Remittances from overseas workers under threat from banks' profiteering

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Dahabshiil, the largest provider of remittance services to the 100,000 Somalis living in Britain, this month won an interim injunction at the high court, preventing Barclays Bank from cutting its banking services.

Barclays had planned to cut off services to a number of money transfer companies, citing concerns over money laundering. It means customers will be able to transfer money through Dahabshiil for the foreseeable future, pending the outcome of a full trial to be held next year.

Without the services of Barclays, the last major British bank that still provides money transfer services to Somalia, it would be very difficult and ultimately very expensive to transfer remittances—believed to total some £100 million a year—to Somalia.

Such transfers from Somali workers in Britain and elsewhere provide a lifeline to families with no access to conventional banking services and no other source of income to pay for such basic necessities as schooling, food, and clothes.

According to a recent report by the United Nations, more than 40 percent of Somalia's population—more than four million people—receive remittances from overseas. Oxfam estimates that remittances account for 60 percent of recipients' income, with about £1 billion a year coming in from Somalis around the world.

Behind the struggle to maintain Barclays' services to money transfer companies lies the high cost of transferring such monies back home to indigent people without bank accounts, often in remote rural areas. According to the World Bank, charges average a massive 9 percent, after falling slightly between 2008 and 2010.

Charges are particularly exorbitant for remittances to smaller and poorer countries, the "smaller remittance corridors", reaching 12 percent in Sub-Saharan Africa and even higher in the Pacific Islands. Yet advances in technology and falling information costs should have lowered charges.

This is not all. As the World Bank notes, there is evidence that the banks are beginning to levy charges, called "lifting fees", on recipients which can be as high as 8 percent of the transaction, in addition to the charges levied on the sender. This means that a $200 remittance can cost a usurious $32.

Many banks in the United States and Britain have closed their accounts with money transfer companies, ostensibly due to concerns about money laundering and the financing of terrorism. Given that they have no compunction about breaking the law when it suits them to fix interest rates, it is more likely because they simply have no incentive to provide remittance services to low-value customers.

Somalia and a number of other countries have been particularly hard hit with soaring transfer costs, as the transfer companies use their monopoly power to jack up fees, under conditions where remittances to the world's poorest countries are rising.

Transfers to the so-called developing countries are expected to reach $414 billion in 2013 (up 6.3 percent over 2012), and $540 billion by 2016. Worldwide, remittances are set to reach $550 billion in 2013 and more than $700 billion in 2016. These transfers from family members are now nearly three times the size of official development assistance, and larger than private debt and investment in stocks and shares.

They exceed the foreign exchange reserves in at least 14 countries and are more than half the level of reserves in more than 26 countries. In countries where imports exceed exports, remittances are what keep them afloat. This is particularly the case in Bangladesh, Pakistan, Nepal, and Sri Lanka.

In India, remittances are higher than their much vaunted IT exports and have become more crucial as the value of the rupee has fallen. Remittances to Egypt have tripled since 2009 and are more than three times larger than revenue from the Suez Canal. A massive 2.4 million of Egypt's migrants work in the Gulf, with 1.3 in Saudi Arabia alone.

The largest recipients of workers' income from overseas in 2013 are India ($71 billion), China ($60 billion), the Philippines ($26 billion), Mexico ($22 billion), and Egypt ($20 billion). Other major recipients include Pakistan, Bangladesh, Vietnam and the Ukraine.

These figures need to be seen in relation to the size of their economy. When expressed as a percentage of GDP, the poverty of countries dependent on their expatriate migrant workers comes into sharp relief. The top recipients in 2012 were Tajikistan (48 percent), Kyrgyz Republic (31 percent), Lesotho and Nepal (each with 25 percent), and Moldova (24 percent).

These figures are testimony to the devastating poverty and appalling social conditions that have forced so many people to leave their homes and families in search of work in foreign lands.

Migrant workers face some of the cruellest and most dangerous and oppressive working environments, with few rights and appalling rates of pay. Yet there are now about 230 million international migrants and over 700 million internal migrants, while the number of people affected by migration--via remittances, business services to migrant workers, not to mention the people traffickers, etc.—is very much larger.

A Bangladeshi worker seeking unskilled work in the Middle East will spend anything between $2,000 and $4,000 on fees to a recruitment agency and the costs of health insurance, medical tests, finger printing and document verification, for a job that pays just $200 a month. These fees are between 2 and 2.5 times the per capita GDP in Bangladesh or 14 months of wages.

The migrant worker must also obtain a visa to travel to the place of work, a significant cost in its own right. A business visa to the US may cost $560 for a Turkmenistan national, while an average work visa to the US costs $215, although it can be as high as $690 for a Tanzanian doctor or 113 percent of the per capita GDP. Visa fees for a US citizen travelling to such countries are very much lower.

As well as visa fees, there is the burden of providing the supporting documentation, including mandatory medical tests, insurance, proof of sufficient savings or visa bonds. Britain for example, demands £3,000 (nearly $5,000) in visa bonds for applicants from the Indian sub-continent and Nigeria and Ghana, before they can enter the country, which will be refunded upon departure provided they do not overstay their visas.

Thus the recruitment costs involve extortionate loans that put the migrant workers at the mercy of the recruitment agencies and people traffickers, who lend them the money. It can take years to pay off the debt, which coupled with sending money back home to their families make them vulnerable to exploitative and abusive employers.

The plight of migrant workers is an international one. They are exploited as cheap labour by their employers in the countries where they are working, with no democratic rights and frequently subject to physical, psychological, and sexual abuse. They are ripped off by the banks and money transfer operators when they send their savings home to their loved ones. At the same time, their own government—dependent upon foreign currency remittances to keep their flagging economies going—facilitate and encourage what is little more than a modern-day slave trade.