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PRESS RELEASE

DI PRESS STATEMENT ON TACKLING THE $1BN ILLEGAL MONEY TRANSFERS TO GHANA

Ladies and Gentlemen, we are grateful to you for honouring our invitation to attend this press conference. The purpose of today's gathering is to brief you and the general public on findings of research undertaken on the growing industry of illegal money transfers to Ghana from the Diaspora, its effects on the Ghanaian economy, organised crime and the Ghanaians involved one way or the other in it.

A transfer of funds is any transfer that the payer (sender) makes through a Payment Service Provider (PSP) to make funds available for collection at another PSP if at any stage in the process the money is moved electronically, for example, by email or fax. When a PSP (or Money Transfer Operator) transfers funds they rules stipulate that they must normally send information on the payer and payee (recipient/receiver) with the transfer. This allows the authorities to trace payments if necessary and for economic managers to be able to ascertain the impact of this important area of financial activity on a nation's economy.

Thus, from the records, some 31 million African migrants in 2010 remitted $40 billion, representing 3.4% of the continent's total GDP through such traceable transfer channels. Since the earlier reforms of the 1980s and 1990s under the Financial Sector Adjustment Programme (FINSAP), the 2001-2008 period brought in a series of significant financial reforms, including the Foreign Exchange Act 2006, aimed principally at liberalising Ghana's financial sector and deepening and widening its impact on the nation's economic activity. It is noteworthy that between 1990-2000, recorded total private remittances to Ghana increased 58.17%, from $410.5 million to $649.3 million. The next decade witnessed a significant increase of 226.5%, with recorded private remittances through the financial sector increasing from $649.3 million in 2000 to $2,120 million in 2010.

OFF-SHORE BANKING AND ANTI-MONEY LAUNDERING

As some of you may recall, the Danquah Institute in March 2010 invited a leading legal expert on money laundering and offshore banking, John Hardy QC, to Ghana to deliver a paper on the subject. The objective of the lecture was to educate the financial sector, the business community, policy makers, the general public and the international community about the exciting prospect of Ghana's offshore status and measures that needed to be taken to safeguard the status against money laundering.

Indeed the Organization for Economic Cooperation and Development (OECD), in January of 2010, issued a stern warning to Ghana that her emergence as a tax haven could fuel corruption and crime in the region. Jeffrey Owens, head of the OECD's Tax Centre, said at the time: "The last thing Africa needs is a tax haven in the centre of the African continent."

The Danquah Institute held the anti-money laundering seminar not because it agreed with the 'DON'T GO OFFSHORE' posture of the OECD, but rather because we appreciated their concerns and wanted to educate the public about the opportunities and threats of offshore banking and to interrogate the stakeholders to find out what was being done to make sure that Ghana measured up to the task of ensuring our offshore status was protected, according to international standards, and that such a significant, new business opportunity would not merely make us a soft-touch magnet for a flood of "dirty money".

The Anti Money Laundering Act of 2007 (in force from 22nd January 2008), a primary legislative tool in anti-money laundering was passed, together with the Banking Amendment Act of 2007, to ensure our systems were in sync with the practices and disciplines of other offshore banking centres across the world. This AML Act also established a Financial Investigation Centre whose mandate includes assisting in the identification of proceeds of unlawful activity and the combat of money laundering. It was obvious to us that the institutional framework was being put into place in preparation for Ghana as an emerging offshore banking centre.

However, Barclays Bank who in 2005 led the process to introduce offshore banking into the country and was on the verge of setting up Ghana's first offshore bank suddenly pulled out. In fact, the Government of Ghana had heeded to concerns of the OECD abd felt the best way to respond to them was to discontinue the process of establishing off-shore banking status in Ghana. This, we are sad to say, was an important project which, if diligently nurtured, could have transformed Ghana into a multibillion dollar investments and savings destination.

THE $1BN ILLICIT INTERNATIONAL TRADE IN CASH

The Danquah Institute sees a similar opportunity in the lucrative multi-billion area of international money transfer becoming tainted and overwhelmed by the institutionalisation of illegal international money transfer operations to Ghana and in Ghana.

Ladies and Gentlemen, let me take this opportunity to run by you some figures as to the volume of remittances our compatriots in the Diaspora in 2010 alone sent home and in the wider context of global remittances. Globally, figures from the World Bank indicate that some 215 million people, representing 3% of the world's population, live and work away from their countries of origin. The total formal remittances worldwide in 2010 for these 215 million international migrants amounted to $440 billion with $325 billion of this amount going to developing countries. 31 million African Migrants in 2010 remitted $40 billion with total remittances to Ghana alone amounting to $2.12 billion, an increase of 18.4% from the 2009 amount of $1.79 billion.

The total remittance to Ghana for 2010 constituted 7% of our GDP, 24.8% as a percentage of Ghana's total export value for 2010 of $7.9 billion and almost twice as large as Ghana's total foreign direct investment ($1.1 billion) for 2010. Remittances are vital to developing countries and a crucial source of foreign exchange for them. Thus, if treated with the necessary attention it could be optimally leveraged for the greater goals of accelerated development.

Generally, remittances can:

- impact on the economy through savings, investment, growth, consumption, and poverty and income distribution;
- help in raising national income by providing foreign exchange and raising national savings and investment as well as by providing hard currency to finance essential imports thereby curtailing any Balance of Payment crisis;
- improve sovereign creditworthiness by increasing the level and stability of foreign exchange receipts;
- improve evaluations of African countries' external debt sustainability and creditworthiness. Remittances are now being factored into sovereign ratings in middle-income countries and debt sustainability analysis in low-income countries; and
- help African countries to use future remittances as collateral, instead of the use of our oil, to raise additional financing from international capital markets and to reduce interest costs and lengthen the maturity of bonds for financing development projects, including road works, power and water supply.

Many economists are of the view that because of the scale of undocumented migration within the African continent, the prevalence of informal remittance channels within the region, and the relatively weak official data in many African countries, data on African remittance flows are likely to be understated.

It is also well documented that a large portion of remittances to Ghana are transferred through informal channels, and this method reduces the potential contribution of remittances to development—through financial sector deepening, credit multiplier effects, savings, and investment. Remittance flows outside the formal financial sector also raise issues of money laundering and other financial crimes.

Research suggests that the size of the illegal money transfer business is estimated to be between 60 to 100% that of the legally remitted funds. This translates into anything between $1.2 billion and $2.12 billion, including laundered money from crime proceeds, passed through illegal money transfer channels to Ghana in 2010 alone. Though some 30% of Ghanaians were willing to admit to using the illegal MTOs, it was obvious from our research that larger amounts go through them. It is a very dangerous, growing industry that our authorities must throw their focal lights on. Unfortunately, the lack of proper attention has seen to the institutionalisation of this illegal money transfer business. The situation, per our findings, is almost beyond redemption in countries such as Germany and the Netherlands. But, it is not late. Like the drug trade, it involves demand and supply. The supply side is in Europe and the demand side is here in Ghana. The solution is not to discourage genuine people abroad from transferring money to Ghana. Rather, the solution is to encourage them to use licensed channels of transfer of funds, which, by themselves guarantee them and their funds protection and efficiency.

The growing phenomenon of the underground money transfer business represents a huge loss of direct revenue to the state in unpaid taxes from profits made by these illegal MTOs and even the capacity of the state to use these large incomes of foreign exchange to, for example, buy crude oil, address our balance of payment issues, enhance our creditworthiness and even use it as collateral for external loans. We anticipate that if the current underground phenomenon is not checked it could in ten years lead to the collapse of independent formal MTOs, many of which are owned and run by Ghanaians.

To get a clearer understanding of the illegal money transfer operations, the Danquah Institute carried out a 3-month long research to assess the extent of the operations with regards to Ghana's 3 largest European remittance corridors, namely the United Kingdom, Germany and The Netherlands.

The research looked at the Ghanaian regulatory environment as well as that of the 3 other sender host nations, the products and services available on the market and the remittance patterns. We interviewed money transfer operators, regulatory authorities, senders and recipients. We also spoke to law enforcement agencies, regarding the aspect of money laundering.

We conducted an in-depth survey of 300 Ghanaians living in the UK and 103 Ghanaians living in Germany, and a smaller number in the Netherlands. Our research revealed that despite the increasing numbers of licensed MTOs over the last two decades, the volume of cash transferred through illegal channels have been growing during the same period. Beauty shops, candy stores, food stores, spare parts shops, kiosks, churches, social groups, homes, have become regular channels for remitting cash to and receiving cash in Ghana.

Some of the things that make the illegal channels attractive to many Ghanaians living abroad include the fact that many of them do not charge any commission charge (the average commission is about €5 per every €100 transferred); no personal identification documents required from sender; no limits to amounts that senders are allowed to transfer or receive; payees in Ghana can pick up funds transferred in foreign currencies and; the ability of the illegal operators to quote an exchange rate even better than the daily rate provided by the Bank of Ghana.

The countries among the corridors to Ghana most affected by illegal money transfers are the Netherlands and Germany, where unlicensed shops and individuals operating from their homes have overwhelmed the licensed MTOs. This situation has been worsened by the strict regulatory regimes in the two countries, which has the unintended effect of attracting many immigrants to patronise the convenient, familiar and easy to relate to illegal/informal money transfer channels. In Germany, the penetration of licensed MTOs such as Ria, Western Union, Money Gramm, Ftransfare and Universal Money has not been allowed to reach far and wide within the ethnic minorities due to the virtual absence of smaller agencies.

We estimate that as much as half of the amounts transferred through the Netherlands and Germany are done through unlicensed means. We found that the current stricter regulatory regime (post-9-11) has, paradoxically, had the undesired and undesirable effect of pushing more and more people into the black market of illegal MTOs.

Whilst the volumes of unlicensed money transfers in the UK are high because of the sheer size of the migrant population there, the presence of a more liberal regulatory regime has ensured a lower percentage of transfers through unlicensed sources. In the UK, shops are allowed to operate as agents for the registered

The growing influence of the West African corridor in the illicit drug trade to Europe is having a huge impact on the operations of the unlicensed money transfer channels, as our research discovered.

Indeed, in Germany, it was one such 'Afro' shop, which was a known unlicensed MTO, servicing the Ghanaian community that was caught up in the single largest drug bust in Germany for 15 years, with $37 million worth of marijuana hidden amongst seven tonnes of pineapples in Hamburg harbour in March 2009.

Honest importers and exporters are forced by convenience to patronise the illegal MTOs, through which they can transfer as much as €200,000 at a time to facilitate their legitimate business. These illegal money transfer operators have become a useful conduit for money launderers, attracting unhelpful negative attention to small, honest, Ghanaian businesses in Europe.

Regulatory bodies in Europe are being forced to target African-owned shops in efforts to tackle money laundering for drug traffickers and terrorists, beyond the simple task of clamping down on unlicensed operators. While that may be counterproductive, very little, on the other hand, is being seen to be done by the regulatory body here, the bank of Ghana, to encourage a positive shift from the patronage of illegal MTOs to the legal ones.

Accra and Kumasi have the largest concentration of unlicensed receiving points for cash transferred through unlicensed channels in Europe. Ordinary looking shops, selling candies, African textiles and hair extensions in the Netherlands are examples of the big players in this illegal money transfer business. Our researchers were in one licensed MTO office, asking questions, when a woman from Ghana, travelling to Amsterdam to buy goods, came to pick up €25,000. It came to light that she was directed to the wrong office, and walked the short distance across the road to an unlicensed operator where she would safely pick up her cash for her legitimate business and return back to Ghana. Ghanaians in the importation business are most vulnerable to the illegal MTOs because of the hustle in transferring money legitimately abroad to buy goods to export to Ghana.

But there are grave dangers inherited in the illegal trade in cash. No receipt is issued neither is there any request or any form of formal identification requested of the transfer recipient. A telephone number or code is all that is sometimes requested. Once it is provided, the transfer value is made available to the recipient and sometimes in hard currency.

To better experience and understand the informal money transfer processes, some monies were actually sent from UK and Netherland to Ghana for a researcher to retrieve through 'money transfer agents' in Ghana.

At an Automobile spare parts shop on the Darkuma –Kokompe road, it seemed difficult if not impossible to imagine there could be a money transfer or remittance service or agency among the stretch of auto spare parts shops off that road. While it's front-end activity is obvious to the public, its back-end activity may only be known to the users of the service. At Darkuman, the centre transfers and receives money between Ghana and three European countries of Holland, UK and Germany. They are able to receive and pay any amount of money remitted but may be unable to pay in one lump sum if the amount is huge as anything above €50,000. Their commission rate is 2% of the value and they are prepared to pay in any chosen currency as required by the client if the sum is above €50,000.

This shop did not require any mode of identification before accessing the amount transferred. All that one needs is a secret code/telephone number, the amount and the money is released. Again, one may have to forfeit the transferred sum if it is not accessed within days of sending as it was experienced by one of our researchers at a location in Kumasi.

In Ghana, lots of shops in the major trading portions of Accra and Kumasi are steep into the business of illegal money transfer under the cloak of dealing in other legitimate businesses. In Accra the streets of Makola, Kantamanto, Abossey Okai, Okaishie and Kokompe while in Kumasi, the streets of Kejetia, Pampaso, Adum and Asafo are lined with shops which have variance in their front-end business activity from their back-end illegally dealing in money transfers.

Surprisingly, the Bank of Ghana, the regulatory body in Ghana does not appear to be attaching the requisite relevance and urgency to this growing threat of unregistered foreign exchange transactions to the nation's balance of payment and related financial implications.

It seems obvious to us that the Bank of Ghana has no specific, active department or desk devoted to analysing the entrenched phenomenon of illegal money transfer and taking steps to clamp down on them.

Our analysis indicate that the risks involved in transferring money through illegal operators for both sender (abroad) and receiver (in Ghana) outweigh many of the benefits. We found stories of Ghanaians who transferred thousands of Euros only for the recipients in Ghana to be given mobile phone numbers to call for collection that were unreachable. There are stories of some people receiving counterfeit foreign currencies through these unlicensed outlets in Ghana.

If this growing patronage of the unlicensed MTOs is not checked, it may lead to the collapse of otherwise vibrant licensed independent MTOs (some like Samba and Unity Link owned by Ghanaians) within the next 10 years.

Clamping down on the illegal operators, while at the same time relaxing the rules to pull in more money senders into the formal MTO sector will lead to a healthier and more competitive environment to serve the needs of customers and national economies.

There should be greater co-operation between the BoG and its counterparts in the other countries. There should be greater co-operations between our security agencies and their foreign counterparts dedicated to anti-money laundering matters. But there should be more focus on public education, especially through community radio stations both in Ghana and the host nations of Ghanaian emigrants.

In addition to this, the BoG be seen to be proactively promoting the operations of formal transfer methods and act against illegal methods and should take positive enforcement action where appropriate against known illegal operators.

BoG should also consider allowing MTOs to transmit money out of Ghana as a solution to this growing menace. The Bank of Ghana currently does not allow MTOs to send funds out of Ghana. It is understood that the Bank of Ghana wishes to control foreign currency that is sent out of the country but a number of the MTOs feel that if this were allowed then it would result in improvements in the country. Permitting Ghana MTOs to transmit money will open up a new agent network, new outlets in Ghana, assist in financial inclusion and help financial literacy.

Regulation by the Bank of Ghana means that the remittance outlets are dominated by banks (and the Post Office) and do not reach the rural areas. A change in the regulations to open up the remittance service to other outlets – i.e. retail outlets and Ghana Post which would significantly improve access in rural areas.

Finally, there should be guidance on the limit for ID requirements for Ghanaians seeking to remit money being proposed by the European Union. The threshold of £900 in the UK and €1,000 should not be lowered significantly as this will drive a percentage of consumers away from the formal market.

In concluding, ladies and gentlemen, the use of formal channel remittances play an important role in alleviating foreign exchange constraints and supporting the balance of payments in many developing countries. The greater stability of remittances, compared with other capital flows, contributes to the stability of the recipient country's economy by compensating for foreign exchange losses due to macroeconomic shocks.

At the individual level, remittances play a significant role in reducing poverty. Beneficiaries often depend on remittances to cover day-to-day living expenses, improving their quality of life, as well as improving conditions in rural communities where financial capital is scarce for small business investment - impacting on national growth and capital accumulation.

Inflow of remittances therefore holds significant personal potential for Ghana's economic development.

In order to maximise the benefits of this, it is important that these inflows are channelled through the formal remittance market to enable more accurate recording of data, and to provide policy-makers with more reliable information with which to develop monetary and financial policy and regulations.

Thank you very much for your attention.