

Informal insurance arrangements in a transnational context: The case of Ghanaian migrants' networks

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Abstract

This paper investigates how informal insurance arrangements work between overseas migrants and their network of friends, family and business partners back home. It investigates two questions: Why do migrants remit back home? How does insurance work at the transnational level? Most studies investigate these questions based on household level data of remittance receivers, where information is one-sided. The analysis here is based on a matched sample of both remittance senders and remittance receivers. It takes the specific case of transnational networks of Ghanaian migrants residing in the Netherlands.

Transaction data collected in 2003-2004 in Ghana and The Netherlands are analyzed in light of theories on informal risk pooling. The paper shows that mutual insurance arrangements exist between migrants and network members back home. It further elaborates on the institutional arrangements that make such a system possible within transnational networks despite the fact that there is no geographic proximity to ensure effective monitoring and enforcement.

Key words – migration, remittances, insurance, transnational networks, Africa, Ghana

Introduction

This paper investigates how informal insurance arrangements work between overseas migrants and their network of friends, family and business partners back home. Informal insurance arrangements have predominantly been theorized at the village level (Ligon et al. 2002; Townsend 1994) where geographic proximity allows insurance partners to effectively monitor and enforce informal contracts. But how do informal insurance arrangements work over large distances? A few empirical studies look at informal insurance arrangements beyond the village boundary (Grimmard 1997; Rosenzweig and Stark 1989). This paper builds on this literature but rather than focus on consumption outcomes as is done by existing empirical studies, it analyzes the institutional arrangements that make such a system possible where there is no geographic proximity to ensure effective monitoring and enforcement, amongst migrants and the people they are in touch with back home. In so doing, it brings

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together literature on risk pooling in developing countries with literature on the New Economics of Migration (NEM).

In many developing countries formal insurance markets are missing or only partially exist due to difficulties in writing and enforcing market contracts, low educational levels, and high communication costs due to poor infrastructure. These factors, together with a risky environment lead to high premiums that most of the local population cannot pay (Besley 1995). Insurance in such societies is provided through mutual help relationships, otherwise called informal insurance arrangements, where the costs paid for being insured in times of need (called premiums) and the help ultimately received are not strictly defined. Empirical studies looking at such informal arrangements analyze consumption outcomes of these arrangements. In general, they find that those who are ensured have smoother consumption streams than those who are not (Doss, 2001, Grimard 1997, Rosenzweig and Stark 1989) attesting to some degree of insurance taking place.

While these empirical studies focus on outcomes, theoretical literature focuses on how such informal insurance arrangements work. Key to making such informal arrangements work, are effective monitoring and enforcement mechanisms (Stiglitz 1990, Arnott and Stiglitz 1991). These mechanisms ensure that people do not engage in riskier behavior just because they are part of such an arrangement (moral hazard) and that they will not opt out of a contract once they have received help (free riding). Platteau (1997) explains that monitoring and enforcement in informal arrangements can best be done in small, homogeneous groups in which customs, language and religion are shared, thus ensuring that there is a shared understanding by all participants of the “rules of the game”.

Indeed most work on informal insurance arrangements focuses on the household or village level where groups and communities tend to be homogeneous and can easily monitor and enforce their rights and duties (Arnott and Stiglitz 1991, Coate and Ravallion 1993, Platteau 1991, Platteau 1997). Alternately, Gluckman (1960) finds that moving away from a village may disrupt support networks. Dekker (2004) shows that in resettlement villages in Zimbabwe where households from across the country were brought together to form a village (i.e. where there is no history of geographic proximity), villagers tend to resort to individual forms of insurance (such as selling assets) more than in pre-existing villages where the population has been living together for a long time. Thus empirical studies and theory suggest that geographic proximity is fundamental for effective informal insurance arrangements.

A few studies do look at insurance on a larger scale, nationally (Rosenzweig and Stark 1989) or ethnically (Grimard 1997), and indicate that informal insurance arrangements seem to work even at these higher levels. These studies conclude that partial insurance exists between members of groups with ethnic or marital ties who live geographically dispersed because their consumption is partially influenced by the income of the group as a whole. This conclusion suggests that people who are socially proximate, that is, linked by ethnic or marital ties, have ways of monitoring and enforcing informal contracts through these ties. Yet because they focus on consumption outcomes, these studies leave unanswered how such monitoring and enforcement works over great distances. This paper seeks to explain, similar to what

Greif (1993) did for another form of long-distance contract, how informal insurance works within social networks of geographically dispersed people.

NEM studies address the question of whether migration provides insurance. NEM literature seeks to explain why people migrate and the reasons they remit. Contrary to neo-classical economic models that explain migration as a reflection of wage differentials between countries, NEM theory argues that migration is a household level strategy for dealing with risk (Stark and Levhari 1983, Lucas and Stark 1985, Stark and Bloom 1985, Taylor 1999). Remittances are explained as the outcome of a self-enforcing contractual arrangement between migrants and their families in which both parties expect to be better off. The family helps the migrant to move to where he expects to have better income opportunities. The migrant then sends remittances either as delayed payment for the initial investment the family made to send him on migration, or as insurance to the family in times of shock (Stark and Lucas 1988, Gubert 2002). In this latter case, remittances help households deal with imperfect or non-existing insurance markets by way of providing households with an external source of income not prone to the same risks as locally earned income. What make the migrant abide with the contract are his altruistic feelings towards his family and/or his desire to be eligible for the family inheritance, usually land or cattle (Hoddinott 1992, de la Brière 2002).

Indeed Lucas and Stark (1985) find evidence in Botswana that a migrant will remit more to his household after the household experiences a shock, attesting to remittances fulfilling an insurance function for the rural household. De la Brière et al. (2002) show further that motives for remitting depend on gender, household composition and the migrant's destination.

NEM empirical studies such as those mentioned above, deduce migrant motivations from data collected from receivers of remittances. Very few studies include migrants in their samples. Hoddinott (1994) uses one of the few economic data sets where some migrants are also interviewed. Otherwise, most work linking migrants with their families back home are anthropological case studies (Mazzucato 2005b, Portes 2004)².

Thus a growing body of literature exists investigating the effects of remittances on income and consumption streams of the receiving household (Adams 2004; Lucas 2005), but, as concluded also by Doss (2002), more needs to be known about how informal insurance works between the migrant and her family. This study uses a matched sample of Ghanaian migrants living in The Netherlands and at least a subset of their social network members based in Ghana. As such, it can contribute to an increased understanding of how informal insurance works, by including information from migrants in the analysis. Are migrants really concerned with inheritance? The only evidence we have is that richer families tend to receive more remittances than poorer families, all things being equal (Lucas and Stark 1985; Schrieder and Knerr 2000). In Ghana, where there is a land market and fertile land is still available in the central and southern parts of the country, inheritance does not seem to be a top

² De la Cruz (1995), for example, conducted a case study of five Mexican families and their migrants in the United States. Klaver (1997) also studied Mexican families and their migrants in Los Angeles. An important exception is Osili (1998).

priority of migrants, as results from our in-depth interviews of 29 migrants living in The Netherlands.

Altruism, the second motivation stipulated by NEM theory, still leaves some questions. Why would a migrant accept conditions of adverse selection in which he enters a contract with people who, once he receives his new income stream in his new country of residence, are all worse off than he is, and will constantly be making requests to him? Furthermore, altruism is bounded when confronted too often with moral hazard and thus requires some monitoring and enforcement of the family back home. A frequent complaint of migrants throughout the research was that their families too easily make financial requests of them: “they think that money grows on trees, here in Europe!” How does a migrant monitor and enforce, when the condition favorable to such activities, geographic proximity, such as explained in the insurance literature, is not present?

Finally, both insurance and NEM studies most often take the household as the relevant unit of analysis. NEM models conceive migration as a contract that emerges from negotiations between a migrant and the household from which she comes, represented by the household head. This assumes that the migrant knows what conditions she will meet in her new destination and can adequately negotiate terms for a contract with her family. It also assumes that the family consists of a household, located in one place, whose interests and objectives for remittances coincide. This paper investigates these assumptions. Are those who receive insurance remittances primarily household members? If not, who does receive and how is it decided who receives and who does not?

The paper is organized as follows: section two explains the multi-sited research design and methodologies used to collect data at the transnational network level. In section three we investigate whether migrants actually provide insurance for members of their transnational network. Evidence indicates that they do, so in section four the way in which insurance works at the transnational level is analyzed by looking at who is insured and at what scale. Section five investigates how monitoring and enforcement are conducted at the transnational level. The paper ends with a summary and conclusion section.

II. Background and methodology

Ghana is a good case through which to study transnational phenomena. The roughly 3 million Ghanaians living abroad sent an estimated US\$1 billion in remittances in 2003 (Addison 2004). Total remittances are likely much larger as Mazzucato et al. (2004) estimate that 65% of remittances are sent through unofficial channels and thus escape formal statistics. This puts Ghana side-by-side large emigration and remittance-receiving countries such as Mexico and The Philippines.

The main Western destinations of Ghanaian migrants are the US and Canada, UK, Germany, Italy and The Netherlands. The majority of migrants to the West have historically been Akan because they benefited from the cocoa boom of the 1970s however recent trends show that other ethnicities from central and southern Ghana are also migrating to the West. The Akan are a matrilineal ethnic group. This study focuses on Akan migrants to The Netherlands.

There are 18,000 officially registered Ghanaians in The Netherlands making it the second largest group from sub-Saharan Africa in the country; however, unofficial estimates are on the order of 40,000 (Mazzucato 2005a). In general, migrants from Ghana are both highly skilled and unskilled, however, The Netherlands tends to attract a majority of unskilled migrants, those highly skilled, preferring Anglophone countries.

Data were collected using a multi-sited research design. First a network survey based on 17 name-generator questions was conducted among 100 Ghanaians living in Amsterdam. No base line survey of Ghanaian migrants in The Netherlands exists. The survey was therefore conducted by randomly selecting migrants encountered through 11 different gateways (2 churches, one cultural project, 2 prominent people in the Ghanaian community in Amsterdam, 1 workplace, 3 hometown associations, chance encounters, and from initial contact with migrants' family in Ghana). Given the diversity of gateways we obtained a wide scope of 'types' of Ghanaian migrants in the Netherlands.

Second, a sample of 33 ego-centered networks was selected based on a) individual characteristics of the migrant (sex, age, wealth, education and length of migration period) and b) network characteristics (size and density). The migrant is at the center of the network and the network members are those with whom he or she transacts. Four research projects were carried out in order to study the 33 networks in the four main geographical nodes where network members were located: Amsterdam, Accra, Kumasi and rural towns in the Ashanti Region. This resulted in a matched data set of migrants together with at least a subset of their network members located in Ghana, totaling 131 respondents. Each of the respondents was followed over a one-year period (July 2003- June 2004) in which the same research tools were used in the four locations to collect simultaneous and comparable data for all members of the network. This allowed us to collect data from both senders and receivers of remittances.

Various methods were employed to collect in-depth data from the 33 networks³. A network survey was conducted with the selected members of a migrant's network based on the same name-generator tool used for migrants. A transaction study was conducted in which transactions⁴ were recorded for 115 of the 131 respondents on a monthly basis over the one year period, resulting in 16,735 transactions. Collecting information from both sides (migrant and network members back home) shows with what intentions remittances are sent and how they ultimately get spent. The transaction study focused on eight domains of life important for Ghanaians: housing, business (including farming), church, funerals, education, health care, community development and remittances for general sustenance. In-depth interviews were conducted on the eight domains and life histories were collected focusing on the role of network members in a person's life. Finally, informal conversations and observation were used at various social occasions attended between June 2002 and February 2005 in Amsterdam and between May 2003 and August 2004 in Ghana.

³ In four cases the migrant did not want to take part in the research and only his network members were interviewed.

⁴ Transactions are defined as when communication (through telephone, post, cassettes, physical travel, or computer), goods, money or services are exchanged.

III. Is migration a form of insurance?

There are various ways in which remittances from Ghanaian migrants get used back home (Figure 1). Through remittances, migrants help pay for medical bills, educational costs, funerals, community development projects, and they provide for subsistence needs through gifts of cash, or building/renovating houses for the extended family and helping people at home to finance a businesses. Migrants also give gifts in the form of consumer goods (hi-fi equipment, mobile phones) and cash for which the use is not specified. Finally, migrants also send remittances for their own personal benefit such as building their own homes or financing their own businesses.

[Figure 1 about here]

Not all these remittances can be considered as providing insurance. An insurance event must involve a degree of unpredictability; otherwise people could plan for it and not need to rely on an insurance arrangement, as one would know exactly if and when the event will occur. An insurance event must also involve a substantial financial cost otherwise people would be able to pay for the events on their own (Dercon 2000). Health care and funerals are events that are both unpredictable and very costly, making them domains for which insurance is needed. Although these domains do not comprise a large share of total remittances sent, they nonetheless are of vital importance to those receiving them; in the case of illness, for some this means avoiding death, in the case of funerals this means avoiding disrepute of a family, as will be explained below.

Illnesses in a developing country, where diseases are many and health care is scarce, are contracted by people of all ages and can quickly and unpredictably lead to death. In such cases, sudden and large requests will be made of migrants to help incur the costs of hospital fees and medication. Funerals too are unexpected and costly events. The death of a relative cannot be predicted. Furthermore, funerals in Ghana are of great cultural importance for the Akan but also more generally for most ethnicities inhabiting central and southern Ghana (Aborampah 1999, Arhin 1994, De Witte 2001). A large funeral is one of the most powerful ways for matrilineal members of an extended family to gain prestige and respect in their community. Funerals thus are costly events running easily into the thousands of euros. When there is a migrant in the family overseas in the developed world, the funeral will most often be financed primarily by him or her (Mazzucato et al. forthcoming) leading to the popular perception in Ghana that ‘migrant-financed’ funerals are the most grand (Kabki et al. 2004).

During the one-year of quantitative data collection, we encountered 21 cases of illness or funerals of a close family member of a migrant. Remittances for these purposes were made in bulk sum at the time of the request and not paid from a regular stream of remittances that the recipient may have received in the past. Finally, according to the migrants, no return payment is expected, however, as we will note later, past behavior of the recipient is important, determining whether the migrant will abide by the request. Table 1 shows the range of costs these events entail.

Table 1. Remittances for health care and funerals (2003-2004)

	No. of cases	Average amount sent by migrant		Average share of total yearly remittances		Share of monthly income	
		(Euro)	s.d.	(%)	s.d.	(%)	s.d.
Illness	13	140	130	3	2.5	15	15.5
Funeral	8	1,230	2,340	17	16.0	165	314.0

Source: Transaction study 2003-2004.

IV. How do informal insurance contracts work over large distances?

Insurance within a transnational network raises several questions. First, why does the migrant provide insurance when he is overseas where it is easy for him to opt out of the contract? Second, does the migrant insure household members or is the insurance contract between larger groups of people? And third, how do effective monitoring and enforcement occur at the transnational network level? The following section answers these two questions.

Who receives insurance?

NEM conceptualizes migration and insurance as a contract between a migrant and his or her household. Here we investigate the insurance events summarized in Table 1, to see who the receivers of insurance are. Are they indeed members of the migrant's household?

Kin relationships still seem to be the guiding factor determining who can lay claims with a migrant and to whose claims the migrant will abide (Table 2). In the insurance cases we recorded, the majority of remittance receivers were kin-based relations and especially from the matriliney. In the case of funerals, this can be explained by the fact that customarily it is the matrilineal family members of the deceased who are responsible for organizing the funeral. However, one could also imagine the possibility of a migrant funding a friend's funeral. While this happens in the form of donations made by the migrant at a friend's funeral or the funeral of a close relative of a friend, the amounts are much smaller than when the migrant organizes a funeral for his own family.

Table 2. Share of type of relationship to migrant of receivers of insurance (2003-2004).

	Health (%)	Funeral (%)
Maternal family	59	35
Paternal family	3	13
Sibling	17	13
Child	0	6
In-law	0	3
Non-kin	21	26
Self	0	3
<i>Total</i>	<i>100</i>	<i>100</i>

Source: Transaction study 2003-2004.

The importance of kin relations begs the question whether the household is the relevant unit within which insurance is provided. Most studies on informal insurance collect data at the household level. Even when larger scales are researched, such as village or ethnic group, data are collected based on household sampling. The standard

definition of a household as those members who live together and eat out of one common pot, defines households as geographically proximate members. We investigate whether remittance receivers are indeed from one household by looking at whether, in those cases where a migrant helped two or more people in an insurance event in one year, those helped are from the same households. Table 3 shows that in all such cases people were not from the same household. Insurance receivers came predominantly from the same region but not the same village, town or city. Tables 2 and 3, thus, indicate that kin relations at a higher scale than the household level are the main receivers of insurance, concurring with results obtained by Grimard (1997).

Table 3. Location of members helped in an insurance event (2003-2004)

When more than one blood or marital relations was insured:	
Share of people from one household (%)	0
Share of people from 2 households (%)	50
Share of people from more than 2 households (%)	50
<i>Total (%)</i>	<i>100</i>
Are households located in the same village/town/city?	
Share of households in one village/town/city (%)	25
Share of households in more than one village/town/city (%)	75
<i>Total (%)</i>	<i>100</i>
Are households located in the same region?	
Share of households in one region (%)	75
Share of households in more than one region (%)	25
<i>Total (%)</i>	<i>100</i>

Source: Transaction study 2003-2004.

Mutual insurance

There are various reasons why a migrant provides insurance to kin relations and that these relations span beyond the household. One reason is that he is emotionally tied to kin. No one wants to see a close relative die due to lack of health care when one is in the position of being able to pay for the care. This is the altruism motive referred to in NEM literature (Stark and Lucas 1988; Agarwal and Horowitz 2002). Another reason is that goods and land are inherited via the matriliney. Thus one's inheritance is determined by how one acts vis-à-vis matrilineal members of the family. Indeed, the primary beneficiaries of remittances for health care and funerals are matrilineal members of the extended family (Table 2). The PNDC Inheritance Law of 1997 makes a person's nuclear family the direct inheritors of one's goods and land, however, in practice, inheritance continues to pass through the matriliney. A final reason why migrants tend to help kin relations is that their objective is to return to Ghana and ultimately be buried there with a grand funeral attesting to their lifelong achievements. As extended family members are responsible for organizing one's own funeral, this is also an incentive to help extended family members when they are in need.

However, if the above-mentioned reasons were the only reasons for a migrant to provide in times of need, this would not be a form of informal insurance because the migrant is just doing something to obtain another objective, say inheritance, and this something that he does, happens to have an insurance effect. For a mutual insurance arrangement to exist there has to be a pooling of risks i.e., all participants have risks

that they insure through migration and when an event occurs participants contribute to alleviating the income shock. Our findings suggest that such pooling of risks within a transnational network does occur. This phenomenon is often overlooked in migration literature that tends to focus on a one-way flow of goods and money from the migrant to the home community. However, the migrant also receives insurance from members of his network in his home country.

A migrant's life in a developed country is full of unpredictable risks for which he needs to insure (Mazzucato 2005a). A migrant may encounter difficulties while trying to obtain a staying permit, get duped during a marriage transaction and/or may be caught without appropriate documentation and be sent to prison. None of these situations is foreseeable by the migrant and all require the migrant to obtain help, both financial and in terms of services. Table 4 gives for each insurance event, how many respondents encountered such an event, an indication of how unpredictable and urgent these events are and who is called upon for help.

Table 4. Insurance events for migrants in The Netherlands

Insurance event	no. of cases	service	unpredictability	urgency ¹	from whom
Getting a staying permit legally (N=18)	18	paperwork in Ghana	+	+	family and friends in Ghana
Getting a staying permit in the black market (N=7)	7	finding a candidate candidate paperwork	++	++	family and friends in Ghana and The Netherlands
Rectifying a marriage deal gone wrong (N=2)	2	arbitration	++	+++	family and friends in Ghana and The Netherlands
Getting released from prison (N=2)	2	getting you out of prison	+++	+++	family and friends in Ghana and The Netherlands

Source: Life histories (2003-2004), N=29.

Notes: ¹Urgency is used as a proxy for financial cost as the help that is needed from people in Ghana a service like obtaining correct documentation, arbitration, obtaining accurate information, etc. These services are not quantifiable in terms of financial costs but are more or less urgently needed. They gave therefore been ranked from most unpredictable and urgent (++++) to least predictable and urgent (+).

Interviews conducted in Ghana with members of migrants' social networks revealed that people usually have a realistic picture of what migrants' lives are like in The Netherlands. Potential migrants should therefore be able to foresee what may happen to them when they migrate. However, different aspects make these events remain unpredictable. First, one does not have the certainty that they will occur. Some people are lucky and are never caught, or encounter honest marriage partners. The chance that things can go well for a migrant, makes each potential migrant, even though aware of the risks, believe that things will be different for him. Secondly, migration policy in The Netherlands and in Europe has changed quite dramatically and frequently over the past 20 years, becoming increasingly stringent towards migrants. This made it so that a potential migrant may have gotten outdated information about the ease of obtaining documents in The Netherlands that was no longer valid once the migrant arrived in The Netherlands.

These events for which a migrant needs to insure occur at a specific phase in her migration trajectory. This phase is becoming of increasingly long duration. Life histories showed that migration trajectories of Ghanaian migrants in The Netherlands have three phases (Table 5): first, the preparation phase in Ghana to gain the money and documents necessary for the trip; second, the installation phase in The Netherlands during which migrants regularize their stay by obtaining the necessary documents; and third, the settled phase in which they have succeeded in obtaining their documents and are free to create their livelihoods in The Netherlands. The second phase of the migration trajectory is when a migrant is most likely to encounter an insurance event. In the 1980s and first half of the 1990s the second phase of undocumented stay in The Netherlands lasted between 2 to 5 years. However, with increasingly stringent visa policies in The Netherlands and in the rest of Europe, the period of having illegal status and waiting for papers is becoming longer with the longest in our sample being 10 years and counting.

Table 5. Migration phases and directionality of important help remittances

Flow of help remittances	migration phases		
	phase I	phase II	phase III
Ghana to The Netherlands	++	++	-
The Netherlands to Ghana	-	+	++

Source: Life histories (N=29)

Migrant experienced insurance events

All of the migrant experienced insurance events entail substantial financial costs, however, the role of people in Ghana is primarily that of providing a service that is deemed necessary for solving the migrant’s insurance event. Below follows a description of the events and the kind of services that are needed. Respondents without papers first try the cheapest route of obtaining papers via the official channels. This entails a lot of work in Ghana in collecting the necessary documentation and informing all those who might be interviewed by the embassy controllers, on what answers to give. This system is necessary because the Dutch embassy employs strict documentation verification that is virtually impossible to satisfy for Ghanaians older than 30 because the kinds of documents needed and the consistent documentation system needed to satisfy embassy requirements did not exist 30 years ago. This means migrants need to have documents made, school records changed, hospital birth records forged and the extended family informed about the ‘official’ answers to be given to the controllers who come around to one’s village to verify all information put in the application form. One friend or trusted family member in Ghana will be entrusted with collecting forms at the embassy, entailing many hours of waiting in lines at the different agencies that issue documents, much time spent traveling and enormous co-ordination efforts. These services entail a large input from the family or friend in Ghana, and were the service not given, leads to not obtaining a staying permit which in turn has high financial consequences for the migrant. These services are needed within a short time span and are unpredictable for the migrant and thus qualify as an insurance event.

Obtaining documents in the black market means in most cases that the migrant needs to find a “marriage partner” with legal documents. After 3 years the migrant can divorce and has the right to a staying permit in her own right. Again here, migrants

make use of friends or family in The Netherlands or in Ghana to put them in contact with a potential candidate. Migrants are in extremely vulnerable positions vis-à-vis the marriage partners because the costs of the marriage need to be made up front. Many are the occasions in which a migrant loses his money on a deal gone wrong. Thus finding a good candidate depends highly on finding him through a trustworthy friend or family member. Again, not finding a good candidate leads to great monetary loss and having to find a candidate is an unpredictable event. The quicker a candidate is found, the less risks a migrant has of being caught and put in prison or deported. We therefore consider this to be an insurance event.

In the case of having been caught and put in prison, again the migrant relies on friends and family in The Netherlands who can provide various services for him while he is in prison, such as buy him calling cards to use in prison, contacting his employers (undocumented migrants often have jobs in the black market or work with documents of someone else) to give an explanation for his absence in order not to lose the jobs, hiring a lawyer, and taking care of any bills that need to be paid. The family in Ghana may also be called upon. In the case of our respondent the family in Ghana was asked to provide help by going to special prayer camps with pastors believed to have powers to resolve paper problems (van Dijk 1997). This involves financial costs for the family back home for travel and donations made at the prayer camp. Again, being put in prison is an unexpected event with high financial costs, and being able to mobilize one's network to be released from prison leads to a smaller income shock. This too, thus, we consider to be an insurance event.

V. Monitoring and enforcement within transnational networks

As explained in the introduction, monitoring and enforcement are key principles for making informal insurance contracts work. The literature on insurance explains that geographical proximity is fundamental for enabling monitoring and enforcement of contracts. This is because geographical proximity allows people to see what the others are doing, that when someone makes a claim they are indeed experiencing a difficulty, and that when the claim is abided by, the help obtained is indeed used to alleviate the difficulty and not for some other purpose. Geographical proximity also means that the participants of an informal insurance scheme are more or less homogeneous in terms of norms and values so that the 'rules' of the informal insurance scheme are generally shared and accepted. However, international migration provides an interesting paradox because while some degree of risk pooling is obtained within a transnational network, there is no geographical proximity to ensure monitoring and enforcement. This translates into two questions: 1) how do migrants ensure that family members really are experiencing an insurance event when they make a claim to the migrants, 2) how do migrants ensure that once they satisfy the claim, the money they send is indeed used for that purpose?⁵ These two questions we handle here below.

An analysis of 100 Ghanaian migrants' transnational networks showed that 10 % of migrants had a trusted friend, i.e. non-kin member, whom they entrusted with overseeing activities in Ghana of financial importance such as the construction of a migrants' house. In-depth interviews of 29 migrants further revealed that friends are

⁵ As migrants receive services related to their insurance shock, the reverse questions relating to how family ensures that migrants really are incurring an insurance shock, are not relevant.

often entrusted with the management of a migrant's remittances to make sure that they reach the desired beneficiary and that the remittances indeed get used for the purpose they are intended (Smith and Mazzucato, 2003; Mazzucato 2003). These services of monitoring and enforcement provided by the friend also apply to insurance events. This we can illustrate with an example from our case studies:

Ama needed to send money to Ghana to pay for the visa and passport for her youngest daughter to come and join her in The Netherlands. Ama had a son in his twenties conveniently living in Accra where all the documentation services are located. She wanted to ask him to arrange for the documents, however, she also knew the great temptation the money she remitted would represent for this young man, living in a capital city where most consumer products are readily available. She solved this problem by sending the money through a male friend of hers in Accra. She explained, "if I give the money to him [the friend], my son will know that he is being checked and will not use the money for something else."

Why do people use friends for monitoring and enforcement? Interviews with migrants indicated that migrants have more sanctioning power over a friend who misbehaves than over a family member, where custom makes it difficult to sever relationships with kin (Mazzucato 2003). Also kin members are more easily influenced by other kin members and can be persuaded to misreport information back to the migrant. Looking at the characteristics of the friend showed that friends are not in financial need therefore are less likely to be tempted to divert some of the remittances for themselves. They also had for the most part a migration experience, and thus knew that money is not easy to come by overseas.

Another enforcement mechanism also helps to ensure that family does not lay false claims with migrants: the repeated nature of help-remittances. If family makes a claim and do not use it wisely, having abided to one claim makes it possible for the migrant to reject abiding to another claim. We illustrate this principle with Dan:

Dan's mother needed help in meeting her daily consumption needs. Dan therefore sent her money to invest in a trading business, the income from which would help her cover her consumption needs. The mother used this money, despite Dan's advice to the contrary, to provide a loan to a business partner. In fact, his mother's idea turned out not to have generated the income she had expected. Dan considers his mother to have 'misused' the money. His mother subsequently approached him for help in repaying the large debt that she had incurred and Dan refused. This refusal is very significant especially within the context of Akan matrilineal society in which one's mother is a very important figure. Dan explained his refusal as legitimate because his mother misused his previous help. This explanation is generally accepted by the members of his extended family, as can be seen by the fact that they do not penalize or sanction him in any way for refusing to help his mother.

The commonly held principle, that help misused disqualifies one from subsequent help is a reason why those who lay claims are discouraged from laying false claims.

Another enforcement mechanism is cultural proximity. Virtually all of the members of the 29 migrants' networks are Ghanaians and of these, virtually all from the same ethnic group, the Akan. This means that while there is no geographical proximity, cultural proximity ensures that people have similar norms and generally abide and agree to 'the rules of the game' (Platteau 1997).

Finally, migrants in the third phase of the migration trajectory travel to and from Ghana with regular and frequent visits. During these visits they can monitor and enforce informal insurance contracts themselves by, for example, bringing money for a funeral to Ghana and disbursing it themselves.

Summary and conclusion

This paper has looked at how informal insurance arrangements work between a migrant and his network of family, friends and business partners back home, taking the case of Ghanaian migrants based in The Netherlands. Three main points are summarized and a suggestion is made for future research.

First, migrants send remittances back home for various purposes, one of which is to provide their network members with insurance in times of shocks. In our sample, most remittances went for investments in housing and business and just under 10% went to provide insurance during an insurance-related events. While the percentage of overall remittances going for insurance purposes is small, this does not negate the fact that insurance in times of crises can have a large effect in terms of avoiding calamities such as death (in the case of health remittances) and disrepute of a family (in the case of funeral remittances).

Second, insurance occurs beyond the household and village boundaries. While insurance remittances from migrants went primarily to kin relations, seldom were these relations living in one household. Kin relations have different needs and compete for migrant remittances during insurance events. How it is determined who benefits, needs more empirical investigation.

Third, the paper has shown that informal insurance arrangements between a migrant and his family take the form of mutual insurance in which all members pool together their risks. Migrants also face risks that entail large financial consequences, creating the need for migrants to ensure themselves. This study found that network members based in Ghana provided services that helped migrants during an insurance event. These services are especially needed in the second phase of a migrant's migration trajectory when they are regularizing their stay. With the current anti-migration policies in Europe, this phase is becoming increasingly of longer duration.

Various institutional arrangements exist that make monitoring and enforcement of these contracts work. Besides the repeated nature of insurance events and cultural proximity, already identified in the literature, this study finds friends play an important role in transnational insurance arrangements by providing the necessary monitoring and enforcement mechanisms needed to avoid problems associated with moral hazard.

This paper has highlighted certain concepts important in understanding how informal insurance works at the transnational network level. Some of these concepts concur with those mentioned in theories of informal insurance arrangements (the repeated nature of insurance events, cultural proximity) while others, add more detail to theories of the New Economics of Migration in terms of explaining migrants' motivations to remit (mutual insurance) and to theories of insurance in terms of the scale at which it works (kin relations at the transnational level) and the institutional arrangements used (the role of the friend). Future studies could try to quantify the importance of these concepts by designing migration surveys that specifically ask questions to both migrants and their transnational network members. One particular aspect of such surveys would be to quantify the services done for migrants (for example in terms of time spent), in order to value the insurance received by migrants from their network members back home.

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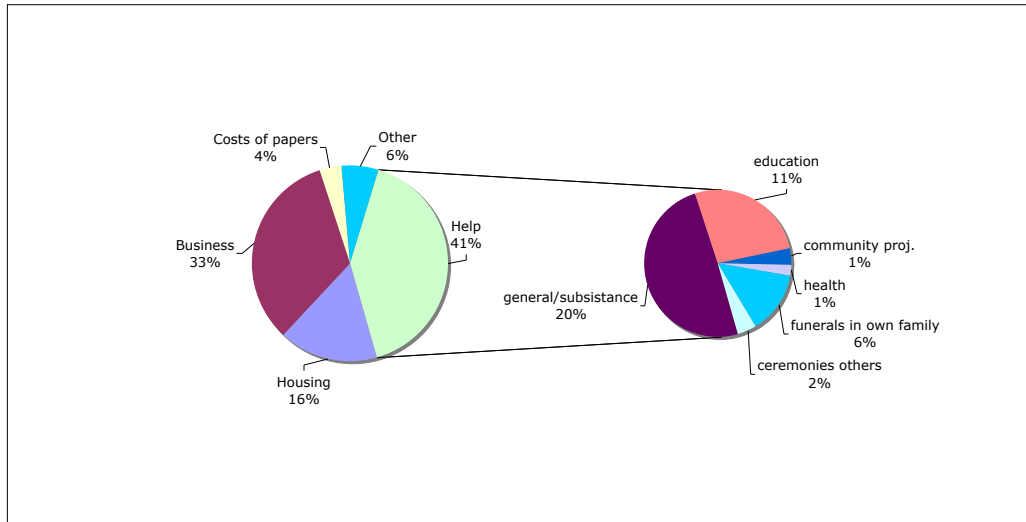
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Figure 1. Use of remittances sent from The Netherlands to Ghana (2003-2004)



Source: Transaction study 2003-2004.