



The use of remittances and financial inclusion

A report by the International Fund for Agricultural Development and
the World Bank Group to the G20 Global Partnership for Financial Inclusion
September 2015



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List of abbreviations and acronyms

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
AMUCSS	Asociación Mexicana de Uniones de Crédito del Sector Social
BSP	Bangko Sentral ng Pilipinas
CGAP	Consultative Group to Assist the Poor
CMF	Centre for Micro Finance
CPSS	Committee on Payment and Settlement Systems
DCA	Development Credit Authority
DMA	Developing Markets Associates
EFLP	Economic and Financial Learning Program
EU	European Union
FFR	Financing Facility for Remittances
FinCEN	Financial Crimes Enforcement Network
FOMIN	Fondo Multilateral de Inversiones
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPFI	Global Partnership for Financial Inclusion
IAD	Inter-American Dialogue
IFAD	International Fund for Agricultural Development
KYC	Know Your Customer
MFI	Microfinance Institution
MNO	Mobile Network Operator
MTO	Money Transfer Operator
MSME	Micro, Small and Medium Enterprise
NPS	National Payment System
OECD	Organization for Economic Co-operation and Development
PSA	Payment Services Act
PSD	Payment Services Directive
RCB	Rural and Community Bank
RER	Rural Enterprise and Remittance Programme
RSP	Remittance Service Provider
SEAF	Small Enterprise Assistance Funds
SIDC	Sorosoro Ibaba Development Cooperative
SME	Small and Medium-sized Enterprise
UNDESA	United Nations Department of Economic and Social Affairs
USAID	United States Agency for International Development

Glossary

The following terms are used in this paper. The definitions are those accepted by the Global Partnership for Financial Inclusion (GPFI), the World Bank, and the International Fund for Agricultural Development (IFAD).

Account-to-account transfer: Sometimes abbreviated A2A, this is movement of money from one privately held bank account to another, typically electronically. The accounts may be held by the same owner or separate owners.

AML/CFT: An acronym for anti-money laundering/combating the financing of terrorism; it refers to policies and procedures used to detect and reduce money laundering and terrorism financing.

Circular migration: Circular migration or repeat migration is the temporary and repetitive movement of a migrant worker between home and host areas, typically for the purpose of seasonal employment, or for longer stays of several years before returning back. It can be cross-border or rural-urban within the same country.

De-risking attitude: The phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, risk.

Financial inclusion: For the purposes of this report, financial inclusion is defined as the effective access to basic financial services, such as payments, savings (including current accounts), credit and insurance provided by regulated financial institutions for all working-age adults. Effective access is defined as a “convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider, with the result that financially excluded customers use financial services rather than existing alternative, unregulated options” (GPFI, CGAP 2011).

Migrant worker: A person who is to be engaged, is engaged or has been engaged in a remunerated activity in a state of which he or she is not a national (United Nations, 1990).

Mobile Network Operator (MNO): A provider of wireless communication services that can also play a role in the delivery of electronic payments, including the transfer of remittances.

Money Transfer Operator (MTO): A payment service provider that sends payment in cash or through other payment instruments and receives fees from the sender for each transfer without requiring the sender to open an account.

Online service: Method to remit money using the Internet or the telephone network as access channels; bank account or credit/debit/prepaid cards as funding sources; and computers, phone, smart phones or tablets as access devices. Online services replace physical and in-cash interactions by remote electronic transactions.

Payment institution: a specific category of non-bank institutions permitted to handle payment operations including remittances.

Payment system: A specific set of instruments, banking procedures and interbank funds transfer (e.g. clearing and settlement) systems that ensure the circulation of money.

Postal networks: Association between postal banks and postal organizations to use post office networks as a delivery channel for postal or money transfer operator (MTO) remittance products.

Remittances: Cross-border, person-to-person payments of a relatively low value. The transfers are typically recurrent payments by migrant workers to their relatives in their home countries. Remittances are – first and foremost – a private flow of funds between family members.

Remittance Service Provider (RSP): An entity operating as a business that provides remittance services for a fee to end-users, either directly or through agents, and generally making use of agents such as stores, post offices or banks to collect the money to be sent. On the receiving side, the money is picked up by the recipient at a bank, post office, microfinance institution (MFI), or other payout location. RSPs encompass a wide array of financial institutions (bank and non-bank) and non-financial institutions. Institutions such as banks, postal networks and MNOs, can be agents that co-brand and sell the products of others, especially major MTOs. Some RSPs brand and sell their own remittance products.

Specialized banks: Banks that have developed specialized business lines for migrant workers including low-cost remittances as a flagship product.

Executive Summary

The report provides an overview of the nexus between remittances and financial inclusion. The objective is to improve the understanding of the impact of remittance market policies and the interventions – both nationally and globally – on the levels of financial inclusion. There is evidence that the appropriate mobilisation of remittance services benefits financial inclusion.

There is a direct correlation between financial exclusion and poverty. An estimated two billion (38 per cent) of working-age adults globally have no access to financial services delivered by regulated financial institutions, with 73 per cent of poor people unbanked. Among the financially excluded are migrant workers and their families in their home countries. In 2015, it is expected that these workers will send USD500 billion home, representing a key international flow of funds. However, the economic potential of these funds is largely untapped due to the inadequate engagement of the financial sector to the specific needs of migrants and their families.

Through a better understanding of this group and their needs, remittance flows could be leveraged to pull people out of poverty, to develop home countries' economic infrastructure and to provide additional revenue streams for the financial sector. Whether through remittances, savings or investment, migrant workers possess a powerful set of instruments to change their own lives and the lives of those back home. With the recognition of the impact that remittances have on development, and the role of financial inclusion through remittances, it is incumbent on governments and the private sector to explore ways to maximize this impact by scaling up successful policies and models. Through considered intervention and policy changes individuals can be

brought into the financial system to achieve their personal financial goals. Regions, especially rural areas, can build their financial infrastructure to lift entire communities out of poverty.

This report is an overview of the relevant general trends in leveraging remittances as a means to enhance financial inclusion, and underscores the importance of maximizing the economic impact of remittances towards sustainable development.

It also describes different migration patterns (domestic vs. international; circular settlement), the segmentation of migrants according to region of destination or origin, and the related behaviors in the utilization of remittance services.

The report also defines an analytical framework for understanding the instrumental role of remittances as a means to foster financial inclusion. The main issues, policies, and interventions, as well as selected case studies, are presented from three perspectives:

- A **client centric perspective**, which explains the specific financial needs of senders and recipients and the constraints they face to access and use financial services.
- A **supply side and market competition perspective**, which highlights the inclusive outreach of different types of remittance service providers (RSPs) in terms of access to remittance and complementary financial services for remittance senders and recipients.
- The **regulatory framework and market environment**, examining the key domain of regulations that affect the provision of remittances by a variety of providers, focusing on the interdependence between domestic payment systems and international remittances.

Finally, this report describes specific **public-private partnership** approaches to facilitate migrant resources mobilization and willingness to invest in the home countries, beyond just traditional financial schemes, thereby also addressing financial inclusion. The report concludes with general **recommendations** for stakeholders involved in this field from the public and private sectors.

The report uses actual case studies to illustrate the main issues and highlight progressive approaches in harnessing remittance flows. These range from the financial education examples (both in specific environments and as a general approach), the utilization of online and mobile payment infrastructure (including mobile money) to improve access, examples of what can be done in rural areas, improving the payment networks through the elimination of exclusive agency agreements and facilitating access for non-bank remittance service providers, specific improvements in the regulatory approaches, promoting transparency through remittance price databases and providing examples of specific migrant workers investments to sustainably improve socio-economic circumstances in the home countries.

1 Introduction

Over the past 15 years, as reporting has improved, remittances have emerged as a key item in the global development agenda. With over USD500 billion expected to be sent by migrant workers to their home countries in 2015, remittances represent a key flow of foreign currency. The impact on local communities is tremendous, as they bring in large amounts of funds that help sustain millions of families. Officially introduced for discussion in 2004 at the Sea Island Group of Eight (G8) meetings, the topic has since been recognized and included as a key developmental theme on the agendas of governments, international organizations and NGOs.

1.1 Objective of the report

This report provides an overview of the nexus between remittances and financial inclusion. It aims to provide GPF members, the G20 and developing countries with a better understanding of remittance market policies and interventions, both at country and global levels, that can further promote financial inclusion as a result of remittance mobilization.

1.2 Remittances and development

Remittances are defined as cross-border, person-to-person payments of relatively low value. Migrants send on average USD200, typically but not always on a monthly basis. While this amount may appear to be relatively small, it is often 50 per cent or more of their family's income back home. In fact, it is on the receiving end that remittances are perceived as anything but 'relatively low value'. These flows constitute a critical

lifeline for millions of individual households, helping families raise their living standards above subsistence and vulnerability levels and, moreover, these remittances lead to improved health, education, housing and levels of entrepreneurship. Remittances are often the first experience of a financial service for recipients. People-to-people payments are often the starting point and trigger further financial inclusion.

Governments, the development community, the private sector (full-service banks, MFIs, postal networks, and mobile phone companies, among others), and the civil society have the dual challenge of expanding access to financial services (particularly in rural areas where the majority of the financially excluded reside) and of broadening the range of financial products offered to remittance senders and recipients.

While financially excluded populations actively make use of unregulated financial services, financial institutions are either unwilling or unable to provide the services that suit their needs. However, since migrants already use and rely on remittances, and the financial sector provides efficient money transfer services, remittances can be the pathway from the needs of the financially excluded class to the interests of the financial sector. Remittances are like financial citizenship; they create a starting point on which to build other inclusive and sustainable financial services. A transaction or deposit account can be the stepping stone to better financial inclusion, providing a pathway to a broader range of responsible financial services provided through stronger and more diverse financial institutions. When remittances are received through regulated financial intermediaries, savings can occur and can be reinvested in the local community; they can act as an engine for local

development; and they can function as a buffer against instability at the macroeconomic level. To understand just how important remittances are, it is essential to understand their effects at national, community and household levels.

1.2.1 Effects of remittances at the national level

Aggregated at the macroeconomic level, remittances can be a potent force. Approximately 25 countries receive 10 per cent or more of their GDP from remittances. In countries such as Tajikistan, remittances account for 42 per cent of GDP, and this figure is even higher for Somalia, where estimates are close to 50 per cent.

The impact of such a large inflow of cash is monumental in its own right, but there are further effects as well. Remittances provide recipient countries with a source of *hard currency*, making it easier for governments to borrow money at a lower cost. During times of political instability, economic strife or natural disaster, remittances tend to increase as the increased needs of family members cause migrants to send more money home. This contribution provides an important economic buffer during periods when foreign investors are likely to withdraw their funds. Remittances have another more indirect benefit by acting as a safety net, lifting families out of poverty and reducing the demand on public social programmes.

Naturally, there are also negative externalities. As is the case with exports, large volumes of remittances tend to increase the value of a country's currency, which renders the country's products and services more expensive on world markets (the Dutch disease effect).

1.2.2 Effects of remittances at the community level

The effects of remittances at the community level receive little attention from policymakers, but they provide an infusion of cash into local commerce, and they help develop financial infrastructure and financial intermediation. While the extra demand for products and services helps develop local markets and supports businesses, expanding

financial infrastructure provides access to services that are often not available in more remote urban or rural areas.

Migrants also invest in and donate funds to their local communities. These investments help create jobs so that others do not need to migrate. Furthermore, migrant philanthropy can play an important role in helping communities supplement their locally available social services through the building of schools, community centres, medical facilities, religious buildings and infrastructure. These investments inherently have a long-term impact on the community, but are nevertheless some of the more underappreciated aspects of the willingness of migrants to remit money home.

Of particular interest to migrant investment is the market for products imported from home communities into their host countries. The niche market for these *nostalgic goods* can be lucrative for those who can take advantage of local production for export to the diaspora.

1.2.3 Effects of remittances at the household level

Remittances have been called the world's largest poverty reduction programme. While this characterization may be considered excessive, it does illustrate that families receiving remittances become – by their virtue – financially better off than those who do not receive them.

Amounting to 40 per cent on average of family income, remittances are mostly spent on basic necessities such as food, clothing and shelter; but once these are covered, the remainder is invested in human capital, health and education, or housing. Although referred to as a 'non-productive' use of assets, these funds are vital in lifting millions of families out of poverty. Moreover, remittances provide regular inflows into household budgets that are subject to income volatility and seasonality in rural areas; and they are reliable, timely and sufficient in times of crisis. This unique source of income allows receiving households to face unpredictable problems, to save residually from amounts received in good months, to affect monthly loan repayments, or to support investment

in productive assets. Also, over time and depending on both the nature of recipients' incomes and the regularity of remittances, it is estimated that between 20 to 30 per cent of the remittances received can be used for non-consumption purposes (e.g. savings and investment).

Migrant workers generally migrate intending to return home after earning a sufficient amount of money to take care of their families. However, the financial realities faced by migrants are often significantly more challenging than originally envisioned. A *transnational household* has different costs than a *traditional household* as two domiciles must be maintained. The overall cost of living is much higher for those living abroad, and there are the high costs of travel home and extra fees associated with telecommunications and remittance transfer.

1.3 Remittances as a catalyst for financial inclusion and development

There is a direct correlation between financial exclusion and poverty. An estimated 2 billion or 38 per cent of working-age adults globally have no access to the types of financial services delivered by regulated financial institutions, and 73 per cent of poor people are unbanked. This amounts to more than half of adults in the poorest 40 per cent of households in developing countries.

Without access to financial services, savings cannot accrue interest in deposit accounts, they cannot be lent out to be reinvested in the local economy, and no credit history can be built to judge a person's creditworthiness. In many communities, this exclusion means that people are only able to save informally (through the purchase of land or durable goods, or money saved 'under the mattress'); and they must rely on relatives or local lenders for borrowing, typically with severe limitations in terms of amounts, availability and costs.

In contrast, those who do have access to a combination of regulated financial services can have significant benefits such as: mitigation of

unforeseen expenses risk, smoothed consumption, increased productive investment, elevated productivity and income, and greater expenditures on education and preventive health. Moreover, these benefits create a virtuous cycle, with greater financial access leading to greater ability to invest in local communities and financial intermediation, and thus extending financial opportunities to other impoverished individuals.

Among the financially excluded are migrant workers and their families back home. While it is impressive that this group represents an industry worth USD430 billion a year in remittances from host countries to home countries, this economic engine is largely untapped because the financial sector fails to understand and/or is unwilling to adapt to the specific needs of migrants and their families.

Through a better understanding of this population such remittance flows could be leveraged to pull people out of poverty to develop home countries' economic infrastructure, and to profit the financial sector.

Whether through remittances, savings or migrant investment, migrant workers possess a powerful set of instruments to change their own lives and the lives of those back home. With the recognition of the impact that remittances have on development and the role of financial inclusion through remittances, it is incumbent on governments and the private sector to explore ways to maximize this impact by scaling up successful policies and models. Through considered intervention and policy changes, individuals can be brought into the financial system to achieve their personal financial goals. Regions, especially rural areas, can build their financial infrastructure to lift entire communities out of poverty.

This report is an overview of the relevant **general trends**, introducing remittances as a means to enhance financial inclusion of both remittance senders and recipients; and it underscores the importance of maximizing the economic impact of remittances towards sustainable development. It also describes different migration patterns

(domestic vs. international; circular vs. settlement), the segmentation of migrants according to region of destination or origin, and the related behaviours for sending money home.

The report also defines the analytical framework used to understand the instrumental role of remittances as a means to foster financial inclusion. The main issues, policies and interventions, as well as selected case studies, are presented from three perspectives. Section 3 provides a **client-centric perspective**, which explains the specific financial needs of senders and recipients and the constraints they face to access and use financial services. Section 4 presents the **supply side and market competition**, which highlights the inclusive outreach of different types of RSPs in terms of access to remittance and complementary financial services for remittance senders and recipients. Section 5 discusses the **regulatory framework and market environment**, clustering the key domains of regulations that affect the provision of remittances by a variety of providers, focusing on the interdependence between domestic payment systems and international remittances.

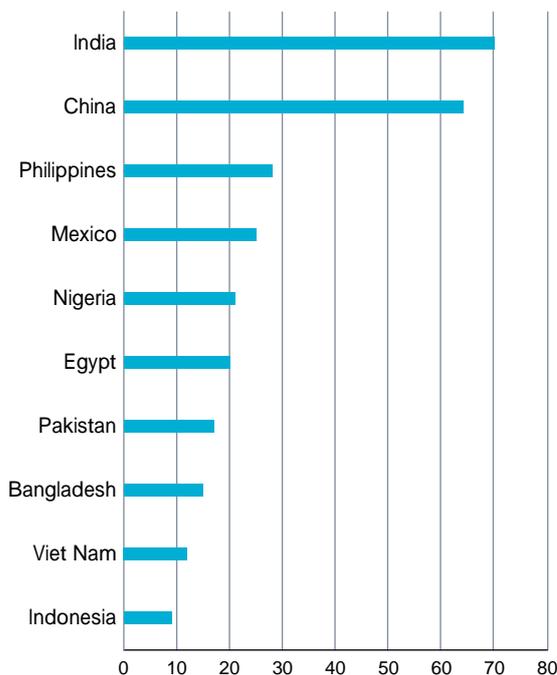
Finally, this report describes specific **public-private-partnership approaches** to facilitate migrant resource mobilization and willingness to invest back home beyond just traditional financial schemes, thus addressing financial inclusion. It concludes with general **recommendations** for stakeholders involved in this field from the public and private sectors.

2 General trends

2.1 General trends in remittances and opportunities to increase financial inclusion

This section provides data supporting the importance of remittances for receiving countries. It highlights the nexus between remittances and financial inclusion describing the financial behaviour of remittance senders (migrant workers/the diaspora) and recipients and the opportunities these individuals represent as clients of RSPs and financial institutions.

Figure 1: Top 10 receiving countries (USD billion)



Source: The World Bank 2014.

2.1.1 Impact of remittances and quantification of remittance senders and recipients

At a macro level, international remittances have a number of positive effects on both economic and poverty alleviation indicators, which can be leveraged further by promoting financial inclusion.¹

The scale of impact in a given country can be assessed by the gross volume of remittance inflows and the remittance-to-GDP ratio, which in turn measures the economy's reliance on foreign remittances. Some studies suggest that a 10 per cent increase in the share of remittances in a country's GDP can lead to a decrease in the proportion of people in poverty of 1.6 to 3.5 per cent (UNCTAD, 2011).

In certain countries (e.g. Armenia, Haiti, Liberia, Nepal and Tajikistan) remittance-to-GDP ratio can reach 20 per cent or more. Figure 2 places countries in three groups according to the level of reliance: above 20 per cent, between 10 per cent and 20 per cent, and between 3 per cent and 10 per cent. There are currently 24 countries that have a remittance-to-GDP ratio above 10 per cent.

A significant number of small islands and countries with small populations and economies are particularly reliant on remittances. Such is the case in Cape Verde, Comoros, Montenegro and Tonga.

Beyond their impact on socio-economic indicators at the macro level, international remittances reach a substantial part of the population of developing countries. In 2014, there were over 232 million migrants worldwide (164 million of which originated from developing countries). In 2013, women comprised 48 per cent of the estimated 200 million international migrants worldwide. However, there were considerable

¹ Remittances have a positive impact on balance of payments as a countercyclical source of currencies, overtaking ODA and IDE in developing countries, and counter-balancing both economic cycles and national disasters. However, remittances can negatively impact the effective exchange rate, thus decreasing competitiveness of the receiving countries (Dutch disease effect) while exchange rate fluctuations can sharply affect the amount received in local currencies. Remittances (international and national) have a positive effect on poverty both quantitatively, by reducing the number of households below the poverty line, and qualitatively, by reducing the severity of poverty (the proportion and the degree of poverty of people below the poverty line). (ADB 2014, IFAD 2013, Ratha 2013, Pozo 2006).

Figure 2: Remittance-reliant countries by importance of remittance-to-GDP

Remittances/ GDP	Receiving region and countries					
	Africa %	Asia %	Latin America % and the Caribbean	Europe %	Near East %	Population < 1 million / Islands %
20%+	Liberia 26	Tajikistan 42				
	Lesotho 22	Kyrgyzstan 30	Haiti 22		Armenia 20	Tonga 26
		Nepal 30				
10%+			Honduras 17			Comoros 19
			El Salvador 17		Lebanon 19	Samoa 18
	Senegal 11	Philippines 10	Guatemala 10	Kosovo 17	Georgia 12	Guyana 11
			Nicaragua 10	Bosnia Herzegovina 11	Jordan 10	Cape Verde 10
						Montenegro 10
3%+	Mali 8					
	Togo 8	Sri Lanka 9		Albania 8		Sao Tome and Principe 9
	Egypt 7	Uzbekistan 9	Dominican Republic 7	Serbia 8		Kiribati 8
	Morocco 7	Bangladesh 9	Bolivia 4	Ukraine 6	Azerbaijan 3	Saint Kitts and Nevis 6
	Guinea-Bissau 5	Pakistan 7	Ecuador 3	Lithuania 5		Fiji 5
	Madagascar 4	India 3		Hungary 3		Saint Vincent and the Grenadines 4
	Uganda 4	Afghanistan 3		Bulgaria 3		Dominica 4
	Nigeria 4	Timor-Leste 3		Croatia 3		Grenada 3

Sources: World Bank Bilateral Remittance Matrix 2014. World Bank, World Development Indicators, GDP, 2015.

differences across regions. In developed countries, women constituted 52 per cent of all migrants, while in developing countries, they accounted for 43 per cent (UNDESA 2013). Those considered migrant workers sent more than USD430 billion to their relatives in their countries of origin, benefiting 500 million people in developing

countries.² However, a large portion of these remittance receivers remain unbanked or poorly served by regulated financial institutions, particularly in rural areas, which receive 40 per cent of total remittances.³ In addition, migrant workers also face difficulties in using financial services adequate to their needs.⁴

2 This figure is based on a conservative assumption that one migrant worker from developing country sends remittances benefiting to 3 people on average in his/her home country. Recipients households surveys undertook by IDB in LAC (2001-2008) and IFAD in Africa (2009) and Asia (2012, 2013) report that the number of people benefiting from one remittance sender is comprised between 3 and 5 in developing countries.

3 There is no specific marker for remittance receivers in worldwide surveys such as Findex that would allow comparing international remittance receivers' financial inclusion (account ownership and other behaviour) to other groups of adults/households. Specific information is limited to the use of accounts (bank or mobile) to send/receive domestic remittances in the 2014 survey and for international remittances in 2011. Surveys from different developing regions indicate that international remittances receiver's households belong to low-income segments of the population. As a result, a proxy to assess financial inclusion among remittance receivers can be proportionate to poor adults in developing countries with an account. The 2014 Findex survey estimates that 46 per cent of adults living in 40 per cent of the poorest households in developing countries have an account.

4 These difficulties are revealed by some typical behaviours or limitations (partially) measured through demand-side surveys:

- Prominent unregulated channels to send money, particularly to rural areas, represent 42% of remittance flows to Mali (BCEAO 2013), 35% to Nepal (NIDS-IFAD 2013) and 43% to Kosovo (UNDP 2012). In these countries rural migration is significant.
- Limited access of migrant workers to bank accounts in host countries as compared with account ownership of nationals. For example, surveys indicate significant differences: in the United States, 55% (Chiswick 2014) versus 94% (Findex 2015); in Italy, 61% (CESPI 2012) versus 94% (Findex 2015); and in France, 85% (Greenback 2.0 survey Montreuil 2015) versus 97% (Findex 2015).
- Lack of access to and quality of products that meet the financial needs of diasporas in the host country, leading to unregulated savings and borrowing practices.

Domestic remittances reach an even larger number of households in developing countries, with 500 million people living outside their place of origin (UNDESA 2013). A large percentage of these people are also unbanked.

Remittances are of concern for a large population base of migrant workers and recipients (roughly more than one out of ten persons in the world) with the potential to access regulated financial institutions to send/receive remittances and use complementary services.

Figure 3: Importance of people concerned by international remittances



Source: IFAD 2015.

At the household level, the impact of remittances depends upon their frequency, the amount received and the characteristics of the household (mainly its economic activity, which determines incomes levels and regularity). International remittances sent from OECD countries are usually more frequent (11 times a year on average) and for larger amounts (USD200 to USD300 per transaction on average) as compared with those sent from developing regions (USD150 per transaction on average on an

Figure 4: Received remittances, stock of international and internal migrants, rural population in main developing regions

	Africa	Asia	Latin America and the Caribbean
Received remittances (USD billion) (i)	64	285	65
Migrants abroad (million) (ii)	31	93	37
Internal migrants (million) (iii)	114	282	100
Percentage of rural population (iv)	59	52	20

Sources: i. Adapted from World Bank bilateral matrix 2014; based on UNDESA regional countries classification. ii. iii. iv. UNDESA, Population Division (2012, 2013).

Figure 5: Average annual amount remitted: breakdown by main destination regions/countries ratios

Originating country	Average annual amounts remitted (USD)
OECD	5 000
Russia, Gulf countries	2 500
Regional remittance: South America, West Africa, Central Asia	< 1 000
Domestic remittance: Africa	< 500

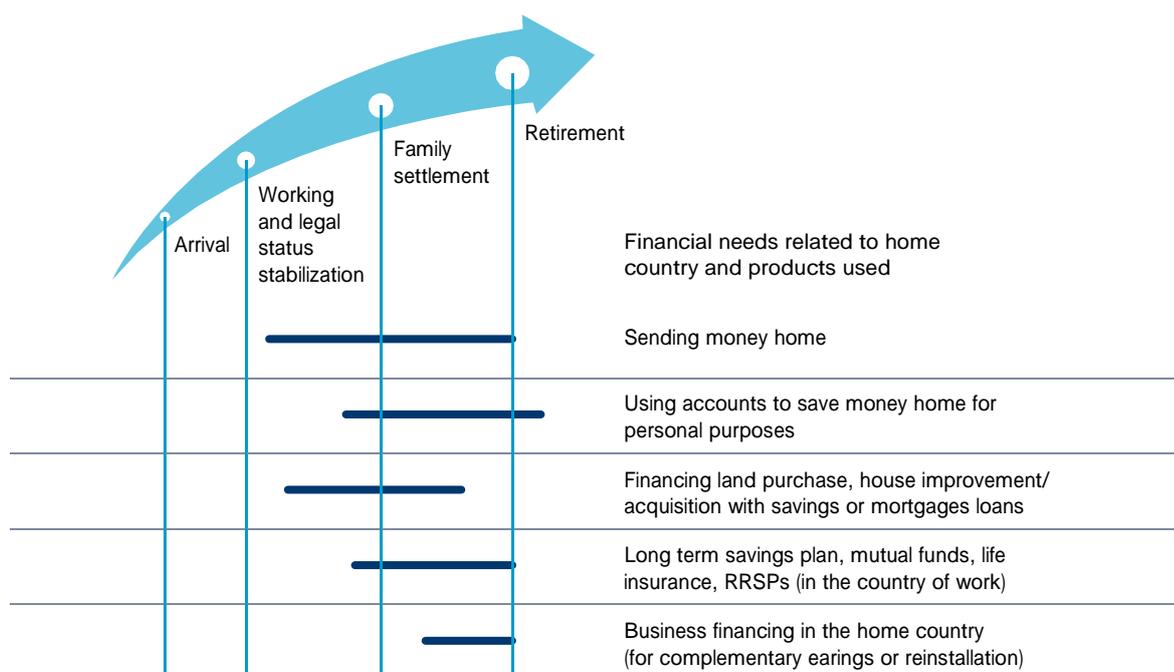
Sources: Orozco 2013, World Bank 2012.

irregular basis). Domestic remittances are generally less frequent and of lower values (below USD50). Figure 5 shows average annual remittances received by region and highlights the differences between amounts sent by regions.

2.1.2 Migrant workers: profile and financial inclusion needs

The most important and identified demand migrant workers voice is remitting money to their families in a secure manner, quickly and at

Figure 6: Migrants' financial needs and behaviour: settlement migration



Source: IFAD 2015.

affordable costs. Nonetheless, migrant workers often require additional financial services such as savings, insurance and housing loans in order to cover personal needs in the home country and to finance family needs and entrepreneurial endeavours or established businesses back home.⁵ In fact, it is estimated that between 1 to 5 per cent of migrant workers – those with entrepreneurial profiles – are currently able to invest their capital/savings in their countries of origin. However, investments often require not only financial but also non-financial support in order to reach long-term sustainability.

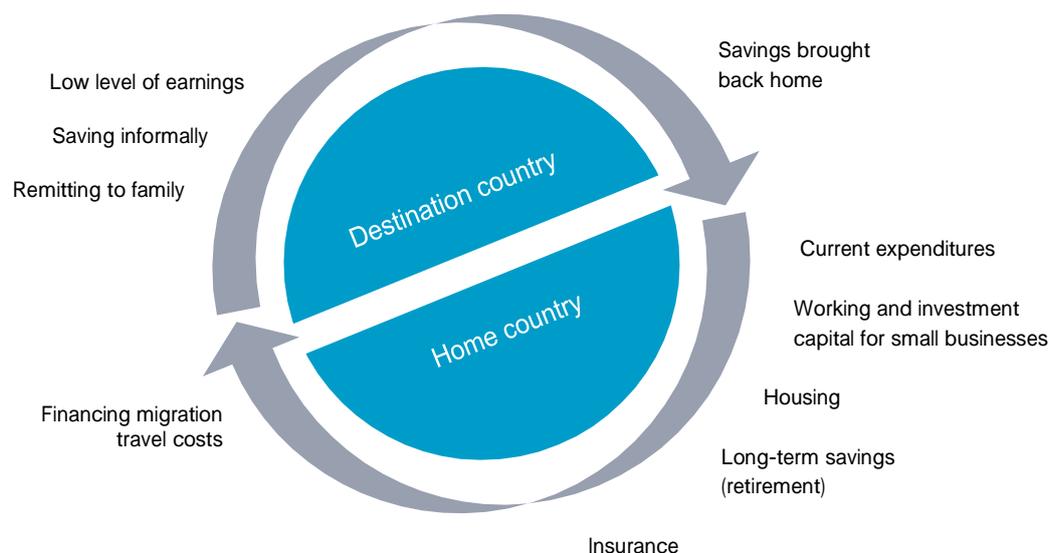
Beyond some common characteristics, financial needs and behaviours vary widely among migrant workers, depending on their migration patterns. Migrant workers' financial goals evolve over time, since their financial needs are determined according to their migration cycle. In addition, regions/countries of destination and the skills

and level of education of migrant workers also determine their level of earnings, their ability to save and remit money home and their demand for specific financial products and services. For example, affordable remittance transfer services and a safe place to store money are essential for the lowest-income segments; but higher-income segments demand products such as remote bill payment and savings systems, or more sophisticated products such as housing loans and retirement saving schemes, long-term savings, entrepreneurship loans and insurance products.

For migrants settled in a host country on a long-term basis, needs evolve from remitting money home to family to building savings for household expenses, to more sophisticated projects and products such as financing housing, retirement, or businesses and insurances for body repatriation and family health (Figure 6).

⁵ Migrant workers also have financial needs in the host countries. However, such needs are similar to those of non-migrants with equivalent levels of income. For the purpose of this report, the focus is on specific constraints for migrants to access regulated financial institutions in host and home countries, and to products addressing needs in their home country for which the supply is particularly limited.

Figure 7: Migrants' financial needs and behaviour: circular migration



Source: IFAD 2015.

In the case of circular migration patterns, remittances are initially used to repay migration loans. Consumption is limited to the strict minimum to remit money for essential family needs and the rest is kept aside (outside the banking system) and brought back home. The accumulated capital is dedicated to different consumption and investment purposes and to prepare the next migration cycle. Over time, such savings reach higher levels than remittances sent home (Figure 7).

In order to cater to their clients' evolving needs, financial service providers should be able to offer an array of suitable products – ideally accessible both in host and home countries.

Although migrant workers could potentially use financial products to meet their transnational needs, financial exclusion still hampers achieving their financial and migration goals:

- A large percentage of migrants (in fact up to 30 per cent for migrants originating from rural areas) still use unregulated methods to send and save money, incurring the risks of carrying money or loss without claim recourse in the case of embezzlement or robbery. This also prevents the development of relationships with regulated financial institutions. Preference

for cash-to-cash remittances still prevails, even though regulations are more stringent for in-cash operations, resulting in financial institutions, especially banks, being ever more reluctant to manage in-cash transactions. The use of an account-based method to remit and save money home is becoming a critical issue, especially for migrant workers in developed countries, as there is a significant opportunity cost for using cash (through greater fees, transaction time and risk, for instance).

- Migrants try to monitor family expenses, eventually organizing the purchase of goods, which are typically paid for remotely and distributed locally through networks such as local small retailers and village-based cooperatives. These transnational transactions could be better served through the use of online platforms that combine cash remittance and direct remote payments for a growing array of items such as food, bills and school fees.
- Migrants insure their families against numerous risks, including those related to health, life events, natural disasters, and price variations. They also organize themselves to cover funerals and deceased repatriation fees to their communities of origin.

- Most migrants rely on their own resources to finance housing and businesses. In the absence of appropriately adapted housing products or mortgage loans, migrants are often forced to construct in sequential phases, depending on the availability of funding and on their presence on site during vacation, which results in increased costs and duration of housing projects.
- Without appropriate sources of funding and support, migrants cannot effectively leverage their financial and human capital acquired abroad and optimize their chance to succeed in launching a business or developing an existing one.
- In the absence of long-term savings plans or business financing and support opportunities during their economically active life, some elder migrant workers still depend on their children for help in financing retirement once back home.
- Even the most educated and wealthiest migrant workers are obliged to engage in business with multiple financial institutions to find an often sub-optimal combination of products fitting their needs, both in their

host and home countries. Often, they use consumption loans contracted with host country banks to finance housing projects in their countries of origin; they send remittances home through MTOs or even unregulated channels; and they cannot build credit and savings history in both host and home countries at the same time, which limits their overall creditworthiness.

2.1.3 Remittance recipients: profile and financial inclusion needs

Remittances increase the disposable income of recipients, especially when the amounts remitted are significant and frequent. In most cases, remittance inflows represent an additional source of income, and in the case of families receiving international transfers, these represent on average up to 40 per cent of household income.

In addition, surveys show that remittance-receiving households tend to have a relative higher propensity to save than non-receiving households – and higher amounts of savings in absolute value. Based on financial education surveys carried out in 2013 by the Inter-American Dialogue (IAD),

Figure 8: Proportion of remittance recipients within the financial sector and in alternative ways

Region	Country	People who save (%)		Saving in financial institutions (%)	
		Receiving head of households	Total adults	Receiving head of households	Total adults
Caucasus	Georgia	48	13	7	1
	Azerbaijan	80	40	23	5
	Armenia	47	21	17	2
	Moldova	72	44	19	7
Central Asia	Tajikistan	33	31	32	2
	Kyrgyzstan	38	36	14	5
	Uzbekistan	42	44	31	2
Africa	Morocco	66	30	21	12
	Senegal	53	59	3	7
Latin America and the Caribbean	Guatemala	69	56	40	15
	Jamaica	79	74	65	30
	Mexico	59	58	12	15
	Nicaragua	43	51	17	8
	Paraguay	63	18	19	10
	Average	57	41	23	9

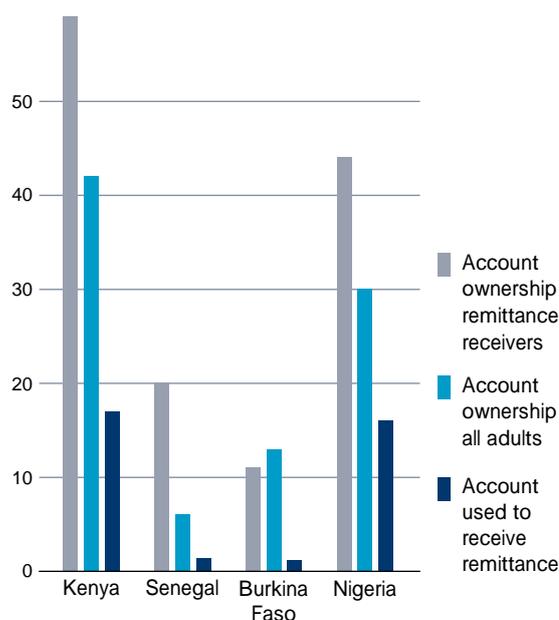
Sources: Receiving households: IAD 2015; Total adults: Findex 2014, Findex 2011 for Morocco and Paraguay.

on average 57 per cent of receiving households in several developing countries from different regions save a portion of their remittances compared with only 41 per cent for all adults (Findex, 2014) in the same countries (Figure 8). A much smaller portion, only 23 per cent of remittance-receiving households on average, saves in financial institutions. This rate is still more than double the rate for the wider population, which was just 9 per cent for all adults in the same countries.

Related to savings is the issue of the effective use of accounts. According to a World Bank study conducted in four African countries in which there was a higher percentage of remittance recipients with bank accounts as compared with non-recipients, using accounts to receive remittances remains uncommon (Figure 9). Also, although more than half of the recipients tend to save, only 23 per cent used financial institutions. A similar trend is shown in Figure 8 for other regions.

Although increased income and savings can potentially strengthen the relationship with regulated financial institutions, the effective use of financial products for services other than savings remains rather low. This pattern is found to be similar in non-receiving households.

Figure 9: Account ownership for remittance recipients and non-recipients; usage of accounts to receive remittances



Source: The World Bank 2014.

The impact of remittances on receiving households differs according to income levels (Figure 10). So it is reasonable to assume that financial inclusion leveraging factors may also vary.

Figure 10: Remittance impact according to household income level

Target population	Poor households	Vulnerable households	Resilient households
Remittance impact	<p>Remittances as a lifeline, reducing poverty</p> <p>Up to 80 per cent of the amount of international remittances – and more for domestic remittances – is allocated to purchase basic goods like food and to cover health-care expenses.</p>	<p>Remittances as a safety net, reducing vulnerability</p> <p>Low-income households are characterized by irregular income flows. External shocks can impact a household's wealth and draw it below the poverty line. Remittance inflows increase income and help households cope with unforeseen expenses, thus reducing vulnerability.</p>	<p>Remittances as an investment resource</p> <p>Less vulnerable households use a variable share of remittances to invest in human (education, health) and social (marriage) capital, and physical (livestock, housing, equipment) and financial assets. A tiny share is invested in small businesses or farming activities.</p>
Financial inclusion levers	<p>Access to low-cost formal, reliable and timely remittance services is essential to cover basic expenditures.</p>	<p>Remittance services help to cope with risks and channel a complementary source of income that can be transformed into savings when incomes overtake expenditures.</p>	<p>Remittance services associated with other financial products (loans, savings) and non-financial services help households to develop income-generating and farming activities.</p>

Source: IFAD 2015

2.2 Opportunities for financial service providers to meet remittance users' needs

Remittances offer the prospect of bringing together the commercial interests of financial institutions and the needs of senders and receivers. In fact, remittances can provide inclusive and sustainable financial services to migrants and their families, as follows:

- Given frequent interactions between remittance senders, recipients and the financial system, remittances could be used to serve as the on-ramp for a long-term relationship with financial institutions.
- Remittance-receiving families are more likely to save than are other categories of low-income clients, and the recurrent remittance flow can provide a transactional track record that can be leveraged to assess creditworthiness.
- Financial needs for migrant workers evolve along their life cycle. Besides sending money home, migrant workers require products that could finance short-term goals (satisfying their needs in home and host countries) and long-term goals (enabling them eventually to return home).

RSPs encompass a variety of financial service providers, including financial intermediaries (such as banks and MFIs) that also offer remittance services among others, and non-bank financial institutions (such as payment agencies, MTOs, Mobile Network Operators (MNOs)⁶) that provide mainly payment services, including remittances.

For financial intermediaries, besides income generated by transaction fees, the remittance market enables additional opportunities and revenue streams from savings mobilization and the cross-selling of other financial services to migrants

and their families. With a basket of suitable products (e.g. low-cost remittances, transactional accounts, tailored marketing approaches), some home-country banks are able to attract migrants' savings in their countries of origin.⁷ Conversely, host-country banks with foreign affiliates established in countries of origin (or by specifically targeting significant diaspora groups) can develop niche-market strategies. Some MFIs have also developed cross-selling strategies for remittance recipients by leveraging migrants' resources to finance their loan portfolio. For financial intermediation business models, remittances are a flagship product, attracting and incentivizing a wider consumer base to use other financial services.

For transaction-based business models, remittances support the development of sustainable payment networks and the use of electronic payments and instruments, which increases the scale of operations and the experience of regulated financial services. For MNOs that have developed digital financial services, remittances are one of the core products besides airtime top-up that supports market differentiation and client retention.

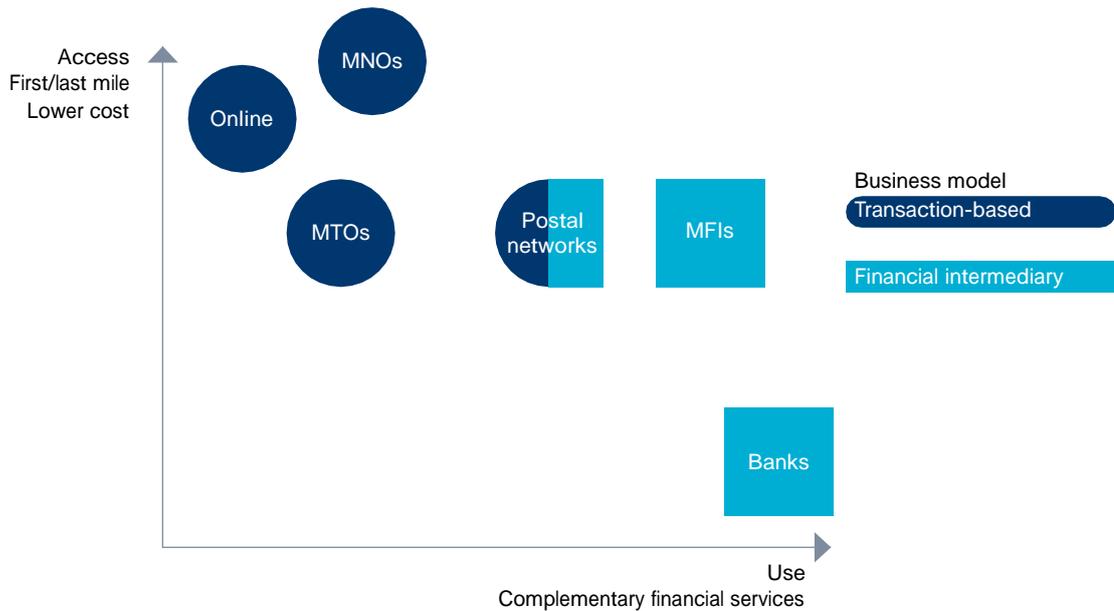
Transaction-based business models can improve access to remittance services (among other payment services) through the development of access points (both virtual and physical) and cost reduction mechanisms, while financial intermediation business models can increase access to remittance services and other products and they can promote the effective use of basic or more sophisticated products.

In developed mobile banking markets, new partnerships use both types of business models involving banks, insurance brokers and MNOs, thereby enabling remittance users to access other microfinance products from their mobile wallet and enlarging the possibilities to financially include low-income segments of customers.

⁶ MNOs can play different roles in the supply chain of payments and remittances depending on the regulatory environment, partnerships opportunities and market competition on both airtime and retail payment markets. An MNO can act as the payment service provider, the agent network manager, or the communications channel (IFC 2014).

⁷ For instance, in countries that depend on remittances like Cape Verde and Morocco, migrants' deposits represent more than 20 per cent of private savings.

Figure 11: Potential of different RSP business models to improve access to remittances and use of complementary financial services



Source: IFAD 2015.

Figure 11 highlights the typical potential of different RSP business models to improve access to remittances and use of complementary financial services.

RSPs with business models that are transaction-based are particularly effective at improving access. Notably, MNOs and online platforms have the potential to reduce both distance to access points and cost issues by building on a high number of low-value/low-fee transactions serviced through a large number of close access points (or accessible remotely through the Internet or mobile networks).

Financial intermediary RSPs focus more on engaging clients and providing them with complementary services, thus generating sources of income beyond transaction fees. Although banks have the largest array of services, access is limited by their concentration in urban centres, costly services and documentation requirements.⁸ MFIs have more decentralized branch networks and an array of basic services (savings, microloans and sometimes insurance) adapted to low-income populations that can support both better access and use.

⁸ These documentation requirements are typically inappropriate as there is lower risk associated with this segment of the population.

3 Financial needs of remittance senders and recipients, and barriers to financial inclusion

3.1 Financial needs of migrant workers and barriers to financial inclusion

This section addresses the financial inclusion issues

migrant workers typically face, and it highlights the mismatch between the demand for financial services and the existing supply of services offered

Table 1: Financial services demanded by migrants and barriers to access

Services demanded by migrant workers	Regulated financial services and products that cover these needs	Barriers to access or use of regulated services
<p>Basic remittance transfer: Send money home quickly, securely, at affordable costs and conveniently (in terms of proximity to access points, no administrative burdens, convenient schedules and customer service).</p>	<ul style="list-style-type: none"> • Cash-to-cash remittance • Card/Internet/mobile-to-cash/mobile • Direct payment for specific expenditures (airtime, food, education) – Conditioned Remittance 	<ul style="list-style-type: none"> • Widespread use and preference for unregulated transfer services. Although less secure, unregulated remittance transfers can be more convenient for migrants, and they are sometimes the only alternative, thus making it difficult to change habits • Inconvenience and high costs of MTOs: identification requirements; distance to the point of service • Lack of transparent information with clear cost structure • Lack of familiarity with mobile or Internet-based transfer methods: contactless experience, new processes and new players in the market are often mistrusted • Lack of integration between payment and remittance platforms
<p>Remittance transfer to a transactional account in country of origin. This service may have different purposes:</p> <ul style="list-style-type: none"> • remit funds to family • save • enable remote payments • withdraw money once back home • repay a loan 	<ul style="list-style-type: none"> • Account/cash-to-account transfer • Current/savings account in host country • Current/savings account in country of origin (in local or foreign currency) • Payment instruments and networks 	<ul style="list-style-type: none"> • Bank transfers are often expensive • Limited outreach of specialized banks offering low-cost account-to-account transfers to migrants • Undocumented migrants cannot open accounts in most host countries • High maintenance cost of accounts and lack of transparency on banking conditions • Lack of remote facilities accessible for transfers or payments • Network of cash-out points: available merchant or agent points are concentrated in urban centres
<p>Save money in the country of origin for specific projects or emergencies, or to ensure a financially viable return</p>	<ul style="list-style-type: none"> • Deposit/interest-bearing accounts 	<ul style="list-style-type: none"> • Senders and receivers mistrust local banks in the country of origin • Lack of mechanisms to check account balances remotely
<p>Mortgage or housing construction/renovation loans</p>	<ul style="list-style-type: none"> • Mortgage loans, savings plan, housing loans 	<ul style="list-style-type: none"> • Migrant workers are not creditworthy for financial institutions in the host country or in the home country • Limited supply of loan products and adapted methodologies
<p>Complement own capital to finance a small business back home or managed by relatives</p>	<p>SME financing supported by non-financial services</p>	<ul style="list-style-type: none"> • Missing sources of financing and information about local opportunities and support • Lack of availability of adapted services back home, particularly in rural areas

by regulated financial institutions. Table 1 describes services demanded and barriers limiting access to such services.

3.2 Policies and interventions to remove barriers and improve migrant capabilities

In order to remove barriers affecting the financial goals of migrant workers, policies and interventions may directly address either demand or supply side (the market imperfections and the regulatory environment). This section focuses on interventions that are aimed at improving migrant capacities to use regulated financial services. Policies and interventions addressing supply side and regulatory environment barriers are discussed in section 4.

The core set of interventions can apply both in the countries of origin or in host countries. In both cases, financial literacy programmes are needed as they aim at increasing migrant workers' capacity to choose the best-suited financial service among available options. Therefore, financial education

is a fundamental step in empowering remittance senders and recipients to make the most of hard-earned funds. Financial education can help migrant workers plan and save, but it can also help them identify new services that meet their specific needs. It can help provide migrant workers with risk-mitigation strategies – from setting aside funds in an emergency account to the use of insurance products that can help minimize the detrimental impact of unforeseen events.

Financial education programmes directed to migrant workers in the country of origin during pre-departure orientation seminars have had a positive effect on saving patterns. These programmes equip migrants with basic knowledge to look for appropriate financial services for their needs before they leave helping them understand how to best manage their funds.

Thus, financial education must remain a central pillar of every project dealing with the provision of financial services, especially as regards migrant workers and their families.

Table 2: Interventions to remove barriers and improve migrants' financial capabilities

Problems to be addressed	Policies and interventions	Players involved
<ul style="list-style-type: none"> Lack of information on transfer services offered (costs and other characteristics of traditional MTOs, specialized banks and new RSPs' attractive and innovative products) Lack of financial literacy of migrants and their families 	<p>Financial education programmes for migrants in the country of origin/ destination to improve:</p> <ul style="list-style-type: none"> Information on costs and conditions of remittance services (through web-based comparing sites) Knowledge of existing financial products matching financial needs Resource management capabilities Raise awareness about unregulated remittance transfer risks and alternative solutions 	<ul style="list-style-type: none"> Public authorities in country of destination Authorities from countries of origin who can support initiatives through their representations in host countries and with specific information during pre-departure campaigns Diaspora representatives Private sector (banks, MFIs) Civil society (NGOs, diaspora organizations) Social media

Case Study 1

Financial education to boost small and microenterprise development

Financial literacy training proved to be central to the success of the project undertaken by Centre for Micro Finance (CMF) in Nepal. The project offered training to local migrant families and migrant returnees, as well as a capacity-building programme that helped local MFIs improve the quality of the financial services they offered. CMF held more than 50 financial and business literacy classes, attended by 1,000 migrant returnees and family members. A further 250 were trained in enterprise development.

The approach adopted by CMF increased the number of migrant workers obtaining loans by more than 200 per cent, and the number of enterprise loans doubled. By project end, more than 900 jobs were created through new investments in local cooperatives.

The CMF project was a precursor of a larger 2015 IFAD initiative in Nepal: Rural Enterprise and Remittance (RER) Programme, which has benefited from the lessons learned and best practices of previous pilot initiatives like that of CMF. RER aims at promoting the financial inclusion of migrants and remittance-recipient households through financial instruments that: (a) harness the development potential of remittances; and (b) address migrants' specific financial needs in setting up sustainable enterprises. This new project already incorporates the concept of financial education during pre-departure orientation for Nepali migrant workers.

Financial education may also target migrant workers and their families in destination countries.

Case Study 2 and Case Study 3 showcase the

models that are applicable and may be further disseminated as best practices.

Case Study 2

Financial education for Mexican immigrants in the United States and Canada

In its National Development Plan 2013-2018, the Mexican government established as the fifth national goal (Mexico with Global Responsibility) to implement strategies and actions for social integration and financial education for Mexican nationals living abroad. This is a mandate of the Institute for Mexicans Abroad (IME), an organism of the Secretary of Foreign Affairs.

The IME has implemented four priorities:

- Promotion of social inclusion and financial education
- Dissemination of programmes that promote low-cost remittance mobilization
- Programmes to channel remittances to strategic projects
- Programmes to channel the contributions of highly qualified immigrants to socio-economic projects.

Within the promotion of inclusion and financial education priority, the IME has implemented the following projects:

Financial Education Week: this project is aimed at more than 11.8 million Mexicans living in the United States and Canada to allow them to make better decisions in terms of planning and managing their resources. This event is coordinated by the IME, with the support of the Embassy of Mexico in the United States, the 50 Mexican consulates in the United States and the 6 Mexican consulates in Canada. Since 2012, this event has served over 240,000 Mexican immigrants who received advice from more than 560 local partners

and 11 Mexican institutions about the American and Canadian financial systems and their advantages. Seminars, conferences, fairs, workshops and videos on financial education are offered to migrants in the consulates' waiting rooms.

- Bank-Consulate Agreements offering banks and credit unions that accept the Mexican consular ID as an official document to open bank accounts and to provide basic financial information inside Mexican consulates. Currently, more than 400 financial institutions in the United States accept the “*Matrícula Consular*” as official identification. 163 agreements have been signed in 39 consulates in the United States.
- The “Mexicans Abroad” weblet: in 2015, the CONDUSEF (National Commission for Financial Services Consumer’s Protection) in association with the Secretary of Foreign Affairs presented the “Mexicans Abroad” weblet. This new tool allows the user to access the Bureau of Financial Entities, which provides information about the credibility of financial institutions in Mexico; the Afore search engine, which locates money saved in Mexico while working abroad; and the Financial Mailbox for Mexicans Abroad, which responds to written questions on remittances, on how to review bank accounts and resolve problems with banks and other financial institutions, within 24 hours.

Case Study 3

Project Greenback 2.0: financial literacy programme targeting migrant workers

The World Bank’s Project Greenback 2.0 aims at increasing efficiency in the market for remittances through an innovative approach: promote change inspired by the real needs of the ultimate beneficiaries of international money transfers: the migrants and their families back home.

In Project Greenback 2.0, *Remittance Champion Cities* are selected. The project implements initiatives aimed at increasing transparency and efficiency in the market for remittance services, focusing on migrants and their needs. Cooperation between migrants, remittance service providers and public authorities is instrumental for the achievement of the project’s objectives. Project Greenback 2.0 is presently active in Turin (Italy) and Montreuil (France).

In Turin, the World Bank is working in partnership with the City of Turin (city government) and Banca d’Italia and with the endorsement of the Italian Ministry of Foreign Affairs. In Montreuil the World Bank is working with the Mairie de Montreuil (city government) and the French Ministry of Foreign Affairs. In both Champion Cities, the first phase of the project was a survey to collect data on the most representative migrant communities and the largest in terms of remittances sent to the country of origin. The surveys were aimed at describing the economic and financial inclusion profile of migrants, as well as their remittance behaviour. The research findings have been the starting point for Project Greenback 2.0 activities aimed at promoting transparency and information in the market for remittances. Thus far, the activities have included:

- Financial education focused on remittance services
- Monitoring of the remittances market
- Supporting projects of migrant associations in order to promote information, awareness, education and implementation of best practices on remittance behaviour
- Facilitating and keeping an active dialogue between migrant citizens and market players, encouraging them to develop new services or new approaches that are better suited to migrant needs.

3.3 Financial needs of remittance recipients and barriers to financial inclusion

Financial access is a prevalent issue for low-income populations, particularly in rural areas, whether they receive remittances or not. However, there is a greater potential for remittance recipients to be financially included, but they face several barriers that limit this potential. Such barriers are common not only during the remittance transfer process, but also in the use of these funds.

As in the case of migrant workers, policies and interventions specifically targeting remittance recipients to remove barriers and improve the capabilities of the recipients mainly rely on financial literacy programmes.

Table 3: Financial services demanded by remittance recipients and barriers to access

Services demanded by remittance recipients	Regulated financial services that cover these needs	Barriers to access or use of financial services
Basic remittance reception: Receive money securely, timely and closer to home	<ul style="list-style-type: none"> • Cash-to-cash transfers • Mobile wallet • Deposit account 	<ul style="list-style-type: none"> • Distance to the access point, costs, risk and available schedules to pick up the money • Lack of liquidity at the access point • Lack of ID • High cost to maintain bank accounts
Contingencies and investments: Use diverse financial options for contingency situations	<ul style="list-style-type: none"> • Savings • Payment • Loans • Insurance 	<ul style="list-style-type: none"> • Limited knowledge about financial services and lack of experience and access to digital financial services, particularly in rural areas • Lack of availability of basic and integrated products accessible in remote areas

Table 4: Interventions to remove barriers and improve remittance recipients' financial capabilities

Problem to be addressed	Possible policies and interventions	Players involved
Lack of financial capabilities to manage money as disposable income increases with remittances, and poor knowledge of regulated financial options	Financial literacy programmes specific to remittance recipients aimed at improving: <ul style="list-style-type: none"> • Income management and financial planning • Awareness about existing financial products that match their needs 	<ul style="list-style-type: none"> • Public authorities of the country of origin (central banks, Ministry of Finance, local development offices) • Private sector (banks, MFIs, MNOs) • Civil society (diaspora groups, NGOs) • Public media

Case Study 4

European Bank for Reconstruction and Development (EBRD) project on financial education for migrant families in Eastern Europe and the Near East

Based on national surveys on financial education and behaviour of remittance recipients in Eastern Europe and the Near East remittance-reliant countries, the EBRD rolled out a series of projects from 2010 to 2014 to convert remittance recipients into bank clients.

The programme used banks and MFIs involved in the remittance market, NGOs and consulting firms as implementing agencies, mainly the Inter-American Dialogue, Microfinance Centre Poland and Developing Market Associates.

After undertaking market surveys to analyse recipient behaviour and financial skills, a group of educators were trained to offer on-the-spot individualized quick financial education sessions in bank branches. One-on-one 30-minute interviews were conducted with clients, covering the topics of finance/budgeting and personal day-to-day finance. After this, clients were invited to take action (e.g. opening an account with the bank).

The projects achieved impressive results, both in terms of recipient clients' coverage and conversion within a short implementation period (less than one year) and with a limited budget (less than €100,000 per country).

	Georgia	Azerbaijan	Tajikistan	Kyrgyz Republic	Armenia
People educated	18 800	12 500	43 800	25 800	27 000
On-the-spot conversion rate %	12	19	6	9	42
Deposits collected (USD million)	5	2	5.1	1.9	4.6

Banks were very supportive, and some of them changed their marketing approach by removing fees on deposit accounts, including financial education in their customer relations, and often hiring educators as marketing agents.

Case Study 5

Bangko Sentral ng Pilipinas (BSP) financial education programme for migrant workers abroad and their families in the Philippines

Launched in 2010, the *Economic and Financial Learning Program (EFLP)* brings together under one flagship programme BSP's key learning activities, particularly those pertaining to economic information and financial education, which is targeted to the general public (particularly the unbanked, including remittance recipients), sectorial representatives and specialized stakeholders. A major component of EFLP is the Financial Learning Campaign for overseas Filipinos and their beneficiaries, which is targeted to remittance recipients. By highlighting the importance of using remittances to build savings and directing them to productive investments in financial instruments and business ventures, the campaign aims to reinforce the positive and beneficial effects of remittances for the socio-economic well-being of overseas Filipinos and their families.

Main outcomes:

- EFLP has benefited around 41,000 participants in the Philippines
- Financial education sessions have been conducted in countries with a large concentration of overseas Filipinos, such as Bahrain, Hong Kong, Italy, Japan, Qatar, Saudi Arabia, Singapore, South Korea and the United Kingdom
- Under EFLP, BSP developed a module on savings and productive investment used in the pre-departure orientation seminars required for all departing overseas Filipinos
- Learning materials and modules being used to conduct the campaign were distributed to 94 embassies/consulates of the Philippines abroad, to be used in conducting financial learning activities for overseas Filipinos
- The estimated number of Filipino households that save money has quadrupled in the past five years

4 The supply side and market competition: players and opportunities to meet the needs of remittance users

There is a commonly held misconception that low-income people, and rural people in particular, do not save and do not make use of financial services. The reality is that financial services are essential to everyone, and even those living on two dollars a day make use of financial services, albeit often outside the regulated financial system.

This misconception is a serious challenge for an industry that has not traditionally considered remittance senders and recipients as a client base. While people actively make use of unregulated financial services, traditional financial institutions are either unwilling or unable to provide those services that suit the needs of remittance senders.

This section presents the different types of institutions involved in the remittance market and the additional financial services they provide to remittance senders and receivers. It highlights the potential for each type of institution to increase financial inclusion by providing better access to and use of financial services. These services refer to the financial needs of migrant workers in their home countries and their remittance-receiving families.

4.1 Transaction-based RSPs

The transaction-based RSP business model relies on processing a high number of small-value transactions. Initially, RSPs offered a cash-based product that covered the basic and most universal need of sending and receiving money. The spread of mobile phones and electronic payment applications has allowed this type of RSP to deliver a wider array of payment features,

increasing convenience and budget control for the senders. It has opened up the possibility of receiving remittances on an electronic account or a mobile wallet, enabling recipients to store low amounts of money and possibly take advantage of other financial products.

Due to extensive agent networks, traditional MTOs still lead the remittance market with cash-to-cash transfer services, have contributed to absorb flows generated by unregulated and illegal providers, and are still developing new corridors. However, in-cash global transactions remain globally expensive, and exclusivity clauses in MTOs' agent model agreements limit competition.

Online platforms offer the option to eliminate cash at the sending end, where migrant workers are equipped with payment cards and are familiar with online payments. This facility can offer lower operational costs in environments where costs for in-cash transactions are getting higher due to operational and compliance reasons that are typical of G20 sending countries. At the receiving end, in developed mobile money markets like those in Eastern and West African countries, online platforms provide the option to receive payments through MNOs' e-wallets and networks. Such MNOs, in search of economies of scope⁹ for the core domestic mobile money business, are keen to compete strongly on pricing against the MTOs and to develop partnerships with financial intermediaries to offer more financial services so as to retain their customer base. However, mobile-enabled cross-border remittances still remain at a nascent stage as a result of interoperability challenges and differing regulations between countries or regions.

Case Study 6 provides an example of an online platform combining innovative patterns

⁹ Whereas economies of scale for a firm involve reductions in the average cost (cost per unit) arising from increasing the scale of production for a single product type, economies of scope involve lowering average cost by producing more products.

Case Study 6

Leveraging online and mobile payment infrastructure to improve access to low-cost remittances: WorldRemit Ltd

WorldRemit is a mobile-centric money transfer company making use of new technologies to provide a convenient, low-cost alternative to traditional in-cash money transfer options.

Money transfers can only be sent online using a payment card through computers and mobile apps. Backed by card payment infrastructure, the identification and registration processes are simple and can be assimilated to basic sign-up registration and online payment transaction (up to a limited threshold of money sent) at the user's end. Senders are given the option to send money into bank accounts, cash pick-up points, or into mobile wallets for cash-out and airtime top-ups depending on countries.

WorldRemit Ltd has set payment arrangements to connect senders from 50 countries to payment networks and banks in 110 countries. In Africa, a recent partnership with the African carrier MTN, which accounts for 22.6 million mobile money service users throughout 16 countries, illustrates how WorldRemit can develop scale and access, leveraging existing MNO payment infrastructures. By mid-2015, 50 per cent of transactions paid through WorldRemit in Africa were received on mobile phones in 10 countries.

to send and receive money for the benefit of remittance users in terms of access, affordability and convenience. Case Study 7 highlights the emergence of regional cross-border mobile money models in West Africa and enabling factors.

In many countries, **postal networks** mobilize their existing large decentralized infrastructure

and recognized brand to sell proprietary or co-branding remittances products. In certain countries, they extend the outreach of financial intermediaries and the spread of available financial services for customers as agents of banks and MFIs. Postal networks also sometimes develop low-cost basic current and savings

Case Study 7

Emerging models for regional cross-border remittances with mobile money at both sending and receiving ends

Two early examples in the West African Economic Monetary Union (WAEMU) illustrate emerging models for cross-border remittances with mobile money at both sending and receiving ends, enabling receivers to cash out or to use their balance for other digital transactions.

Orange Money International Transfer, which links up Côte d'Ivoire, Mali and Senegal. This is the first example of mobile money transfers across three countries, enabling six distinct remittance corridors, including one of the largest flows in sub-Saharan Africa: Côte d'Ivoire to Mali. It is also an example of an 'intra-group', in-house implementation. A year and a half after launch, by the second half of 2014, the value of cross-border remittances accounted for an impressive 24.7 per cent of all remittances estimated by the World Bank between these three markets.

MTN Mobile Money in Côte d'Ivoire to Airtel Money in Burkina Faso. This is the first case of two operators from separate groups agreeing to interoperate their mobile money services to facilitate cross-border transfers involving an intermediary hub, Homesend. Both operators were searching to address the most important regional corridor in WAEMU and leverage their respective presence at the ends of the corridors. The uptake

was very fast, and the last quarter of the year launch flows valued for 9 per cent of the whole year estimated flows (USD9 million in three months of a USD100 million yearly corridor).

Terra, a new global payments network, envisions enabling subscribers to “Send Money to Any Mobile.” Terra brings mobile wallet systems mainstream, by interconnecting them to existing financial institutions, payment systems and networks such as banks, switches and association card rails. Participants retain complete control over customers while Terra assumes complete responsibility for securing regulatory compliance as well as transaction processing, foreign exchange conversions, reporting and settlements. The model offers the following advantages:

- Quick service scaling
- Effective funds utilization
- Lowered operating expense
- Improved affordability and access
- Ability to address long-tail corridors
- Fool proof security
- Better Effective Forex Rates
- Incremental Revenues from New Services

This rapid uptake can be explained by a combination of enabling factors:

- Addressable corridors: Tight socio-economic integration among WAEMU markets provided strong remittance corridors between countries using the same currency.
- Strong mobile money foundations in both sending and receiving markets. In both cases, hundreds of thousands, or even millions of customers on each end of the remittance corridor were already educated about mobile money and made regular domestic P2P transfers, and broad, well-managed, liquid agent networks were in place. For instance, in Côte d’Ivoire, the main originating country, Western Union currently has 570 access points compared with 12,093 mobile money agents.
- Valued proposition for customers: Aggressive pricing and an extensive network of access points facilitated competition with MTOs and unregulated operators and penetration into rural areas. Fees charged to the sender do not exceed 2.5 per cent of the front value, compared with 5 per cent on average for MTOs and unregulated and illegal channels. The service has had particularly strong traction in rural Burkina Faso, where 60 per cent of recipients live.
- Regulatory approval for mobile money operators to send and receive remittances. Two key success factors for Airtel, MTN and Orange were the support of the BCEAO (Central Bank for West African Countries) and the existence of a common regulation in all of the markets involved. To date, relatively few central banks have permitted outbound and inbound remittances using mobile money, and the authorization processes for operators is not well harmonized across markets.
- Cross-border interoperability across mobile money schemes. As with domestic mobile money interoperability, cross-border remittances depend on operators transacting across platforms and settling funds directly between each other. This interoperability can be implemented directly through bilateral agreements or indirectly through a processor. Orange Money uses a bilateral model in West Africa, which is simplified by a common platform, currency and partner bank for all three markets. MTN and Airtel have opted to interconnect through a processor or ‘hub’ (HomeSend).¹⁰

¹⁰ HomeSend provided two main services to MTN and Airtel: a real-time money transfer messaging platform and interface, and the management of anti-money laundering activities. To keep all transactions in the local currency (CFA franc), MTN, Airtel and HomeSend decided it would be easier for the two operators to settle funds directly between themselves.

accounts and insurance products that complete a set of universal payment services and instruments.

For each type of transaction-based RSP described above, the tables below provide a specific snapshot

of their target market and geography of operation, their current product offerings, the provision of complementary services, and possible strategies to be encouraged to improve financial access.

Type of RSP	Traditional MTOs									
Services delivered	Cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
	x	x	x	x						
Payment										Complementary services
Geography of intervention	Transnational, regional, domestic									
Targets	Migrant workers, recipients									
Inclusive advantages	Extensive networks, brands and sending mechanisms adopted by users, efficiency									
Interventions to improve inclusiveness	Develop partnerships with RSPs with decentralized payment networks and account based transfers with financial intermediaries Improve transparency (transfer fees, exchange rate, eventual tax) and consumer protection (claim and complaint processes) with materials in different languages in branches and on websites									

Type of RSP	Online Platforms									
Services delivered	Cash to cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
	reception	x	x	reception	x					
Payment										Complementary services
Geography of intervention	Transnational									
Targets	Migrant workers, recipients									
Inclusive advantages	Convenient access and payment options for senders equipped with payment cards Interoperable with mobile payment networks on the receiving side, increasing last-mile access Lower cost structure compared to in-case services									
Interventions to improve inclusiveness	Develop partnerships with decentralized RSPs and account-based transfers with financial intermediaries Improve clients' appropriation and customer protection									

Type of RSP		Mobile network operators									
Services delivered											
Cash to cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance		
X			X	X	X	X	X			X	
Payment						Complementary services					
Geography of intervention		Mostly domestic Emerging mobile to mobile regional corridors Quasi-exclusively used as a receiving channel for 'North-South' remittances									
Targets		Domestic and regional migrants, family recipients with strong penetration of the BOP households									
Inclusive advantages		Extensive network of mobile payment agents, notably in rural areas where airtime network coverage exist 'Emerging innovative' transformative services, completing the mobile wallet suite where mobile payment becomes prevalent, especially in Eastern Africa									
Interventions to improve inclusiveness		Develop international remittances within group's subsidiaries, networks or with traditional and online MTOs Develop products matching customers at the low end of the market (micro-savings, scoring microloans, micro-insurance products) rather in partnership with financial intermediaries, insurance brokers, etc. or creating separated subsidiaries									

Type of RSP		Postal networks									
Services delivered											
Cash to cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance		
Payment						Complementary services					
Geography of intervention		Transnational, regional, domestic									
Targets		Migrant workers, recipients									
Inclusive advantages		Extensive decentralized physical infrastructure of post offices and retail payment system know-how Institutional recognition among customers									
Interventions to improve inclusiveness		On the remittance line, develop partnerships with a variety of postal networks, MTOs and MNOs to improve customer choice and market competition at the same time Increase the variety of complementary services (current and saving accounts) through partnerships with MFIs or banks and improve marketing of the services In certain developing countries, strengthen institutional capacities and network interconnection									

4.2 Financial intermediaries

Financial intermediaries, banks and MFIs are mainly involved in the remittance marketplace as agents of major international MTOs. Yet, only a few of them are leveraging their comparative advantages to provide complementary transaction accounts, like savings and loan products (among others) to better serve remittance users. **In host countries, retail banks** generally do not consider migrant workers' remittance-sending needs as a specific or lucrative business. These banks generally avoid in-cash transactions in their branches, propose unadapted wire transfers and use restrictive identification requirements resulting in poor service provisioning for migrants workers. Conversely, some banks have developed dedicated business lines for migrants covering their financial needs in their home country. However, these institutions are generally only present where large migrant communities have settled and with whom they are able to develop long-term relationships and returns on investments (e.g. Mexico-United States, Morocco-Europe, Cape Verde-Portugal). **Banks in the country of origin** rarely develop and provide specific services for migrants beyond in-cash remittances, and they rarely target the low-income population that receives remittances. However, some regional banks in southern

countries have developed both remittance and transaction account services to tap into the market of regional migrants, frequent travellers and small traders (e.g. Ecobank, UBA in Africa). Others have developed low-risk products and partnerships to enlarge their client base and distribution capacities (e.g. Standard Bank's low-income banking package distributed through retailers).

MFIs' comparative advantages relate to both their social and physical proximity to the customers, their simple products, and more globally, to their relational finance approach. Most MFIs are limited by law to conduct operations in national currencies, and are consequently obliged to partner with MTOs as sub-agents of the bank, which reduces their margin on remittance services and their appetite for engaging in such partnerships, even though such services are in line with the needs of their customer base. MFIs, notably rural MFIs located in migration areas, have developed strategies such as cross-selling existing products to recipients as well as more sophisticated approaches and products to attract migrants abroad. Case Study 8 showcases small MFIs using a shared platform to facilitate international remittance and promote financial inclusion of rural recipients and migrant workers.

Case Study 8

Improving access and use of remittances and basic financial services in rural areas: Asociación Mexicana de Uniones de Crédito del Sector Social (AMUCSS)

AMUCSS is a non-profit organization formed by a network of rural financial institutions and microbanks in Mexico located in regions of high migration. Since its inception in 1992, AMUCSS has accomplished a series of innovations linking remittances to financial intermediation in the communities of origin. Linkages have a dual purpose: on the one hand, to achieve financial inclusion of peasant and indigenous families in rural migration areas, and on the other hand, to boost remittance investment for development.

Among innovative endeavours, AMUCSS established Envíos Confianza in 2008, a remittance transfer company that operates with 13 of the most important remittance companies and a network of 68 rural financial institutions with 300 points of payment. In 2013, this mutualized platform was strengthened by Red Confianza, a technological solution linking remittance payments and transfers directly into savings accounts. Its main

objective was the creation of a transactional financial ecosystem in rural areas enabling remote communities to be linked to the domestic and international financial systems.

Red Confianza and Envíos Confianza enable migrants to be connected to their communities of origin through effective models of educational marketing and promoting the proper use of debit cards, mobile banking, and the creation a rural network of POS and financial correspondents.

AMUCSS has achieved:

- The establishment of 44 rural microsavings institutions and a network of 68 financial institutions with 300 points of payment in rural areas of Mexico
- A 15-20 per cent reduction in remittance transaction costs
- It serves 30,000 migrant families annually, benefiting 59,000 people
- Seven out of ten remittance recipients open a savings account, with a total monthly savings mobilization of USD1.5 million

www.amucss.org.mx

www.enviosconconfianza.com

For each type of financial intermediaries RSP described above, the tables ahead provide a specific snapshot of their target segments and geography of intervention, their current supply of products,

the provision of complementary services, and possible strategies to improve the financial access of remittance users.

Type of RSP	Banks in host country									
Services delivered	Cash to cash	Online	Account based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
	X		X			X				
Payment									Complementary services	
Geography of intervention	Domestic, limited to host country									
Targets	Documented migrant workers as ordinary customers									
Inclusive advantages	Generic retail banks have extensive networks of branches or ATMs. They are the main contact points for migrants providing a set of services (account, payment card, checking account, basic saving account) to cover needs in the host country. However, product supply related to the home country is generally poor and limited to wire transfers options not adapted for repeat low-value transfer (expensive, delayed payment).									
Interventions to improve inclusiveness	Facilitate account opening for migrants with reliable identification document (passport, consular card) Develop partnerships with MTOs or specialized banks located in home country									

Type of RSP	Specialized banks									
Services delivered	Cash to cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
	X		X			X	X		X	
Payment									Complementary services	
Geography of intervention	Transnational with implantation in host country and presence or partners in home countries									
Targets	Migrant workers									
Inclusive advantages	Provide a suite of adapted products for migrants workers and a marketing approach to liaise with migrants abroad									
Interventions to improve inclusiveness	Develop partnerships with banks in host country to facilitate remote operations for migrant workers									

Type of RSP	Banks in home countries									
Services delivered	Cash to cash	Online	Account-based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
Payment									Complementary services	
Geography of intervention	Domestic									
Targets	Remittance receivers									
Inclusive advantages	National coverage in main urban centres. Agents of international MTOs									
Interventions to improve inclusiveness	Develop low-cost basic services to bank low-income remittance receivers Develop third-party banking agents and partnerships with local payment platforms or MFIs in order to extend their distribution network and reduce operational costs									

Type of RSP	MFIs									
Services delivered	Cash to cash	Online	Account based	Mobile	Direct payment	Account	Savings	Micro credit	Housing loans	Micro-insurance
	x					x	x	x	x	x
Payment	Complementary services									
Geography of intervention	Domestic									
Targets	Remittances receivers									
Inclusive advantages	Extensive national coverage with presence in urban suburbs and rural areas Sub-agents of MTOs through banks or financial institutions allowed to settle operations in foreign currencies. Existing products adapted to low-income households									
Interventions to improve inclusiveness	Cross-sell existing products to remittance recipients Develop mutualized platforms allowed to set up direct partnerships with MTOs or banks in host countries Set up new distribution channels based on new technologies and/or retail agents to enlarge the distribution network in remote rural locations and reduce operational costs									

All of the above-mentioned RSPs offer a range of opportunities for remittance senders and receivers to achieve financial inclusion, but notably not one single provider can offer an all-inclusive type-of-service. Given diverse behaviours and patterns of remittance clients and the specificities of markets and remittance corridors, the nexus between remittances and financial inclusion can only be strengthened by providing remittance users with appropriate products and mechanisms of delivery. The first set of required services relate to access, while a second set of services has to do with the promotion of the use of further financial services. These two sets of

services have to be appropriate to the needs of the market. Institutions need to create mechanisms, business models and particularly partnerships to address the immediate and cycle-changing needs of remittance senders and receivers.

5 The regulatory framework and remittance market environment

The regulatory framework and market environment factors hindering financial inclusion among remittance senders and recipients are broadly clustered into two categories:

- **Supply factors:** those that hinder innovation or competition in the market for remittances; this is especially relevant for products that have higher potential to increase financial inclusion, such as where remittances are delivered in a bank account, a mobile money account, or an electronic payment instrument like a pre-paid card.
- **Demand factors:** those that cause hesitation among remittance senders and recipients to use regulated (and especially non-cash) remittance products.

When combined, these factors preserve the status quo and result in missed opportunities to foster financial inclusion among migrants and their families.

5.1 Supply and demand-side constraints that hinder financial inclusion among remittance senders and recipients

Table 5 outlines the supply and demand-side constraints that might hinder availability of, access to, and use of remittance products to migrants and their families, as well as legal and regulatory approaches to lessen these constraints.

Table 5: Supply and demand-side constraints limiting financial inclusion among remittance senders and receivers

	Supply Side \Rightarrow Limited availability	Demand Side \Rightarrow Limited usage
Constraints	<ul style="list-style-type: none"> • Low level of competition in the remittance market due to (i) anti-competitive behaviour such as exclusivity agreements and/or (ii) inability of RSPs to use payment systems infrastructure • Remittance regulation that creates an unfair environment (i.e. rules that apply only to certain types of providers and are not justifiable by increased risk, lower requirements, etc.) • Remittance regulation that stifles/hinders innovation (i.e. by narrowly defining the types of institutions, products and/or services, as well as business models permitted) • Rigid approach to AML/CFT compliance and/or enforcement (i.e. without risk-based approach) may create bias against low value-added customers 	<ul style="list-style-type: none"> • Lack of either understanding or trust of remittance products due to low levels of transparency, inadequate consumer protection, or limited financial literacy among potential users • Onerous Know Your Customer (KYC) procedures, even for small transactions, that are difficult to comply with and might reduce profitability
Legal and regulatory approaches	<ul style="list-style-type: none"> • Pursue a legal and regulatory framework that is sound, predictable, non-discriminatory and proportionate • Promote competition in the remittance market by removing unfair and inappropriate barriers to entry, and ensure that a variety of RSP types can operate and compete in the market • Facilitate innovation in the remittance market by allowing RSPs to introduce innovative products and remove any legal barrier that may be unnecessarily restricting market potential 	<ul style="list-style-type: none"> • Improve transparency and consumer protection in the remittance market • Invest in financial education policies and programmes for remittance senders and receivers • Review KYC requirements to be commensurate with risks
Desired outcomes	<ul style="list-style-type: none"> • Increased level of competition among RSPs • Increased availability of non-cash remittance products • Non-cash products become more competitive in terms of price vis-à-vis cash products 	<ul style="list-style-type: none"> • Improved access to financial services • Increased use of non-cash remittance products among migrants and their families

5.2 Proposed approaches

In order to improve levels of financial inclusion among remittance senders and recipients, governments should consider a legal and regulatory approach that alleviates both supply and demand-side constraints.

The following legal and regulatory measures may be considered: (i) create an enabling environment for the growth of non-cash remittance products; and (ii) increase the likelihood that migrants and their families will use these products, once available.¹¹

5.2.1 Promote competition in the remittance market

Remittance markets that are contestable (i.e. open to a wide range of RSPs) are characterized by improved efficiency, increased availability of services and lower costs for consumers. Therefore, governments should pursue legal and regulatory measures that promote competition in the market for remittances, for example, by (i) prohibiting anti-competitive behaviours such as exclusivity agreements, and by (ii) ensuring that RSPs are able to use domestic payment infrastructures (World Bank 2007).

Consider prohibiting exclusivity agreements or limit the period for which they may be imposed

Exclusivity agreements between RSPs and their agents prohibit agents from offering the services of any other RSP, thereby reducing capacity of other RSPs to expand their network, and consequently reducing the range of products available to remittance users in one given access point, or making accessing certain RSPs less convenient and possibly more costly (when the transportation cost and opportunity cost of travelling further distances are considered). By restricting this choice, exclusivity agreements may result in a de-facto local monopoly.

Ensure that RSPs have adequate access to domestic payment infrastructures

RSPs usually require the use of national payment systems in order to process remittance transfers to facilitate collection, settlement and disbursement functions. Such access can be either direct or indirect. For example, non-bank RSPs such as MTOs and MFIs often have only indirect access to payment systems and depend on direct participants, usually banks, to provide them with the required services (i.e. bank accounts, settlement with collecting/paying agents nationally). Both forms of access can provide RSPs with suitable payment services. Criteria for directly accessing the payment system should be objective, risk-based, and include publicly disclosed criteria for participation, permitting fair and open access. The regulatory framework for payment system operators must incorporate direct access requirements that are consistent with international best practices to ensure the safety and soundness of the payment system and a level playing field for any financial service provider. Many markets are sufficiently competitive so that RSPs with only indirect access will have a choice of which direct participant to use. Case Study 10 provides two examples of an innovative model to provide direct access for non-bank RSPs to the national payment system.

In some countries, non-bank RSPs struggle to even obtain indirect access to the national payments system, because direct participants refuse to serve RSPs. The increasingly pervasive problem of non-bank RSPs struggling to find banks willing to service them is now known as de-risking, given that one of the primary drivers is the current global approach to risk and, in particular, to compliance with AML/CFT rules. Developing a risk-based approach aimed at establishing compliance rules proportional to the risk posed by the scheme being regulated may be key (see section on proportionality ahead).

¹¹ These measures draw from and are consistent with the World Bank-CPSS General Principles for International Remittances, which is a set of standards that were developed to assist countries in improving their markets for remittance services. They have been endorsed by the G8, the G20, the Financial Stability Forum, and the Association of Southeast Asian Nations (ASEAN), among others. The five General Principles cover elements including price transparency and consumer protection, payment system infrastructure, legal and regulatory frameworks, market structure and competition, as well as governance and risk management. They also include a set of recommendations on the roles public authorities and RSPs must play in the development of an efficient market (CPSS/World Bank 2007, General Principles for International Remittances).

Case Study 9

Eliminating exclusivity agreements¹²

Russia

In September 2003, the Commission of the Russian Ministry of Antimonopoly Policy published a ruling that began the process to legally and effectively ban exclusivity agreements – clauses which prohibited banks from offering cash-to-cash remittance services of companies other than Western Union – in Russia, on the basis that they aimed to restrict access to the market and, as a result, were in violation of Art. 6 of the Federal Law “On Protection of Competition.” Western Union was asked “to terminate the violations of the antimonopoly legislation.” As a result, all exclusivity clauses in contracts, which numbered in excess of 200, between Russian banks and Western Union were considered null and void, making Russia one of the first countries to completely ban exclusivity clauses in the money transfer industry.

More recently, several other countries have followed suit, including;

- *India*. In September 2010, the Reserve Bank of India issued Circular 591.02.27.001, forbidding exclusivity agreements for in-bound cross-border money transfers.
- *Nigeria*. In November 2008, the Central Bank of Nigeria issued Directive BSD/DIR/CIR/GEN/VOL 2/017, which prohibited national banks from signing contracts with international MTOs containing exclusivity clauses.
- *Morocco*. In 2011, Bank Al Maghrib effectively banned exclusivity agreements in Morocco, boosting competition in the remittance market.
- *Liberia*. In October 2011, the Central Bank of Liberia issued directive 2/2011 that nullifies exclusivity contracts between banks and MTOs and assigned a fine of L\$100,000 (equivalent to approximately over USD1,000) for each day of violation.
- *Rwanda*. In June 2012, the National Bank of Rwanda issued Regulation 6/2012 which bans exclusivity agreements for all providers of payment services.
- *Tunisia*. In January 2013, the Banque Centrale de la Tunisie enacted its “Note aux intermédiaires agréés No. 2013-01” to eliminate exclusivity in the contracts signed with MTOs.

Case Study 10

Facilitating access to the national payment system for non-bank RSPs

One model that has successfully facilitated direct access to national (centralized) payment systems is one in which the smaller non-bank financial institutions and/or payment service providers jointly create a ‘limited purpose bank’ whose only function is to provide payment services to its members and their customers. Two examples of this model are described below.

ARB Apex Bank Ghana

The ARB Apex Bank in Ghana is the bank of the rural and community banks (RCBs) providing banking and non-banking support to the RCBs. Its key functions are training and human resource development of the ARB Apex Bank and RCB staff, check clearing and other operations on behalf of its member banks, and audit and inspection services.

¹² The illegalization of exclusivity clauses in the market of remittances (Moré, 2015) available at <http://www.remesas.org/files/exclusivityWP9.pdf>.

Bansefi, Mexico

The National Savings and Financial Services Bank (Bansefi), a state development bank in Mexico, has created a network of savings and credit institutions (MFIs, cooperatives and other non-bank financial institutions) called L@ Red de la Gente created to strengthen this sector, improve access to finance in rural areas, and give these financial institutions better access to remittance networks, payment systems and other services. Bansefi uses a special communications network that connects participating entities with a state-owned commercial bank, from which they can then offer payment products and services, and also link up their service outlets to provide a large service delivery network. As of July 2015, L@ Red de la Gente consists of 195 financial intermediaries (including Bansefi) with a network of 2,353 branches present in 953 municipalities in Mexico, mostly in rural localities.

Several regulators have taken steps to combat the de-risking phenomenon, whereby non-bank RSPs are essentially being denied access to national payment systems because banks refuse to service them. The Financial Crimes Enforcement Network of the U.S. Department of the Treasury (FinCEN), for example, issued a note to remind banks that it is indeed possible to serve the money service industry while still meeting their Bank Secrecy Act obligations. The note reiterated that FinCEN does not support wholesale termination of services for an entire industry without a bank-level assessment of the risks presented and the ability of the bank to manage those risks (2014). A similar statement was also issued by the UK Financial Conduct Authority (FCA 2015).

Ensure that the legal and regulatory framework is well founded

A well-founded legal and regulatory framework for remittances is one that is sound, predictable, non-discriminatory and proportionate.

A *sound legal and regulatory framework* is well understood and helps minimize the risks faced by both RSPs and their customers.

A *predictable legal and regulatory framework* is one in which it is clear which laws and regulations are relevant, where they do not change frequently, and where they are enforced by the authorities, including the courts, in a consistent manner. Predictability helps to create a favourable climate

for private-sector investment, and it is critical to increasing competition in the remittance market.

A *non-discriminatory legal and regulatory framework* is one that is equally applicable to different types of RSPs insofar as they are providing equivalent services. Regulating remittances solely by type of entity may make regulation less effective and distort markets. A functional rather than an institutional approach to regulation and oversight of remittance services – where equivalent services are regulated the same way, regardless of type of entity providing the service and delivery channel – helps to level the playing field among different types of RSPs, and it promotes competition on a fair and equitable basis.

Case Study 11 provides three examples that illustrate the impact of allowing non-banks to participate in the market for international remittances and payment services in the European Union (EU), Japan and South Korea.

A *proportionate legal and regulatory framework for remittances* is one that is not overly restrictive and burdensome relative to the possible issues it is designed to address or to the number and value of transfers involved. Remittances can pose risks to the financial system – products may be used to launder money or finance terrorism – but they also provide an important social benefit to users and, on an individual basis, are often very low-value transactions. If too stringent and not proportional to the risks at hand, regulation intended to prevent

Case Study 11

Functional rather than institutional regulation for remittances

Payment Services Directive, EU

Introduced in 2007, the Payment Services Directive (PSD) (2007/64/EC) harmonized legal frameworks for remittance services in the EU by creating the 'Payment Institution', which now requires a single license for all providers of payment services (excluding deposit-taking institutions or issuers of electronic money). The PSD has achieved three main goals: (i) it supports the establishment of a single payment market and harmonizes payment service regulations across member states; (ii) it increases competition among payment service providers and efficiency in the payments market; and (iii) it promotes transparency and consumer protection for payment service users (World Bank 2012).

Payment Services Act, Japan

In Japan, prior to the adoption of the Payment Services Act (PSA) in April 2010, only banks licensed under the Banking Act, as well as certain depositary institutions, were allowed to perform foreign exchange transactions, including remittances. The adoption of the PSA opened the money transfer business to non-financial institutions, and, overall, the impact on the market for international remittances has been very positive. Some of the major benefits are highlighted below:

- Increased competition in the market for remittances. Six new payment providers registered within one year of implementation, and another 21 in the second year, for a total of 27 new providers, 18 of whom offered international remittance services.
- Better coverage of smaller corridors. Migrants in Japan sending money to recipient countries with lower flows, and/or in less frequently traded currencies, such as Bangladesh, Cambodia, India, Indonesia, Nepal, Pakistan, Sri Lanka or Thailand, were previously limited to relatively expensive commercial banks. After the PSA, new providers entered the market specifically targeting these corridors. For example, Japan Money Express offers international remittance services to Indonesia and Nepal, and Japan Remit Finance to Bangladesh.
- Lower costs overall, especially in high-volume corridors. Before the enactment of the PSA, the average total cost of sending remittances from Japan was above 19 per cent. Within two years of implementation, the cost had fallen to just above 16 per cent. This positive trend continued thereafter, although Japan remains one of the most expensive sending countries, according to the World Bank Remittance Prices Worldwide (RPW) Database.

Korea Post

Korea Post has become one of the key players in the remittance market in the Republic of Korea (ROK). Korea Post's entry into the country's remittance market expanded access to financial services, especially in rural areas where financial infrastructure is limited. Its entry into the market did not only lessen the cost of receiving remittances in rural areas, but has also saved recipients' time and money as they no longer have to travel to neighbouring cities where remittance services are more readily available. Through its postal network and bilateral agreements with other financial institutions, Korea Post offers four international remittance products: (1) the traditional paper-based postal money order, (2) SWIFT transfers, (3) the Eurogiro service, and (4) the International Financial System (IFS) service. In 2006, Korea Post joined Eurogiro to expand its remittance services. Korea Post launched the Eurogiro service in Mongolia, and at present is partnering with six countries: Japan, Mongolia, Philippines, Sri Lanka, Switzerland and Thailand. In 2011, the number of transactions for Eurogiro accounted for 17 per cent of the total outgoing volume, compared with 11 per cent in 2007.

money laundering or prevent terrorist financing can create barriers for senders to use regulated remittance services, discourage banks and other regulated financial institutions from offering remittance services and provide banking services to non-bank RSPs, and hamper the growth of new technologies that facilitate the usage of electronic remittance payments and potentially lower costs.

The answer to the question of how much regulation is appropriate should be the result of balancing public policy objectives, which may not always point in the same direction. On the one hand, encouraging competition in order to reduce prices and increase access favours reducing barriers to entry as far as possible, while on the other hand, other public policy objectives such as preventing money laundering or terrorist financing favour potentially burdensome regulation. Proportionality means that any such contradictions are recognized and resolved so that an appropriate balance is achieved commensurate to a country's overall priorities and market size. It

is important to note that proportionate regulation is also likely to be more effective, given that RSPs may be less likely to evade it by operating illegally. Unauthorized remittance service operators are not only risky for remitters and their families, but may also circumvent any AML/CFT and other regulatory restrictions, with potentially damaging consequences for the financial system and the wider community.

When successfully achieved, proportionality can potentially address both demand and supply side constraints. For example, on the demand side, less stringent KYC requirements for lower transfer amounts or no-frills accounts might make accessing the financial system more approachable for the unbanked and under-banked, while a more risk-based approach to AML/CFT regulations could lower the hurdle rates of participating in the remittance market enough to tilt the cost-benefit balance for potential RSPs in favour of entering the market and/or fostering further competition. Case Study 12 illustrates examples of reforms that

Case Study 12

Proportional approaches to KYC regulation

Identifying thresholds. In some cases, this takes the form of identifying thresholds below which less stringent KYC procedures can be applied and, in some cases, where they do not apply at all. In Canada, for example, only remittance transfers equal to or above CA\$1,000 require customer identification and verification. In Lesotho, low-risk customers – classified as those whose monthly gross turnover is less than USD736 – are only required to present one ID to open an account.

Accepting alternative forms of ID. The *Matrícula Consular*, or “Consular ID,” is an identification card based on the Vienna Convention for Consular Relations that the Government of Mexico issues through its consulates in Costa Rica, Spain and the United States. It serves as proof of the identity, nationality and address of its bearer and does not provide any information regarding his/her immigration status in the country of residence. To be issued a *Matrícula Consular*, applicants must show proof of identity, proof of Mexican nationality and proof of their local mailing address. For Mexican citizens applying for the *Matrícula Consular* in the United States, a utility bill as proof of residency in the United States is sufficient. Today, the *Matrícula Consular* is widely accepted by many financial institutions across the United States. Other countries issuing similar consular identification cards include Argentina, Brazil and Colombia.

For more information on the FATF risk-based approach, please see “Risk-Based Approach for Banking Sector” published by the FATF available at <http://www.fatf-gafi.org/documents/news/risk-based-approach-banking-sector.html> (World Bank 2012).

permit less stringent KYC procedures below certain thresholds and an expansion in the types of ID documents that are accepted to access the financial system.

5.2.2 Facilitate and encourage innovation

Institutional rather than functional approaches may distort markets where regulation allows only certain types of providers, most often commercial banks, to operate in the remittance market. Even in cases where non-banks can participate in the remittance market, the legal and regulatory framework may sometimes narrowly define remittance products so that certain business models or institutional arrangements (e.g. agent

banking), products (e.g. e-money, pre-paid cards), or technology (e.g. mobile phones) are not covered and, thus, are effectively prohibited. In such cases, not only is competition adversely affected, but market development and innovation are also impeded. Innovation in the remittance market may (i) increase cost effectiveness of service delivery, thereby encouraging more competition; (ii) increase the availability of services and reduce the costs to end consumers; and (iii) facilitate rapid expansion of services, particularly in areas where traditional approaches would not be commercially viable, thus making it possible to reach otherwise excluded populations. Case Study 13 showcases legal and regulatory reforms in Brazil, India and

Case Study 13

Regulatory approaches to facilitate financial sector innovation

New business models

Correspondent banking in Brazil

In the late 1990s, the majority of Brazil's 5,578 municipalities had no bank branches, and as many as 40 million Brazilians – about two thirds of the total population – had limited access to financial services. The rapid expansion of correspondent banks (*correspondentes bancários*), from approximately 2,000 in 2000 to around 150,000 in 2008, almost six times the number of bank branches (26,500), resulted in an equally rapid and dramatic expansion in the number of bank accounts (from 63.7 million to 125.7 million).¹³ Correspondent banks act on behalf of banks under agency agreements, and they are authorized to receive deposits and payments and make payments related to the accounts concerned. The most important correspondent bank is the Brazilian post office, which acts on behalf of a major Brazilian private bank and serves most municipalities where there is no bank branch. Other types of correspondent banks include lottery houses, supermarkets, drugstores and other small retailers (World Bank 2012).

Correspondent banking in India

In 2006, the Reserve Bank of India enabled banks to extend their reach using business correspondents and, since 2007, it has permitted non-bank entities to provide payment services. Guidelines for this approach have been progressively simplified. Today, banks are free to appoint a wide range of individuals and entities to act as business correspondents (World Bank 2012).

New products

Expanding the virtual reach of banks through e-money in the Philippines

Without losing sight of the importance of financial system safety and integrity and

13 G20 Principles for Innovative Financial Inclusion (Alliance for Financial Inclusion) available at <http://www.gpfi.org/sites/default/files/documents/G20%20Principles%20for%20Innovative%20Financial%20Inclusion%20-%20AFI%20brochure.pdf>.

consumer protection, the Central Bank of the Philippines (Bangko Sentral ng Pilipinas, BSP) has prioritized the creation of an enabling environment for innovation in the market for payment services and remittances. To that end, BSP issued circulars 649 (9 March 2009) and 704 (22 December 2010), creating a platform for an electronic money ecosystem and an efficient retail payments platform, respectively. As a result, banks can now offer e-money either by creating linkages with e-money service providers such as telecommunications companies or by becoming e-money issuers either directly or through outsourcing arrangements (World Bank 2012).

the Philippines that fostered development and innovation in the market for remittance services (and other retail payments) and facilitated the emergence of new business models such as banking correspondents and agents, and new products, such as e-money.

5.2.3 Promote transparency and ensure adequate consumer protection and good governance of RSPs

From the perspective of remittance product users in general, and migrants and their families in particular, improving the transparency of the various cost elements and service conditions of remittance products, like other payment instruments, helps promote confidence and trust in the products, thereby promoting adoption and usage.

Specific measures could include:

- Creation and publication of national or regional remittance price databases
- Creation of minimum standards relating to transparency and consumer protection

- Development and publication of simple dispute resolution procedures for users of remittance services
- Development of initiatives to foster user education and awareness given that senders and remittance recipients are often disenfranchised due to poverty, lack of education and their legal status.

Consumers should also be protected from loss of funds due to operational failures, mismanagement or fraud. For this purpose, regulators should set prudential requirements to ensure that RSPs governance structures take appropriate measures to meet their fiduciary responsibilities to their customers and risk management practices to manage financial (liquidity and solvency), legal, fraud, operational and reputational risks.

Case Study 14

Promoting transparency through remittance price databases

Remittance prices are high for many reasons. However, the single most important factor leading to high remittance prices is a lack of transparency in the market. It is difficult for consumers to compare remittance prices because they are comprised of several variables. Prices for remittances are frequently made up of a fee charged for sending a certain amount, a margin taken on the exchange rate when remittances are paid and received in different currencies, and, at times, a fee charged to the recipient of the funds. These fee components may also vary according to how the receiver is paid (i.e. in cash or by crediting an account), the speed of the transfer, and the ability of the sender to provide information about the recipient (i.e. bank account number). The creation of publicly available databases containing detailed information on the cost of sending remittances has been identified as one of the most efficient means to improve the transparency of the market.

Remittance Prices Worldwide

Remittance Prices Worldwide (RPW), a database managed by the World Bank, publishes the total average cost of sending relatively small amounts of money along 227 remittance corridors, including 32 remittance sending countries and 89 receiving countries. RPW makes information about the total cost of sending remittances – broken down into fee and exchange rate margin – publicly available, at no cost to consumers. RPW is updated quarterly, and it also includes additional analyses on the trends in the market for international remittances, dissected by geographic region, remittance service provider type, and the product type, among other variables.

National and regional databases

In addition to publishing the RPW, the World Bank has developed a unified methodology to certify national and regional remittance price databases. Collection of data at a national or regional level can be more frequent, detailed and tailored to the needs of the local communities. Thus, these databases can actually serve as a tool that allows remitters to easily compare different services and costs, and have a more accurate idea of how much the beneficiary will receive. At the same time, the publication of price comparison tables helps to push the actors competing in the market towards efficiency and lower costs. Currently, databases for Africa, Australia/New Zealand (Pacific and Asia), Central America, France, Germany, Haiti, Italy, Norway and Sweden have been certified by the World Bank.

6 Beyond basic financial services: mobilizing migrant investment back home

Only when daily needs have been cared for and money has been put aside for emergencies can attention turn to investment.¹⁴ In terms of development impact, investment in micro, small or medium-sized enterprises (MSMEs) can be a highly effective way of creating jobs and generating income 'back home.' Migrant workers possess assets, not only in financial terms, but also in terms of their knowledge, skills and networks. Effectively used, this migrant capital can be of great benefit to migrant entrepreneurs and their home communities. But while migration is a highly entrepreneurial act, not all migrant workers will become entrepreneurs.

The motivation of migrants to invest in their countries of origin may have sentimental, social and economic reasons that indicate their willingness to return home or to mobilize their resources towards development of their communities or countries of origin. Therefore, diaspora engagement to invest back home requires specific approaches that surpass traditional financial schemes aimed at promoting more inclusive basic financial services, but an engagement that relies on tripartite partnerships among private and public sectors and diaspora.

In order for remittance senders, recipients and entrepreneurs to invest, the financial infrastructure must be in place to allow access to deposit, credit and insurance services. While there are many investment opportunities for large-scale investors, finding these for smaller-scale investors is far more difficult. As such, there is a need to identify other

models that generate returns and at the same time have broader appeal.

Two main approaches for mobilizing the resources of migrants can be distinguished:

Indirect investment of migrant savings in financial instruments such as:

- Diaspora bonds¹⁵ or shared acquisition of mutual funds investing in local MSMEs or cooperatives
- MFIs' transformation of migrant or recipient savings into loans to finance microenterprises (investment in MFIs); and/or
- Crowd-funding platforms acting as third parties between migrants and MFIs or MSMEs.

This approach requires strong communication and financial education campaigns to build trust and understanding of investment features, and market research to align investment conditions with the financial goals and capabilities of migrants.

Direct investment to create, develop or consolidate MSMEs managed by migrant returnees or remittance recipients by mobilizing migrant or family members' entrepreneurship and own capital. This approach requires methodologies that combine market information, business development services and financing provided at the local level by third parties (local development agencies).

14 As per current trends, it is estimated that by the end of 2015 migrant workers around the world will send home well over USD450 billion to their families in developing countries. The World Bank (Migration and Development brief No. 22, April 2014) also estimates that migrant workers maintain additional savings of USD500 billion that they could invest in their home communities.

15 Including but not limited to future-flow securitization of remittances in order to improve access to international markets for the issuers to leverage long-term resources at advantageous rates.

Case Study 15

Atikha's catalytic programme to leverage Filipino migrant workers' savings for investment in agri-based cooperatives

Atikha is a Filipino NGO based in two of the country's provinces. It has worked for 15 years on migration issues and development and mobilization of diaspora resources for local development, in order to help migrant families and other nationals remain in the country.

Between 2010 and 2012, IFAD cofinanced an intervention model implemented by Atikha that allowed emigrant Filipino workers in Italy to invest collectively in their home province through a cooperative group set up in 1979 – the Soro-Soro Ibaba Development Cooperative (SIDC).

This was a pilot programme that demonstrated how migrants and their families could achieve financial goals and successfully invest back home through combining specific activities such as financial literacy programmes, followed by financial products and investment avenues.

Initially, remittance recipients and their families attended financial education seminars, and they were motivated to save. As a second step, migrants were given opportunities to invest in SIDC, which in turn pooled migrants' and families' resources to invest in a sustainable poultry cooperative. As a result, 1,100 overseas migrants and families invested USD250,000 through SIDC; and in parallel, around 600 people in rural areas received business and skills training. To date, the SIDC credit cooperative is providing more than USD1.3 million in loans serving 600 beneficiaries with average loans of USD2,200.

The investment vehicle is sustainable, and it has enabled migrants to continue investing in the poultry cooperative given that:

- The cooperative is already profitable and has its own market, which is necessary to relieve migrant distrust
- It needs capital to cover further outlets
- It does not require complex governance to carry on its activities

Conditions to be allowed to invest in SIDC:

- To be a member of the cooperative for migrants and their family members, with €25 a share
- To make a minimum contribution of €1,800 over one year (€150 per month)
- For an investment frozen for five years, the annual return is 6 per cent plus an additional dividend depending on annual performance
- Transfer of shares and capital at the negotiated cost of €1 for amounts between €150 and €200

Atikha had a catalysing role among migrants, their families and local inhabitants by bringing support of NGOs, local authorities and the private sector and by providing an array of financial education, entrepreneurship training and support services to remittance-receiving families.

Case Study 16

Enhancing food security in the Horn of Africa through the Diaspora Investment in Agriculture initiative

In recognition of the importance of the diaspora in fostering economic growth and its potential to enhance the resilience of fragile communities, the United States Department of State and IFAD have launched the Diaspora Investment in Agriculture (DIA) initiative. This partnership seeks to leverage the contributions of migrant workers and to encourage their engagement in sustained economic development through investment in agriculture, particularly in rural areas.

A first programme was launched in 2013 to finance innovative diaspora projects in Somalia, one of the most severely conflict-stricken countries in the Horn of Africa. Somalia is estimated to receive almost USD1 billion annually in remittances, exceeding official aid to the country.

The programme has three main components:

- Mapping and researching market analysis of specific products, public support, relevant public, private or international partners and successful models of agricultural projects
- Investment opportunities and models for scaling up
- Capacity enhancement of local organizations.

Case Study 17

Promoting diaspora investment in emerging markets' SMEs: Homestrings Diaspora Bond – SEAF Macedonia II

Three organizations joined their expertise in order to leverage Macedonian diaspora capital to fill the financing gap for SMEs in Macedonia: (i) Homestrings, an investment online platform dedicated to diaspora (www.homestrings.com); (ii) Small Enterprise Assistance Funds (SEAF) (www.seaf.com), an impact investment fund specialized in financing emerging markets SMEs; and (iii) USAID's Development Credit Authority (DCA), a development agency.

Homestrings will pool investments through the issuance of a diaspora bond, and it will make a loan guaranteed by DCA facility to the SEAF Macedonia II Fund, an investment fund dedicated to Macedonian SMEs. The objective of this fund is to invest in growing, job-creating businesses with a reasonable commercial return. Coupon payment is estimated at 4 per cent yearly with a five-year maturity term with eventual capital losses partly covered by the DCA guarantee.

This tripartite financial mechanism aims at addressing the following issues:

- Although Macedonia's banking sector is developed and the economy is safe, unemployment remains high, migration is quite significant and labour-intensive SMEs lack equity capital to develop their growth notably for familial SMEs created upon own capital.
- Opportunities for diaspora to invest directly in small businesses are limited due to lack of transparency in local markets, nascent and illiquid capital markets and uncertain regulatory environments. Guarantees can help correct these market imperfections.

The stakeholders

Homestrings is an investment portal (www.homestrings.com) that facilitates global diaspora investments in different types of instruments (bonds, funds and treasury bills). It focuses on region members (mainly Africa, India and Latin America) and has a double objective of being profitable and socially impacting. Minimum investment allowed is USD1,000. Homestrings fees are generally 1 per cent for annual management fee and 10 per cent for annual performance fee.

- Small Enterprise Assistance Funds (SEAF) (www.seaf.com) is an investment fund that provides growth capital to SMEs in emerging markets with a strong focus on impact. On average, SMEs financed by SEAF generate a 25 per cent annual rate of employment growth and a 19 per cent annual rate of wage growth in United States dollars. Expected investors are Macedonian institutional investors, including pension funds and foundations, high net worth individuals, in particular members of the Macedonian Diaspora Investment Group, and SEAF Management LLC.
- USAID's Development Credit Authority (www.usaid.gov/dca) has developed a USD20 million loan guarantee fund to incentivize diaspora to invest back home.

7 Principles for policy guidelines and recommendations

The perception of the role of migrant workers in development is shifting. Governments and institutions are beginning to realize the vast potential of mobilizing migrant capital for the development of national and local economies.

However, the issues hindering financial inclusion still need to be addressed.

The conditions to increase both access to regulated points of services and effective use of complementary basic financial services (savings, loans, micro-insurance, pension schemes) for remittance senders and receivers depend on several factors, including the nature and the scale of migrations, market competition and the financial infrastructure within a specific country.

Because of the centrality of remittances to development, it is vital to develop policy guidelines to maximize the impact of migrants' funds. The right array of policies and interventions targeting demand and supply and the market environment could encompass the approaches described ahead.

7.1 Develop public goods to understand remittances and related financial inclusion issues

Market information is instrumental to design policies and increase private-sector awareness on market opportunities. The ways in which key players can better understand the market include the following:

Sending countries should assess:

- The volume of remittance flows for the main corridors and the level of reliance of destination countries on remittances;
- The segmentation of different communities of migrant workers in terms of number, preferences, and patterns to remit, save, and invest money home; and
- Competition in the market.

Receiving countries should assess:

- Main remittance corridors;
- Patterns and destination of migration;
- Main areas of migration;
- Domestic access points and networks; and
- Ability of existing RSPs to cover international and domestic recipients' needs.

Both sending and receiving countries should *pay special attention to investment* as knowledge of the topic and concrete experiences are both at a nascent stage.

7.2 Develop financial education campaigns to improve financial literacy, and ensure proper consumer protection for remittance senders and recipients

Financial literacy is fundamental in empowering remittance senders and recipients to make the most of hard-earned funds. Case studies point to the fact that migrants and their families are keen to save and invest their resources, but often lack knowledge of their options. Financial education enables them to use their funds to their maximum benefit.

By sharing responsibility for financial decisions with family members and minimizing risks, migrants can build a solid financial foundation. Many of these financial strategies are new to migrants and sometimes outside their cultural comfort zone. Thus, broadening migrant workers' understanding of their financial options is essential to remittance-related policies.

Financial education must remain a central pillar of every initiative dealing with financial inclusion.

Sending countries should:

- Seek to understand the migrant community and its segmentation;

- Require transparent financial information (e.g. web-based remittance price comparisons);
- Create tailor-made approaches to financial education that relies on community and social networks of migrants; and
- Involve the private sector in these strategies.

Receiving countries should:

- Align financial literacy strategy with financial inclusion and returning migrant strategies;
- Create and promote national financial literacy campaigns; and
- Involve the private sector in these strategies.

7.3 Support innovative models to deliver remittance services and complementary products

Because migrants specifically, and financially uneducated peoples generally, lack access to remittance services and are often unaware of complementary products, governments and the private sector should investigate new and innovative ways to reach these communities. Innovations can be introduced at different levels of the remittance market and should provide benefits to all parties. They can reduce overall costs for senders and receivers, but can also minimize the risk. These benefits in turn increase the access to and use of remittances.

Innovation should focus on:

- Modernizing technology in pay-out networks;
- Improving payment systems infrastructure; and
- Furthering integration at the local level.

Sending countries should promote partnerships between different types of institutions from both sending and receiving countries that operate under different regulatory frameworks and/or geographies. These institutions should be encouraged to provide alternatives to in-cash transfers and to offer complementary products beyond transfers. Furthermore, they should be encouraged to promote online access and products, create linkages with regulated RSPs, increase access points and reduce sending costs.

Receiving countries should increase the number and the penetration of access points to receive cash. This in turn will improve the interaction between low-income remittance recipients and regulated financial institutions. Institutions should be encouraged to cross-sell complementary, user-friendly and low-cost financial services that are integrated within digital ecosystems or distributed by financial intermediaries with decentralized outlets. These institutions should pay particular attention to leapfrog current distribution channels and utilize technologies that allow new partnerships to enlarge the frontier of financial delivery, especially in countries where the uptake of mobile financial services are being taken up.

7.4 Promote legal and regulatory frameworks

It is vital to promote legal and regulatory frameworks that are sound, predictable, non-discriminatory and commensurate to the level of risk in both sending and receiving countries should be promoted. It is equally important to ensure that competition is enhanced by encouraging more actors to enter the marketplace, widening the types of payment networks or discontinuing exclusivity agreements when they hamper competition. Authorities should encourage consistent standards of regulations across jurisdictions, while identifying and adhering to at least the minimum standards of client protection.

7.5 Support research, advocacy and dialogue at international and bilateral levels

Knowledge-sharing is one of the crucial ingredients of development. Therefore, identifying and disseminating good practices, as well as setting up monitoring and impact assessment mechanisms are key to determining the scalability of policies and interventions. Ways to share knowledge include:

- Improve global knowledge on remittance receivers and migrants' financial behaviour by systemizing the topic in demand-side surveys' methodology with global or regional scope such as Findex or FinScope or at the

household level through financial diaries or academic research.

- Set transnational platforms to mobilize market players and their overseers involved in the supply chain at both ends of major corridors. Public authorities and civil society should identify problems and opportunities, understand market facilitation needs and implement subsequent coordinated policies.
- Support the development of diagnostic and comparison tools applicable to main sending and receiving countries to assess remittances and development nexus; design and monitor progress in policy achievements using a price database, standardized country profiles, country actions plans and diagnostic tools.

7.6 Create incentives for migrant workers to be agents of change

Investment in micro, small or medium-sized enterprises (MSMEs) can be a highly effective way of creating jobs and generating income 'back home.' Migrant workers possess significant assets, not only in financial terms, but also in terms of their knowledge, skills and networks. They have a strong affinity with their home communities, and they are often far better informed in terms of the language and culture of their country than most foreign investors. This affinity makes migrant workers willing to take on risk by investing 'back home' when others will not.

However, in order for these entrepreneurs to invest, financial education and financial infrastructure must be in place. Local governments can create initiatives and incentives such as one-stop shops to educate potential investors and to provide assistance to migrant-run enterprises; and they can train local officials to develop and provide information channels about market opportunities that match migrant goals.

Post-conflict and fragile states in particular can benefit from diaspora investment. Indeed, migrants can be instrumental in socio-economic

reconstruction efforts as the bridge between end of conflict and the beginning of financial inclusion in their home communities.

Leveraging the linkages between remittances and financial inclusion represents a unique opportunity to create a convergence between the financial goals of millions of remittance senders and receivers, mostly unbanked or under-banked, the commercial strategies of traditional and emerging financial services providers, and international development goals. Addressing the nexus between remittances and financial inclusion, G20 countries can both pursue the objective to reduce the cost of remittances to 5 per cent and lead the way towards the achievement of several key objectives in the post-2015 agenda, encompassing but not limited to financial inclusion, innovative sources of financing, inclusive growth, and migration and development. However, this has to be a concerted effort with the active involvement of public and private stakeholders and civil society partners. It must encourage the exchange of information, knowledge and experience among institutions, experts and project partners alike.

Migrant remittances represent a USD430 billion economy that is currently still largely untapped by the regulated financial system. By understanding how migrants and their families use remittances, the G20 countries can begin to leverage this economic engine to bring migrants into the fold of the financial system. This understanding represents an enormous opportunity to bring largely excluded populations into the formal economy; to (re)build poverty-stricken areas through economic investment; and to develop innovative sources of financing for traditional and emerging financial service providers. However, this will not happen without a true understanding of the financial goals of migrants, nor without appropriate regulations and public policies, and the commitment from public, private and civil stakeholders to financial education for this underserved group.

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