies were authorized to engage in money transfer business: two international money transfer agencies, two forex bureaus and money remitters, and eleven subagents. The activities that can be pursued by each category are highlighted in the Regulations. The licensing of local money transfer companies is expected to bring some remittances from the informal system to the formal, thereby enhancing remittance data quality.

The requirements to obtain a license for money transfer business can be costly. Some of the local remittance companies expressed their concerns over potentially costly requirements for obtaining a license. These requirements, in particular, capital requirements, can create a disincentive for small operators to be regulated but prefer to remain informal. Also, small- and medium-sized money transfer companies may be forced to merge to survive. This could result in a less competitive market that could hinder the reduction of remittance costs.

All authorized foreign exchange dealers are required to issue receipts for every foreign exchange transaction and to submit returns to the BOU. The transaction receipts, the source document for official data, require customers to indicate the source or purpose for funds transacted. For amounts above US$5,000, disclosure of particulars is also required. If accurately completed, the forms are a credible source of information on foreign exchange flows, including workers’ remittances. However, accuracy of the completed forms raises issues of data quality and reliability.

The BOU carries out both on-site examination and off-site surveillance of forex bureaus and money remitters. The examination and surveillance is to ensure compliance with the provisions of the law and regulations. While on-site examination involves inspection of books and operations, the off-site surveillance is through review and analysis of daily, weekly, and monthly returns.

**AML/CFT Measures**

The AML regime of Uganda is not yet developed. There is no AML law in Uganda, although the government has made effort to set up an AML regime. The Anti-Terrorism Act 2002 covers CFT measures. The cabinet approved a draft AML bill with conditions in early 2005. In February 2009, the cabinet approved the revised draft of the AML law. However, the law has not passed the Parliament in order to be enacted. Lack of enforceable AML law means the Ugandan banking system is exposed to reputational risks. Good reputation is critical to all banking business. There should be zero-risk tolerance. In many jurisdictions, correspondent banks may be required to sever relations with institutions or countries that do not apply adequate AML/CFT measures.

The Foreign Exchange Regulations 2006 are also intended to increase transparency of remittance and payment flows to and from Uganda by ensuring that forex bureaus and money remittance businesses observe AML/CFT measures. The Foreign Exchange Regulations 2006 states that a licensee shall, in conducting the licensed business, fully comply with all applicable AML/CFT laws, regulations, and guidelines. Under the regulations, the BOU has authority to revoke a license from money remitters who are involved with business malpractice, including money laundering and fraud. The AML guidelines are issued to all supervised financial institutions as a stop-gap measure. Subsequently, all institutions have set up internal AML policies.
The government of Uganda has created the Anti–Money Laundering Committee. In 1999, Uganda joined the Eastern and South African Anti–Money Laundering Group, a FATF-style regional body.

Notes

1 Remittance outflows in 2006 were US$282.3 million, which resulted in a net remittances position of US$383.2 million.
2 Traditionally, forex bureaus are authorized by law to buy and sell specified foreign exchange instruments and are prohibited from engaging in money transfer services. With the 2004 Foreign Exchange Act, forex bureaus may obtain a license to engage in money transfer business.
3 This account is restricted to individuals.
4 In one case, a migrant, who sent money home for work on a major development project (construction of a medical center), was dismayed that, each time he visits the project site, the on-the-ground reality is different from the regular updates filed by the project manager. This problem prompted him to make more frequent visits that are both costly and time-consuming in order to ensure that the project does not stall.
5 Table 3.3 summarizes the remittance services offered by different types of institutions.
6 BRCA interview with the National Payment Systems Department at the Bank of Uganda.
7 The financial sector in Uganda has four tiers. Commercial banks (Tier 1) and credit institutions (Tier 2) are licensed and regulated by the Bank of Uganda under the FIA 2004. In 2003, the Microfinance Deposit-taking Institutions Act created Tier 3 for microfinance deposit-taking institutions that are also under the Bank of Uganda’s regulations and supervision. All other microfinance deposit-taking institutions that are not regulated by the Bank of Uganda fall under the Tier 4 category.
9 Simba Telecom is main dealer of MTN Uganda.
10 For information on Samba cash, see www.simbatelecom.com/corporateresp.html.
12 Developers include Akright Properties, HL Properties, and Nationwide Properties.
13 The Financial Institution Act defines foreign exchange business as any facility offered, business undertaken, or transaction executed with any person involving a foreign currency inclusive of any account facility, credit extension, lending, issue of guarantee, counter guarantee, purchase, or sale by means of cash, check, draft, transfer, or any other instrument denominated in a foreign currency.
14 The Foreign Exchange Act and Regulations are accessible at www.bou.or.ug.
16 Class B license provides for operations as forex bureau and money remitter.
Remittance flows continue to grow and be significant for the Ugandan economy. Over the years, they have overtaken the FDIs and, by 2006, nearly matched ODA. At the macrolevel, remittances contribute to smoothing the balance of payments in Uganda. At the microlevel, remittances are mostly distributed in cash and are used mainly for consumption and education. Overall, it could be stated that remittance flows have supported wealth creation and contributed toward increased welfare gains to recipients. This chapter summarizes the findings and observations of Uganda as a remittance-receiving country and the impact of the three bilateral remittance corridors: United Kingdom–Uganda, United States–Uganda, and South Africa–Uganda.

In order to harness the development potential of remittance flows, Uganda has to overcome certain challenges. These challenges are broadly identified as developmental measures that are necessary to ensure market efficiency and to simplify the remittance process and risk minimizing measures necessary to mitigate remittance risks and avoid reputational problems. Some of the developmental and risk minimizing policy responses taken by Uganda are also highlighted.

Summary of Findings in Uganda

- Population and labor force growth rates over the past five years averaged around 3 percent. Estimated population growth for the next two decades is also around 3 percent. These factors indicate that Uganda would be in a position to increase the labor export in the foreseeable future.

- Recorded remittance inflows to Uganda have been increasing. In 2008, the inflows reached US$723.5 million, which accounts for approximately 5 percent of the GDP. Remittance flows have grown faster than both FDI and ODA, a phenomenon observed globally. However, despite the efforts by the BOU to improve the quality of remittance data, it is a challenge to identify sources of remittances and market share by service providers. Present estimation and recording methods do not warrant such data analysis.

- Formal MTOs and commercial banks play an important role in distributing remittances. Local MTOs are able to engage in remittance services following the enactment of the Foreign Exchange Act 2004. In the United Kingdom–Uganda corridor, local MTOs dominate the market while international MTOs and banks lead the market in the United States–Uganda and South Africa–Uganda corridors. Several microfinance deposit-taking institutions distribute remittances in agency partnerships with international MTOs. However, capital requirements under the new regulations and international MTOs dominating local partners through exclusivity contracts are barriers for newcomers to the remittance market in Uganda.

- Using a bank is a high hurdle for remittance recipients. Banks charge higher fees to open and maintain accounts as well as for remittance transfers; hence, remitters and recipients are known to choose remittance mechanisms that do not require
a bank account. Such informal mechanisms could trigger money laundering and other illicit activities. At the same time, commercial banks do not have incentives to develop remittance-related products and invest in risk-free government securities. This has inhibited the use of savings accounts and other financial services and constrained financial outreach.

- Payment infrastructure needs to improve. Banking facilities are limited in rural areas. While several developmental projects are underway, it is important to ensure that payment system reforms are aligned with international guidelines.

- The telecom market has been rapidly expanding, particularly in use of mobile phones. MTN Uganda began to provide domestic money transfer services by mobile phones within Uganda. This could be a new payment mechanism for remittance distributions in Uganda as in South Africa, Kenya, the Philippines, and other countries. However, infrastructure, especially electricity, needs improvement.

- In Uganda, the main payment instrument is cash followed by use of checks, which has remained unchanged over the years. The choice of instruments is mainly attributed to the lack of banking culture resulting from earlier political instability and high inflation.

- Consumption and investment in human capital are main purposes of remittances in Uganda. Most recipients (51.7 percent) use the money for purchase of consumption goods and services, followed by payments for education (26.1 percent).

- The Foreign Exchange Act 2004 and the Foreign Exchange Regulation 2006 facilitate the remittance-licensing regime for foreign exchange bureaus and money transfer companies to conduct money transmission business. The BOU has made efforts to facilitate the remittance market by regulatory reform, payment system reform, and a series of household surveys.

- Uganda does not have an AML law. Although the BOU issued AML/CFT guidelines, not having an AML law poses major money laundering vulnerabilities as well as reputational risks to the financial sector in Uganda. With an AML law, money laundering would be criminalized.

### Summary of Findings in the Three Bilateral Remittance Corridors

- Uganda is not a major remittance destination in the three countries, although these remittances are important to the Ugandan economy. Remittance data are not available from South Africa, which is doubly important as a South-South corridor as well as a regional remittance corridor.

- Different migration generations of both documented and undocumented Ugandans have entered the three corridors over the past five decades. Identifying the size of the undocumented Ugandan migrant population is difficult, making estimations of remittances flows complicated.

- Immigration policies of the three countries have made it difficult for low-skilled migrants to seek temporary employment in these countries; hence, many low-skilled workers do not have proper immigration documentation, which leads to limited or no access to formal financial services.

- Access to remittance services varies, although documented migrants have full access to formal financial services while undocumented workers in all three countries have limited or no access to formal financial services. The undocumented Ugandans in the United Kingdom have access to formal remittance facilities if they have any government-issued ID, including Ugandan national identification.

- Investing in businesses and preparing for retirement in Uganda, in addition to supporting their families, is high on the agenda of the Ugandan Diasporas in all
three countries. Hence, most Ugandans show preferences to keep closer ties with their home country.

- Registered MSBs are allowed to provide remittance services in the United Kingdom and United States. On the other hand, in South Africa, only authorized dealers, namely banks and forex bureaus (most of these entities are part of banks) are allowed to conduct remittances. In South Africa, only MoneyGram, among international MTOs, provides remittance services by collaborating with banks.

- Remittance costs in the United Kingdom and South Africa are substantially higher than the costs in the United States. The formal remittance market in South Africa lacks competition with only one international MTO, commercial banks, and their subsidiary forex bureaus. In the United Kingdom–Uganda corridor, international MTOs have an advantage in overall pricing while ethnic MTOs are more competitive. In the United States–Uganda market, international MTOs provide competitive services because they consider Africa as a single market and are competitive in all corridors to Africa.

- AML/CFT laws and regulations exist in all three countries; however, they are not similar. In the area of remittances, the FATF requires countries to ensure that money transfer businesses are registered or licensed. The United Kingdom and the United States require MSBs to be registered; South Africa requires them to be licensed. The United Kingdom and South Africa have a centralized regulatory framework for the remittance market while American regulations are fragmented among federal and state levels.

Issues and Challenges

Uganda faces many challenges in trying to harness the potential economic and welfare benefits by developing the remittance markets. As previously discussed, challenges are developmental and risk-related.

Developing and Managing Labor Exports

With population and labor force growing around 3 percent, Uganda has the opportunity to increase labor exports. This growth may be also help to counter unemployment in Uganda.

The labor force has been growing at a rate of 3.4 percent per annum, resulting in 390,000 new job seekers; and yet, about 8,120 jobs are available each year. In 2003, Uganda's national unemployment rate stood at 3.2 percent while that of the youth stood at 22.3 percent. The urban unemployment rate for the youth is 12 percent, about 7 times the rural rate of 1.7 percent. In Kampala, youth unemployment rate was 32.2 percent, but 36 percent for those who have university degrees. One of the temporary measures the Government has undertaken to deal with youth unemployment in Uganda is to encourage and promote export of both semi-skilled and unskilled labor.1

Welfare gains could be offset by the brain drain as well as other social costs if labor export is not managed properly. It is important to draw lessons from other countries. In 2001, Filipinos working overseas sent home over US$6 billion, or about 8.4 percent of national GDP, via formal channels. The Philippine government plays a regulatory role. Official migrants receive a number of subsidized benefits: pre-migration training on social and work conditions abroad, life insurance and pension plans, medical insurance and tuition assistance for the migrants and their family, and eligibility for pre-departure and emergency loans. Registration for these benefits, which are administered by the Overseas Workers Welfare Administration, is compulsory and costs less than US$200 per year (O'Neil 2004).
Barriers to Entry to the Remittance Market in Uganda

There are mainly two kinds of entry barriers to remittance market in Uganda: regulatory barriers and exclusivity contracts set by certain MTOs. In spite of liberalization of remittance market, an MTO faces a stringent and costly application process in obtaining a license, especially for small existing forex bureaus and other entities that often engage in informal transfers. Feasible options are for those small operators to remain as an informal operator or to merge with a larger company. Small existing operators and newcomers with little capital face regulatory obstacles to entry in the remittance market. While upholding the regulatory requirements that weed out unsavory practitioners and curtail risks, Ugandan authorities should not inhibit new entrants and smaller players who facilitate increased competition in the market, resulting in cost reduction.

Although certain international RSPs are interested in entering the Ugandan remittance market, it is challenging to find a local partner with a distribution network. Most potential partners with large distribution networks are already bound to major international MTOs with exclusivity contracts. Potential international MTOs are left with the option of collaborating with many small agents to ensure wide distribution. As a result, international MTOs that operate in the Ugandan market are limited, and the level of competition among formal RSPs seems to be low. Development of the networks would be facilitated if authorities can promote network sharing in a non-exclusive manner. Further, it is possible to bring the costs down through this process.

Challenges to Linking Remittances and Use of Formal Financial Intermediaries

Remittances can be an incentive to use formal financial services, such as savings and mortgages. As seen in the United States–Mexico corridor, remittances can be a tool to promote banking services to low-income recipients. Banks in Mexico attempt to draw remitters and recipients to other profit-generating products by lowering fees of products and services (Hernandez-Coss 2004). Banks in Uganda have not developed a profitable business model for remittances.

Remittances tend to be used to finance short-term needs. Nearly 80.7 percent of remittances to Uganda from abroad are used for short-term consumptions needs and services, education expenses, and health expenses (UBOS 2006). Purchase of building materials and land may require accumulation of remittances for midterm financing, which only accounts for 5.4 percent. Comparative data from a Southeast Asian study conducted by the Asian Development Bank indicate that the main uses in Southeast Asian countries to be savings- and investment-related (Table 4.1).

Because most remittances to Uganda are used to meet short-term needs, the use of financial intermediaries for services beyond remittance distribution remains a challenge. Shifting remittance use to investment and wealth creation could improve financial services

<table>
<thead>
<tr>
<th>Table 4.1. Remittance Recipients’ Top Economic Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philippines</td>
</tr>
<tr>
<td>1st: Savings accounts (82%)</td>
</tr>
<tr>
<td>2nd: Small businesses (19%)</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>1st: Small business (47%)</td>
</tr>
<tr>
<td>2nd: Savings accounts (22%)</td>
</tr>
<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>1st: Savings accounts (100%)</td>
</tr>
<tr>
<td>2nd: Mortgages (86%)</td>
</tr>
</tbody>
</table>

A first step would be for banks to recognize remittances as a stable source of income. The financial markets could develop new instruments specifically geared toward attracting remittances.

Most commercial banks do not appear to have incentive to develop a tailored product for remittances. Lack of affordable and attractive basic financial products is an obstacle to triggering economic impact from remittances. As discussed, commercial banks have shown preference for low-risk liquid assets, such as T-Bills, rather than providing loans to the private sector. This preference seems to have resulted in lack of incentives for developing new retail products, especially remittance products tailored to low-income people who depend on remittances. This practice further inhibits the use of remittances for investment purposes. Also, coupled with restricted geographic coverage by banks, the high cost of basic financial services discourages the use of formal financial services. Thus, basic financial services remain costly, and few financial products linked to remittances have been developed. As a result, remittances are distributed in cash rather than through accounts. Banks need to be innovative and develop remittance-related products and take steps to bring down the overall cost of remittances services, as practiced in the Philippines (Box 4.1). Uganda should take steps to provide the investment climate necessary to encourage investments so that remittance funds could be channeled toward investment activities. These measures would increase the demand for remittance services and encourage use of formal channels for remittances.

Whether remittance flows provide sufficient basis for banks to develop commercially viable remittance-related products should be viewed in tandem with the earning capacities of Ugandan people. Remittance flows account for nearly 7 percent of the GDP and was around US$665 million in 2006. Average nominal wages in Uganda range from US$14 to US$153, for the low- to higher-waged jobs. Available data shows that average monthly remittances from migrants in the United States range between US$500 and US$1,000.

Lack of distribution channels in rural area contribute to risks of carrying cash, fraud by cash couriers, and increase in cost for receiving funds. Remittance beneficiaries in rural areas often do not know when and how much they receive in remittances and, at times, could easily be cheated. Family members and cash couriers transfer remittances from Kampala to rural locations. In some cases, family members and cash couriers skim off a portion of the remittance. In addition to the secret deduction, they request a gratuity from

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**Box 4.1. The Wireless Situation in the Philippines**

In November 2004, two out of three wireless providers in the Philippines—Philippine Long Distance Telephone and Globe Telecom—had value transfer programs.

Philippines Long Distance Telephone, the largest telecommunications company, was the parent company of Smart Telecoms that started Smart Padala, a bank-based remittance system in conjunction with local bank, Banco de Oro. The highly ranked Banco de Oro is a full-service bank. It offers a range of banking services, one of which is over-the-counter pickup. This allows a beneficiary to pick up funds in United States dollars or Philippine pesos from any branch of Banco de Oro or ShoeMart Services Counter. No bank account is needed, and funds are ready for pickup within twenty-four hours. Banco de Oro branches have extended banking hours (open until seven o’clock) with most branches open seven days a week (www.nybayremit.com/faq.htm).

Globe Telecom is the second-largest wireless provider and the only one in 2004 with peer-to-peer value transfer. Globe Telecom is a good, solid firm and was awarded a prize for its G-cash technology. In November 2004, Globe’s G-Cash had twenty thousand subscribers. By March 2005, it grew to three hundred and twenty thousand subscribers. By January 2006, the total registered users had grown to 1.2 million.

the beneficiaries (double-dipping). Such practices could be minimized with access to safer, cost-effective banking facilities and the use of microfinance, deposit-taking institutions.

**Remittances as Means to Improve Financial Outreach**

Migrants abroad and local Ugandans face diverse access to financial services. Lack of access to financial services due to immigration status seems to impact the choices of remittance channels, especially in the remittance-sending countries where strict foreign exchange controls and AML/CFT regulations are applied. This is exacerbated by the fact that many undocumented workers use informal remittance channels. On the other hand, access to financial services in Uganda is centered on geographic coverage and affordability. Remittances take place when access to banking services in both sending and receiving ends is assured.

In Uganda, available and affordable financial services ranging from basic bank accounts to housing finance is confined to a limited high- and middle-income population in urban areas. Commercial banks have limited geographical coverage, especially in rural areas. Because operational costs are high, it seems difficult for banks to set up full branches in rural areas. On the other hand, security remains a concern among Tier 4 institutions. Box 4.2 offers an example of a South African initiative to provide access to banking services to the poor.

In Uganda, there is a need for secure, efficient, and affordable financial products for larger population, particularly in rural areas. As in South Africa, the leadership and commitment by the private sector and civil society could support expanding access to financial services across the country. Remittances can be a business incentive for the private sector to trigger a new sector-wide initiative for expanding financial services across the country (Figure 4.1). In order to achieve this goal, a change in the banking culture also needs to take place.

There are challenges in accessibility and affordability of mobile phones in Uganda. Although coverage of mobile phone network has been expanding, it is still limited to main cities and along major roads. The southern part of Uganda is mostly covered, but over half of northern and eastern regions are not. In addition, access to electricity is another challenge to owning and maintaining mobile phones for Ugandans. Some Ugandans cannot afford a mobile phone. Remittance incomes would enable more households to afford mobile phones and services and improve accessibility because a larger market and greater demand would force providers to expand their network with higher-quality service. In order to achieve these goals, it is essential to develop the basic infrastructure, especially electricity, across the

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**Box 4.2. South Africa’s Financial Sector Charter and Mzansi Account**

In August 2002, at the Financial Sector Summit organized by the National Economic Development and Labor Council, a government forum with business, labor, and community groups, participants from the financial sector and civil society agreed upon the need to extend banking and other financial services to the unbanked. The result was the Financial Sector Charter.

To implement their Charter commitments in terms of access, major banks offered a low-cost basic bank account, *Mzansi*, in October 2004. The response from customers was overwhelmingly positive. By May 2004, the banks had opened one million *Mzansi* accounts, although some of these reflect funds shifted from existing accounts in addition to new customers.

Despite the barriers to opening a *Mzansi* bank account, such as lack of awareness, jobs, and money to save in the targeted communities, the number of banking adults increased by 4 percent in 2005 and 11 percent in 2006.

*Sources:* United Nations (2006) and FinMark Trust.
Offering a public infrastructure provider license to private sector would enable the electricity transmission companies to establish, operate, and maintain infrastructure for the provision of communication services.

Developing the Payment System and Related Infrastructure

The Committee on Payment and Settlement Systems, created by the Bank for International Settlement and World Bank, issued general principles for international remittance services. The purpose of the general principles is to assist countries that want to improve the market for remittance transfers. The principles are not intended to be prescriptive but rather to give guidance (BIS 2007). While Uganda has taken steps to develop the payment system, any future developmental efforts toward establishing a payment system should follow the general principles (Box 4.3).

Viewed through the general principles framework, developing the payment systems has both developmental as well as risk mitigation aspects. General Principle 2 states the developmental aspect as improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services. An efficient, secure, and reliable payment system reduces the cost of exchanging goods and services. And it is also the channel for settlement of all other types of transactions, including cross-border financial flows. A good way to reduce the price of remittance services and make them more accessible is to encourage competition. A market that is open to a wide range of RSPs could result in lower prices and a greater choice of services. However, competition needs to be based on a level playing field, with sound legal underpinnings and awareness that, because markets do not always function optimally, some form of regulation may be needed.

General Principle 5 states that remittance services should be supported by appropriate governance and risk management practices. This indicates the good governance and risk

Note: Tier 4 institutions are less secure (Deshpande and others 2006). Mobile phones and MTOs are only transactional methods and not linked to financial services such as savings by themselves.

Figure 4.1. Possible Remittance Impact on Access and Affordability to Financial Services

<table>
<thead>
<tr>
<th>Geographic Coverage</th>
<th>Affordability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

- MTOs: Mobile Transfer Operators
- Target Area
- Commercial Bank
- Bank Mobile Branches
- MFIs/SACCOs
- Mobile Phones
- MFIs/SACCOs

Note: Tier 4 institutions are less secure (Deshpande and others 2006). Mobile phones and MTOs are only transactional methods and not linked to financial services such as savings by themselves.
management practices that ensure safety of the remittance services and the consumers through appropriate laws and regulations. In addition, this reflects appropriate risk-mitigating mechanisms by the formal financial sector to safeguard the remittance transfers and customers.

Uganda’s financial sector faces the challenges of expanding the payment base, developing new instruments, and reducing the use of cash. There is a greater need to change the banking culture in Uganda. This can be done through introducing newer, more customer-friendly products and lower fees and increasing financial outreach.

Infrastructure issues can hamper development in the payment system. Improvements in infrastructure, mainly telecommunication and energy, should greatly enhance further developments in the payments system. Issues to address are extension of rural services, move from magnetic to chip cards to enhance safety, availability of auditable smart cards, and potential of mobile phones (over 1.5 million connected customers). Other areas to focus on include the use of non-cash payments, increasing the number of accounts, working on cross-border payment systems by way of addressing issues of multi-currencies and exchange rate differences, linking to real-time gross settlement systems, and enhancing banks’ usage of available electronic systems and technology (suitable for design, order, print, coding, and storage of products).

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**Box 4.3. General Principles for International Remittance Services**

<table>
<thead>
<tr>
<th>General Principles for International Remittance Services</th>
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<tbody>
<tr>
<td>The general principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. Observing these principles, markets should be contestable, transparent, accessible, and sound.</td>
</tr>
</tbody>
</table>

**Transparency and Consumer Protection**

General Principle 1: The market for remittance services should be transparent and have adequate consumer protection.

**Payment System Infrastructure**

General Principle 2: Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

**Legal and Regulatory Environment**

General Principle 3: Remittance services should be supported by a sound, predictable, nondiscriminatory, and proportionate legal and regulatory framework in relevant jurisdictions.

**Market Structure and Competition**

General Principle 4: Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

**Governance and Risk Management**

General Principle 5: Appropriate governance and risk management practices should support remittance services.

**Roles of Remittance Service Providers and Public Authorities**

A. The role of remittance service providers: Remittance service providers should participate actively in the implementation of the General Principles.

B. The role of public authorities: Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the General Principles.

*Source: BIS (2007).*
**Formalizing the Remittance Channels**

The BOU has made significant efforts on shifting the remittance market from an informal to a formal sector and improving remittance data collection. The BOU has revised regulations and guidelines to regulate informal remittance transfers by foreign exchange bureaus. It has been improving the national payment systems and undertaking initiatives in encouraging the use of electronic payments for utility bills. A BOU/UBOS-conducted nationwide household survey (UBOS 2006) collected data on remittances. Nevertheless, many policy challenges remain.

With the policy reform of regulating forex bureaus, some remittances coming through these entities were formalized at the Ugandan end. As a result, these entities began to report the transactions to the BOU. However, all such transactions remain cash-to-cash transactions, and few remittances are deposited in bank accounts. If the remittances are to have any impacts on deepening the financial sector in Ugandan, flows must shift from cash-to-cash to account-to-account.

Key challenges are to expand access to financial services by undocumented migrants in sending countries and offer affordable bank accounts in Uganda. At the same time, improving the savings habits of remittance recipients should be addressed. A shift from informal to formal channels would also reduce the system’s vulnerability to money laundering and other illicit activities. However, care should be taken not to encourage further informality through too stringent regulations. Uganda should develop the necessary financial infrastructure and incentives so that people would have confidence in using the banking system.

**Managing Exposures and Vulnerabilities to Fraud**

The absence of an AML/CFT law keeps the financial sector vulnerable to money laundering. Because the AML/CFT law is not enacted, the financial sector in Uganda is exposed to major money laundering vulnerabilities. Even though the BOU had issued AML/CFT guidelines, the lack of an enforceable law makes compliance weak. As such, the credibility of the Ugandan banking system and investment potential in Uganda could feel the impact.

The government of Uganda has made an effort under current legislation to mitigate risks of money laundering and terrorist financing. But without an AML/CFT law in Uganda, enforceability of current regulations is not effective. Banks are at a dilemma between breaching confidentiality rules and AML measures by reporting customers to authorities (Edopu 2004). Banks are still vulnerable to money laundering. The FATF Recommendation 4 states that countries should ensure that financial institution secrecy laws do not inhibit implementation of the FATF Recommendations. The draft AML law, if passed, would resolve the dilemma faced by banks in Uganda.

The housing sector in Uganda may be a vulnerable sector to money laundering risks. Ugandans in Diasporas have invested in the Ugandan housing market. For sending remittances for housing development and land purchasing, Ugandans in the United States tend to use commercial banks, while those in the United Kingdom are inclined to send remittances through ethnic MTOs and informal MTOs. Once the funds successfully arrive in Uganda, they are usually cashed and used for housing. The FATF 40 Recommendations require non-financial businesses and professions, including real estate agents, to take customer due diligence measures and recordkeeping when they make transactions. However, because there is no requirement in Uganda at this point for real estate agents to take due diligence measures, keep records, or even file a suspicious transaction report, the housing sector is exposed to the risk of money laundering.

Due to lack of AML law, the banking sector is exposed to a serious risk of losing correspondent banking relationships with banks abroad. The FATF Recommendation 7 requires financial institutions to collect additional information on the correspondent...
The chairperson of the Uganda Bankers Association reportedly expressed concern, stating, “Globally, no one wants to work with people who do not have anti–money laundering law in place. One day, our correspondents will refuse to work with us because of this” (Kansiime 2007).

The funds transfer mechanisms associated with the informal MTOs, often linked to forex bureaus in Uganda, are at risk of money laundering. Some forex bureaus in Uganda conduct remittance services without a license for money transmission. Many use alternative remittance systems (or informal value transfer systems). Because they operate without accounts for customers and formal documentation of transactions, it is difficult to know your customer and keep records of transactions (Kansiime 2007). Some forex bureaus have formed a trade association, the Uganda Forex Bureaus Association. However, operators who are not association members are still vulnerable to money laundering. Uganda could be used as a transit point for money laundering at the layering stage of money laundering (Box 4.5). Interviews with forex bureaus revealed that some bureaus receive large volumes of incoming funds in Kampala from overseas and immediately transfer it to Kenya or other neighboring countries.

Data Quality and Availability

As explained in the introductory section, evaluating the remittance flows is a difficult task. Due to the large number of undocumented migrants who mostly use informal transactions to conduct their remittance transactions, it is almost impossible to estimate either the number of migrants or the remittance volumes with any degree of accuracy. In addition, due to the residual method of estimation adopted in balance of payment calculations, it is not possible to apportion contribution by country, and no reliable data are available from the MTOs and banks.

The government of Uganda has initiated a number of policies to regulate informal transfers and improve data. The Uganda Bureau of Statistics and the BOU have carried out a series of surveys to gather remittance data. Nevertheless, remittance data are likely to be scarce and incomplete.
Uganda has undertaken policy changes and reforms that have addressed and favorably influenced some of the preceding issues. While more action is required to ensure the smooth functioning of the remittance systems, these accomplishments are to be commended.

The BOU amended the Foreign Exchange Act, regulating money transmission by forex bureaus. The BOU has collaborated with the Uganda Forex Bureaus Association in bringing informal remittance transactions to the formal sector by providing forex bureaus a new license for money transmission. Subsequently, the Foreign Exchange Regulations were introduced to specify conditions for licensing and supervision, to provide guidance for remittance companies, to encourage formalization of remittances, and to increase remittances and payment flows. As a result, the remittance channels became formalized, and the BOU has enhanced access to data on remittance inflows through licensed MTOs.

The government of Uganda drafted an AML law, which has been tabled at the Parliament. The BOU has issued the AML Guidelines for the financial sector to deal with money laundering issues pending approval for the AML law by the Parliament.

Payment systems are being upgraded; however, the coverage is still limited. The BOU implemented the real-time gross settlement system. They have also taken the initiative in shifting to electronic payment in transactions with the private sector. The BOU encourages electronic payment for utility bills. However, more efforts are needed to ensure interoperability among ATM networks and the regional payment systems in order to facilitate payments within the country and the region.

The BOU and the Uganda Bureau of Statistics have conducted a nationwide household survey to collect information on remittances. The first household survey including a section on remittances was implemented in 2005/2006. The survey captured information on remittance volumes as a source of income and use of remittances.
In order to facilitate migration processes, the government, through the Ministry of Gender, Labour, and Social Development, has developed new regulations. Under the new regulations, the Ministry now provides licenses to recruitment agencies upon approval of their application.

Notes

CHAPTER 5

Recommendations

This final chapter concludes by highlighting policy recommendations for Uganda and the remittance-sending countries that could be implemented in short-, mid-, and long-term periods.

Short-Term Recommendations for Uganda (within one year)

Steps should be taken to facilitate the migration process. These efforts should ensure safety for the migrants as well as their families and improve the chances of their returning, thus minimizing social costs. Using the Philippine experience as a model, subsidized benefits should be provided such as pre-migration training on social and work conditions abroad, life insurance and pension plans, medical insurance and tuition assistance for migrants and their family, and eligibility for pre-departure and emergency loans.

Public/private partnerships should be formed to expand banking services to a larger population. The financial sector and civil society should develop a strategy for the initiative by applying lessons from South Africa and other countries to suit the local environment. The role of cooperatives and microfinance institutions is critical, so the initiative should reach out to rural communities. The leadership and commitment by the financial sector and civil society are critical to providing resources for improving access to financial services and to raising awareness of the importance of financial services among communities.

Barriers to entry to the formal remittance market should be reduced or eliminated in order to foster competition. Regulations and market structure are the main barriers that prevent small forex bureaus and new market players from entering the remittance market. An effective yet flexible regulatory system should be promoted. Current requirements for obtaining a money transmission license from the BOU include substantial security deposits and guarantees. In addition, exclusivity agreements between local MTOs and international MTOs prevent new international MTOs from entering the Ugandan remittance market. These issues should be addressed through regulatory reforms. Authorities should also promote sharing of networks in a non-exclusive manner in order to encourage participation and to bring down costs.

Authorities and relevant financial and trade associations should design and continue to conduct awareness-building campaigns on anti-money laundering among stakeholders and the public. Authorities should encourage companies that conduct money transmission businesses informally to obtain a license. The campaigns should also educate users on risks associated with the informal service operators and encourage them to move toward formal operators.

A financial education program should be developed and widely implemented in Uganda and the remittance-sending countries. The remittance-receiving families as well as all the non-bank–using population of Uganda should have access to a financial education program. A financial sector-wide initiative targeting the entire population should be developed and implemented. The financial sector and the authorities should set up
regional benchmarks and strive to achieve goals without regional discrepancies. Failure to implement the program regionally in an equitable manner may further widen poverty gaps between regions.

**Mid-Term Recommendations for Uganda (one to three years)**

Payment systems and access to financial services should be improved. The improvement of payment systems will be a basis for efficient financial services and reduction in the cost of financial intermediation. This would also help to move away from a cash economy concept by shifting remittances from informal channels to formal channels. The BOU should continue to develop its national payment systems and improve access to financial services. Policies should provide incentives that substantially reduce the price of using electronic payments. Uganda needs to ensure that the developmental efforts aimed toward establishing the national payment system follows the General Principles for International Remittance Services so that transparency and soundness is ensured.

A robust and effective AML/CFT regime should be implemented. The government of Uganda should pass the draft AML law and establish a financial intelligence unit. The government should ensure that the AML/CFT regime does not exclude any Ugandan population from financial services. The absence of this law hinders MTOs from establishing corresponding banking relationships, which translates into higher remittance costs. The new law would reduce intermediary costs further. Having AML/CFT laws and regulations that follow international standards would have a positive reputational effect on the Ugandan banking community.

The BOU should consider adjusting regulatory framework to facilitate new technology for payment services. The opportunities resulting from innovations in the payments technology should be supported by appropriate regulatory framework that upholds the integrity of the financial sector. Regulations should support accommodative entry and exit strategies as well as facilitate more affordable operational costs. In designing improvements to the regulatory framework, it is imperative to involve the remittance providers. Furthermore, supervision/regulatory authorities should be adequately trained and provided with necessary resources in order to carry out effective supervision.

Commercial banks should be encouraged to develop new products linked to remittances and savings by providing incentives to remittance recipients to receive and keep money in the bank. The introduction of the flexible, charge-free foreign exchange accounts and other unique products offers an opportunity for cross-selling financial products such as mortgages and settlement of utility bills, school fees, and other service. With savings deposits, the commercial banks will be able to develop lending products. As a starting point, banks must recognize remittances as a stable source of income.

**Long-Term Recommendations for Uganda (three years or more)**

The BOU should continue its collaboration with relevant authorities to enhance quality of data on remittances and to assess the impact of remittances on poverty reduction. The BOU initiative to institutionalize surveys on remittances is a positive step in improving availability and quality of data on remittances. This may be achieved through nationwide household surveys and censuses. A working group on remittances should be constituted with participation of key stakeholders as a responsible body to enhance data quality, facilitate innovation of new remittance products, and identify undocumented issues affecting remittances. Regional studies on remittances to and from Uganda’s neighbors should also be conducted and shared. Authorities should examine the possibility of identifying the share of remittance flows by country, either by using different methodologies or enhanced data collection efforts through MTOs.
Recommendations for Sending Countries

All sending countries should improve the population estimates, including undocumented migrants. In all three remittance-sending countries, there are unknown numbers of undocumented Ugandans. The United Kingdom has made an effort to improve international migration statistics and to estimate illegal immigrants. By improving statistics on migrants, each government would be able to undertake specific policies on migration and remittances, based on improved statistics.

The American banks should emulate their experiences with Latin America in order to develop and provide services to migrants from other parts of the world. The size of various immigrant markets outside the Latin American community may be smaller. Nevertheless, because the MTOs in the United States see Africa as one market, the American banks could tap into the African immigrant communities by identifying specific commonalities among different communities.

The government of South Africa should consider an alternative approach to customer due diligence and foreign exchange control that allows low-risk and low-value cross-border transfers. In addition to issues of illegal immigration and informal cross-border transfers, strict customer due diligence and foreign exchange control policies would further foster the use of informal means by undocumented migrants. The South African authorities should consider balancing access to formal remittance channels by undocumented migrant workers. In doing so, the South African authorities could create a task force of relevant stakeholders and embassies.

Concluding Remarks

This Bilateral Remittance Corridor Analysis has reported the increasing remittance inflows to Uganda. This growth is supportive of the importance that remittances are to the Ugandan workers, their families, and the country in terms of wealth creation and contributing toward increased welfare gains. Uganda faces many challenges, both developmental and risk minimizing measures, in harnessing the developmental potential of the remittance flows. Hence, understanding the dynamics of the Ugandan remittance market will help improve efficiency and mitigate risks. While the BOU plays an important role in leading such development initiative, the banking sector, private sector, Diaspora, and others also need to work diligently and in a coordinated effort. It is hoped that the information presented in this report is useful in successfully carrying out this initiative.
Estimation of Remittance Flows to Uganda from the United Kingdom, United States, and South Africa

The United Kingdom

Estimated remittance outflows from the United Kingdom to developing countries were US$5 billion in 2008. There is significant uncertainty regarding the market size of remittance outflows in the United Kingdom as no officially recorded workers’ remittance data are available and are derived from other information available. The United Kingdom Remittance Working Group has estimated the size of United Kingdom remittance market ranging from £319 million to £5.4 billion in 2004. According to the United Kingdom Department for International Development (UKRWG/DFID 2005), the most reliable estimate for remittances from the United Kingdom to developing countries is £2.8 billion. Comparative figures from the Migration and Remittance Factbook (World Bank 2008a) estimate the 2004 outward flows at US$3 billion and corresponding 2008 outflows at US$5 billion.

Uganda is not a large remittance destination for the United Kingdom. Major receiving countries are the countries with large immigrant communities. In the United Kingdom, these communities are India, Pakistan, Black Caribbean, and Black African, which together account for 62 percent of the immigrant community in the United Kingdom and 62 percent of total remittances. As a destination, Black Africa accounts for only 10.5 percent of remittances from the United Kingdom. Large recipient countries in Africa include Ghana, Kenya, Nigeria, Somalia, and South Africa.

The United Kingdom is the largest source of remittances for Uganda, conservatively estimated at US$127 million to US$296 million (Table A.1). These estimates include remittances of both documented as well as undocumented workers. A previous study (Namaaji 2006) and interviews with ethnic MTOs show that a remitter sends £200 to £300 per month on average. If it is assumed that 50 percent of Ugandan migrants send remittances to Uganda, the total volume of remittances in the United Kingdom–Uganda corridor could reach US$211.6 million. If the estimate rose to 70 percent of Ugandans, the total volume would increase to US$296.3 million. It is important to note that this report takes a conservative approach in estimating the Ugandan population. The actual total volume of United Kingdom–Uganda remittances could surpass US$300 million. When compared to the Ugandan remittance inflows of US$723.5 million in 2008, these estimates would be in the 18 to 42 percent range of the total inflows.

In the United Kingdom–Uganda corridor, remittance values between £10 and £16, or Ugandan shilling (UGX) 30,000 to 50,000, per transaction are common, while monthly average by each sender is approximately £300 (US$605 or UGX996,000). An average MTO handles about one hundred transactions each month, although as many as one thousand transactions may be recorded during school opening and festive seasons. Comparable
remittance figures by other MTO providers are in the range of £200 to £300 (US$403 to US$605) per month for each migrant.

The United States

The United States is the largest source of international remittances in the world (Figure A.1). The remittance outflows from the United States were US$47.1 billion in 2008; Russia follows with US$26.1 billion. Latin America is the largest recipient of remittances from the United States. In 2006, remittances to Latin America and the Caribbean region were estimated to have reached US$64.7 billion (World Bank 2009a).

Uganda receives smaller remittance flows from the United States when compared to other African countries. The smaller size of Ugandan Diaspora reflects smaller remittance

<table>
<thead>
<tr>
<th>Estimation Level</th>
<th>Number of Ugandans</th>
<th>Amount of Remittances Per Annum</th>
<th>% of Migrants Who Send Remittances</th>
<th>Estimates of Remittance Volume</th>
<th>US$ Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>70,000</td>
<td>£3,000</td>
<td>30</td>
<td>£63,000,000</td>
<td>US$126,964,933</td>
</tr>
<tr>
<td>Mid</td>
<td>70,000</td>
<td>£3,000</td>
<td>50</td>
<td>£105,000,000</td>
<td>US$211,608,222</td>
</tr>
<tr>
<td>High</td>
<td>70,000</td>
<td>£3,000</td>
<td>70</td>
<td>£147,000,000</td>
<td>US$296,251,511</td>
</tr>
</tbody>
</table>

Note: Percentage of remittance-sending migrants follows a conservative calculation of remittance flows. Including 30% was a means to control overestimation of remittance flows. Remittance volumes based on information from RSPs in Uganda and the pilot household survey. Estimation on number of Ugandans is detailed in Annex B. Source: BRCA team estimates based on interviews with Ugandans, the High Commission of Uganda, and Namaaji (2006).

Figure A.1. Top Ten Remittance-Sending Countries, 2008

flows from the United States to Uganda.\(^2\) The total volume of remittances from the United States to Uganda falls between US$70 million and US$162 million, which would be in the range of almost 11 percent to 24 percent of the total inflows to Uganda in 2006. Table A.2 shows the estimations of total volume of remittances based on the premise that a documented Ugandan migrant sending US$10,800 per annum and an undocumented migrant sending US$6,000 per annum. On the assumption that 50 percent of Ugandan migrants send remittances, the total volume would be US$116 million. In the event that 70 percent of Ugandans send remittances, the total volume would be US$162.4 million, and 30 percent remittance would give a total of US$69.6 million.

The average monthly remittance amount of a documented worker ranges between US$800 and US$1,000, while the average amount remitted per transaction is approximately US$650.\(^3\) Among the documented Ugandan migrants, the most frequent amounts of remittances per transaction range between US$401 to US$600, followed by between US$201 to US$400 (Table A.3). Approximately two-thirds of respondents send remittances to Uganda once a month or more. About one-quarter of respondents indicated they send money once in two weeks or more (Figure A.2). Interviews with Ugandan migrants suggest that the frequency of remittances reflects the payroll schedule in the United States.

Undocumented workers typically send lower amounts of remittances than documented workers do. Undocumented workers send approximately US$500 per month according to interviews with the Ugandan community.\(^4\) They earn about US$1,500 to US$2,000 per month, reflecting lower skill levels required of their jobs.

The UNAA questionnaire results show that family support is the major intended use of remittance.\(^5\) The results indicate that 59 percent of respondents send remittance to support family, while education, investment, and business projects account for approximately 19 percent. The findings are not different from the national household survey (UBOS 2006) and a study on access and demand for financial services (Finscope 2007), which highlighted

### Table A.2. Estimated Range of Remittances from the United States to Uganda per Annum

<table>
<thead>
<tr>
<th>Estimation Level</th>
<th>Status of the Remitter</th>
<th>Number of Ugandans</th>
<th>Per Capita Remittance (US$)</th>
<th>% Of Migrants Who Send Remittances</th>
<th>Total Remittances (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td>Documented</td>
<td>13,450</td>
<td>10,800</td>
<td>30</td>
<td>43,578,000</td>
</tr>
<tr>
<td></td>
<td>Undocumented</td>
<td>14,450</td>
<td>6,000</td>
<td>30</td>
<td>26,010,000</td>
</tr>
<tr>
<td><strong>Mid</strong></td>
<td>Documented</td>
<td>13,450</td>
<td>10,800</td>
<td>50</td>
<td>72,630,000</td>
</tr>
<tr>
<td></td>
<td>Undocumented</td>
<td>14,450</td>
<td>6,000</td>
<td>50</td>
<td>43,350,000</td>
</tr>
<tr>
<td><strong>High</strong></td>
<td>Documented</td>
<td>13,450</td>
<td>10,800</td>
<td>70</td>
<td>101,682,000</td>
</tr>
<tr>
<td></td>
<td>Undocumented</td>
<td>14,450</td>
<td>6,000</td>
<td>70</td>
<td>60,690,000</td>
</tr>
</tbody>
</table>

Note: Percentage of remittance-sending migrants follows a conservative calculation of remittance flows. Including 30% was a means to control overestimation of remittance flows. Number of Ugandans detailed in Annex B. Source: BRCA team estimates based on interviews with Ugandans, Embassy of Uganda, and the Ugandan North American Association.
consumption, education, and health as major uses by recipients. Based on this information, it was concluded that remittances are being used for their intended purposes (Figure A.3).

**South Africa**

South Africa sends and receives cross-border remittances with multiple remittance corridors within and outside Africa. As a sending country, South Africa is the largest source of remittances in sub-Saharan Africa. Annualized average of remittance outflows between 1990 and 2001 also show that South Africa is the largest source of remittances in Africa, followed by Côte d’Ivoire, Angola, and Egypt (Sander and Maimbo 2003). In terms of remittance volume, remittance outflows exceed inflows (Figure A.4). In 2006, the inflows and outflows were 0.3 percent and 0.4 percent of the GDP, respectively. Inward remittances

<table>
<thead>
<tr>
<th>Amount (US$)</th>
<th>Frequency (per month)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>200 or less</td>
<td>20</td>
<td>16</td>
</tr>
<tr>
<td>201–400</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td>401–600</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>601–800</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>801–1,000</td>
<td>17</td>
<td>14</td>
</tr>
<tr>
<td>1,001 or more</td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: BRCA survey at UNAA.*

**Figure A.3. Intended Purposes of Remittances among Documented Ugandans in the United States**

*Source: UNAA questionnaire.*
to South Africa come mainly from industrial countries (United States, the United Kingdom, Canada, Australia, and New Zealand) while outward remittances are sent to other African countries. According to the World Bank Global Prospects Group’s estimates, main remittance-originating countries for South Africa include the United Kingdom, the United States, and Australia.6

In 2006, remittances of approximately US$857 million went to Southern African Development Community (SADC) countries from South Africa. Analysis of data reveal that Mozambique is the largest recipient of remittances with over US$285 million, followed by Lesotho with US$242 million. Figure A.5 shows destinations and volume of remittances (among SADC countries) from South Africa.

Source: Genesis Analytics (2006a).
The volume of remittance flows from South Africa to Uganda is unknown. Unlike the information of Ugandans in the United States and the United Kingdom, there is limited data available on the Ugandan population in South Africa. The lack of information with regard to the size of per capita remittance, the size of population, and income level makes it difficult to develop an estimate of the remittance volumes.

Although the remittance flow is seemingly insignificant, Uganda is important as a regional source as well as a sending country in the South-South remittance corridor. At a global level, although the stock, as a share of population, is estimated to have remained flat at around 1.5 percent, the number of migrants in the South may have increased by about 75 percent (Figure A.6). Therefore, it is important to collect the data in Uganda–South Africa corridor.

**Notes**

1. Information obtained through discussions with representatives of the Uganda Remitters Association
5. The World Bank and the Bank of Uganda jointly implemented a questionnaire on remittances among Ugandan participants in the 2006 Ugandan North American Association (UNAA) annual convention in New York City.

![Figure A.6. Number of Migrants in the North and South (millions)](source: Ratha and Shaw (2007))
ANNEX B

Use of Remittances in Uganda

According to the BOU, its focused study of recipients of remittances originating from the United Kingdom also shows that uses of remittances vary widely, ranging from day-to-day maintenance to working capital for running ventures and long-term investment such as purchase of real estate. Of the total respondents, 38 percent indicate money received is spent on family maintenance, 26 percent on school fees, and the least (4 percent) spends on medical expenses. In 95 percent of the cases, however, the use of funds is predetermined by the sender.

Remittances are important source to pay for education. In an economy with a GDP per capita of US$280, costs of schooling in Uganda, excluding day primary school, are relatively high. Average cost of primary-level boarding school is as high as GNP per capita while secondary-level boarding school is higher (Figure B.1). The Uganda National Household Survey (UNHS) (UBOS 2006) shows that the remittances for education come second after consumption. In the UNHS, one-fourth of remittances from abroad are spent on education. Because workers with post-secondary education earn more than twice the wages of those with incomplete and below-secondary education, remittances serve as personal investment in their children.

Remittances seem to play an important role in keeping children in school. Investment in schooling is an investment in the human capital necessary to move families and future

Figure B.1. Median Costs of Schooling per Year in Uganda

generations out of poverty (World Bank 2006a). The UNHS findings indicate that nearly 40 percent of children dropped out of primary school due to economic reasons and 13 percent due to health reasons (Table B.1). Although the remittance benefits seem to be confined to children in remittance-receiving families, the likely role of remittances in keeping children in school is worth noting.

<table>
<thead>
<tr>
<th>Reason for Dropping Out of School</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Male</td>
</tr>
<tr>
<td>Too expensive</td>
<td>35.0</td>
</tr>
<tr>
<td>Completed desired level</td>
<td>4.1</td>
</tr>
<tr>
<td>Had to help at home</td>
<td>0.7</td>
</tr>
<tr>
<td>Indifference to education</td>
<td>30.7</td>
</tr>
<tr>
<td>Poor academic progress</td>
<td>2.0</td>
</tr>
<tr>
<td>Sickness or calamity</td>
<td>13.8</td>
</tr>
<tr>
<td>Other reasons</td>
<td>13.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Source: UBOS (2006).*
Remittance Impact on Housing Finance in Uganda

Remittances do not seem to have contributed to the development of housing finance in Uganda. Anecdotal information shows that remittances are used to obtain and build houses in Uganda without being channeled through financial intermediaries. For example, the formal mechanism financed around 0.1 percent of the total supply of housing in 2003. Since the early 1990s, however, the stock of housing units has increased by an average 150,000 per year. There are also many well-constructed expensive houses in Kampala, financed by Ugandans living abroad (Kleerekoper 2005).

Housing finance in Uganda is underdeveloped. Short-term mortgage maturities in Uganda are, on average, seven years for those provided by the private sector. The lending interest rate is high at around 19 percent, compared with the sub-Saharan average and neighboring countries (Kleerekoper 2005). The combination of the two factors makes mortgages unaffordable to the majority of the population and keeps the housing market underdeveloped. Table C.1 provides an analysis of housing affordability. Mortgage finance is available in Housing Finance Bank, Stanbic Bank, Standard Chartered Bank, and DFCU Ltd.

The mortgage market development in Uganda has been stifled since 1971 when Uganda experienced economic instability and political turmoil.1 Banks have since been preoccupied with investment in high-yield government debt; large, high-quality corporate accounts; and customer loans with short-term maturities. The industry is faced with lack of long-term (shillings) funding in both the domestic banking system and the capital markets; inadequate stock of well-planned, good quality houses to support the development of a secondary mortgage market; delays in the land registry and associated risks; and inadequate infrastructural support to property developers.

Although still small, the share of credit to the building and construction sector by commercial banks is increasing. Commercial bank involvement in the mortgage industry is limited by the financial services conducted by banks, that is, provision of overdrafts and short- to medium-term loans. Commercial bank balance sheet structures are composed

<table>
<thead>
<tr>
<th>House Price (US$)</th>
<th>House Cost Level</th>
<th>Mortgage Loan (US$)</th>
<th>Monthly Repayment (US$)</th>
<th>Required Individual Monthly Income (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>12,500</td>
<td>Low</td>
<td>8,750</td>
<td>180</td>
<td>415</td>
</tr>
<tr>
<td>25,000</td>
<td>Low–Mid</td>
<td>17,500</td>
<td>365</td>
<td>830</td>
</tr>
<tr>
<td>50,000</td>
<td>Mid–Low</td>
<td>35,000</td>
<td>725</td>
<td>1,660</td>
</tr>
</tbody>
</table>

Source: Kleerekoper (2005).
mainly of short-term assets and short-term liabilities. This raises issues of source of funding for mortgage banking. Table C.2 shows the credit distribution of commercial banks by sector.

As a potential threat, remittances could create two separate housing markets: high-end market for migrants and low-end market for middle- and low-income population. Remittances from Ugandan expatriates flowing into the housing sector in Uganda seem to contribute somewhat to the increase of prices in housing supply, including materials. The housing construction sector in Uganda has limited supply due to lack of capacity and mostly imported materials. Expatriates who purchase high-end, expensive housing in Uganda create a different market segment. Also, expatriates take limited supply of properties, and little is left for middle- and low-income population. As a result, middle- and low-income populations are not able to afford a house (Box C.1).

### Box C.1. Ugandan Diaspora and Housing in Uganda

Ugandans in the Diaspora account for 30 to 40 percent of the turnover in the housing sector. Developments in the housing market have enabled Ugandans in the Diaspora to own houses in well-planned estates without the risk of losing their hard-earned savings. According to the CEO, Akright Projects, “the demand for new housing is now being driven by Ugandans from overseas . . . They are very interested in investing and saving in their country. Buying a house provides an excellent opportunity for them.”

Participation in the sector is limited due to the need for instant payment by some companies, high mortgage rates (16 to 19 percent), and lack of access to financial services making it difficult for migrants to borrow. Other issues affecting the sector include lack of a formal market (both primary and secondary) in housing, lack of long-term financing due to reluctance of banks to engage in mortgage lending, and lack of housing market education.

Players in the sector are engaged in aggressive marketing campaigns targeting the Diaspora. For example, one company boasts of marketing representatives in Atlanta; Boston; Washington, D.C.; Connecticut; Los Angeles; East London; Sweden; South Africa; Zimbabwe; Kenya; and Denmark. Presence of property managers and financiers at UNAA conventions is also a reflection of how important the Diaspora is in terms of market share and potential for growth. Information and application forms for housing are readily available online.

Source: BRCA interviews and research.
Discrepancies between the legal system and practices in the housing sector could increase informal housing and housing finance markets. Uganda has a legal system of land, registration, and mortgage law that is sufficient for a mortgage finance system. However, in practice, the land registration system is not sufficient and efficient enough to handle demand (Kleerekoeper 2005). As a result, land registration and mortgage financing do not work well in a timely manner. This could create incentives for people who have money to purchase housing without mortgages and not to register these properties with the land registry.

Notes
1 Interview with Mr. Moses Kibirige, DFCU executive director, UNAA official publication, UNAA Convention 2006.
Overview of Migrant Workers in the United Kingdom, United States, and South Africa

The United Kingdom

The United Kingdom demographic profile has become more diverse in terms of foreign-born population and minority ethnic groups. At the 2001 Census, there were 4.9 million foreign-born people (8.3 percent of total population) and 4.6 million minority and ethnic people (7.9 percent of total population) in the United Kingdom (Figure D.1). The estimated number of undocumented migrants was 430,000 in 2001 (Woodbridge 2005). The origins of migrants in the United Kingdom are diverse. Some Nigerian, Ghanaian, and Ugandan communities have been settled in the United Kingdom for over fifty years (Elam and Chinouva 2000). These communities include voluntary migrants, highly qualified people, second and third generations of migrant families who have grown up in the United Kingdom, occasional waves of involuntary migrants who left their homes following changes in the political or

Figure D.1. Minority Population Distribution in the United Kingdom, 2001

economic situation, or students unable to return home. More than 40 percent of migrants live in London, accounting for 26 percent of the city’s population.

Producing population and migration statistics is increasingly challenging. The United Kingdom has taken measures to improve its population statistics as briefly discussed in Box D.1.

Migration patterns to the United Kingdom have shifted over the past decade. Between 1994 and 2003, migrants from Bangladesh, India, Sri Lanka, and African New Commonwealth countries increased. Nigeria, Kenya, Ghana, and Zimbabwe accounted for the majority of migrants from Africa. The number of migrants from Zimbabwe more than tripled during the period. Migrants from the Middle East have also substantially increased from 12,000 in 1994 to 27,000 in 2003 (Table D.1).

### Table D.1. International Migration by Country of Last or Next Residence 1994–1998 and 1999–2003

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Inflow</td>
<td>Outflow</td>
<td>Net</td>
<td>Inflow</td>
</tr>
<tr>
<td>European Union</td>
<td>491</td>
<td>421</td>
<td>70</td>
<td>471</td>
</tr>
<tr>
<td>Remainder of Europe</td>
<td>125</td>
<td>84</td>
<td>42</td>
<td>225</td>
</tr>
<tr>
<td>United States</td>
<td>148</td>
<td>137</td>
<td>10</td>
<td>134</td>
</tr>
<tr>
<td>Remainder of America</td>
<td>22</td>
<td>18</td>
<td>4</td>
<td>41</td>
</tr>
<tr>
<td>Middle East</td>
<td>67</td>
<td>54</td>
<td>14</td>
<td>133</td>
</tr>
<tr>
<td>Old Commonwealth(^a)</td>
<td>268</td>
<td>297</td>
<td>(29)</td>
<td>461</td>
</tr>
<tr>
<td>New Commonwealth(^b)</td>
<td>334</td>
<td>143</td>
<td>192</td>
<td>499</td>
</tr>
<tr>
<td>Other foreign</td>
<td>205</td>
<td>115</td>
<td>90</td>
<td>478</td>
</tr>
</tbody>
</table>

\(^a\) Australia, Canada, New Zealand, and South Africa

\(^b\) All other Commonwealth countries

*Source: United Kingdom Office for National Statistics.*
The United States

The foreign-born population in the United States increased from 31.1 million in 2000 to around 38.4 million in 2005. This is a 23 percent increase. Between 1990 and 2000, the foreign-born population increased by 11.3 million people, representing a 57.4 percent increase. The stock of immigrants in 2005 represents 12.9 percent of the total population in the United States (Figure D.2).

The top-ten source countries in 2006 were Mexico, the Philippines, China, India, Vietnam, El Salvador, Korea, Cuba, Canada, and the United Kingdom (Figure D.3). Mexico accounts for nearly 31 percent of the total immigrant population in the United States followed by the Philippines (4.4 percent), China (4.1 percent), and India (4.0 percent). African countries do not account for a significant percentage (2.8 percent), a fact confirmed by the small percentage of remittances outflows from the United States to Africa.

The foreign-born population in the United States has increased over the years. The foreign-born population of 4.8 percent of the total population in 1970 increased to around 12.1 percent of the total population in 2005. This is a 7.3 percent increase over thirty-five years. Total migrant population as a percentage of the total workforce increased at a faster pace. The increase over the thirty-five-year period was 9.4 percent; 5.3 percent in 1970; and 14.7 percent in 2005 (Figure D.4).

![Figure D.2. Size of Foreign-Born Population and Foreign Born as a Percentage of the Total Population for the United States, 1850–2006](Source: Migration Policy Institute.)
Figure D.3. Ten Source Countries with the Largest Populations in the United States and as Percentages of the Total Foreign-born Population, 2006

Source: Migration Policy Institute.

Figure D.4. Share of Foreign-Born in the Total U.S. Population and in the U.S. Civilian Labor Force, 1970–2005

Source: Migration Policy Institute.
Understandably, the remittance inflows to the United States were constant around US$3,000 billion from 2000 to 2006. However, the United States is the largest remittance-sending country in the world. Its total remittance outflows increased by 36 percent over the six years. When compared with the increase of migrants in the workforce, the remittance increase is much higher, thus it seems that the migrant population is remitting more money than before (Table D.2).

South Africa

In South Africa, like other countries, available data on migration patterns, particularly cross-border migration, is poor (Genesis Analytics 2005). Hardly any data on Ugandan migration exist. Available data on Ugandan migration are collected by the Southern African Migration Project, which gathers data of cross-border migration flows through official ports and census data.

South Africa has a diverse and complex portfolio of migrant workers characterized by nationality, skills, industry, year of entry to South Africa, and immigration status. It is estimated that nationals from approximately one hundred countries are now in South Africa (Adepoju 2003). According to the 2001 South African Census, the largest foreign-born population of migrants in South Africa is from SADC countries. A study by Pendleton and others (2006) calculated that 95 percent of migrants who left Botswana are in South Africa. This was also shown for 99.8 percent from Lesotho, 96.4 percent from Mozambique, and 98.1 percent from Swaziland. In addition to documented migrant workers, South Africa has a vast number of undocumented migrants. The bulk of undocumented migrants are from neighboring countries: Mozambique, Zimbabwe, Lesotho, and Malawi (Figure D.5).

### Table D.2. Remittance Flows: The United States (US$ billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Inward remittance flows</th>
<th>Outward remittance flows</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2,835</td>
<td>30,961</td>
</tr>
<tr>
<td>2001</td>
<td>2,931</td>
<td>34,592</td>
</tr>
<tr>
<td>2002</td>
<td>2,811</td>
<td>36,126</td>
</tr>
<tr>
<td>2003</td>
<td>2,813</td>
<td>36,545</td>
</tr>
<tr>
<td>2004</td>
<td>2,822</td>
<td>39,347</td>
</tr>
<tr>
<td>2005</td>
<td>2,890</td>
<td>40,635</td>
</tr>
<tr>
<td>2006</td>
<td>2,880</td>
<td>42,222</td>
</tr>
</tbody>
</table>


### Figure D.5. Foreign-Born Population in South Africa, 2001

Some migrant workers meet demands for labor in certain sectors. The government of South Africa has recruited doctors from Africa (Zimbabwe) and outside Africa (Cuba) to fill its need in the health sector. Adepoju (2004) cited the case of the asparagus farms in South Africa near the border with Lesotho. Despite efforts by farmers to recruit locals, there were shortages of laborers. The provincial government set a prohibition from hiring foreign workers. This act threatened to ruin the asparagus farms. In this case, after seven-month-long pleas to the government, it allowed the farmers to hire foreign workers.

Nationality seems to be one of key determinants for skill levels of migrant workers in South Africa. Migrants from Congo, Ghana, Kenya, Nigeria, Senegal, Sierra Leone, Tanzania, Uganda, and Zimbabwe tend to be hired as teachers, lawyers, and doctors in those sectors that require education and higher-skill levels. Migrant workers from Botswana, Lesotho, Malawi, Mali, Mozambique, and Swaziland have historically been employed in mid- to low-skilled jobs, although the number has been substantially decreasing in the mining sector. Migrants from West Africa, especially from Mali and Senegal, are mostly street vendors in South Africa.
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*40 feet in height and 6–8 inches in diameter

Pounds          Gallons          Pounds CO₂ Equivalent          BTUs
Uganda’s Remittance Corridors from United Kingdom, United States, and South Africa is part of the World Bank Working Paper series. These papers are published to communicate the results of the Bank’s ongoing research and to stimulate public discussion.

This paper analyzes and compares three bilateral remittance corridors. The comparison highlights similarities and differences and the significance of the remittance-sending countries to Uganda in terms of volume, corridor formality, risks, and vulnerability to money laundering. It also describes Uganda as a remittance-receiving country and outlines the remittance flows, market players, distribution network, access and usage of remittance, regulatory framework, and measures taken toward anti-money laundering and combating financing of terrorism (AML/CFT). The issues and challenges faced by Uganda are identified and policy recommendations are made for both Uganda and remittance-sending countries.

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