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- Evaluating the productivity and sustainability of Asian MFIs
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- Informing external stakeholders of the outcomes of the Banking with the Poor Network and its members

Increasing the Impact of Remittances

Financial inclusion of migrant workers and their families back home.

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Abstract

Financial inclusion is now recognized as a crucial factor in the development of low-income countries. Remittances sent by migrant workers to their country of origin, which are expected to grow rapidly particularly among Asia-Pacific economies, have great potential for promoting financial inclusion. Harnessing remittances for financial inclusion requires addressing four major challenges: reducing remittances transfer costs; opening up formal channels for financial flows; channelling remittances to savings and investments; and maximizing the benefits to both migrants and recipients[1]. This bulletin addresses these challenges using current examples of organizations delivering remittance-related financial services to both migrant workers and their families back home. We show how all actors involved can benefit: migrant workers, their family back home, hosting country and receiving country. This work argues the relevance of harnessing remittances in Asia and will provide 10 lessons learned to take with us on our path to build stronger regional financial integration, with the greater aim of financial inclusion.

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1. Utilising remittances for greater financial inclusion

Global remittance flows today are more than double the amount of Overseas Development Assistance (ODA) and almost the same amount of total Foreign Direct Investment (FDI)[1]. In addition to its size, the counter-cyclicality of remittances reduces volatility, promotes economic stability and protects the vulnerable. Remittances are inherently pro-poor because of their direct nature and they are much better targeted to the needs of the poor than ODA and FDI. Within country and household-level studies remittances are consistently shown to cause sharp reductions in poverty[2].

Global remittances continue to rise towards USD 400 billion per year. In 2010 the official recorded remittance flows to developing countries reached USD 325.5 billion, while in 2011 they are estimated to have reached USD 351 billion, up 8 per cent over 2010. By region, East Asia and the Pacific received the highest level of remittance inflows at USD 91.2 billion in 2010, with South Asia second with USD 82.6 billion. The importance of remittances and their contribution to regional development is amplified by Asia being a big migration hub.

Data from the World Bank show that in 2010 the East Asian and Pacific regions had a total of 21.7 million overseas emigrants, 1.1 per cent of its population, and hosted 5.4 million of immigrants representing 0.3 per cent of the population. An interesting point to notice is that some of the top migration corridors were intra-regional within East and South-East Asia: Hong Kong-China, Indonesia-Malaysia, Malaysia-Singapore, China-Japan, China-Singapore. Similarly in the South Asian region the total number of emigrants was 26.7 million or 1.6 per cent of South Asia's population, while the total of immigrants present in the region was 12.2 million or 0.7 per cent of the population. One of the top five migration corridors was Bangladesh-India[3].

With current forecasts of a rapidly ageing population, continually rising migration levels, and thus remittance flows, present an opportunity to realise immense productivity gains and development dividends from expected shifts in labour and capital movements. Research suggests that migration and labour mobility is beneficial as migrants enjoy large income gains[4], receiving country wages do not fall and productivity tends to increase[5], the sending country enjoys higher wages due to a drop in the local labour supply[6], and family members at home benefit from remittances[7].

Evidence of remittance utilisation in Asia show that 50-60 per cent of total remittances received are spent in daily consumption and only 10 per cent in savings or investments, while the remaining is used for other household and social needs including home improvements, migration costs and ceremonial

1 Resource flows to developing countries in 2009: Remittances USD 307 billion; ODA USD 120 billion; FDI USD 359 billion. Data from The World Bank, 2011, 'Migration and Remittances Factbook 2011', p17.

2 The World Bank, 2006, 'Global Economic Prospects. Economic implications of Remittances and Migration', pp 117-129, Washington DC.

3 The World Bank, 2011, 'Migration and Remittances Factbook 2011'.

4 Rosenzweig, M. R., 2006, 'Global Wage Differences and International Student Flows', in *Brookings Trade Forum: Global Labor Markets?,* ed. Susan M. Collins and Carol Graham, pp211-228, Washington D.C., Brookings Institution Press.

5 Ashan, A., 2011, 'Migration and Remittances: Impact on Development – Findings from the World Bank Study on International Migration and Development in the East Asia and Pacific Region', presentation from The Asia-Pacific Financial Inclusion Forum, September 6, 2011, Tokyo.

6 Aydemir, A., and Borjas, G. J., 2007, 'Cross-country variation in the impact of international migration: Canada, Mexico and the United States', *Journal of the European Economic Association,* 5:4, pp 663-708.

7 Ozden, C., and Schiff, M., 2006, 'International Migration Remittances and the Brain Drain', The World Bank and Palgrave McMillan, Washington D.C.; Acosta, P. A., Fajnzylber, P., and Lopez, H., 2007 'The Impact of Remittances on Poverty and Human Capital: Evidence from Latin American Household Surveys', *World Bank Policy Research Working Paper,* No. 4247.

needs[8]. This spending pattern could be better managed with the availability of remittance-related financial products and services that can meet migrant families' household spending as well as income-generating needs[9]. Improving the channels of cross-border remittances transfers and increasing their impact by propagating other effective remittance-related services[10] is still a highly untapped migration-related development policy instrument[11]. Indeed, a little tweaking of policy, regulation and product design has the potential to have major effects on remittance transfers and their use for investment, savings or consumption by remittance recipients.

Policy dialogues remain fixated on reducing remittance transaction costs and improving access to formal, expensive transfer channels, rather than focusing on remittance-related services that determine the true development impact of remittances transfers. By moving beyond remittance transfer services, to additional remittances-related financial services such as remittances-based microfinance, savings products, and financial and micro business education, the opportunities to capture large development benefits from global trends in migration and remittances will grow exponentially. There may be an important role for microfinance institutions not only in the transfer services, but also in savings products, cash management, and lending products using remittances as guarantees[12].

8 Siddiqui, T. and Abrar, C. R., 2003, 'Migrant Worker Remittances and Micro-Finance in Bangladesh', in *Working Paper N.38*, Social Finance Programme International Labour Office, p46.

9 Patsian Low, 2011, 'Microfinance for Migrant Workers: Asia's Next New Market Opportunity', in Lien Centre for Social Innovation, *Social Space 2011,* p 67, Singapore.

10 Ratha, D., and Riedberg, J., 2005, 'On reducing remittance costs', The World Bank, May 10, 2005.

11 Ratha, D., 2007, 'Leveraging Remittances for Development', in *Migration Policy Institute Policy Brief*, June 2007.

12 Ashan, A., 2011, 'Migration and Remittances: Impact on Development – Findings from the World Bank Study on International Migration and Development in the East Asia and Pacific Region', presentation from The Asia-Pacific Financial Inclusion Forum, September 6, 2011, Tokyo.

2. It's about people

The discussion concerning remittances is not simply a matter of flows of money, double digit growth or development; its about real people and families with one or more members living and working abroad. It's about people like Suparmi.

Suparmi is from Indonesia but lives and works in Singapore as a domestic worker. She sends 95 per cent of her salary back home to her family. Back at home her family has a business making furniture from a special type of stone. Every time she sends money, she deposits it in her family bank account, which she has to pay high fees for if she uses the formal transfer channels. Suparmi has not opened a bank account in Singapore as she can't deposit the minimum opening balance of USD 500, which is required by most banks.

Her family uses all the money for consumption purposes. They want to expand their business but they are not eligible for a micro loan in Indonesia, nor is Suparmi eligible in Singapore. She has a labour contract and her income is assured, however she is ineligible for a loan as her Singaporean contract is not acknowledged and her past remittance payment behaviour is not considered if/when she applies for a loan. Since she doesn't have a (savings) bank account in Singapore, she cannot pay for any education, training, or other services that might empower her. Returning back home, she has not been enabled to invest in income-generating activities so it is highly likely that after 10 or 20 years working abroad, her family is still not self-supporting. The formal financial system doesn't include people like Suparmi, or her family in Indonesia.

Suparmi is not an exception in this world of financial exclusion. Millions of workers leave their homes and families every day in order to find better opportunities in other countries only to then discover they are impeded in improving their lives and those of their families back home.

3. A call for savings and greater control

Global remittance flows have showed rapid growth in recent years however the amount of money sent is subject to the individual migrant worker. A migrant worker bases their decision foremost on the fact that he or she does not have direct control over how remittances are used by recipients. Migrant workers report far higher preferences for saving compared to recipient households: about 21 per cent of their income compared to less than 3 per cent[13]. Overseas migrants can only partially monitor how their families back home spend the remittance received and without direct control they often choose to remit less[14]. If migrants were able to have a say in how the money sent back home is spent, they may be likely to increase the amount remitted.

A field experiment conducted in 2007-2008 in El Salvador by researchers from the US, Chile and Guatemala in collaboration with Banco Agricola, a Salvadoran microfinance institution, showed how the sending behaviour of migrant workers changed based on the extent of control they have over how their families use remittances. The purpose of the experiment was to offer a way for Salvadoran migrants in the US to directly channel some of their remittances into savings accounts in El Salvador. The sample consisted of migrants living and working in Washington DC who entered the US in the past 15 years and sent a remittance in the last 12 months[15].

The migrants involved in the study were taught about the use and benefits of savings, and were encouraged to save. A group of the migrants were randomly chosen to be offered one of three new bank accounts in El Salvador that they could remit to. The account would either be opened in the name of the receiver with full and exclusive control of it, opened jointly by the migrant and the receiver with the migrant enabled to access it, or opened only in the name of the migrant who could benefit from full and exclusive control over it. In the case of the first two accounts, the opening was arranged by a branch of Banco Agricola in El Salvador together with the remittance recipient. The remaining migrants received the training but were not offered an account, serving as the comparison group.

The study found that there was a strong desire to retain control over remittances. When offered an account in the name of the receiver only, allowing no formal control on the remittance use, migrants were 16.4 per cent more likely than the comparison group to open an account. When offered joint control, migrants were 21.4 per cent more likely to open an account than migrants in the comparison group, and 34 per cent more likely when offered full control. Savings increased in Banco Agricola's accounts, but a substantial increase in savings was registered also in migrants' other bank accounts in Washington. Researchers interpret this result as due to the financial training on the use of savings received by the migrants as part of the experiment. Migrants implemented savings strategies suggested by the researchers but used savings accounts in other banks.

Lesson 1: Migrant workers remit more money with increased control of remittances.

Lesson 2: Savings increase in both the host country and receiving country when migrant workers have increased control of remittances.

Lesson 3: Migrant workers will use the formal financial system if formal remittance-related financial services are geared towards their needs.

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13 Ashraf, N., Aycinena, D., Martinez, C., Yang, D., 2009, 'Remittances and the Problem of Control: A Field Experiment Among Migrants in El Salvador', p 3.

14 Chen, J. J., 'Migration and Imperfect Monitoring: Implications for Intra-household Allocation', Harvard University.

15 Ashraf, N., Aycinena, D., Martinez, C., Yang, D., 2009, 'Remittances and the Problem of Control: A Field Experiment Among Migrants in El Salvador'.

4. When remittance receivers buy microinsurance!

Families receiving remittances are likely to use this income for daily consumption, with little money left for other products like savings, investments and microinsurance.

Seguros Futuro, a Salvadoran cooperative insurance company, started a project in El Salvador in 2009 with the purpose of increasing the sales of its products through education of the families receiving remittances. The company provided savings and insurance education and at the same time introduced affordable microinsurance products to meet the needs of the families[16].

The company organized a series of workshops on financial education throughout the target territory where well-trained staff members taught people about the importance of savings and about the use of microinsurance. At the same time a large marketing campaign took place, promoting financial products and explaining their characteristics.

After a year the company not only increased the sales of its microinsurance products, the project also revealed some general behaviours regarding the decision of whether to buy microinsurance:

1. The availability of cash makes it easier for remittance receivers to buy microinsurance. Families are more likely to buy when they have a relatively large amount of cash, either derived from good savings behavior or from a higher amount of remittances received. This also reveals an awareness of the need to have insurance for emergencies, though the barrier to buy these products is often a lack of available money.

2. The relationship between the migrant sending remittances and the recipient influences household economic decisions. Remittance receivers distinguish between "people to be grateful to" (usually a parent) or "people to protect" (usually a child). Although husbands and parents overseas tend to send more money to their families than children or other relatives do, (USD 200-500 sent by parents compared to USD 0-200 sent by children or other relatives), often this does not result in the purchase of microinsurance by the receivers. This is because the remittance receivers, in this case children and wives, perceive their migrant relative as "someone to be grateful to" so they do not perceive the need to protect him/her through microinsurance. If the migrant (husband or parent working overseas) were to decide, he/she would be more likely to buy microinsurance for family back home, as they are "people to protect".

Lesson 4: Microinsurance products must be developed to meet the needs of the people who buy it. Microinsurance is almost three times as likely to be purchased for people they protect (sons and daughters), rather than people they are grateful to (parents and spouses)[17]. Most of the time, savings precede the purchase of microinsurance.

This research highlights the crucial yet relatively unexplored role that financial organisations are playing in the broader area of remittances for development. Financial organisations must be aware of the client's needs and recognise remittance transfers as a multi-faceted rather than one-dimensional development tool. This will lead to improved product design and business models that are better suited to the specific needs of those at home and abroad.

In the sections below we will explore some case studies of businesses addressing the following three issues:

- Reducing the cost of remittance transfer services;
- Remittance-related non-financial services at one end of the corridor: exploring the

[16] Microinsurance Innovation Facility, 2011, 'Enhancing Access to Microinsurance among Remittance Recipients in El Salvador', in *Learning Journey*, April 2011.

[17] Microfinance Focus, 2011, 'Relationships influence buying behaviour for remittance linked microinsurance', September 12, 2011.

- power of financial education in channelling remittances towards savings in host countries;
- Remittance-related financial services at both ends of the corridor: understanding the importance of offering financial services to both migrant workers and their relatives back home focusing on the link between remittance flows and broader development needs in the countries of origin.

5. Reducing the cost of remittance transfer services

The costs that migrant workers have to pay in order to send money to their families back home are high. Reducing the costs of remittances is important because remittance flows tend to be highly sensitive to remittance costs. High remittances prices are often due to underdeveloped financial infrastructure in some countries of origin, regulatory obstacles, and lack of access to the banking sector by the migrants overseas. When the remittances are sent to rural areas the cost of the transfer is even higher due to the "hidden costs" faced by rural receivers, notably time, travel costs and security risks[18]. However the most important factor leading to high remittances cost is limited competition and lack of transparency of the money transfer market in the sending countries.

The remittances transfer process is largely monopolised by specialist money transfer operators or mainstream banks with licences for processing foreign exchange transactions. There are wide variations in costs, which can range from 2.5 per cent to 26 per cent of the total amount remitted and these costs are not transparent. It is generally difficult for migrants to compare prices because there are several variables that make up remittance prices including fees charged for sending a certain amount, a margin taken on the exchange rate when remittances are paid and received in different currencies, and administration fees charged to the recipient. These fee components may also vary according to how the receiver is paid (i.e. cash or by crediting an account), the speed of the transfer, and the ability of the sender to provide information about the recipient (such as bank account number). An initiative aimed at facilitating the costs comparison of remittances transfer systems was recently launched by the World Bank. A new section of its website is dedicated to tracking and comparing all the money transfer fees worldwide, categorized by transfer operator and by sending-receiving corridor[19].

Migrant workers in host countries are often under-served by formal financial channels because the banks and financial institutions are not user-friendly or accessible to immigrants. Their operating hours don't fit with the free time of migrants, who remit and arrange for family business on evenings and Sundays.

Overseas migrant workers are thus forced to pay high costs to send their money through formal transfer channels and so often choose to send their money through informal channels. Research on financial inclusion in Pakistan revealed how these alternative remittance systems are widespread among Pakistani migrants overseas. Informal channels can take a variety of forms: ethnic stores, travel agencies, moneychangers or hand delivery. The most used informal remittance transfer in Pakistan is the Hawala. This system works through a network of brokers who arrange the transfer of the money from one country to another without requiring any legal framework; the transactions are based on trust and use of connections, notably family relations. Transfers with Hawala are fast and most importantly cheap. Fees are only 0 to 1.5 per cent of the amount remitted. The market size in Pakistan of this informal remittance system is estimated to be around USD 2.5 billion, 28 per cent of the total USD 9 billion remitted by overseas migrants. Another informal remittance channel popular in Pakistan is in-kind remittances, where remittances are sent in the form of goods. The estimated share of in-kind

[18] IFAD, 2012, 'The FFR Brief. Five years of the Financing Facility for Remittances', p 30, Rome.

[19] Remittance Prices Worldwide, The World Bank Group: http://remittanceprices.worldbank.org/Country-Corridors

remittances is around 10 to 15 per cent of overall international remittances flows, approximately USD 9 billion[20].

Lesson 5: Formal remittance transfer costs are high, difficult to compare, and often not user-friendly for immigrants.

Vodafone M-PAISA

An example of how costs of remittances transferred to home countries can be reduced comes from Vodafone Fiji. The mobile communications company launched Vodafone M-PAiSA in 2010, Fiji's first mobile phone based money transfer service. The service enables migrants to complete simple financial transactions over a mobile phone. Vodafone M-PAiSA's international remittance transfer allows migrant families in Fiji to receive money from their relatives in Australia and New Zealand. Vodafone's partner in Australia and New Zealand is Lotus Foreign Exchange, a leading foreign exchange company in the Pacific region.

Migrant workers who want to send money back to Fiji can go to one of the exchange company branches in Australia or New Zealand where the payment is processed via M-PAiSA and sent to the Vodafone account of the receiver in Fiji. The money is received in the Fiji account in Fiji Dollars. The fee to send the remittances from New Zealand is USD 7.70, while from Australia it is USD 15.21. No minimum amount is required to send the money.

The average cost of sending money in the Pacific region is 15 per cent of the amount remitted. For example sending USD 200 from Australia to Fiji with Western Union will cost USD 24.11[21], while the cost with Vodafone M-PAISA is USD 15.21, saving USD 8.9 per remittance, a difference of almost 37 per cent.

Cashome SingPost

Recently Singapore migrant workers have seen the launch of a new low cost transfer service. SingPost, the national postal service, started a new service called Cashome in partnership with formal banks from 49 selected countries (e.g. State Bank of India, Bank Negara Indonesia, Banco De Oro Philippines).

The service is available in all 61 post offices island-wide. To utilise the service migrants must first register to get a free Cashome Card by presenting an Identity Card or a Work Permit and by giving the details of the recipients. Migrants who decide to remit money can fund the transaction by cash or by debit card. The remittance transfer fee is fixed at USD 7.09 regardless of the amount sent.

The cost of sending money from Singapore to one of the SingPost partner countries is generally much higher with traditional transfer operators. For sake of comparison, remittance transfer of USD 200 from Singapore to Indonesia through Western Union will cost USD 13.26[22], while for the same service and the same amount SingPost charges USD 7.09 - a saving of more than 46 per cent.

These are just two examples of how local companies working together cross-border can find ways to lower the cost of remittance transfers, allowing migrant workers to send more money back home to their families through formal channels.

Lesson 6: Formal low cost remittance transfers are possible.

It is also worth noting that one of the conclusions of a recent study on low-income savings mobilization by Microfinance Opportunities showed that financial service

20 Nenova, T., Thioro Niang, C., Ahmad, A., 2009, 'Bringing Finance to Pakistan's Poor. Access to Finance for Small Enterprises and the Underserved', The World Bank.

21 Remittance Prices Worldwide, The World Bank: http://remittanceprices.worldbank.org/Country-Corridors/Australia/Fiji/

22 Remittance Price Worldwide, The World Bank: http://remittanceprices.worldbank.org/Country-Corridors/Singapore/India/

providers who want to design products for the poor need to focus first on the channel through which the customer is reached, and afterwards on the terms and conditions of the account or product[23].

6. Remittance-related non-financial services at one end of the corridor

The previous examples showed how lower remittances transfer costs can be an incentive for migrant workers to send more money back to their families. They highlight the importance for overseas migrants to have access to financial services in the host countries. We argue this not only applies to access to more affordable transfer services but also to access to financial services such as savings (account), insurance and loans.

Studies indicate that the majority of migrants and their families who have access to these services do not take advantage of these opportunities due to lack of knowledge.[24] Migrant workers are often not aware of the importance of savings to make sound financial decisions. Financial education can enable them to use their remittances in a more productive way.

aidha

aidha is a micro-business school in Singapore that offers basic financial skills and entrepreneurship training to female migrant workers, majority of whom are employed as domestic workers. aidha enables migrant domestic workers to improve their life and the lives of the family members they support through financial education. The financial and business knowledge enables them to build their own businesses once they go back to their home countries.

In addition to the financial skills that teach them to control their spending, learn to create budgets and build savings, they also learn leadership and management, self-confidence and communication skills, all of which are essential to becoming a successful business owner.

Savings creates more options and are essential for a safe and healthy life, but one needs to be able to manage finances properly. To achieve this, aidha created its flagship programme called the Compass Club, a class that utilises a peer-supported model to teach and reinforce practical money management skills. Under the guidance of a trained mentor, students learn, share and motivate one another to put their financial learning into practice. At the beginning of the programme, every student sets specific real savings goals based on their needs and incomes. During the programme they are required to save regularly in their own bank account and are awarded a certificate at the end of the course. These savings can then be used as capital for their planned business or as seed money for future investments.

The results of the program are impressive. On average each Compass Club student saves approximately USD 189.34 per month. With average monthly salaries of just over USD 394.46, that means that students save almost 50 per cent of their monthly income.

This example is in line with Lesson 2: Savings increase when migrant workers have increased control of remittances.

Lesson 7: Financial education is crucial to improve the savings behaviour of migrant workers.

7. Remittance-related financial services at both ends of the corridor

The aidha example shows that financial education of migrant workers is crucial in order to direct migrants' income to savings and

[23] Stuart and Cohen, 'Channelling Cash Flows, towards a new business model for low-income savings mobilization', Microfinance Opportunities, February 2012, p 14

[24] Asian Development Bank Institute, 2011, 'Expanding financial access through regional public-private cooperation', The 2011 Asia-Pacific Financial Inclusion Forum, 6-8 September 2011, p24, Tokyo.

include them in the formal financial system. However, it does not include the family members back home who may live hand-to-mouth and need to increase their income to ensure the migrant worker can return. Targeting the migrant's family, together with the migrant overseas, can be beneficial to avoid the situation in which the migrant represents the only financial support to his or her family.

In line with our argument, an M-PESA study in Kenya showed that 80 per cent of digital remittances reported over an eight-month period were exchanged between friends or extended family as a sort of informal savings; a place where low-income people store money. This is a strong indication that the need for remittances related financial service will be shaped by social networks more than by an individual[25].

Financial education addressed to both ends of the corridor involves the family back home in the budgeting and decision-making process and encourages a sense of mutual commitment towards the family's overall financial goals[26]. We argue that the remittance-related development impact stems from initiatives that work at both ends of the corridor, with the migrant worker in the host country as well as back home in the developing country. This might be on a family level supporting them directly, or at a broader level, developing infrastructure for the entire community. We describe some example cases below.

Diaspora Bonds

Estimates by the World Bank suggest that the total amount remitted in 2011 has reached USD 351 billion. This is money that migrant workers overseas sent to their families back in developing countries. Data from the World Bank regarding the total annual savings of the same group of migrants are much higher, roughly in the range of USD 400 billion[27]. The money not sent to the countries of origin is mostly held as cash or in low-profit bank accounts. Channelling these savings into development investments in the developing countries through the sales of Diaspora Bonds could be of great benefit for both migrant workers overseas and their countries of origin.

A Diaspora Bond is a debt instrument issued by a country to raise financing from its overseas migrants, i.e. diaspora. It's generally long-dated to be redeemed only upon maturity, so such bonds can be used to finance long-term investments such as railways, roads and educational institutions. Migrants are likely to be willing to buy bonds issued by governments of their countries of origin due to a sense of patriotism. Many like the idea of giving back to their countries by financing projects such as housing, schooling, hospitals and infrastructure with a concrete benefit to their families and the entire community back home. If one in every 10 diaspora members could be persuaded to invest USD 1,000 in his or her country of origin, developing countries could potentially raise USD 20 billion a year for development financing[28].

A successful case of Diaspora Bonds comes from India. The Indian Government issued bonds addressed to its overseas migrants on three different occasions: during the balance of payments crisis in 1991, following the imposition of sanctions in the wake of the nuclear explosions in 1998 and at the beginning of the new millennium in 2000, raising over USD 11 billion in total. The success of these bonds is due primarily to a heavy marketing campaign where the bonds have been promoted by the media among the Indian diaspora[29].

Diaspora Bonds are an example of how a financial instrument linked to overseas

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25 Stuart, Guy and Cohen, Monique, 'Channelling Cash Flows, towards a new business model for low-income savings mobilization', Microfinance Opportunities, February 2012, p 2-3

26 IFAD, 2012, 'The FFR Brief. Five years of the Financing Facility for Remittances', p 44, Rome.

27 The World Bank, 2011, 'Migration and Remittances Factbook 2011'.

28 Okonjo-Iweala, N., and Ratha, D., 2011, 'A bond for the homeland', in *Foreign Policy*, May 24, 2011.

29 Ketkar, S. L., and Ratha, D., 2007, 'Development Finance via Diaspora Bonds. Track Record and Potential'.'

migrants' savings can contribute to improving the living condition of both the migrants and their families back home. By purchasing Diaspora Bonds migrants contribute to the development of the infrastructure of the country and their community. Although these instruments have been promoted in recent years they are not yet issued in all developing countries. Today the initiative of delivering services that can benefit both migrant workers and their families back home is left predominantly to private organizations as highlighted in the cases below.

Hatton National Bank

In 2011 Hatton National Bank, Sri Lanka, a leading private bank, launched a new savings account targeting migrant workers employed in the Middle East and their families in Sri Lanka. The product is designed to benefit both senders (migrants) and receivers (migrants' families) of remittances, with a particular focus on rural vulnerable women in Sri Lanka who depend on money sent by their relatives working overseas.

The savings product is called "Adhishtana" and can be opened with an initial minimum deposit of USD 8 both in Sri Lanka and in the Middle East. Those eligible for opening an Adhishtana account are, firstly, workers migrating overseas who can open the account before leaving the country at any of the 241 Hatton Bank customer centres island wide, including at the International Airport; secondly, migrant workers in Middle East who can open the account through the exchange house representatives; and thirdly, family members of migrant workers. Only those signatories to the account can withdraw money and are entitled to an ATM enabled visa debit card providing year-round service.

In order to assist migrants to remit their money to Sri Lanka through reliable and cost effective channels Hatton National Bank has developed CashXpress, a remittance system for easy, safe and fast deliveries. Migrant workers overseas can also use other transfer operators in the Middle East with whom Hatton National Bank has established remittances arrangements. Once the family in Sri Lanka has received the money they can deposit it in an Adhishtana account. Adhishtana is a Sri Lankan Rupee Account.

The holders of these savings accounts are offered access to special loans including housing loans ranging from USD 400 to USD 8000 and loans to start small business enterprises between USD 200 and USD 8000. Both migrant workers and their families can obtain these special loans. Hatton Bank also provides financial guidance and advice to the migrants' families who want to set up their own businesses in Sri Lanka. Moreover, all "Adhishtana" account holders are offered a life insurance cover ranging from of USD 800 to 8000 inclusive of spouse cover ranging from USD 400 to 4000. Since the launch of this savings account in mid 2011, 1169 savings accounts have been opened in Sri Lanka.

The new savings account offered by Hatton National Bank demonstrates how the private sector can contribute to achieve financial inclusion. Financial products designed to meet the real needs of migrant workers and their families back home represents a business model that can be scaled up and replicated by other private companies thus enabling large-scale development impact.

This example highlights again the importance of targeting the specific financial needs of migrant workers and their families back home (Lesson 3).

ASKI Global

There are between 8.7 and 11 million overseas Filipino workers worldwide (2009)[30]. While many microfinance institutions lend to the families of migrant workers in the Philippines, for the most part these services do not extend to the Filipino migrant workers as they are living overseas.

[30] Philippine Overseas Employment Administration, 2011, 'Stock Estimate of Overseas Filipinos As of December 2009'.

Alalay sa Kaunlaran Incorporated (ASKI), a microfinance institution with operations focused in the North and Central Luzon provinces of the Philippines, observed that a substantial number of their microfinance clients had heads of families who were migrant workers. Despite the money received by their relatives overseas, many of these families were still not able to support their financial needs. ASKI Philippines recognised the opportunity to offer services through the combined use of remittances and microfinancing, targeting not only the families in the Philippines, but also the source of the funding; the migrant worker's remittances.

In 2010 ASKI Global, a branch of ASKI, was established in Singapore to serve the migrant workers' community. It offers migrants in Singapore three services: training and education on basic entrepreneurship, financial education and literacy, and consultancy[31]. It aims to increase the use of remittances for productive investments, creation of micro and small enterprises and increase income and purchasing power for families in the Philippines. ASKI have found that entrepreneurship training can bring about a change in mindset for migrant workers as well as their families back home as both groups learn to think productively.

ASKI Philippines coaches and mentors migrant families on business management while ASKI Global in Singapore does the same for the migrant workers. While the migrants are funding the family business in the Philippines through their remittances, their families run and manage it with regular coaching and monitoring from ASKI Philippines to ensure that when the migrant returns home, there is a new and sustainable source of income. This is financial inclusion beyond microfinance: enterprise coaching added to "access".

Lesson 8: Financial education at both ends of the corridor is crucial and beneficial to both migrants and families back home. When access to finance, capacity building and other support are combined, remittances are used in a more productive way.

Microfinance International Corporation (MFIC)

Microfinance International Corporation (MFIC), founded in 2003, offers affordable financial services to immigrants from Latin America living and working in Washington DC. Their core service is remittances transfer, delivered through ARIAS, an electronic settlement platform designed and developed by MFIC. The system enables immediate, low cost payments to other countries. Thanks to this remittance payment platform, microfinance institutions in Latin America can easily process and administer payments received from their clients' relatives working in the USA and settle financial transactions in real time.[32]

To support and offer services to migrant workers, MFIC opened a financial institution called Alante Financial with seven branches in different areas in Washington DC, close to where many migrants live. Alante Financial also offers personal loans to help immigrant workers meet their diverse financial needs, ranging from educational and medical costs to emergency and legal expenses. These loans are dependent on an individual's commitment and capacity to repay. The risk assessment of the loan is based upon the migrant's financial history with Alante Financial. Loans have no collateral. The key is thus the remittance history of the migrant who applies for a loan: his or her income can be estimated from the amount of money regularly sent back home. Regular transfers suggest a stable job and the applicant's responsibility for his family. Remittance payment history has proven to be a reliable risk assessment tool.

[31] Cosico, I. L., 'A new model of transformation. Harnessing the potential of Overseas Filipino Workers through entrepreneurship', in *BWTP Network Bulletin*, February 2011.

[32] The Institute for International Monetary Affairs (IIMA), The 2011 Asia-Pacific Financial Inclusion Forum Report, p22-23.

Another innovative service offered by Alante Financial is the transnational loan. It was designed for those migrants who wish to buy or improve a residential property or invest in a business in their home country. Transnational loans allow migrants to apply for and receive a loan in their countries of origin while still residing abroad. The migrant worker in Washington DC applies for a loan in one of the Alante branches; he or she is required to have a job and to be able to repay the debt regularly every month. Interviews and reviews of the migrant's remittance history are conducted. If the loan application is approved, it is sent to a partnering microfinance institution in the home country of the migrant which becomes the administrator of the loan and provides the loan to the migrant family. The migrant overseas repays the loan but the money is invested in the home country.

The business model used by MFIC shows how a low cost financial linkage between developed and developing countries is possible. The use of remittances to provide financial services in the country of residence and the home country is a tool of sustainable development for migrant workers and their families. Microfinance institutions are ideally suited to take up this opportunity. The revenue earned from facilitating remittance transfers and the deposits from remittance savings can be reinvested to increase the variety of financial services offered and to stimulate local development[33].

This case study again shows that low cost remittance transfer services are possible (Lesson 6).

Lesson 9: Remittances payment history can be a reliable determinant for loan risk assessment, and loans without collateral are useful and manageable from within a developed country.

Lesson 10: Transnational loan products based on migrants' remittances are possible.

[33] IFAD, 2012, 'The FFR Brief. Five years of the Financing Facility for Remittances', p 36, Rome.

8. Conclusions and suggestions for further research

Remittances are expected to grow in size and impact in coming years and have great potential for promoting financial inclusion. Harnessing the development potential of remittances requires addressing four major challenges. This bulletin aimed to demonstrate how that can be done.

1. Reducing remittance transfer costs: costs can decrease with greater competition among transfer operators and a better use of mobile, digital and other technology.

2. Opening up formal channels: allowing more control for migrants over remittances and providing financial education increases the savings of migrant workers in formal bank accounts.

3. Channelling remittances to savings and investments: linking remittances to other financial products such as savings, micro loans, and business loans increases the productive use of remittances instead of being used only for consumption.

4. Maximizing remittances benefits to both migrants and their families: financial education is important to help migrants and their families formulate long-term goals and prudent financial plans to mitigate the risks they face and understand the broad array of services and instruments such as savings, credit, and insurance linked to remittances. Financial product design should be geared to migrants and their families' needs[34].

This bulletin has highlighted the huge potential of remittances for poverty alleviation. However a number of questions require further research,

[34] Asian Development Bank Institute, 2011, 'Expanding financial access through regional public-private cooperation', The 2011 Asia-Pacific Financial Inclusion Forum, 6-8 September 2011, pp22-24, Tokyo.

including: how does remittance-related behaviour evolve during the working life of a migrant? What are the factors that determine a migrant's remittance behaviour (gender, culture, religion, etc.)? Why don't formal financial services match the needs of overseas workers and families back home, and why do receivers often not have a bank account? What are the factors behind both recipient and sender preference for informal channels?[35] We leave these topics and questions for further research on how to harness the potential of migrant workers to reach greater financial inclusion.

[35] Brown et al (2011) suggest that this is likely to be associated with the institutional, legal and regulatory environments, particularly where households are fearful of earnings and related transactions being recorded by authorities.

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