

# **MAXIMIZING THE VALUE OF REMITTANCES FOR ECONOMIC DEVELOPMENT**

Michael R. Comstock  
Marco Iannone  
Romi Bhatia

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## **ABSTRACT**

Migrant remittances can play a critical role in the economic development of low/middle-income countries. Remittances to developing countries, which currently total over \$300 billion annually, are generally seen as an instrument to reduce poverty and inequality, to provide social benefits and multiplier effects, and to act as buffers against economic shocks. However, the full developmental potential of remittances is far from being realized. While the relevant stakeholders, from the financial institutions to actors from the public sector and the civil society, seem to appreciate the opportunity remittances represents, effective best practices to harness this opportunity are still to be identified. This report will endeavor to review remittance practices and relevant literature, and to outline existing as well as new solutions to maximize the impact of remittances for economic development, outlining the role that each stakeholder can play. It will also analyze the results of a TechnoServe / Microfinance International Corporation (MFIC) pilot project, funded by the International Fund for Agricultural Development (IFAD), which took place in El Salvador in 2008, and was aimed at helping small entrepreneurs leverage remittances to fund and grow their businesses.

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## 1. INTRODUCTION

Migrant remittances have been shown to play an increasingly important role in the economic development of remittance-receiving nations. Remittances, or transfers of money sent by international migrants to their family members in their countries of origin, have been steadily increasing worldwide over the last several years, by a growth rate of 164% between 2000 and 2006:<sup>1</sup> Figure 1 provides an illustration of the steady, rising trend of remittances sent worldwide. In fact, according to the World Bank, remittances now comprise the largest source of external finance for the majority of developing countries,<sup>2</sup> larger than both foreign aid, or official development assistance (ODA), and foreign direct investment (FDI). Remittances to developing countries amount to over \$300 billion per year worldwide and make up at least 10 percent of the GDP of 22 low/middle-income countries.<sup>3</sup> These transfers of \$100-\$400 each totaled 1.5 billion transaction based on official counts yet a great deal of transactions (upwards of 50% of all remittance flows according to some estimates) occur through informal channels and outside of the financial system.<sup>4</sup> It is undisputed that remittances play a crucial role in most developing countries, although the specific effects of remittances are still debated in recent literature, as illustrated in the next section.

*Figure 1.1.* Steady Rise in Remittances worldwide

Source: World Bank, Global Economic Prospects, 2006

Remittance flows can directly benefit recipient households, by decreasing poverty and inequality and increasing consumption and social wellbeing. These flows can also have multiplier effects for national economies and indirect benefits for small enterprises. However, the economic potential of these flows has historically gone largely unrealized throughout the world. While

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<sup>1</sup> World Bank <http://siteresources.worldbank.org>

<sup>2</sup> World Bank <http://siteresources.worldbank.org>

<sup>3</sup> Dilip Ratha <http://siteresources.worldbank.org>, <http://econ.worldbank.org>

<sup>4</sup> International Fund for Agricultural Development <http://www.ifad.org/>

some innovative financial institutions (FIs) and developing country governments are beginning to appreciate the possibilities of these financial flows, their full developmental potential is far from being maximized. Concerted efforts must be directed at establishing and improving the mechanisms through which the key actors, notably the individual remittance senders and recipients, can leverage these flows for developmental purposes.

While remittances can be leveraged at a ‘macro’ level, via institutional instruments such as diaspora bonds<sup>5</sup>, it is at the ‘micro’ level, for example via the development of ad hoc retail financial products, that we recognize the most potential. Among these products, money transfer services, savings accounts, credit, and insurance products appear to offer significant development potential. One way in particular by which remittances can be leveraged for development is through remittance-based credit for small and medium enterprise (SME) development. In 2008, TechnoServe, a U.S. -based non-profit organization aiming at providing entrepreneurial solutions for the economic development of low/middle-income countries, and Microfinance International Corporation (MFIC), a U.S.-based financial services company targeting the underbanked immigrant clientele in the U.S., partnered to promote the productive use of remittances to El Salvador, where remittances amount to 18% of GDP, by facilitating the sourcing of funding for small entrepreneurs in developing countries, with the goal of growing their enterprises thus generating income, employment, and economic stimulus.<sup>6</sup>

This report will provide an overview of recent remittance trends and relevant literature on their developmental impact. It will also outline remittance-based financial products and mechanisms that are currently being offered or could be offered by FIs to leverage remittances in developing countries, with specific recommendations for next steps for all the relevant actors. The structure of the paper is as follows. Section 2 will discuss the impact of remittances on economic development and provide a review of recent literature on the topic. Section 3 will explore the array of macro-instruments that can be used to leverage remittances in developing countries. Section 4 will provide an overview of retail financial products and mechanisms that can add developmental value if linkages with remittances is established. Section 5 will delve into the concept of leveraging remittance flows from diaspora communities as collateral for financing small and medium enterprises (SMEs) in developing countries, and will include an overview of the TechnoServe/MFIC pilot project mentioned above. Section 6 will discuss how civil society and public sector actors, notably the government of remittance-receiving countries, can facilitate the development of markets for remittance-based retail finance. Section 7 will provide insight into the future prospects of remittances and make suggestions for the implementation of remittance-based financial products. The final section will offer conclusions, summarize the potential of remittance-based financial products in development, and highlight the incentives for FIs to expand these services.

## **2. INTERNATIONAL REMITTANCES AND ECONOMIC DEVELOPMENT**

This section will provide a general introduction to remittances, summarize literature on the topic, and analyze the various ways in which remittances impact the economic development of the receiving country.

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<sup>5</sup> See section 3 for a detailed explanation of diaspora bonds

<sup>6</sup> See TechnoServe press release [www.technoserve.org](http://www.technoserve.org)

## 2.1 International Migration and Remittances

International migration, spurred by religious expansion, environmental crises, territorial conquest, political repression, or economic incentives, has traditionally occurred along certain corridors. According to the International Organization for Migration (IOM), there are currently more than 200 million migrants worldwide.<sup>7</sup> Top migration corridors include Latin America to the U.S., India to Britain and the Gulf States, Northern Africa and Eastern Europe to Western Europe, Former Soviet Union states to Russia, and China to Western Europe and the U.S. Figure 2.1 shows several of the important routes along which migration occurs. While migration has in some cases meant a severing of ties with home countries, migrants who leave their homes in search of economic opportunities often do so with the goal of supporting their families, and hence tend to maintain contact with their relatives. Advances in transportation and telecommunications technologies have increasingly facilitated frequent contact between migrants and their families. The most tangible way in which this interaction is manifest is arguably through remittances from the migrant to his or her relatives in their home countries. According to the World Bank, 190 million migrants (3% of the world population) sent home remittances in 2007, for a total value of \$355 billion, of which \$265 billion, or 75%, were directed to developing countries.<sup>8</sup> Putting that into context, the total aid influx to developing countries in 2007 was less than half at just over \$100 billion.<sup>9</sup>

**Figure 2.1.** Important Global Migration Routes



Source: National Public Radio; The Economist

In the same way that migration occurs along certain routes, remittances also tend to flow through several major corridors. For example, remittances are transferred in large volumes from the

<sup>7</sup> IOM <http://www.iom.int>

<sup>8</sup> World Bank <http://remittanceprices.worldbank.org/About/>

<sup>9</sup> OECD/DAC

United States to Latin America, Russia to Eastern Europe, Spain to Latin America, Western Europe to Africa, Singapore to South Asia, South Africa to other African countries, and Saudi Arabia to the Middle East and South Asia. Figure 2.2 illustrates some of the major corridors.<sup>10</sup>

**Figure 2.2.** Major Remittance Senders

<b>Sender</b>	<b>Major Recipients (in alphabetical order)</b>
United States	Brazil, China, Colombia, Dominican Republic, El Salvador, Ecuador, Guatemala, Haiti, Honduras, India, Jamaica, Lebanon, Mexico, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Thailand, Vietnam
Saudi Arabia	Bangladesh, Egypt, India, Jordan, Pakistan, Philippines, Yemen
Germany	Bosnia and Herzegovina, China, Croatia, India, Lebanon, Morocco, Romania, Serbia, Turkey
Russia	Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Tajikistan, Ukraine, Uzbekistan
Spain	Brazil, Bulgaria, China, Colombia, Dominican Republic, Ecuador, Morocco, Peru, Philippines, Romania
France	Algeria, China, Cote d'Ivoire, Haiti, India, Mali, Morocco, Senegal, Tunisia, Vietnam
Netherlands	Dominican Republic, Ghana, Indonesia, Morocco, Netherlands Antilles, Nigeria, Suriname, Turkey
United Kingdom	Bangladesh, China, India, Jamaica, Kenya, Nigeria, Pakistan, Philippines, South Africa, Sri Lanka, Uganda
Singapore	Bangladesh, China, India, Indonesia, Malaysia, Pakistan
South Africa	Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Zambia, Zimbabwe

Source: World Bank

The largest remittance-sending countries are typically large and comparatively wealthier countries in need of low-cost workforce in construction and low-skilled services, such as the U.S., Western European states, and Saudi Arabia. The largest developing-country recipients of remittances, as a percentage of GDP, have been very small developing countries such as Moldova, Tonga, and Guyana, while the largest in raw dollar amounts are the largest developing countries, such as India, Mexico, and China. Figure 2.3 summarizes the top senders and recipients of migrant remittances.

**Figure 2.3.** Top Senders and Recipients of International Remittances in 2006

<b>Largest Senders</b>	<b>2006 Amount (US\$ bn)</b>	<b>Largest developing country recipients by dollar amount</b>	<b>2006 Amount (US\$ bn)</b>	<b>Largest developing country recipients in terms of GDP</b>	<b>2006 Amount (% of GDP)</b>
1. United States	42.8	1. India	25.7	1. Moldova	38.2
2. Saudi Arabia	14.3	2. Mexico	24.7	2. Tonga	30.9
3. Switzerland	13.9	3. China	22.5	3. Guyana	21.6
4. Germany	12.3	4. Philippines	14.9	4. Haiti	21.2
5. Russia	11.4	5. Bangladesh	5.5	5. Lebanon	20.7
6. Spain	11.0	6. Pakistan	5.4	6. Tajikistan	20.2

<sup>10</sup> World Bank <http://remittanceprices.worldbank.org/CountryCorridors/>

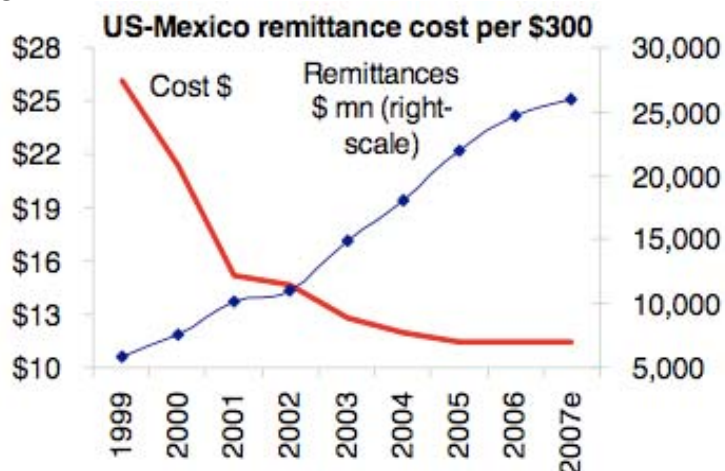
7. Luxembourg	7.5	7. Morocco	5.0	7. Honduras	19.6
8. Netherlands	6.7	8. Egypt	5.0	8. Jordan	19.6
9. Italy	5.8	9. Lebanon	4.9	9. Bosnia and Herz.	19.4
10. Malaysia	5.5	10. Vietnam	4.7	10. Armenia	19.1

Source: [World Bank](#)

Long-distance money transfer services, such as the informal, Islamic *Hawala* network of money brokers common in India, can be traced back to the eighth century, and the successors of this system, despite now channeling billions of dollars per year from industrialized countries into developing nations, and employing large banks and money transfer operators (MTOs) such as Western Union or MoneyGram as intermediaries, are still principally cash-to-cash transfers that do not pass through the formal financial sector.

The average price of remittance transfers has been steadily reducing over the last several years. For example, in 2005, the cost of remittance transfers was an average of 10% of the amount of the remittance, or \$20 for a remittance of \$200.<sup>11</sup> Today, many institutions are offering flat fees as low as \$5. As an example, Figure 2.4 shows the steady reduction in remittance transfer costs from the U.S. to Mexico since 1999 and the corresponding increase in remittances. The most expensive corridor through which to transfer \$200 is from Germany to China (\$49.30), while some of the least costly corridors are from Spain to Brazil (\$7.45) and the United States to El Salvador (\$9.17).<sup>12</sup> The World Bank predicts that reducing the cost of remittance transfers by 5 percentage points would save remittance senders an average of \$3.5 billion annually.<sup>13</sup> Lowering costs enables remitters to send higher quantities of money and makes it easier for remittance clients to use formal systems as opposed to less reliable and slower informal channels, such as relatives or friends physically carrying the cash across borders. Greater competition in money transfer services, and technological and process advancements, have thus significant development implications, which will be discussed in more detail below.

**Figure 2.4.** Remittance from U.S. to Mexico, Volumes and Transfer Costs



Source: [World Bank](#)

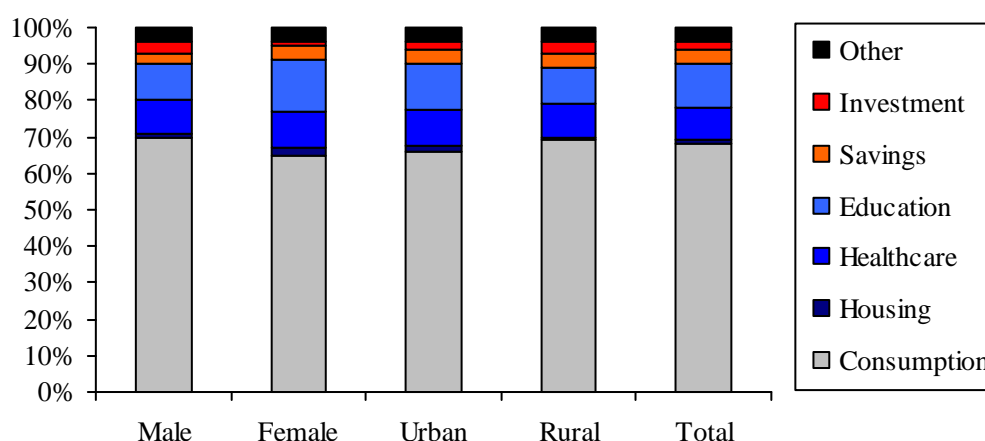
<sup>11</sup> Inter-American Dialogue (IAD) <http://www.iad.org>

<sup>12</sup> World Bank <http://remittanceprices.worldbank.org/>

<sup>13</sup> Dilip Ratha <http://siteresources.worldbank.org>

Remittances are used for a variety of expenditures, but are primarily directed toward consumption goods. As shown in Figure 2.5, taking the case of El Salvador, approximately 70% of remittances are used for consumption purposes such as food, utilities, and clothing,<sup>14</sup> while the remaining 30% represent includes health care, education, housing, with only 5-7% dedicated to savings or investments. Gender and the urban/local dimension do not have a strong impact on the use of the remittances, although women do tend to spend more on education and healthcare. Notably, remittances tend to be spent just like any other source of income, with income levels and household characteristics determining spending patterns more so than the source of income.<sup>15</sup>

**Figure 2.5.** Use of Remittances in El Salvador



Source: [El Salvador census, 2004](#)

The number of public, private, and non-profit organizations involved in leveraging remittances for development has increased along with increases in the cash flows. Private sector actors in the field of remittances include FIs such as banks and credit unions; non-bank FIs (NBFIs) like microfinance institutions (MFIs); and technology and telecommunications companies, among others. The major public and non-profit development organizations in the field of remittances include the Inter-American Development Bank (IADB) and its Multilateral Investment Fund (MIF), the World Bank, USAID, the International Fund for Agricultural Development (IFAD), and national governments, among others. For example, the IADB’s “Remittances as a Development Tool” program facilitates remittance flows, encourages remittance investment, and promotes the creation of new financial products for entrepreneurs.<sup>16</sup> Similarly, the World Bank works to achieve development impacts from migration and has a program to improve remittance data, reduce transfer costs, and improve money transfer systems.<sup>17</sup> USAID’s Diaspora Networks Alliance within the Global Development Alliance (GDA) encourages banks and MTOs to market

<sup>14</sup> UNDP <http://www.pnud.org.sv>

<sup>15</sup> See the example of spending patterns in terms of source of income in Ghana: World Bank <http://econ.worldbank.org>

<sup>16</sup> IDB <http://www.iadb.org>

<sup>17</sup> World Bank <http://web.worldbank.org>

services to remittance clients, supports the development of new remittance-linked financial products, and explores transfer technology innovations.<sup>18</sup> Donor agencies are increasingly directing remittances into development efforts like new financial services and community projects.<sup>19</sup> At a more micro level, hometown associations of migrants are important in directing remittances toward development in members' home countries.<sup>20</sup>

## *2.2 The Positive Impact of Remittances on Economic Development*

The positive impacts of remittances on economic development are numerous and multifaceted, as illustrated below.

First and foremost, remittances are a source of inflow of cash, increasing national income considerably. Remittances spent by any given recipient can create multiplier effects for national economies: every remittance dollar spent in local markets creates demand for services and products as well as the jobs required to provide them, thus contributing to overall economic development. Remittance recipients experience direct benefits such as reduced expenditure constraints through income augmentation. This additional income expands recipient households' options for consumption, reducing poverty and improving standards of living. Remittances help to reduce poverty almost immediately, and can have an income-redistributive effect that also decreases inequality.<sup>21</sup> Notably, as the money is sent directly to its recipients with virtually no intervention of the government or other intermediaries, the developmental impact of remittances is not dependent on good governance and reliable institutions in the receiving country, which often risk undermining the effectiveness of other inflows of foreign currency such as foreign aid or FDI.

Secondly, beyond the direct benefits mentioned above, remittance recipients can use the cash inflows to purchase assets, which in turn can be used as collateral to expand access to credit.<sup>22</sup> In countries with good investment climates, the inflows can be used toward investments in capital for small businesses, reducing credit constraints and increasing entrepreneurship.<sup>23</sup> As Economists Giuliano and Ruiz-Arranz explain, remittances can give "entrepreneurs who lack collateral, credit histories, and connections, the instrument to start high-return projects like businesses and improve allocation of capital."<sup>24</sup> These mechanisms allow remittance recipients to multiply the effects of remittances by moving beyond consumption of the money flows toward production investment of the transfers.

Thirdly, remittances produce social benefits like increased school attendance and health care. Remittances often fund investments in the education of migrants' children or even the construction of schools. In the same way, health care is often paid for and clinics are often built

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<sup>18</sup> USAID <http://www.usaid.gov>

<sup>19</sup> DFID <http://www.dai.com>

<sup>20</sup> Hometown associations are organizations that allow immigrants from the same city or region to maintain ties with and materially support their places of origin. <http://www.migrationinformation.org>

<sup>21</sup> UNDP <http://www.pnud.org.sv>

<sup>22</sup> USAID <http://pdf.usaid.gov>

<sup>23</sup> World Bank <http://econ.worldbank.org>

<sup>24</sup> Giuliano & Ruiz-Arranz <http://imf.org>

using remittance inflows. As shown above, some 20% of remittances are used for education or healthcare, leading to higher education enrollment and individuals with health care coverage.

Fourth, remittances help to strengthen the relationship between the diaspora and the country of origin. This relationship can be leveraged in a number of ways. In a survey performed by the IADB, 52% of immigrants to the United States answered that they were “very interested” in the economic future of their home countries and had an interest in investing.<sup>25</sup> Investment in their countries of origin permits migrants to retain a stake in the well being of their home communities, which many migrants believe to be very important. Common investment aspirations included home ownership or the opening of small businesses in the immigrants’ home countries.

Fifth, remittances tend to be counter-cyclical and stable in the long run. As recipient countries’ economic performance declines, remittance senders in industrialized countries are more likely to transfer larger amounts of money to relatives back home, to support them in the more difficult times. Remittances thus increase during the downturns of the receiving country, as opposed to FDI flows, which often decrease. For instance, remittances to Central America have tended to increase immediately following devastating hurricanes.<sup>26</sup> Remittances from abroad therefore often make up for economic downturns and contribute to relief following major natural disasters. Furthermore, they serve as stable buffers against economic shocks in recipient countries due to their stability in the long run. The current global economic downturn will test the performance of remittances in economic downturns in industrialized remittance-sending countries and will be discussed in better detail in section 7.1, but evidence suggests that such circumstances may have limited effect on remittances sent abroad.<sup>27</sup>

Sixth, in addition to immediate effects on national income and growth, remittances can be harnessed to positively affect national economies through macroeconomic effects such as improving countries’ credit ratings, thanks to it being a reliable source of foreign currency. This would have the effect of expanding access to international capital markets for the financing of development initiatives.<sup>28</sup>

Lastly, remittances can help the development of the receiving country’s financial system, by generating demand for financial products and an incentive for FIs to accommodate this cash inflow.

Alternatively, remittance can act as a substitute when financial services are lacking, by satisfying credit and insurance needs the market has failed to provide.<sup>29</sup>

In sum, the receipt of remittances leads to economic growth and higher national incomes in developing countries while producing macroeconomic and multiplier effects. Remittances can reduce poverty and inequality while also increasing the recipients’ access to productive capital

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<sup>25</sup> IDB <http://www.iadb.org>

<sup>26</sup> World Bank <http://siteresources.worldbank.org>

<sup>27</sup> World Bank <http://siteresources.worldbank.org>

<sup>28</sup> World Bank <http://econ.worldbank.org>

<sup>29</sup> Giuliano & Ruiz-Arranz <http://imf.org>

for entrepreneurial development. Finally, remittance flows are constant and counter-cyclical and create social investment opportunities.

### *2.3 The Potential of Remittances*

Beyond the well-documented direct benefits associated with remittances, these flows have the potential to be leveraged in a way that would increase their impact on the economic development of remittance-receiving countries. The IADB reiterates a need for increased “financial democracy,” by which immigrants are presented with more options for using, saving, or investing their money.<sup>30</sup> Remittances can serve to bring people into the formal financial system. By marrying financial intermediation with remittances, the latter can be leveraged for a number of productive investments. Linking remittances and financial intermediation harnesses the development potential of the money flows by facilitating the building of assets needed for development and enhancing local markets through microfinance.<sup>31</sup>

While many remittance recipients experience poverty reduction and social benefits upon receipt of remittances, many additional benefits go unrealized. As remittance recipients integrate into the formal financial sector, they are able to establish professional relationships with FIs, build credit histories, and utilize savings plans for business or social investments (for example in education). New banking clients who approach banks initially for remittance services can also bring a host of other businesses.<sup>32</sup> The expansion of remittance-linked business opportunities in developing countries has also frequently led to considerable FDI. For example, upon expansion of business opportunities associated with workers’ remittances, Mexico received major FDI contracts valued at over \$14 billion.<sup>33</sup>

Some examples of products that are crucial to realizing the potential of remittances and are relevant to banks and money transfer operators include checking and savings accounts, check-cashing services, credit history-building products, home and education loans, insurance products, and small business credit, among others.<sup>34</sup> Savings accrued from the receipt of remittances, credit histories established through banking relationships, and leveraged sources of finance, for example, are all important in financing investments in small enterprises. For instance, the African Export-Import Bank’s Financial Future-flow Pre-financing Program uses migrant remittances as collateral to leverage external sources of finance to fund agricultural projects in Sub-Saharan Africa.<sup>35</sup>

Despite the potential untraditional benefits of remittances to remittance-recipients, remittance clients are still a widely untapped market for potential financial services. Furthermore, remittances are often not directed into productive investments for a number of reasons, including: 1) relatively small values of individual remittances, 2) lack of investment knowledge on the part of remittance clients, 3) irregularity in remittance transactions, 4) poor investment

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<sup>30</sup> IDB

<sup>31</sup> Orozco & Fedewa <http://www.iadb.org>

<sup>32</sup> World Bank <http://siteresources.worldbank.org>

<sup>33</sup> World Bank <http://siteresources.worldbank.org>

<sup>34</sup> IDB 2007

<sup>35</sup> World Bank <http://econ.worldbank.org>

climates in developing countries, and 5) lack of a perceived need to invest.<sup>36</sup> Public, private, and non-profit sector actors must therefore work to overcome these obstacles and promote the development of mechanisms through which remittance flows can be leveraged for productive investments in developing countries. Following sections of this report will outline in more detail the development potential of remittances linked to specific financial products.

#### *2.4 The Negative Effects of Remittances on Economic Development*

Several studies and authors have highlighted negative effects of remittances on development. Although consensus is hard to find, the most common critiques are as follows.

The first critique revolves around the assumption that remittances breed dependence and unemployment. Increases in remittances have been seen to increase levels of unemployment in remittance-receiving households by providing disincentives for work and investment. For instance, in El Salvador, one team of researchers has found a rate of unemployment in remittance-receiving households of 8.6%, versus 6.4% in non-remittance-receiving households.<sup>37</sup> Families that have historically worked in agriculture or factories, for example, replace wage-earning labor with remittances received from relatives abroad. Similarly, Shonkwiler, et al, use regression models to show that remittances to Armenia decreased the number of hours worked by remittance-receiving households.<sup>38</sup> The remittance receivers appear to be more likely to be unproductive members of their communities. Many authors are thus wary of the sustainability of remittances in the long run if usage patterns to stay as they are.<sup>39</sup> As a consequence, some authors, such as Ralph Chami, et al, of the IMF, are skeptical about the role of remittances in development, asserting that even with the right policies, remittances are hard to channel into development.<sup>40</sup> They claim that, despite the enthusiasm over remittances, the data on their development impact remain inconclusive. Using panel methods from several countries, they find that remittances have a negative effect on economic growth, due in large part to a moral hazard problem.<sup>41</sup>

A second critique entails macro-economic currency concerns. Large inflows of remittances can cause currencies or real exchange rates to appreciate. Studies have highlighted the inflationary impact of remittances brought about by high consumption.<sup>42</sup> As Fajnzylber and Lopez of the World Bank write, “remittances tend to drive up the price of non-tradable goods relative to that of tradable ones and therefore contribute to a real appreciation of the exchange rate.”<sup>43</sup> This makes export-driven businesses less competitive. In Honduras between 1993 and 2003, for example, remittances as a percent of GDP increased from around 2% to over 12%, which corresponded to an increase in the real exchange rate index.<sup>44</sup> The World Bank also notes that these flows often “necessitate fiscal policy responses or foreign exchange market intervention” in

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<sup>36</sup> Lopez <http://sitemason.vanderbilt.edu>

<sup>37</sup> UNDP <http://www.pnud.org.sv>

<sup>38</sup> Shonkwiler, et al <http://www.imf.org>

<sup>39</sup> Page & Plaza <http://siteresources.worldbank.org>

<sup>40</sup> See Chami, et al <http://www.imf.org/external>

<sup>41</sup> See Chami, et al <http://www.imf.org/external>

<sup>42</sup> Lopez & Seligson <http://sitemason.vanderbilt.edu>

<sup>43</sup> Fajnzylber & Lopez <http://siteresources.worldbank.org>

<sup>44</sup> Fajnzylber & Lopez <http://siteresources.worldbank.org>

recipient countries.<sup>45</sup> Because the magnitude of cash inflows from remittances can potentially bring negative consequences, as noted above, governments must address them when developing policies. According to the World Bank, “governments in countries receiving large remittances can mitigate the effects of real exchange rate appreciation by allocating a larger portion of government expenditures on infrastructure, making their labor markets more flexible, and practicing more liberal trade policies to improve labor productivity and external competitiveness.”<sup>46</sup> Beyond these fiscal concerns, remittances tend to increase consumer prices and interest rates, due to the greater supply of money in a given recipient country. Since this money supply is directed toward certain families, it has been argued that remittances risk raising inequality.

A third common critique of remittances’ impact on development is referred to as “Dutch disease,” or harmful consequences of large increases in a country’s income.<sup>47</sup> While the disease is traditionally brought about by a discovery of natural resources, it has been noted that many other increases in income for a given country, for example from large increases in aid, can have similar effects. In the case of large inflows of remittances, on top of the macroeconomic effects mentioned above, Page and Plaza of the World Bank note that much of the literature points to a “loss of externalities associated with technological mastery in manufacturing, particularly in non-traditional exports.”<sup>48</sup> As countries’ national incomes are dramatically increased with remittances, it is feared that other sectors of the economy will be left to suffer, resulting in severe implications for developing nations. Remittances can also delay needed reforms by minimizing the effects of ineffective government policies and relieving pressure to make changes.<sup>49</sup> Governments have a responsibility for providing myriad social services for citizens. Those services that are ineffective, for example subsidized health care systems, can be replaced by private services funded by patients who receive remittances, providing little incentive for governments to build capacity to provide their services.

Fourth, Ralph Chami et al also warn of potential moral hazard problems associated with remittances: for example, because of remittances may decrease recipients’ work effort, as described above, firms may disperse wages, keeping output low and inflicting a negative externality that is not priced out completely by the market.<sup>50</sup> Also, where remittances shield actors from economic risk by minimizing the negative consequences of non-viable business investment, there may be increased incentives to irresponsibly undertake uncertain ventures. Normally entrepreneurs and investors shoulder a great deal of risk when opening and developing fledgling business endeavors, primarily derived from the fact that many businesses do not survive in the medium or long run. But when these endeavors are funded by remittances instead of savings from one’s own labor, entrepreneurs may be more willing to start a business that has less chance of succeeding. As a source for business capital, then, remittances may subsidize non-viable enterprises in an impermanent way.<sup>51</sup>

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<sup>45</sup> World Bank <http://siteresources.worldbank.org>

<sup>46</sup> World Bank <http://siteresources.worldbank.org>

<sup>47</sup> <http://siteresources.worldbank.org>

<sup>48</sup> Page and Plaza <http://siteresources.worldbank.org>

<sup>49</sup> DFID <http://www.dai.com>

<sup>50</sup> Chami, et al <http://www.imf.org/external>

<sup>51</sup> Lopez <http://sitemason.vanderbilt.edu>

Financial products based on remittances may also “pose a money-laundering risk because they allow for quick, inexpensive transmission of funds across borders and... provide an uncertain audit trail.”<sup>52</sup> This risk could be mitigated by installing appropriate monitoring programs, which however rely on institutions capable of implementing them.

In summary, remittances can have negative effects on the receiving countries, notably by disincentivising employment and thus value creation, by increasing inflation and reducing the competitiveness of export-driven businesses, and by preventing the development of effective mechanisms of allocation of funds and delivery of services, both for the private and the public sector. It is to be noted, however, that these negative effects can, and should, be reduced or even annulled, and the positive effects amplified, by incentivising productive uses of remittances.

Thus, while it is not possible to control how ultimately remittance receivers choose to make use of this source of income, it is possible, and necessary, to develop instruments to empower them to use them productively, if they want to do so. The rest of this paper is largely dedicated to illustrate several ways in which to do so.

### **3. MACRO-INSTRUMENTS TO LEVERAGE REMITTANCES**

This section will explore several macro-instruments that are being used or could be used to leverage remittances in developing countries. Because remittance flows now exceed foreign aid and FDI, their impact is considerable not only for the receiving household, but also for the receiving economy overall. For remittances to be leveraged at macro-level, it must be noted that they must be transferred through formal mechanisms. Moving remittances towards more formal channels has also other advantages, including better institutional oversight of the money flows and incentives to financial inclusion.<sup>53</sup> The following are the most prominent instruments by which developing countries can leverage remittance inflows at a macro level.

First, developing countries can leverage remittances at a macro level to improve their access to international finance.<sup>54</sup> Receiving formal remittances can improve those countries’ credit ratings, thus lowering the cost of finance from international credit markets.<sup>55</sup> This is possible because remittances represent a reliable, long-standing, counter-cyclical inflow of foreign currency that is mostly uncorrelated to any other endogenous inflow/outflow. In other words, remittances can be used as an indicator to enhance a country’s credit rating, so that lending institutions such as the World Bank, or the IMF, as well as private banks, have more assurance that loans will be repaid and will thus be more willing to lend larger amounts at a lower interest rate. Thus, country governments should attempt to improve the accountability of records of remittance flows, to then provide them to international credit rating agencies, which can take remittances into account in the calculation of credit ratings. Remittances can then permit receiving countries to get access to greater and less costly country-level credit: reducing credit constraints to national governments allows for investment in development-related projects or

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<sup>52</sup> FDIC <http://www.fdic.gov>

<sup>53</sup> IDB <http://idbdocs.iadb.org>

<sup>54</sup> World Bank <http://econ.worldbank.org>

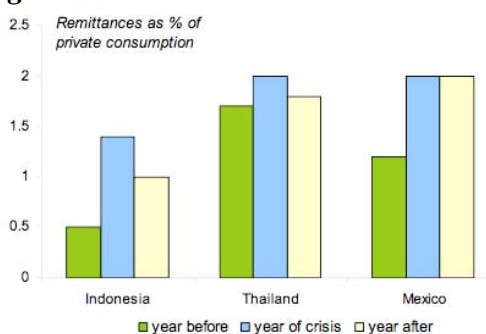
<sup>55</sup> World Bank <http://siteresources.worldbank.org>

programs that can increase economic or human development.<sup>56</sup> This expanded credit line does not necessarily need to be tapped into: it can also be treated as a shock absorber in times of need, thus acting as a macroeconomic stabilizer.

Secondly, and related to the issue above, remittances have been used in future-flow securitization to access international markets for external financing.<sup>57</sup> Although this debt is inflexible, it is less costly and matures over longer time periods. In 2001, Banco do Brasil issued \$300 million worth of bonds using future yen remittances from Brazilian workers in Japan as collateral, which offered much better terms and credit ratings than sovereign loans.<sup>58</sup> Dilip Ratha of the World Bank expects that with an ‘over-collateralization ratio’ of 5:1 (meaning that one dollar of debt is incurred for five dollars of receivables), developing countries could earn \$7 billion per year through remittance-backed securitization.<sup>59</sup> This assumes that approximately half of all remittances pass through formal banking systems. He notes that countries like Turkey, Mexico, Panama, and El Salvador have all successfully utilized remittance-backed securities to raise external finance. This type of securitization has provided developing economies with access to international markets during worsening sovereign risks.

Third, remittance inflows can act as informal, de-facto stabilization funds during times of unpredictable foreign investment into developing countries.<sup>60</sup> Because, as already pointed out, remittances to developing countries, unlike other inflows, tend to behave counter-cyclically by increasing after crises (shown in Figure 3.1, with reference to the Asian crisis of the past decade), receiving large amounts of these flows helps in the long run to stabilize a developing country’s balance of payments. Remittances thus provide a unique source of income by which developing countries can stabilize their economies. While this has development investment implications, the fact that remittances to developing countries are counter-cyclical means that the flows could have significant relief potential following natural disasters and other crises. Notably this naturally stabilizing effect is fully captured only if beneficiaries of remittances are empowered to leverage remittances at best, something explored in the next section.

**Figure 3.1.** Increase in Remittances after Crises



Source: World Bank <http://siteresources.worldbank.org>

<sup>56</sup> This mechanism to help developing countries improve access to international finance acts in the same way as remittances can help small business owners access capital at the micro level, as illustrated further in the next two sections.

<sup>57</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>58</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>59</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>60</sup> World Bank <http://siteresources.worldbank.org>

Finally, funds raised from diaspora bonds, or bonds targeted at the diasporas in remittance-source countries, can be used to finance development projects in the developing world. Governments of developing countries can work to provide private investment opportunities for diasporas in the U.S. and other countries. These bonds are an attractive source of stable external finance that allows a country to leverage ‘good-will’ funds from diasporas into substantial development resources, helping to grow the economies of diasporas’ home countries.<sup>61</sup> According to the World Bank, use of these securities is possible if the following elements are in place: sizeable diasporas, effective contract enforcement, absence of civil strife, and presence of national banks and other FIs.<sup>62</sup> Not surprisingly, the larger the diaspora, the higher the likelihood that a developing country will be able to issue a significant number of bonds. Because sovereign bonds are issued by national governments, relative tranquility and effective contract enforcement are important in building investor confidence in a given country. “While not a pre-requisite, presence of national banks and other institutions in destination countries facilitates the marketing of bonds to the diaspora.”<sup>63</sup>

For instance, the government of Israel, now an upper-middle income country, has long offered several bond options for Jewish emigrants, which helps to keep the diaspora engaged in Israel.<sup>64</sup> These bonds, issued by the Development Corporation for Israel (DCI), have funded development efforts for decades. In 2003, the total value of bond sales in Israel was over \$1.5 billion.<sup>65</sup> The World Bank observes that much of the proceeds from bond sales are directed toward the funding of public sector infrastructure projects. Diaspora bonds can be packaged to meet the preferences of the investors. DCI employees in the U.S. are in constant contact with the Jewish diaspora so as to better understand their preferences and host events for potential investors.<sup>66</sup>

#### **4. REMITTANCE-BASED FINANCIAL PRODUCTS AND MECHANISMS**

This section will provide an overview of retail financial products and mechanisms that stand to benefit from remittances and have potential to be used for development purposes. Their aim is to empower remittance senders and receivers to maximize the value of their cash flows.

##### *4.1 Financial Services Overview*

The majority of remittance senders and recipients have not yet been able to take advantage of financial services beyond that of basic and ubiquitous transfer services. Despite enabling these customers to earn interest, establish a credit history, or take out a loan, among others benefits, participation in these services has been constrained. Figure 4.1 looks at the financial services market for migrants in the U.S., specifically listing several financial services characteristics of remitters to Latin America, and showing how financial inclusion is limited.

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<sup>61</sup> World Bank <http://www-wds.worldbank.org>

<sup>62</sup> World Bank <http://www-wds.worldbank.org>

<sup>63</sup> World Bank <http://www-wds.worldbank.org>

<sup>64</sup> World Bank <http://www-wds.worldbank.org>

<sup>65</sup> World Bank <http://www-wds.worldbank.org>

<sup>66</sup> World Bank <http://www-wds.worldbank.org>

**Figure 4.1.** U.S.-based Latinos Remitting to Latin America, July 2007

	Amount Sent (\$)	(%) of all remitters
Owens checking account in home country	561	1
Has bank accounts in both countries	499	4
Has saving accounts in both countries	418	6
Owens a savings account in the home country	369	4
Remitter is naturalized U.S. citizen	342	19
Remits through banks	332	11
Owens checking account in the U.S.	267	30
Average remittance sent by all migrant remitters	265	
Owens savings account in the U.S.	254	31
Remits through money transfer companies	252	87

Source: Manuel Orozco, IAD [www.thedialogue.org](http://www.thedialogue.org)

Although some institutions have lowered remittance transfer costs and started offering unconventional, remittance-linked financial products with remittance clients in mind, banks and other FIs for the most part have been slow to offer these services for many reasons. First and foremost, considering the migrants market, FIs have tended to associate the migrant clientele with minimal profitability, as they often perceive remittance clients to be low-income individuals with little propensity to save or invest, providing institutions with few incentives to develop new, customized products. Further, Manuel Orozco of the Inter-American Dialogue (IAD) points to a low risk tolerance on the part of FIs in providing new services. As profit-seeking institutions, they must cautiously weigh perceived risks with benefits when providing financial services to clients. Those clients with less established banking histories and lower incomes represent more risk. Developing new financial services designed especially for this type of client therefore needs a reliable, proven business model. Hence, the lack of best practices and proven models represents a significant obstacle to innovation in the field. Moreover, regulatory and legal barriers often further complicate product development for the FIs.<sup>67</sup> These aspects will be further explored in Section 7.

Even where products are offered, however, many obstacles affect their adoption or purchase on the demand side as well. Most importantly, immigrants and remittance recipients often have a mistrust of or are uneducated about FIs and their products. Further, these individuals may feel disenfranchised, feel no need to be “banked,” not earn enough money to put toward productive investment, or meet minimum account balance requirements for savings accounts. Thus, while many FIs are starting to offer remittance transfer services, the majority of remittance clients are not offered or do not seek out secondary services. Most remittance clients therefore remain persistently unbanked. In El Salvador, for example, only two out of every ten remittance recipients have bank accounts.<sup>68</sup>

However, those FIs that *do* devote resources to developing viable remittance-based financial products, either in the sending country or in the receiving one, are reaping the benefits, although most evidence relates to the financial services for the migrants. Wells Fargo reports that remittance U.S.-based product customers, for example, use an average of 5.7 of the bank’s

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<sup>67</sup> Orozco

<sup>68</sup> Orozco

products, or fully one third more than non-remittance clients, who use only 4.3.<sup>69</sup> By making financial services other than transfers readily available to remittance customers, FIs profit from much more lucrative, long-term products compared to transfers. Some authors conclude that as much as 20% of remittances, or \$50 billion worldwide annually, could be available for investment.<sup>70</sup> Furthermore, Michael Frias of the Federal Deposit Insurance Corporation (FDIC) writes that the purchasing power of Latin American immigrants to the U.S. almost doubled between 2000 and 2007, from \$491 billion to \$926 billion, providing what he described as a “compelling incentive for banks to enter this largely untapped market.”<sup>71</sup>

According to the FDIC, 15 of the 34 U.S. banks in the Corporation’s New Alliance Task Force now offer remittance-based financial services with immigrant communities in mind.<sup>72</sup> These products and services include remittance transfer services, savings and checking accounts, loans, and insurance products, among others. The success of these products depends on the cross-selling or bundling of financial services, on technologies like online transfers and multipurpose cards, on the accessibility of institutions, and on the design of specific remittance-based products.<sup>73</sup> Notably, a report by Development Alternatives, Inc. (DAI) for the UK’s Department for International Development (DFID) asserts that “early initiative to cross-sell financial services with remittance transfers indicate a good potential for uptake more generally.”<sup>74</sup> Making services more accessible through more convenient physical locations and internet websites helps to appeal to immigrant communities. Lastly, designing products with convenient features such as stored value, debit, or ATM cards further facilitates the use of products from the immigrant’s perspective.

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<sup>69</sup> IDB <http://idbdocs.iadb.org>

<sup>70</sup> IDB <http://www.iadb.org>

<sup>71</sup> FDIC <http://www.fdic.gov>

<sup>72</sup> FDIC

<sup>73</sup> Orozco & Hamilton <http://remesasydesarrollo.org>

<sup>74</sup> DAI <http://www.dai.com>

**Figure 4.1.** Potential of Remittance-Based Financial Services

<b>Class of Product</b>	<b>Development Potential</b>
Remittance Transfer Services	<ul style="list-style-type: none"> <li>• Innovative services increase remittances and create a savings culture</li> <li>• Lower cost and increased convenience incentivises remittances</li> <li>• As the first ‘interface’ with remitters, they can be bundled with other products, in the interest of both the bank and the customer</li> </ul>
Savings Accounts	<ul style="list-style-type: none"> <li>• Can be directed toward business investment and education</li> <li>• Formalized savings are more secure and can earn interest</li> <li>• Savings act as shock absorbers for the household</li> <li>• Savings accounts provide reliable funds for bank to lend to companies</li> </ul>
Credit	<ul style="list-style-type: none"> <li>• Extra access to credit can be the only opportunity for rare, large expenditures such as land, housing or vehicles</li> <li>• It can also be used productively, i.e., toward business development and the purchase of productive collateral</li> </ul>
Insurance	<ul style="list-style-type: none"> <li>• Facilitates the management of risks related to health or belongings in which the remittances sender and receiver have a common interest</li> <li>• Can insure entrepreneurs against inhibitive risks in their businesses</li> </ul>
Other	<ul style="list-style-type: none"> <li>• Credit cards and checking accounts that are linked to remittances may facilitate entrepreneurs’ purchase of collateral or the management of cash flow</li> </ul>

#### 4.2 Remittance Transfer Services

While a large percentage of remittances are sent through informal channels, formalization of remittance transfers makes the process more secure and easily monitored and allows these funds to be directed toward poverty alleviation. Reducing the cost of transfers encourages the use of more formalized systems, and formalizing remittance transfers allows unbanked remittance clients to access other financial products. In fact, lowering these costs by 5 percentage points could save remitters \$12 billion annually, which Michael Klein of the World Bank explains is equivalent to transferring all of the Bank’s International Development Agency’s credits and grants directly to remittance families.<sup>75</sup> Likewise, the World Bank predicts that a 1% decrease in remittance costs increases the flow of remittances by 0.22%.<sup>76</sup> In order to reduce costs, the IAD suggests, money transfer operators (MTOs) should be made more apparent, cooperation between banks and MTOs should be facilitated, and new technologies should be adopted.<sup>77</sup>

Studies show that security, ease, timeliness, geographic accessibility (both in the U.S. and in the home country), payout options, and price of transaction are the main factors when remittance senders choose a transfer service.<sup>78</sup> Additionally, Manuel Orozco of the IAD and Eve Hamilton of Chemonics International highlight the importance of the FI’s initiative and resources, proximity to clientele, market position, transfer technologies, advertising, and effectiveness in providing other financial services.<sup>79</sup> Developing a secure, affordable, accessible, timely, flexible, and innovative transfer service is thus important in establishing a meaningful rapport between FIs and the remittance clients they serve. The IAD concurs when it writes, “banks

<sup>75</sup> [http://media-newswire.com/release\\_1075127.html](http://media-newswire.com/release_1075127.html)

<sup>76</sup> World Bank <http://econ.worldbank.org>

<sup>77</sup> IAD 2007

<sup>78</sup> IAD

<sup>79</sup> Orozco & Hamilton, 2005

should offer more products to encourage immigrant customers, like low-cost money orders, direct electronic payments, new debit systems, and bilingual tellers and longer hours.”<sup>80</sup>

**Figure 4.2.** Examples of Innovative Transfer Products

FI (Country)	Product (Year)	Description
Wells Fargo & Banamex (Mexico)	<i>InterCuenta Express</i> (1995)	Account-to-account system to transfer funds to Mexico via ATMs and branches. Large distribution network and special debit cards linked to remittances.
ICICI Bank (India)	Pilot program (2004)	Pilot program employed low-cost ATMs and rural kiosks with internet connectivity; financial literacy education; financial services. Linkages will also be offered with savings, investment, and insurance products.
Globe Telecom & Western Union (Philippines)	<i>Globe G-Cash Service</i> (2004)	Person-to-person money transfers through cell phones; mobile “wallet” accounts; cash deposits/withdrawals; links to other financial transaction systems; payments to vendors, tax agencies; auto payroll deposits, account recharges.
BancoSal & Banco Salvadoreño (El Salvador)	<i>Salvadoreño Emprendedor</i> (2003)	Account-to-account transfers linked to ATMs and special debit cards for small business owners; internet/telephone bill paying; remittance-based loans, savings accounts. Clients can borrow up to 80% of last 6 months’ remittances.

*Note:* More detailed table of product examples included in annex.

Given that the vast majority of remittance clients remain unbanked, remittance transfer services allow banks to reach out to remittance clients and entice them with s or incentives for these individuals to open bank accounts. According to the IADB, the use of bank systems to send remittances has increased considerably.<sup>81</sup> As remittance transfer services through FIs become more customized, affordable, and accessible, and remittance clients become more willing to use them, the potential to link these services with other financial products grows significantly. At the same time, the ability to leverage these formal remittance flows for development ends is greatly enhanced. The following sections delve into these possibilities.

### 4.3 Savings Accounts

Owning a savings account is the first step toward what many authors and institutions term “financial democracy.” Developing practical savings plans encourages migrants to use remittances toward productive purposes that contribute to development. FIs must focus on designing mechanisms through which remittance clients can save in a formal system linked with remittances and development-enhancing products. Account-to-account remittance transfers from the U.S. to Mexico, for example, along with debit card innovations, are helping to create a

<sup>80</sup> IAD 2007

<sup>81</sup> IDB <http://www.iadb.org>

culture of savings among Mexican remittance recipients.<sup>82</sup> Remittances are saved formally are an important component of investment financing. As of 2007, Banco Salvadoreño (acquired by HSBC in 2008) had opened 29,000 savings accounts for remittance recipients.<sup>83</sup>

Converting remittance clients into banked “individuals with savings accounts and other financial products” is crucial to leveraging remittances for development.<sup>84</sup> Benefits of formal savings plans include a more secure mechanism for saving, interest-earning potential, increased collateral for loans, development of a credit history, and an established relationship with FIs.<sup>85</sup> Banks are much more willing to extend credit to clients with whom they have had a long-term professional relationship. This credit can then be directed toward productive rather than consumptive purposes. For example, “migrants have expressed interest in channeling the 30% of remittance money not spent on consumption into transnational housing loans, micro- business investment, educational expenses, savings, and health/life/repatriation insurance.”<sup>86</sup> The ability of migrants to leverage loans for these purposes, however, depends first on their ability to save a portion of total remittances received – usually in formal banking systems.

**Figure 4.3.** Examples of Remittance-Linked Savings Accounts products

FI (Country)	Product (Year)	Description
Banco Solidario (Ecuador)	<i>My Family, My Country, My Return account</i> (2002)	Special savings account with bundled savings options, including credit lines, home-buying credits, and insurance. Products cross-marketed with remittances.
WOCCU & Vigo (Kenya)	<i>IRnet Coop Kenya</i> (2006)	Credit union savings account linked with remittance transfer services and opportunities to leverage remittances.
Salcajá (Guatemala)	<i>Infant/Youth Savings Plan</i>	Savings package that provides opportunities to save and direct remittances toward financing children’s education, among other services.
Banco ADOPEM (Dominican Republic)	Asset-building savings accounts	Savings accounts that can allocate remittances toward school fees, housing, microenterprise, loan repayment, or health insurance.

Source: Authors; Orozco & Hamilton <http://remesasysdesarrollo.org>; WOCCU <http://www.woccu.org>; Leila Seradj <http://www.newamerica.net>

Note: More detailed table of product examples included in annex.

According to Orozco, the primary methods through which remittance clients are attracted to these types of services are diaspora outreach, community events, hometown associations, advertising, and, most of all, word of mouth.<sup>87</sup> However, progress toward enticing immigrants into the formal U.S. banking system has been slow. While many FIs are offering more innovative transfer services, they have been sluggish in developing financial products like

<sup>82</sup> Orozco & Ferro <http://www.thedialogue.org>

<sup>83</sup> IAD 2007 <http://www.aecf.org>

<sup>84</sup> Orozco & Hamilton, 2005

<sup>85</sup> IAD

<sup>86</sup> IAD

<sup>87</sup> Orozco <http://www.iadb.org>

savings plans that are attractive to the remittance client demographic, as explained above. FIs that *have* been successful in developing savings plans for remittance clients, however, have offered incentives and customized their products for this clientele in mind. Ecuador's Banco Solidario, for instance, offers a specialized savings account called "My Family, My Country, My Return," which provides bundled options that include credit lines, home-buying credit, and insurance products.<sup>88</sup> These products are cross-marketed with remittance services. WOCCU and Vigo's joint effort, IRnet Coop Kenya, "provides all Kenyans the opportunity to deposit their money directly into a savings account, which offers security and helps make their remittances work for them."<sup>89</sup> Salcajá is providing remittance-linked savings plans linked with a number of services, including opportunities to save and invest money in the education of clients' children. Savings that are deposited into formal bank accounts can therefore be directed toward asset-building loans that advance development objectives, as shown in the following section.

#### *4.4 Credit*

The extension of credit to remittance clients by banks or other FIs has extraordinary development potential. As remittance clients begin using formal financial systems, they establish rapport with FIs and build credit histories. Banks who have built significant professional relationships with remittance clients are more likely to extend credit, which is crucial to a number of development-related purposes, from poverty alleviation to business development. The most common forms of credit include that for the purchase of housing or land, personal lending for small-to-medium purchases, and business lending, either to start or to invest in a business. The lending can be unsecured, typically for smaller amounts up to \$5000 to \$10000, or may require a guarantee, which is often a property, or less commonly a guarantor who co-signs the loan.

In the case of small and medium enterprise development, for example, loans offered to these clients can be applied toward the purchase or financing of small enterprise capital in the form of machines and equipment. Alternatively, credit can be used toward the purchase of regular inputs such as seeds, fertilizer, food ingredients, and any number of other inputs consumed in the daily operation of small enterprises. Remittances can therefore be leveraged to acquire small business loans or for the purchase of business assets.

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<sup>88</sup> <http://remesasydesarrollo.org>

<sup>89</sup> WOCCU <http://www.woccu.org/press/releases?id=1222>

**Figure 4.4.** Examples of Remittance-Linked Credit Products

FI (Country)	Product (Year)	Description
Banco de Crédito (Peru)	<i>Crédito Mivivienda</i> (2006)	Remittance-linked credit for the purchase or construction of a home. Clients must receive regular remittances.
Salcajá (Guatemala)	Small business credit	Remittance-based loans for small business owners and entrepreneurs in Guatemala.
MFIC/TechnoServe (El Salvador)	Remittance-based business loans (2007)	Leverage remittances as a source of development capital for entrepreneurs in developing countries (specifically for SMEs).

Source: Authors, <http://www.viabcp.com>;

Note: More detailed table of product examples included in annex.

Remittance-based credit products are of particular interest not only for their developmental impact, but also because those are the products that the poor struggle the most to get access to. Traditional constraints in accessing credit include the facts that most remittance clients generally do not have established credit histories, do not have adequate collateral against which loans can be extended, or do not have viable business plans in the case of small business loans.<sup>90</sup> However, many institutions and individuals are realizing the potential for remittances to fill many of these gaps. Even without building credit histories or establishing collateral, remittances can have other indirect productive uses.

“Where access to credit is limited, potential loan recipients can leverage stable remittance inflows as a substitute for collateral and credit histories,”<sup>91</sup> or alternatively can be used as an alternative cash inflow which is taken into account in the risk assessment of the remittance-receiving client. Remittances would then permit either to get access to a loan otherwise unavailable, or to be offered a loan with better terms, i.e., lower interest rate or larger amount. But because a relatively small amount of remittances are directed into formal bank accounts, this potential has still gone largely unrealized. In sum, remittance flows make it easier for banks to extend credit, or may even decrease a recipient’s need for credit because of increased income.<sup>92</sup> Remittance-based credit for SMEs will be the focus of the following chapter.

#### 4.5 Insurance Products

Another financial service that has a potential link with remittances is that of insurance products. In this case, remittances would serve to pay the provider’s insurance premiums to provide life insurance, medical insurance for the remittance recipient or his/her family, or insurance against certain risks involved in the development or operation of small enterprises. Alternatively, remittances themselves can satisfy insurance needs by acting as a substitute for market-provided insurance when the market fails.<sup>93</sup> This type of insurance against risk has development implications because aversion to risk is typically a major obstacle in the undertaking of new business ventures that create growth, income, and employment. Furthermore, life and medical

<sup>90</sup> IAD

<sup>91</sup> IAD

<sup>92</sup> World Bank <http://www-wds.worldbank.org>

<sup>93</sup> <http://imf.org>

insurance, paid by remittance accounts, serve to protect families' financial interests should anything happen to the primary breadwinner in a remittance household. BancoSol of Ecuador provides savings bundles that include insurance products and credit lines, among other products.<sup>94</sup>

**Figure 4.5.** Examples of Remittance-Linked Insurance Products

<b>FI (Country)</b>	<b>Product</b>	<b>Description</b>
Banco ADOPEM (Dominican Republic)	Insurance products	Remittances can be used toward insurance coverage for remittance recipients.

*Note:* More detailed table of product examples included in annex.

#### 4.6 Product Packages

So far we have described the developmental value of stand-alone financial products that aim at leveraging remittances. Here we will list three examples of how combining two or more financial products can actually compound their individual developmental value, as it enables to design incentives to remittance senders and/or receivers to use their money productively.

- **Transfer + savings:** a deposit-taking FI in a remittance-receiving country can offer a product that channels the remittances directly in a savings account; this account could offer a premium, say, extra 0.5% interest rate, if it receives at least a set amount regularly, such as \$300 a month, which incentivises the sender to send the money; further, it can offer an extra premium, such as another 0.5%, if the total balance on the account stays above a set quantity, such as \$5000, thus incentivising the receiver to create a savings buffer which can be tapped into in times of need, while at the same time earning some interest on the savings
- **Savings + credit:** a savings account could be created that encourages remittance-receivers to save by leveraging the balance with the offer of a credit line: for every dollar saved in this account, the FIs offers, say, \$5 dollars in credit, perhaps up to a set amount; not only this incentivises the remitter to save, but it gives him or her access to much needed credit, which can be used for productive purposes, while at the same time potentially engaging the remittance sender in the use of the credit; obviously this product can be combined with the one above
- **Credit + insurance:** often some forms of credit, especially if productive, can benefit by being complemented by a specific insurance which can be used to partially or totally repay the debt: for instance, a life insurance for a person essential to the success of a business, or an insurance on a valuable asset; as small businesses are often reluctant to take up insurance, the remittances can be used to pay for the insurance, which is accordingly lower, again creating a bond between sender and receiver; like before, this package can be combined with the two options above

As one example of this type of packages, Banco Salvadoreño allows clients to borrow up to 80% of the remittances received in the last six months, but it has also opened 29,000 savings accounts for recipients, issued debit cards to small business owners, and offered loans and internet

<sup>94</sup> Orozco & Hamilton <http://remesasydesarrollo.org>

banking.<sup>95</sup> However, in this case it is to be noted that remittances are leveraged primarily for cross-selling purposes (i.e., attract remittance receivers with competitive remittance-based products and then sell them other products/services) as opposed to becoming part of the design of actual product packages (i.e., set of products in which remittances play an integral role).

#### *4.7 Other Opportunities*

Other products that are being tailored to remittance clients include credit cards, pension funds, checking accounts, and home equity funds.<sup>96</sup> While some of these products have development potential, as in the use of credit cards and checking accounts to facilitate the purchase of productive collateral in small enterprises, others may have limited direct links with development. According to the IADB, there is growing remittance potential in investments where impacts could be multiplied – insurance, mortgages, private education, banking and finance (microfinance and rural credit).<sup>97</sup> Regardless, all comprise part of a variety of products that should be made available by FIs to remittance clients as part of a holistic basket of services that foresee the needs of remittance clients and attempt to harness the growing remittance market.

Other institutions, such as credit unions or local administration are attempting to look at remittances in creative ways.<sup>98</sup> Credit unions have played a role in attracting previously unbanked clients to the financial mainstream and are expanding remittance-related services. For example, the World Council of Credit Unions (WOCCU) says that, “by offering high-demand remittance products, credit unions are able to attract and effectively serve potential members in this evolving financial marketplace.”<sup>99</sup> Many have demonstrated “strategic visions” for leveraging remittance flows.<sup>100</sup> One of the main contributions of credit unions in doing so will involve lowering transfer costs: for example, WOCCU is making it possible for credit union members to make money transfers to 41 countries at one-third to one-half the cost of other money transfer services.<sup>101</sup> Furthermore, according to Orozco, “individuals with an understanding of migration and development have also successfully leveraged remittances, and municipal mayors or presidents do identify remittance senders and recipients as part of the growth opportunities for their jurisdiction.”<sup>102</sup>

Other initiatives which can facilitate the spread of remittance-based finance include: financial literacy targeted at remittance-receivers, who can be accessed via remittance-receiving FIs and can be educated on the risks of dependency on remittances and alternative solutions to avoid it and use remittances productively; marketing campaigns which target specifically remittance-receivers, such as the ones already existing which market remittance transfers; technological innovation, that, as mentioned above, can speed up and improve the efficiency of markets for remittance-related products, such as mobile payments.

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<sup>95</sup> IAD, 2007

<sup>96</sup> Orozco & Hamilton <http://remesasydesarrollo.org>

<sup>97</sup> IDB

<sup>98</sup> Orozco <http://isim.georgetown.edu>

<sup>99</sup> WOCCU <http://www.woccu.org/dev/remittances>

<sup>100</sup> Orozco <http://isim.georgetown.edu>

<sup>101</sup> Grace <http://idbdocs.iadb.org>

<sup>102</sup> Orozco <http://isim.georgetown.edu>

## 5. LEVERAGING REMITTANCES TO FINANCE SMALL ENTERPRISE DEVELOPMENT

This section will address the concept of leveraging remittance flows from diaspora communities to finance SMEs in developing countries.

### *5.1 Financing Small Enterprises*

Of the financial products mentioned above, remittance-based business loans have perhaps the largest potential, as remittances are channeled to use for productive purposes, optimizing their developmental impact in terms of added value creation and employment opportunities, while, by definition, opposing the potential effect of disincentive to employment, and mitigating the issue of currency appreciation, as the currency inflow is used productively. Furthermore, SMEs are engines for development via job creation and value addition, but credit constraints are typically amongst the most significant obstacle to their sustainable growth. To lessen the credit constraints SMEs often face, remittance flows from diaspora communities to developing countries can be leveraged where credit histories and traditional collateral are lacking.

By lessening liquidity constraints, entrepreneurs can use remittances when the financial system does not help them start productive activities (because of high lending costs or a lack of collateral). However, in many countries insufficient mechanisms exist for businesses to be able to leverage remittances for investment. In fact, the potential impact of remittances in financing business development is substantially higher in countries with developed financial systems.<sup>103</sup> Orozco explains that the use of remittances in productive activities depends on the structure of the economy, how supply responds to demand of services, and an enabling environment for remittance economic activity.<sup>104</sup> In other words, the development of instruments to leverage remittances specifically for productive purposes is essential to capturing their developmental value, hence incentivising the growth of the remittance inflow, which, as also noted above, serves to foster the development of the local financial system, thus generating a self-reinforcing virtuous circle.

### *5.2 TechnoServe's Remittance-Based Finance Project*

In December 2007, TechnoServe and Microfinance International Corporation (MFIC) launched a pilot project that aims at leveraging migrant remittances to empower small and medium enterprises (SMEs) to get greater and cheaper access to much-needed credit, which can be channeled to growing the SME, thus generating employment and income opportunities in developing countries.<sup>105</sup> Brief overviews of TechnoServe and MFIC can be found in the Annex. This 16-months project, co-funded by the International Fund for Agricultural Development (IFAD) and by TechnoServe and MFIC, takes place in El Salvador. The objective of the project is to demonstrate that it is possible to channel remittance flows to productive purposes, specifically to improve a remittance-receiving entrepreneur's access to business credit.

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<sup>103</sup> Orozco <http://isim.georgetown.edu>

<sup>104</sup> Orozco <http://isim.georgetown.edu>

<sup>105</sup> [http://www.technoserve.org/press\\_room/MFICRemittanceProgram.aspx](http://www.technoserve.org/press_room/MFICRemittanceProgram.aspx)

SMEs are recognized as one of the main engines of growth for developing countries, but they face several challenges, from unsupportive operating environment to scarce access to global markets, to little availability of highly-skilled workforce. However, one of the most crippling obstacles to growth for SMEs is access to credit: most small and medium entrepreneurs at some point in the life of their company find themselves in need of credit to start, expand or diversify their business, but FIs are often unprepared and/or unwilling to serve them, as they tend to be both very conservative and risk-averse in disbursing business credit, for instance by requiring high-value guarantees, and very expensive when credit is made available. This results in either high-potential SMEs stagnating, because incapable of capturing growth opportunities, or solid SMEs failing, because incapable of getting access to a financial lifeline when they need it.

The project aims at alleviating this issue by leveraging remittances, a reliable and documented income flow that FIs can take into account when evaluating the credit worthiness of the solicitor of the loan.

The basic structure of the project is as follows:

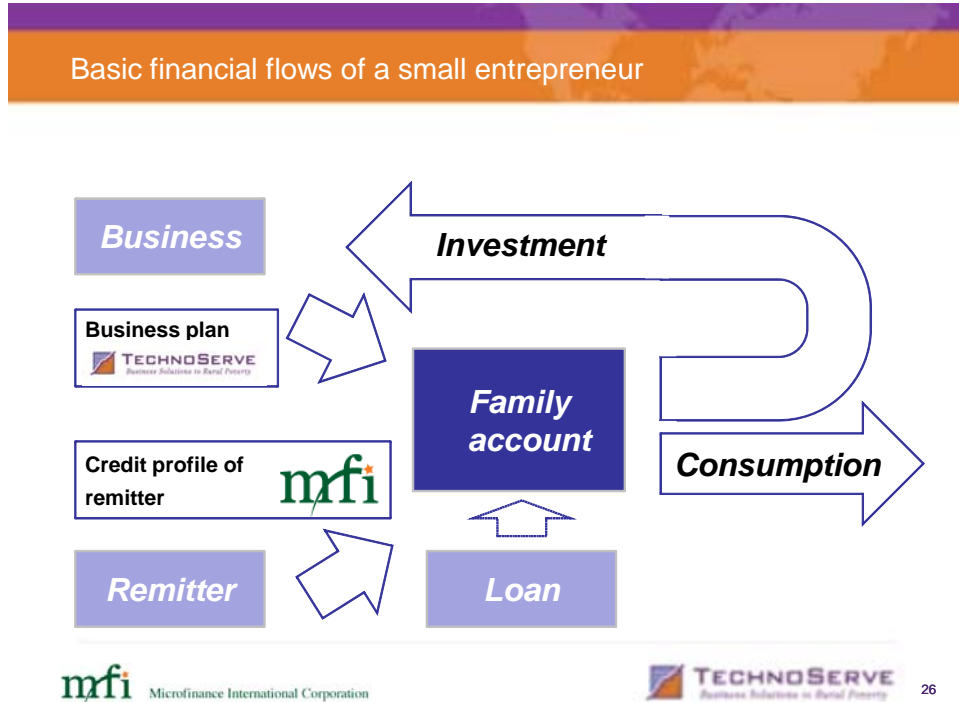
1. Identify an entrepreneur that meets the following criteria:
  - a. Owns a high-potential SME
  - b. Is based in El Salvador
  - c. Is in need of credit to capture growth opportunity
  - d. Is willing to collaborate
  - e. Receives a stable flow of remittances from the USA
  - f. Whose remitter is stably resident in the USA
2. Identify one or more FIs that meets the following criteria:
  - a. Can serve the area of El Salvador where the entrepreneur works
  - b. Can disburse business credit for SMEs
  - c. Is willing, and has the capacity, to take into account remittances in the analysis of the credit worthiness of this entrepreneur
  - d. Is willing to collaborate
3. Prepare a business plan for the SMEs, including the impact the loan would have on the SME's financial performance [performed by TechnoServe]
4. Prepare a comprehensive credit profile of the remitter [performed by MFIC], which includes:
  - a. Legal, migratory and employment status
  - b. Financial/credit situation
  - c. Track record of remittances sent in the past 2+ years
5. Present these documents to a partner FI that can serve this customer
6. Assist the negotiation between the FI and the entrepreneur
7. Monitor the performance both of the loan and of the business after the loan has been disbursed

The underlying assumption is twofold: that remittances represent a reliable inflow of cash that, like the income of a business, provided that the right information is made available, can be assessed by a FI and taken into account in the risk assessment of the client, which feeds directly into the loan that is ultimately offered to the entrepreneur; and that the FI has the internal capacity to make this assessment and to incorporate it in its credit offering. This second

assumption is mitigated by the fact that the project team is available to assist the FI in the process of incorporating the remittance flow in the loan decision.

With regards to the first assumption, it can be further illustrated in the following charts:

**Chart 1**



For a remittance-receiving entrepreneur, the typical cash flow is simple: the ‘family account’ has two basic inflows: the income of the business and the remittances, plus, potentially, the loan. This money is used either for consumption or for reinvestment in the business. As illustrated in the chart, in this project the inflow of cash from the business is documented by TechnoServe by means of a detailed business plan, whereas MFIC can document the flow of remittances by liaising with the remitter to collect the necessary material, as listed above.

The business plan purports to estimate the average cash inflow of the business, but it also takes into account the risks the business is subject to. This can be illustrated like in Chart 2, where the horizontal axis displays the income of the entrepreneur and the vertical axis displays the probability that the income is at most that amount.

## Chart 2

### Evaluation of the risk of the client

ILLUSTRATIVE

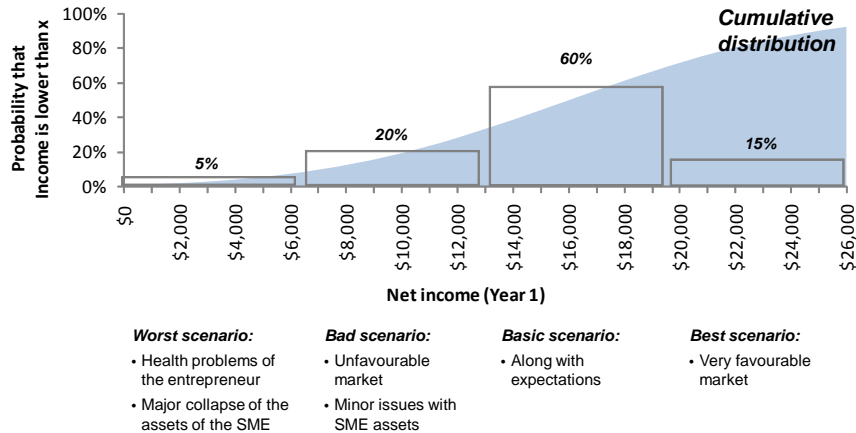


Chart 2 illustrates the basic notion that the future income of a business is subject to uncertainty, but it can be approximately estimated, on the basis of information about the business; a bank must make a loan decision based on the probability of repayment, i.e., that the loan client is both willing and capable of repaying. In absence of a formal credit history, typical for new clients in remittance-receiving countries, the willingness of a client to repay the loan can only be assessed by credit officers on the basis of personal interactions with the client, although this project does provide some extra valuable information. Thus, Chart 2, as well as the following ones, focuses on the capability of the client to repay, i.e., the probability of the client having an income, for the loan period, greater than the loan repayment, once the client's basic needs have been taken care of. That probability is the one plotted in Chart 3, assuming that the business is the only source of income for the client in this particular example.

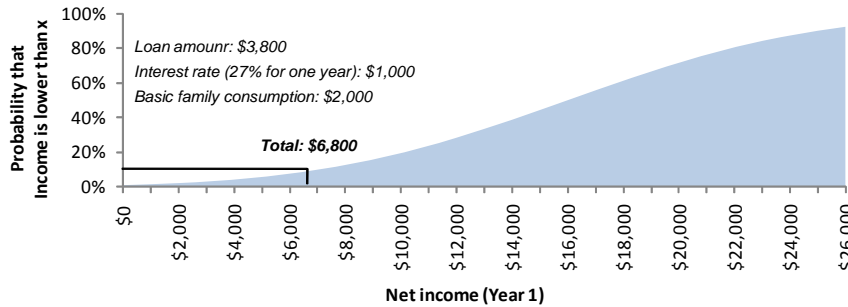
This probability ultimately determines the risk the bank takes in disbursing the loan, and feeds directly in (a) the calculation of the interest rate for the loan (b) in the assessment of the size of the loan, and (c) the duration of the loan. Clearly, a greater and more regular income of the client corresponds to a greater capability to repay the loan, hence to a lower risk of not being repaid for the bank, which proportionally lowers the interest rate. In conclusion, clients with large, reliable income can expect a greater loan with a lower interest rate and a longer repayment period.

The purpose of this project is to include the remittance flow in the assessment of the future income of the remittance-receiving entrepreneur, thus permitting him or her to submit a credit solicitation with a greater and more stable income, to thus get access to better financing.

### Chart 3

#### Evaluation of the risk of the client and determination of the product

ILLUSTRATIVE



*In this example, this business has a 10% probability to generate an income that doesn't suffice to repay the loan at the end of the period; this percentage determines the interest rate, once other factors such as other risks, financial costs, operational costs, inflation, etc. are taken into account, leading to the 27% interest rate in the example*

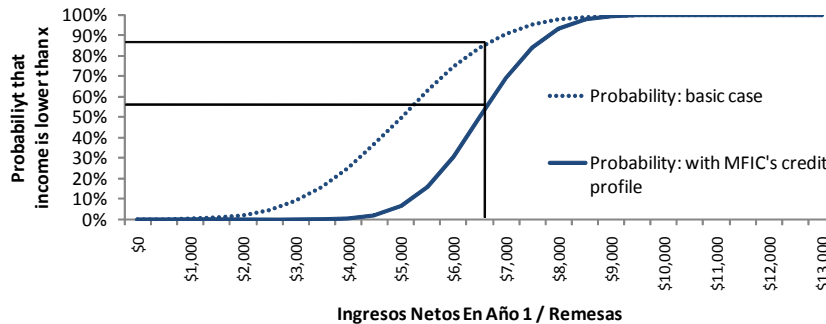
Further, in order to fully leverage the remittance income, it is essential to document as reliably and credibly as possible the factors that determine this income, i.e., the history of remittances and the legal and financial situation of the remitter. This permits to estimate more precisely the future remittance flows, thus, in statistical terms, lowering their variance, which directly determines the extent to which remittances can increase the capability of the client to repay the loan, as illustrated in Chart 4.

In this example, two scenarios are illustrated: one is the standard one, in which only basic information about the remittance flow is made available, such as receipts of the transactions. This is a situation that already occurs in a few FIs. In that case, while some data is available about the remittance flow, it doesn't permit to assess future flows with much precision, as it doesn't take into account the situation of the remitter. In the second scenario the information from MFIC's credit profile is fully taken into consideration, thus enabling the FI to assess future flows more precisely. This means that the probability of the remittance flow being lower than the loan amount (plus basic expenditure, as from the example in the previous chart) goes from 85% to 55%.

## Chart 4

### Evaluation of remittances: role of credit profile

ILLUSTRATIVE



*In this illustration, the probability that the remittance flow is lower than \$6800 is at 80% without the credit profile, but at 50% with the credit profile, which provides extra information that permits to assess the remittance flow more precisely*



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Chart 5 illustrates how taking into account the remittance flow can improve the capability of the client to repay, hence the interest rate. The income from the business is combined with that from remittances, thus improving risk (in this illustrative example) from 11% to 5%, thus permitting to move from 27% to a rate as low as 21%.

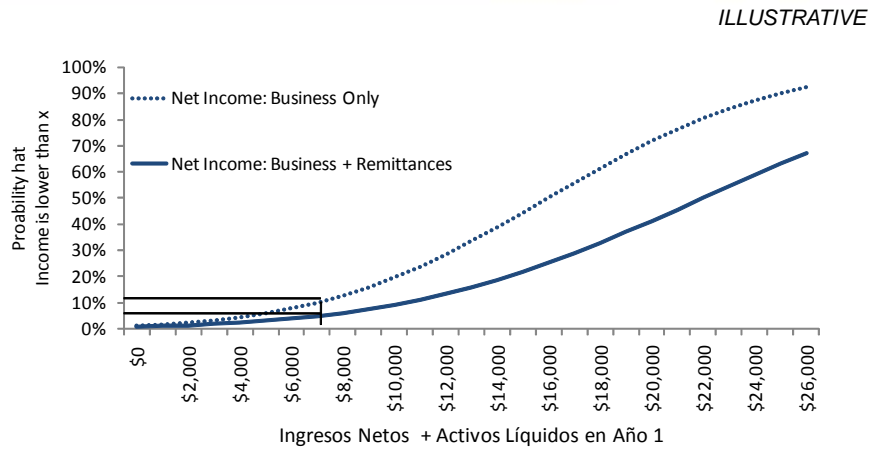
In other words, the purpose of this project is to monetize the information related to the remittances, in a way that is ultimately profitable to all parties involved:

- The FI, who can reduce the risk exposure, better assess the risk profile of its clients, and thus disburse more credit more profitably
- The entrepreneur, who receives a cheaper, larger loan
- The provider of credit information, which can generate income from the credit profile, for instance via a fixed fee or via profit sharing arrangement

This setup ensures that a remittance-based loan product is sustainable in the long term, as all actors have a stake in it. The value of the information will be split three ways, as described above, but, while the fee to the credit profile provider and the better terms of the loan are clearly measurable, the way in which the FI monetizes the gain will vary according to risk management and accounting policies.

**Chart 5**

Combination of income flows: business + remittances



As mentioned above, the purpose of the project is to demonstrate that remittance-based business loans are viable. To this aim, the project team has leveraged MFIC’s long standing relationships with two FIs in El Salvador, Apoyo Integral and Fundacion Campo. Both these institutions are microfinance institutions with good experience in disbursing business loans for individuals, with an established relationship with MFIC, and with a keen interest in the project and its potential future expansions. Apoyo Integral has an extensive presence throughout the country, but will only serve clients with a business that has existed for at least 1 year; Fundacion Campo doesn’t have this limitation, but only serves the Eastern regions of El Salvador.

With regards to the recruitment of remittance-receiving entrepreneurs, the project team has explored three different avenues:

- MFIC has contacted its own remittance-sending clients based in the USA, and the project team aimed at selecting those whose remittance receivers own a business and need credit
- MFIC has compiled a list of remittance receivers, and the project team aimed at selecting those who own a business and need credit
- TechnoServe has contacted a network of local entrepreneurs with which has worked in the past, and the project team aimed at selecting those who need credit and receive remittances

Each client who demonstrated interest in the project and who met the basic criteria was then evaluated along the 6 dimensions already listed above, i.e., (a) owns a high-potential SME, (b) is based in El Salvador, (c) is in need of credit to capture growth opportunity, (d) is willing to collaborate, (e) receives a stable flow of remittances from the USA, (f) whose remitter is stably resident in the USA.

This selection process has led to the following clients:

1. A livestock farmer, wishing to purchase more cattle

2. An owner of taxis, wishing to expand his fleet
3. A restaurant owner, wishing to expand into hospitality
4. A photocopier, wishing to restructure previous loans and to purchase new machinery
5. A furniture manufacturer, wishing to purchase machinery
6. A clothes manufacturer, wishing to expand production by hiring extra staff

The cases 5 and 6 are still pending, but the table below summarizes the results with regards to the cases 1-4. A glossary for the entries in the table is provided in the annex.

## Results

	<b>1. Livestock</b>	<b>2. Transport</b>	<b>3. Hotel / Restaurant</b>	<b>4. Photocopier</b>
<b>Value of assets</b>	\$7,150	\$15,000	\$150,000	\$75,000
<b>Yearly avg. revenues</b>	\$11,147	\$16,380	\$79,424	\$170,000
<b>Yearly avg. income</b>	\$9,063	\$8,380	\$25,800	\$22,000
<b>Yearly avg. remittances</b>	\$7,140	\$7,164	\$21,216	\$8,400
<b>Loan requested</b>	\$7,000	\$8,000	\$20,000	\$40,000
<b>Loan offered</b>	\$3,800	\$8,000	\$11,000	\$40,000
<b>Guarantee</b>	No	No	Trustee	Yes
<b>Interest rate/no rem.</b>	28%	26-30%	19%	19%
<b>Interest rate/rem.</b>	12%	22-24%	15%	15%
<b>Loan period</b>	1 year	2 years	7 years	5 years
<b>Value of rem. to client</b>	\$~600	\$~800	\$~3000	\$~11,000
<b>Financial cost savings</b>	57%	14%	21%	21%
<b>Outcome</b>	Disbursed	Pending	Finalized	Rejected <sup>106</sup>

This table illustrates how the cases vary significantly. The absolute value of the remittance information to the client/entrepreneur is estimated simply in the saving in the financial cost thanks to the lower interest rate, because that is the only data reliably available. Hence, it doesn't take into consideration the possibility of the loan being larger or with a longer period than it would have been without the remitter's credit profile. Yet, that value is an approximation of the monetization of the credit profile information as described above. It can be seen that this varies significantly with the size and the duration of the loan, from \$600 to \$11,000. In relative terms, the savings range from 57% to 14%. It is to be noted that this is the value to the client/entrepreneur only, and doesn't take into account the value to the FI that provides the loan, as mentioned above. As this is a pilot project, MFIC has provided the credit profile information at no cost, but the results indicate that in the medium-to-long term the provision of credit information for remitters can become a sustainable additional income stream for FIs.

<sup>106</sup> The partner FI couldn't match the interest rate already available to this entrepreneur via a long-standing relationship with another bank.

The results indicate both that there is significant potential for monetizing remittance information, but that the specific methodology to do so is still to be developed.

Other key learnings include:

- *Partners:*
  - o FIs: as the remittance-based business loan is both an innovative and a complex product, it is essential to establish a strong relationship with the partner FI, which must be fully committed to the project; their role and responsibilities must be clear from the beginning
  - o Entrepreneur / remitter: once the client has been selected, his or her role is primarily reactive but essential: to provide information as requested; again, commitment of all parties involved is crucial
- *Recruitment:*
  - o FIs: a large group of partner FIs is advisable: learnings will be enhanced as every FI will approach the product in different ways; the project will reduce its dependence on few partners; the client is more likely to be offered a competitive product
  - o Clients: it is not straightforward to identify clients that meet all the listed criteria, thus new channels must be developed to broaden the pool of potential clients, for instance by collaborating with the partner FIs
- *Product:* the specific details of the remittance-based business loan are the prerogative of the FI, but we have learnt that many FIs may benefit from extra training and support in determining them
- *Monitoring:* as this is a new market, every step of the decision making process should be fully documented

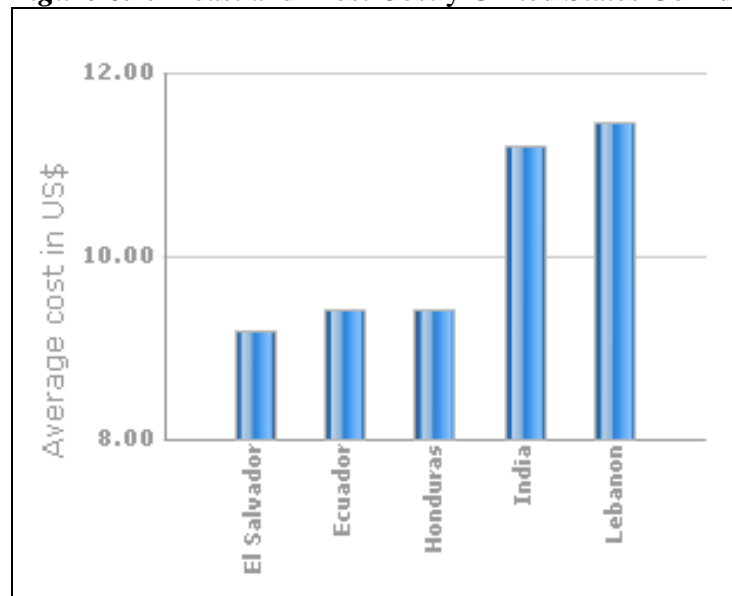
## **6. PUBLIC SECTOR ACTORS AND CIVIL SOCIETY IN LEVERAGING REMITTANCES**

This section will highlight specific policy options that can be taken by federal governments in the developing world to help create an environment for leveraging remittances. While other sections of this report have focused on FIs' position in the leveraging of remittances, governments and civil society also play a large role in allowing developing countries to capitalize upon these money flows. Government policies must serve to increase remittances and promote an environment that is conducive to business investment. The most important policies to leverage remittances for development purposes include the following.

First, increasing the volume and formality of remittances is important in increasing investment in developing countries. To increase flows of remittances, the price of these transactions must decrease. Although FIs set transaction prices, governments can also contribute to lowering overall transfer costs. In order to do so, governments should eliminate remittance taxes, which provide disincentives for sending money from abroad by increasing overall transfer prices and deter the use of formal channels. Despite foregoing tax income, remittance-receiving nations that eliminate these taxes will experience increased inflows of money from abroad through formal institutions. Governments can also implement policies to increase competition among institutions. Page and Piazza of the World Bank highlight the following policies to promote transfers: tax regimes, bank access, financial literacy, removal of regulatory restrictions on

transfers, creating incentives for business set-up, and supporting migrant associations.”<sup>107</sup> Additionally, governments should consider streamlining regulation on mobile transfers, which can further decrease transaction costs. Making transactions cheaper, more formalized, and more consistent is the essential to encourage the development impact of remittances.

**Figure 6.1.** Least and Most Costly United States Corridors



Source: World Bank

A recent database compiled by the World Bank compares the prices of remittance transfers in an effort to increase transparency and ultimately lower prices to the benefit of migrants and their families. This database is a good example of what civil society can do to help increase competition, lower prices, and increase remittance flows. Governments can also play a role in disseminating information like this World Bank database, which would further help to leverage their impact. Figure 6.1 shows the least costly U.S. corridors for sending remittances. According to an article in Media Newswire, banks tend to charge more for remittance transfers than do non-bank money transfer operators and remittances originating in the U.S., Saudi Arabia, Singapore, Spain, the United Kingdom, and Russia are cheaper than those coming from Germany, Japan, and the Netherlands.<sup>108</sup> While fees vary considerably, amounting to up to 40% of the remittance amount, the same article explains that in Latin America, fees were recently reduced from an average of 15% to 5.6% in just six years.

Second, the public sector must create a policy environment where micro financial products based on remittances can become public. Among recommendations for the remittance market that the IDB makes include: improving transparency, promoting fair competition and pricing, applying appropriate technology, seeking partnerships and alliances, and expanding financial services.<sup>109</sup> This helps build an enabling environment for small business investment. For example, governments and civil society should assist in converting NBFIs to banks, which are able to offer

<sup>107</sup> Page & Plaza <http://siteresources.worldbank.org>

<sup>108</sup> [http://media-newswire.com/release\\_1075127.html](http://media-newswire.com/release_1075127.html)

<sup>109</sup> IDB 2006

products that are constructive in extending credit, such as deposits. International FIs can also help by providing guarantees, political risk insurance, and help in establishing international credit ratings.<sup>110</sup>

Third, governments can create remittance-based finance funds, which would subsidize the cost of and lower the risk for banks testing new remittance-based. Banks are typically risk-averse and thus refrain from developing products that could fail to bring substantial profits. Establishing a remittance-based finance fund lowers these risks for banks and helps to move banks past the learning period associated with developing products. While this type of fund catalyzes product development, however, it is ultimately up to the banks to determine which products will best suit the needs of remittance clients and provide revenue for the institution.

Finally, governments of remittance-receiving countries can create an instrument that would permit remittance senders in developed countries to be legal guarantors in countries that receive remittances. Currently, laws prohibit banks from collecting collateral from guarantors abroad. Creating legal instruments that would allow remittance senders in the U.S, for example, to be held legally responsible for a loan default in another country would dramatically increase countries' ability to leverage remittance flows and convert them into productive credit. Related to this type of mechanism, country governments can also facilitate instruments in which industrialized country residents are able to solicit credit to be disbursed in developing countries and be completely or partially responsible for the loan. While these types of instrument have very large potential, the major obstacle to these systems lies in the complication of international legislation to permit such instruments. Civil society may play a role in alleviating legal complications by helping to establish intergovernmental legal frameworks or promoting international cooperation. For example, the U.S.-Mexico "Partnership for Prosperity" promotes economic and labor opportunities in less developed parts of Mexico, addresses high transfer costs, and expands access to capital.<sup>111</sup>

Other recommendations that would enhance the development effect of remittances include the following. Governments can reduce the negative effects of remittances on external competitiveness, such as real exchange rate appreciation, by intervening in the foreign exchange market.<sup>112</sup> The right policies must also be adopted in order to increase production demand and generate a culture of savings and investment. Only by doing so may remittances fully be leveraged. Furthermore, diaspora and hometown association outreach and investment incentives are important components of government policies to leverage remittances. Finally, international cooperation has the potential to increase productive investment in developing countries. The collective effort of the G8 Summit Statement on Africa, for example, encouraged reducing remittance transaction costs, improving financial service access, and allocating remittances toward productive investments.<sup>113</sup>

Beyond making remittance transactions cheaper and more formalized, and pursuing new legislation and finance funds, governments must work toward constructing an investor-friendly

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<sup>110</sup> World Bank <http://siteresources.worldbank.org>

<sup>111</sup> FDIC <http://www.fdic.gov>

<sup>112</sup> World Bank <http://siteresources.worldbank.org>

<sup>113</sup> Orozco & Ferro <http://www.thedialogue.org>

business climate. Remittances are only leveraged fully in investor-friendly environments. Although remittances have raised income levels in El Salvador, the lack of an acceptable political framework has not allowed the country to activate a process of savings and investment.<sup>114</sup> While improving investor friendliness is a worthy goal irrespective of causal relationships with remittances, remittance recipients tend to invest when and where sound economic policies exist.<sup>115</sup>

According to Dilip Ratha, “improvements in policies and relaxation of foreign exchange controls in the 1990s may have encouraged the use of remittances for investment.”<sup>116</sup> More open, less corrupt, and more financially developed countries receive more remittances that can be directed toward productive uses. Between 1996 and 2000, “remittance receipts averaged 0.5% of GDP in countries with a higher-than-median level of corruption... compared to 1.9% in countries with lower-than-median corruption.”<sup>117</sup> It is the role of governments, then, to create an environment that fosters investment in development-related endeavors. While drawing remittances into the formal banking system is crucial, it is not sufficient in stimulating development. As Lopez and Seligson write, “investment is necessary and should be given preferential treatment by banking officials. Special investment programs supported by remittances would [also] help small businesses.”<sup>118</sup> Remittances need a positive environment in order to be leveraged, and financial development is a conduit to economic and human development.

## 7. NEXT STEPS

This section will discuss how to implement and market remittance-leveraging products, analyze types of pilots, and assess the potential risks involved.

### *7.1 Recent Trends and Future Prospects*

Remittance flows have seen years of steady growth, until recently. Between 2002 and 2007, remittances doubled because of increases in migration, increased remittance accounting after 9/11, reduced remittance transaction costs and expanded networks, and depreciation of the U.S. dollar, which necessitated more remittances to compensate for decreased purchasing power.<sup>119</sup> But the global financial crisis of started in the second half of 2007 has negatively affected current remittance flows and forecasts in many corridors. For example, the economic slowdown in the U.S., especially in sectors like construction, which are attributed to migrant populations, has decreased the growth in remittances to Latin America. This decline is also attributable to high base years. Furthermore, along the U.S.-Latin America corridor, more stringent immigration controls following 9/11 caused a higher percentage of remittances to be transferred informally, making them harder to track. Less developed remittance-source countries like South Africa, which account for 10% of remittances, are also being affected by the financial crisis through

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<sup>114</sup> UNDP <http://www.pnud.org.sv>

<sup>115</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>116</sup> Dilip Ratha <http://siteresources.worldbank.org>

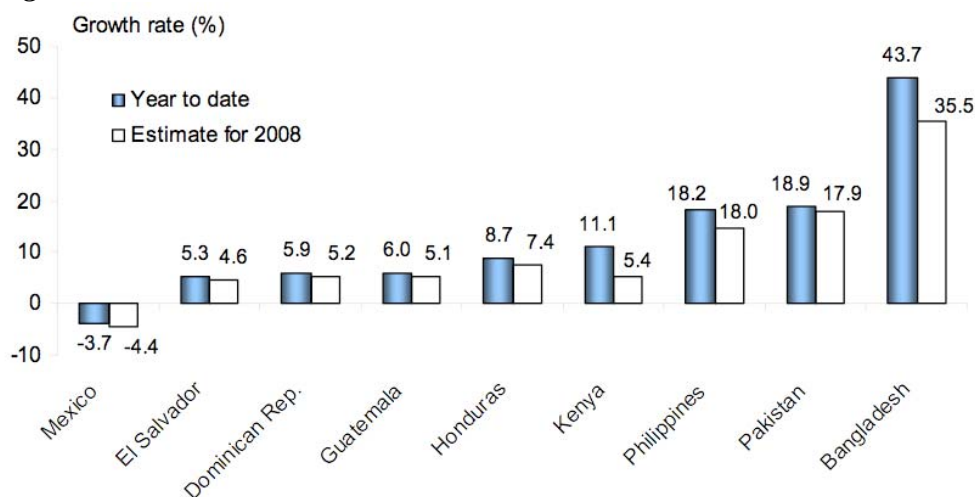
<sup>117</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>118</sup> Lopez <http://sitemason.vanderbilt.edu>

<sup>119</sup> Dilip Ratha <http://siteresources.worldbank.org>

trade linkages and FDI reversal.<sup>120</sup> Overall, remittances received by most countries has continued to grow so far, but at a slower rate, as shown in Figure 7.1.

**Figure 7.1.** Remittance Growth Rates for Selected Countries



Source: Dilip Ratha <http://siteresources.worldbank.org>

Flows from Western Europe to Eastern Europe and Central Asia are slowing as well, while remittances to other regions are still growing considerably. The remittance-receiving countries of the Philippines, Pakistan, and Bangladesh, for example, have all seen year-to-date remittance growth rates of at least 18% in 2008 as of November.<sup>121</sup> Recipient countries whose migrants tend to work in healthcare and other sectors that are more stable than construction are expected to be less affected. But while the overall amount of remittances sent to developing countries in 2008 is expected to exceed 2007 remittances in nominal terms (\$283 billion compared to \$265 billion), remittances as a percent of GDP are likely to decline (1.8% compared to 2.0%).<sup>122</sup>

<sup>120</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>121</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>122</sup> Dilip Ratha <http://siteresources.worldbank.org>

**Figure 7.2.** Remittance Flows to Developing Countries

	2006	2007	2008 <sup>e</sup>
<b>(US\$ billion)</b>			
<b>Developing countries</b>	<b>229</b>	<b>265</b>	<b>283</b>
<i>(as share of GDP, %)*</i>	<i>(2.1)</i>	<i>(2.0)</i>	<i>(1.8)</i>
East Asia and Pacific	53	58	62
Europe and Central Asia	39	51	54
Latin America and Caribbean	57	61	61
Middle-East and North Africa	27	32	35
South Asia	40	44	51
Sub-Saharan Africa	13	19	20
<b>Growth rate (%)</b>			
<b>Developing countries</b>	<b>18%</b>	<b>16%*</b>	<b>7%</b>
<i>East Asia and Pacific</i>	<i>13%</i>	<i>10%</i>	<i>7%</i>
<i>Europe and Central Asia</i>	<i>23%</i>	<i>31%</i>	<i>5%</i>
<i>Latin America and Caribbean</i>	<i>18%</i>	<i>6%</i>	<i>0%</i>
<i>Middle-East and North Africa</i>	<i>10%</i>	<i>20%</i>	<i>8%</i>
<i>South Asia</i>	<i>20%</i>	<i>11%</i>	<i>16%</i>
<i>Sub-Saharan Africa</i>	<i>35%</i>	<i>42%*</i>	<i>6%</i>

*e* = estimate

Source: Dilip Ratha <http://siteresources.worldbank.org>

As is explained in previous sections, remittances have been shown to be quite stable and even counter-cyclical, increasing during times of economic downturn in recipient countries. However, the global nature of the 2008 financial crisis has had an overall negative effect on worldwide remittances. Dilip Ratha of the World Bank contends that, although remittance growth is expected to moderate substantially, remittance flows should remain resilient compared to private capital flows and even official development assistance to developing countries.<sup>123</sup> He points to several explanations for this resilience. First, remittances accumulate with growing migration. Only a halt in migration would cause remittances to decline. Second, remittances comprise a small percentage of migrant incomes and thus do not suffer greatly with economic downturns. Third, anti-immigration sentiments are causing migrants to stay longer once migrated. These migrants tend to continue remitting throughout their stay. Fourth, those migrants that do return to their home countries take large sums of savings home. And finally, migrants in OECD countries are benefiting from stimulus packages to sectors in which they work.

The World Bank estimates that, overall, remittances will reach a growth rate of 6.7% in 2008, which is expected to decline to between -0.9% and -5.7% in 2009.<sup>124</sup> However, the rate is expected to recover in 2010 to between 1.2% and 6.1%. Among Dilip Ratha's explanations for this outlook, he lists the economic downturn in OECD countries, the impact of the 2008 financial crisis on developing countries, exchange rate uncertainty, and the fall in oil prices (affecting Gulf Cooperation Council (GCC) country remittances to the Middle East, North Africa, and South Asia even more than U.S. and European remittances).<sup>125</sup> Similar to remittances, migration to

<sup>123</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>124</sup> Dilip Ratha <http://siteresources.worldbank.org>

<sup>125</sup> Dilip Ratha <http://siteresources.worldbank.org>

developed countries may slow during the financial crisis, but the slowing of migration will be small and is not expected to decrease.

**Figure 7.3.** Outlook for Remittance Flows to Developing Countries

	2008e	Base case		Low case	
		2009f	2010f	2009f	2010f
<b>\$ billion</b>					
<b>Developing countries</b>	<b>283</b>	<b>280</b>	<b>297</b>	<b>267</b>	<b>270</b>
<i>(as share of GDP, %)*</i>	<i>(1.8)</i>	<i>(1.6)</i>	<i>(1.5)</i>	<i>(1.5)</i>	<i>(1.4)</i>
East Asia and Pacific	62	63	66	60	61
Europe and Central Asia	54	53	57	51	53
Latin America and Caribbean	61	61	64	58	58
Middle-East and North Africa	35	32	34	30	29
South Asia	51	51	55	48	49
Sub-Saharan Africa	20	20	21	19	19
<b>Growth rate (%)</b>					
<b>Developing countries</b>	<b>6.7%</b>	<b>-0.9%</b>	<b>6.1%</b>	<b>-5.7%</b>	<b>1.2%</b>
East Asia and Pacific	7.5%	0.4%	6.1%	-4.2%	1.6%
Europe and Central Asia	5.4%	-0.1%	6.4%	-4.0%	2.7%
Latin America and Caribbean	0.0%	-0.2%	4.4%	-4.4%	0.2%
Middle-East and North Africa	7.6%	-6.7%	5.7%	-13.2%	-1.5%
South Asia	16.2%	-0.1%	8.2%	-5.5%	2.7%
Sub-Saharan Africa	6.3%	-1.3%	5.3%	-6.8%	-0.2%

Source: Dilip Ratha <http://siteresources.worldbank.org>

In summary, while remittances are being significantly affected by the current financial crisis, their importance to receiving families and countries will remain indisputable in several years to come.

### 7.2 Implementation and Marketing of Remittance-Based Financial Products

FIs looking to offer remittance-based financial products can benefit from studying the successes of other institutions. Precedents show that successful financial products must be tailored to the needs of remittance clients. Several best practices include the following. First, if bank services are to be feasible for remittance clients, they must be accessible.<sup>126</sup> Banks that are currently offering remittance-based products generally have branch locations, ATMs, and even kiosks in public spaces. Stookey writes that some institutions attempt to be as involved as possible in the community, through churches and schools, in order to establish relationships and market products.<sup>127</sup>

Second, institutions must speak the language of their remittance customers and educate them about their finances.<sup>128</sup> By staffing bilingual personnel and providing bilingual materials, banks in remittance-source countries are able to appeal to immigrants that have little understanding of the local language. Perhaps even more importantly, banks should provide financial education

<sup>126</sup> Stookey <http://idbdocs.iadb.org>

<sup>127</sup> Stookey <http://idbdocs.iadb.org>

<sup>128</sup> Stookey <http://idbdocs.iadb.org>

sessions to these clients as an important component of success. Immigrants often have little knowledge of financial systems upon arrival in a new country, may distrust FIs on principle, or may not fully understand the benefits of being banked. FIs must therefore assuage these fears and misunderstandings in order to implement products successfully.

Third, many banks are beginning to accept more flexible forms of identification from clients opening bank accounts.<sup>129</sup> While recent immigrants may not have social security numbers or driver's licenses, Individual Taxpayer Identification Numbers (ITINs) and *Matrículas Consulares* are now being accepted at many FIs as suitable forms of identification.<sup>130</sup> The *Matrícula Consular* is an identification card issued to immigrants by the Mexican Consulate in the U.S. Wells Fargo began accepting the card as identification in 2001 and in its first three years opened over 400,000 new accounts for Mexican immigrants.<sup>131</sup> With innovations such as the *Matrícula Consular*, the U.S. Treasury Department is continuously reevaluating the balance between law enforcement and the need for banks to accept alternate forms of identification.

Finally, the marketing of new financial products to remittance clients constitutes an important component of these products' implementation. Salcajá in Guatemala is using word-of-mouth and cross-marketing strategies to cater to remittance recipients.<sup>132</sup> More sophisticated strategies include media advertisements (TV, radio, newspaper, magazines), offering free items with bank logos to increase brand recognition, the sponsoring of public events, direct mailing, referral services, and cold calling.<sup>133</sup> Regardless of the method, marketing must be targeted at remittance clients in order to be effective and should highlight the benefits of banking with a formal institution.

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<sup>129</sup> Stookey <http://idbdocs.iadb.org>

<sup>130</sup> Stookey <http://idbdocs.iadb.org>

<sup>131</sup> Michael Frias, FDIC <http://www.fdic.gov>

<sup>132</sup> Orozco & Hamilton <http://remesasydesarrollo.org>

<sup>133</sup> <http://ezinearticles.com/?Tips-For-Marketing-Financial-Products&id=385563>

## ANNEX: EXAMPLES OF REMITTANCE-BASED FINANCIAL PRODUCTS

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
MFI Corp / Integral / Fundacion Campo	El Salvador	12/2007	- Remittance-based business loans	- Leveraging remittances as a source of development capital for entrepreneurs in developing countries in order to develop SMEs.	- In collaboration with TechnoServe.	<a href="http://www.technoserve.org">www.technoserve.org</a>	H
Citigroup / Banamex	Mexico / Ecuador	4/2003	- Citibank Global Transfers	- Affordable, convenient, real-time money transfers to Mexico (and worldwide) from US bank customers.	- This was a first step to other Citibank/Banamex financial services.	<a href="http://www.microfinancegateway.com">www.microfinancegateway.com</a> <a href="http://www.occ.treas.gov">www.occ.treas.gov</a> <a href="http://www.swwb.org">www.swwb.org</a> <a href="http://www.citigroup.com">www.citigroup.com</a> <a href="http://www.winwinpartner.com">www.winwinpartner.com</a>	M
		10/2000	- c2it	- Online payment service similar to PayPal.	- Well received, but discontinued in 2004 for strategic reasons.		
		2003	- Citibank Access Account	- Designed for unbanked individuals, this program offers access to Citibank's financial services such as checkless checking, bill payments, fund transfers, statements in Spanish, online banking in Spanish, debit cards, and financial education seminars. It also offers credit cards after establishing a credit history.	- Well received as a starter account for senior citizens, students, immigrants, etc. May be unique. Cannot be overdrawn.		
		2003	- Banamex Tricolor card	- Like prepaid cards in Mexico, this service is a card-to-card transfer system that can be used at Banamex branches, ATMs, and POS locations.	- More secure than cash remittance withdrawals.		
Banco Salvadoreño	El Salvador		- Money Transfer Operators in US	- Remittances can be transferred online directly into Salvadoran bank accounts from any account in the US.	- Only bank in El Salvador offering internet-based remittance services.	<a href="http://www.aecf.org">http://www.aecf.org</a> <a href="http://www.iadb.org">http://www.iadb.org</a>	H
		7/2003	- Salvadoreño Emprendedor program (debit cards)	- This program offers debit cards for small business owners, account-to-account transfers (accessed by ATMs in El Salvador), internet and telephone bill paying services with these funds, and other cross-marketed products.	- 9,000 debit cards have been issued to remittance-receiving small business owners.		
			- Savings Accounts	- Transnational bank accounts for remittance recipients.	- 29,000 savings accounts have been opened.		
			- Remittance-Based Loans	- Clients can borrow up to 80% of last 6 months' remittance flows. Loans are also offered to expatriates.	-		

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
Banco Solidario	Ecuador	2002	- My Family, My Country, My Return account	- Special savings account with bundled savings options that include credit lines, home-buying credits, savings accounts, and insurance. Products cross-marketed with remittances.	- 253 remittance recipients have bought homes on credit.	<a href="http://www.iadb.org">http://www.iadb.org</a> <a href="http://remesasydesarrollo.org">http://remesasydesarrollo.org</a>	H
			- Chanchera Smart Card	- An intelligent card with a chip and credit quota, which allows business clients to make transactions through the POS network used by pre-established providers for business development. This allows microentrepreneurs to have direct access to products sold by big enterprises.	- Has given clients access to suppliers at preferential prices and to other financial services.		
Banco Industrial	Guatemala		- Cross-marketed remittances with other products	-	-	<a href="http://www.iadb.org">http://www.iadb.org</a>	L
			- Savings accounts (little-by-little approach)	-	-		
Fedecaces	El Salvador		- Cross-marketed products with remittances	-	-	<a href="http://www.iadb.org">http://www.iadb.org</a> <a href="http://remesasydesarrollo.org">http://remesasydesarrollo.org</a>	L
Oaxaca Microbank	Mexico		- Cross-marketed savings and remittance plans	-	-	<a href="http://www.iadb.org">http://www.iadb.org</a>	L
El Comercio	Paraguay		- Complementar y products, cross-selling tools	-	-	<a href="http://www.iadb.org">http://www.iadb.org</a>	L
Salcaja	Guatemala		- Infant/Youth Savings Plan	- Savings plan that encourages parents to invest in children's education in long-term.		<a href="http://www.iadb.org">http://www.iadb.org</a> <a href="http://remesasydesarrollo.org">http://remesasydesarrollo.org</a> <a href="http://isim.georgetown.edu">http://isim.georgetown.edu</a>	H
			- Financial services, cross-selling tools	- Specialized financial services include pension funds, life insurance, medical insurance, repatriation of remains, small business credit, home equity funds, and various (dollar) savings packages.			
			- Banco Rural	- Works as a payer for MoneyGram			
			- Banco Quetzal	- Works as a payer for Western Union			
			- Cooperativa Salcaja	- Works as a payer for Vigo			
IRnet	Global		- Transfer services	- Credit union transfer services.			L

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
ICICI Bank	Sri Lanka	10/2008	- Remittance card	- Re-loadable, Sri Lanka Rupee-denominated card that can be used to withdraw money at ATMs or purchase.		<a href="http://www.asiantribune.com">www.asiantribune.com</a>	M
Wells Fargo/ICICI Bank	India	2/2004	- Rural remittance service pilot program	- Account-to-account transfers, low-cost ATMs, rural kiosks, and financial literacy for remittance clients (in rural India and NRIs).	- There is a large, untapped, unaware, rural market that needs tailored financial products.	<a href="https://www.wellsfargo.com">https://www.wellsfargo.com</a>	L
Wells Fargo	Mexico	2001-2004	- Savings accounts	- 400,000 new accounts for Mexican immigrants with Matricula Consular card (between November 2001 and May 2004). Matricula consular in 2002.		<a href="http://www.wellsfargo.com">www.wellsfargo.com</a>	M
			- InterCuenta Express	- Transnational account-to-account wire transfer service directed into bank accounts in Mexico.			
		7/2007	- ExpressSend service	- Increased methods for transfers to LAC and Asia.			
			- Debit cards	-			
			- Cross-marketed remittances with other products	- Bundled services designed as relationship-building products.			
Bank of America	Mexico	9/2005	- SafeSend	- Free remittance transfer service to Mexico for anyone with BofA checking account.		<a href="http://www.paymentsnews.com">www.paymentsnews.com</a>	L
Wachovia	LAC		- Dinero Directo card	- Customers with Wachovia accounts can use the card to send remittances to LAC.		<a href="http://www.paymentsnews.com">www.paymentsnews.com</a>	L
Malayan Banking Bhd (and Visa International)	Singapore/Malaysia		- Card-based transfer system	- Allows funds to be sent from Visa card to Visa card abroad.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Afripayments/Postal Corp. of Kenya	Kenya		- PostaPay	- Allows migrants to send funds directly for school tuition payments (with a toll-free call or online).		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	M
Altair/Vodatel	MENA/India/Asia Pacific		- iPay Holding	- Global prepaid and stored-value card services.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
TMB/UAE	India/Gulf countries		- Money transfers	- Allows non-resident Indians in Gulf region to send rupees through web-enabled service.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Cemex/DolEx	Mexico		- Building projects in Mexico	- Uses remittances from US to Mexico to finance homes and small businesses in Mexico.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	H
Serfatrade/Aprofam	Guatemala		- Health services packages	- Remitters can purchase health service packages for families in Guatemala.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	M

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
Safaricom (Telkom/Vodafone)	Kenya		- Mobile remittance schemes	- Mobile banking/transfer services M-PESA		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
SIMBA Telecom/Rural SPEED	Uganda		- Mobile remittance schemes	- Mobile banking/transfer services		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Citigroup/DiGi	Malaysia		- Mobile remittance schemes	- Mobile banking/transfer services		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Red de la Gente (Bansefi - Banco del Ahorro & Financial Services Bank)	Mexico		- Visa debit cards for remittance transfers	- Remittance payment services with bank-to-bank account, Directo a Mexico program. Creates savings culture.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a> <a href="http://isim.georgetown.edu">http://isim.georgetown.edu</a>	L
			- Cross-marketed products with remittances	-			
Banamex/RIA Envia	Mexico		- RIA and AFEX Money Express	- Transfer services		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
HSBC	India		- Cross-border banking products	- US and Indian deposits, mortgages, investments, and remittance services.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	M
Zamin Bank	Commonwealth of Independent States		- Caspian Money Transfers	- Money transfer services 24 hours a day at cheap rates.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Western Union/ Caixa Galicia/ Spandana	Spain/India		- Expanded payment network	- Transfers		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Western Union			- Money in Minutes	-			L
Singapore Post/BNI	Singapore/Indonesia		- CASHOME	- Fast, convenient, secure remittance service that allows the sender to remit money into a recipient's bank account maintained with BNI in Indonesia.		<a href="http://www.singpost.com.sg">www.singpost.com.sg</a>	L
MoneyGram	Nigeria, India, UK, Benin, South Africa		- Expanded payment network	- Seeking to make transfer services available to rural areas.		<a href="http://www.thedialogue.org">http://www.thedialogue.org</a>	L
Various	Americas		- Smart cards and advanced technology	- Used to lower the cost of money transmission.	- USAID	<a href="http://www.iadb.org">http://www.iadb.org</a>	L

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
Deutsche GTZ	Central America		- Microcredit	- Support for initiatives to create a microcredit fund based on remittances in Central America.		<a href="http://www.iadb.org">http://www.iadb.org</a>	H
Various	El Salvador		- Rural development	- Channeling remittances through hometown associations into rural development in El Salvador.	- IFAD	<a href="http://www.iadb.org">http://www.iadb.org</a>	M
Various			- Microfinance and financial services	- Programs that focus on microfinance and financial services for the poor.	- Ford Foundation	<a href="http://www.iadb.org">http://www.iadb.org</a>	M
Various			- Financial services and productive investment	- Regional partnerships to develop financial services and investment among recipients in rural areas.	- MIF/IFAD	<a href="http://www.iadb.org">http://www.iadb.org</a>	M
Various			- North American Transnational Communities	- Interdisciplinary initiative to fund a model of transnational investment links to improve livelihoods of transnational families.	- Rockefeller Foundation	<a href="http://www.iadb.org">http://www.iadb.org</a>	M
Senvia	Canada/Jamaica	2003	- Money transfers	- Low-cost money transfer services from Canada to Jamaica.		<a href="http://www.senvia.com">www.senvia.com</a>	L
WOCCU/Vigo	Kenya	11/2006	- IRnet Coop Kenya	- Transfer, savings, and leverage product. Remittance services that replace Western Union, offer savings accounts and opportunities to leverage remittances.		<a href="http://microcapitalmonitor.com">http://microcapitalmonitor.com</a>	H
Citizens Bank	Cape Verde		- Money transfers				L
			- Savings accounts				
Smart Communications/Western Union	Philippines	2000	- Smart Money	- Money transfers through cell phones. In conjunction with Banco de Oro and existing ATM networks, this service allows unbanked individuals to have "accounts." This includes OTA recharges, cash withdrawals, and cashless purchasing. Also Travelex international transfers to customer mobile wallets and MasterCard debit cards to be used anywhere.	- Debit cards are useful but not for small transactions. Wide mobile network, few financial services, and a need for low-cost money transfers crucial.	<a href="http://siteresources.worldbank.org">http://siteresources.worldbank.org</a> <a href="http://businessmirror.com.ph">http://businessmirror.com.ph</a>	M
Globe Telecom/Western Union	Philippines	10/2004	- Globe G-cash service	- Money transfers through cell phones. Standalone facility – not associated with a bank partner, but links into other financial transaction systems (assumes responsibility for financial aspects itself). Includes cash deposits/withdrawals, cash purchases, P2P credit transfers to cell and wallet, prepaid account recharge, auto deposits from payroll, international transfers. Also ticket purchases, tax payments, charity donations, and microfinance cooperation for rural bankers.	- Customer base is probably upper class. Wide mobile network, few financial services, and a need for low-cost money transfers crucial.	<a href="http://siteresources.worldbank.org">http://siteresources.worldbank.org</a> <a href="http://businessmirror.com.ph">http://businessmirror.com.ph</a>	M

ORGANIZATION	COUNTRY	DATE	PRODUCT	DESCRIPTION OF PRODUCT	RESULTS/LEARNING	REFERENCES	PRIORITY
Mobile phone companies	Philippines		- Mobile commerce	- Filipino entrepreneurs can do business using their mobile phones as resellers of prepaid cards, etc. Banking transactions, including transfers, purchases, and fee payments, can also be done with phones in unbanked areas.	- Successful in giving the poor access to communication and microenterprise opportunities.	<a href="http://businessmirror.com.ph">http://businessmirror.com.ph</a>	M
ARY Speedremit	United Arab Emirates, other Gulf countries	10/2008	- ARY Krores remittance card	- Specially designed for Gulf expatriate money transfers.	-	<a href="http://www.ameinfo.com">http://www.ameinfo.com</a>	L
			- RushCard	- Allows consumers to have paychecks and tax refunds directly deposited to a stored value card. They can also make purchases, pay bills online, and send money orders.		<a href="http://idbdocs.iadb.org">http://idbdocs.iadb.org</a>	M
Central Bank of Kansas City	Mexico		- Tarjeta Segura	- Reloadable cash card that works like a debit card: no bank account required, no more check cashing fees, safer than carrying cash, allows employees to receive direct deposit, can be sent to friends and family outside the U.S. e.g. in Mexico"		<a href="http://idbdocs.iadb.org">http://idbdocs.iadb.org</a>	M
BankFirst/League of United Latin American Citizens	Latin America		- ACCESS DineroYa prepaid MasterCard/ Maestro Card	- Proceeds also help fund local scholarships.		<a href="http://idbdocs.iadb.org">http://idbdocs.iadb.org</a>	M
Banco ADOPEM	Dominican Republic		- Asset-building products	- Remittance-linked, asset-building products for recipient clients that place portions of remittances into savings accounts allocated for housing, school fees, and microenterprise. Alternatively, remittances can be used toward monthly loan payments or insurance.		<a href="http://www.newamerica.net">http://www.newamerica.net</a>	H
BancoSol	Bolivia		Home credit	Home loans for purchase of house, land, or construction, remodeling, or extension of the home. Done with regular payments, potentially from the USA, in a savings account.	Other banks started similar products	<a href="http://elremesero.com/noticias/news/161.html">http://elremesero.com/noticias/news/161.html</a> <a href="http://www.bancosol.com.bo/sp/p_eeuu.html">http://www.bancosol.com.bo/sp/p_eeuu.html</a>	H
Banco de Crédito	Peru		Home credit	Credit for purchase or construction, in Dollars or Soles; all is necessary is regular reception of remittances	Until 2006 it was offered as Mivivienda and was the beginning of remittance-based home loans	<a href="http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&amp;JER=134">http://www.viabcp.com/zona_publica/01_persona/interna.asp?SEC=1&amp;JER=134</a>	H
Alianza para el desarrollo de la microempresa (ALPIMED)	El Salvador	Mar-08	Micro credit	Loans targeting remittance-receiving occasional sellers, small shops, kiosks, micro businesses, etc., with loans from US\$30 to US\$2000		<a href="http://www.migrantesonlinea.org/enlinea.php?c=1947">http://www.migrantesonlinea.org/enlinea.php?c=1947</a> <a href="http://www.alpimed.net/index.php">http://www.alpimed.net/index.php</a>	H

## **ANNEX: QUALIFICATIONS OF ORGANIZATIONS IMPLEMENTING THE PILOT PROJECT IN SEC. 5.2**

### **TechnoServe**

TechnoServe is a US-based 501(c)(3) nonprofit development organization established in 1968, whose mission is to help reduce poverty by working with entrepreneurial people to create competitive and sustainable businesses. TechnoServe works in Latin America, Africa and Eastern Europe to implement economic opportunities with high potential for creating jobs and income for the poor. TechnoServe experience has contributed to the development of competitive strategies in a variety of sectors, from rural crops to tourism and light manufacturing in urban areas. The technological packages developed by TechnoServe are derived from a business approach that allows client small enterprises to address and solve the constraints to profitably accessing markets. TechnoServe has been present in Central America for more than 25 years, with current offices in El Salvador, Guatemala, Honduras and Nicaragua, executing projects related to SME development, through value chain enhancement, business plan competitions and youth & women entrepreneurship development programs, among others. TechnoServe has deep experience in delivering cross-sector entrepreneurship development via a business plan competition methodology, implemented 10 times since 2002 across the target countries.

### **Microfinance International Corporation**

Microfinance International Corporation (MFIC) is a for-profit company founded in 2003 by banking, microfinance and remittance professionals whose mission is to make affordable and professional financial services available to underserved markets worldwide. The company is supported by close to 100 social and commercial investors, ranging from foundations to listed multinational trading companies and a US government agency. MFIC founded the first financial institution in the US focused on the immigrant community, called Alante Financial (“Alante”). Alante currently operates 14 financial service centers with more than 50,000 customers and experience in rating the credit potential of remittance senders in the US.

MFIC has developed a remittance platform for banks, microfinance institutions (MFIs) and other financial institutions, named ARIAS, which since its creation in 2004, has been introduced to more than forty financial institutions in seventeen countries across Latin America and has processed tens of millions of dollars in remittances. In 2006, ARIAS was licensed to several US banks and money transmitters, linking the mainstream US banking system to microfinance in Latin America for the first time.

**ANNEX: METRICS TO EVALUATE THE PERFORMANCE OF REMITTANCE-BASED BUSINESS LOANS**

	<b>Description</b>
<b>Value of assets</b>	Estimate of value of assets related to the business (as from business plan)
<b>Yearly avg. revenues</b>	Average of revenues for next 3 years, assuming loan is disbursed (as from business plan)
<b>Yearly avg. income</b>	Average of income for next 3 years, assuming loan is disbursed (as from business plan)
<b>Yearly avg. remittances</b>	Yearly average of received remittances on record (as from MFIC credit profile)
<b>Loan requested</b>	Original request of the client
<b>Loan offered</b>	Amount offered to client by lender, on the basis of the lender's analysis of the client's cash flow and assets
<b>Guarantee</b>	Any form of guarantee the client made available for the loan
<b>Interest rate/no rem.</b>	The actual offer the bank proposed prior to considering remittances
<b>Interest rate/rem.</b>	The actual offer currently available to the client
<b>Value of rem. to client</b>	Absolute savings for the client thanks to lower interest rate, with interest paid for a 1 year period, or: $\text{Loan offered} * (\text{interest rate/no rem.} - \text{interest rate/rem.})$ <i>Note: this is a conservative estimate, as the loan period may be longer than 1 year in 2 of the 3 cases, in which case the total savings would be proportionally higher</i>
<b>Financial cost savings</b>	% savings thanks to lower interest rate, or: $1 - (\text{interest rate/no rem.} / \text{interest rate/rem.})$
<b>Outcome</b>	Status of the loan as at December 2008

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