

**STRUCTURING REMITTANCES
FOR
LOCAL DEVELOPMENT**

The paper

STRUCTURING REMITTANCES FOR LOCAL DEVELOPMENT

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1. TRENDS IN REMITTANCES

Worldwide remittance flows continued to increase in 2007. In El Salvador, remittances increased by 7.9 percent from the first quarter of 2006. Despite a decrease in the number of overseas workers, remittances to the Philippines soared to US\$3.5 billion, accounting for a 24 percent growth compared to 2006. Central Bank officials attribute this rise to new financial product offers. Armenia received \$270 million in the first quarter of 2007, a 9 percent increase from the previous year.

This volume corresponds to a 23 percent growth in the number of transactions, up to 302,000 in the first quarter of this year. Remittances to Morocco increased by 12.3 percent, from \$1.22 billion in the first quarter of 2006 to \$1.38 billion in the first quarter of 2007.

Remittances to Colombia increased by 47 percent to \$1.26 billion and Ecuador had a 20 percent increase, with \$770 million in the first quarter. In Guatemala, remittances rose by 11.9 percent, from \$792.66 million in 2006 to \$887 million in 2007. Remittance flows to Jamaica increased by 7.4 percent and to Mexico by 3.4 percent (from \$5,184.47 million in 2006 to \$5,359 million in 2007).

There are marked differences in remittance flows by region and country. In nominal terms, Latin America and the Caribbean received the lion share followed by South Asia. Compared to the size of GDP, however, South Asia was the largest recipient with 2.5% of GDP.

The top five receiving countries by volume are India, Mexico, Philippines, Morocco, and Egypt. On a per capita basis, the picture changes significantly: the top five receivers were Jordan, Portugal, Barbados, Jamaica, and El Salvador.

The list of top sending countries of global workers' remittances includes the US, Saudi Arabia, Germany, Belgium, Switzerland, France. The US tops the list, though some sources argue that this is grossly over reported due to the fact that many transactions transfer through accounts of correspondent banks in the US.

Accounting for unrecorded and informal flows, the actual amount of remittances could be as high as \$200 billion – more than double the official value. For individual receiving countries, the estimates for informal remittance flows range anywhere from typically 10 to 50% and for some as high as 85% of the total remittance flows into a single country.

To date analyses of remittance flows tend to emphasise aggregate international flows and high volume flows between industrialised and developing countries, such as between the US and Latin American countries. Intra-regional and domestic remittance flows have received much less attention and are even harder to capture through current official statistics.

The value of international remittances dwarfs other types of remittances. Yet households are generally more likely to receive domestic than international remittances. For instance, a study on Viet Nam showed that 7 out of 8 transactions received were domestic remittances but they constituted only 50% of the value.

Similarly, intra-regional remittance flows have not been profiled very much. While intra-regional migration is quite pronounced, it tends to be less documented or dominant in international debates than migration and remittances between developing and industrialised countries. A study of migration flows between Costa Rica and Nicaragua, for instance, suggests that about one third of remittances received in Nicaragua are sent from Costa Rica.

Data on what percentage of their incomes migrants actually send home is sketchy. Amounts vary subject to a myriad of factors such as the migrant's profile, salary level, cost of living in



the host country, the volatility of the home currency, and differentials in interest on savings between the host and the home country. Anecdotal evidence suggests that sending up to one third is not uncommon. A study on remittances in Bangladesh found that international migrants remitted more than 40% of their income. For Latin American migrants in the US, studies indicate that permanent migrants send about 15% of their salary home, whereas temporary migrants remit 50%. In exceptional cases the full income stays in the home country, such as for Korean and Chinese workers on infrastructure projects whose salaries are often paid into an account in their home countries; their essential needs while they are working away from home, such as accommodation, are taken care of by their employing company.

Sending patterns vary over the migration period as well. A study of Mexican migrants in the US showed a curvilinear trend in sending remittances: migrants in their 5th to 10th year abroad send the most, whereas recent migrants remit less as do migrants who stay on for more than 10 years. A study on Turkish migration and remittances, however, showed that maturing migration population and family unification did not reduce remittance flows; on the contrary, average remittances per worker more than doubled between 1973 (\$1,609) and 1999 (\$3,837) and were as high as \$5,400 in 1998. The generational patterns of remittances vary as well; again the Turkish example indicates that subsequent generations continue to send remittances whereas the Mexican example and anecdotal evidence for other migrant groups, for instance Ethiopians, suggests that remittances drop off the longer the emigrant has been abroad.

2. CHANNELLING REMITTANCES: MEANS, ACCESS AND COST

While figures vary by source and assumptions, the overall message remains the same: Remittances are substantial and are becoming increasingly important as they continue to grow both nominally as well as compared to other transfers to developing countries.

Factors that distinguish remittances from other payment transactions include the following -- remittances are:

- ✓ between individuals and/or households
- ✓ typically transfers from relatively richer to relatively poorer households or individuals
- ✓ small and frequent



- ✓ higher and/or more frequent in certain seasons (seasonal patterns vary by migrant group due to cultural or religious dates – e.g. Chinese New Year, Diwali, end of Ramadan, Christmas)
- ✓ often on a rise in times of economic downturn or of conflict in the receiving area
- ✓ in significant part routed through informal channels

For these reasons remittances are flows with a strong variability, and their use as a development financial source need some activity aimed at their stabilization and a system of risk control.

In recent years, informal remittance channels have received growing attention along with access to, and cost of, formal transfer services. One question is what factors determine or influence a migrant's choice of channels for remittances. Behind this is an interest in having remittances flow through formal channels – for instance for reasons of accountability and transparency; to increase forex inflows and reserves; or to reduce transaction cost and thereby increase the amount received.

In many analyses, channels, access and cost tend to be discussed only in the context of the sending country. Often, however, an interplay of factors at both the sending and receiving ends account for choices of channels and also affects access and costs (e.g. use of a particular channel due to access at both ends or familiarity with it).

A quick overview for the main channels' 'plusses and minuses' as well as of accessibility, service, and cost highlights that factors such as trust, familiarity, service in the migrant's mother tongue, and having the service within easy reach – in the neighbourhood or accessible as part of a regular shopping route – can often be as important as the cost.

The Bank channel is often the cheapest option for large transfers; reliable though can be slow; money never lost, but can be delayed; They have a good networks in most sending countries, but there is high cost for small transactions; more accessible in host than in home countries; requirements for account opening for both sender & receiver (e.g. ID requirements, minimum balances, maintenance fees); restricted banking hours; bank locations (urban centres; more affluent neighbourhoods); low interest in the customer group and their business; cumbersome to track lost funds high medium/ low medium

Post office Often cheaper than other formal services; extensive network of service points worldwide Slow; possible delays at payout due to low service quality and lack of liquidity in many developing countries

Formal MTO Fast, reliable, very accessible in major centres High cost per transaction, especially for small transactions; unfavourable forex rates; not typically available outside main centres

Hundi, Hawala or similar services Cost typically lower than formal services; reliable; often good forex rates; trust relationship; fast transfers; some deliver to door; some 'advance' money; service clients and locations which are not serviced or under serviced by formal providers Cost at times as high or higher than formal services

Informal Self, relatives, friends Trust; no fee or direct cost; door-to-door delivery; operate in areas with no or very limited financial services Slow; risk of loss with slow, partial, or no recovery of funds



The common remittance channels cover the spectrum from formal to informal transfer services. At the formal end are:

- ✓ Banks (with various products, most commonly electronic transfers between accounts)
- ✓ Money transfer operators (MTOs) (such as Western Union and Money Gram, as well as many smaller global or market-specific MTOs)
- ✓ Forex or currency bureaus (at times operating their own service but often an agent to a global or regional MTO)
- ✓ Post offices (operating in part with their own products and/or as agents of either postal banks or MTOs)

At the informal end are service providers as well as personal arrangements (see also text box on 'informal systems' in this section):

Hundi or Hawala agents as part of an organised network (e.g. shop owners, travel agents)

Shop owners, business people (e.g. import-export traders), or individuals who 'do a favour'

Personally carrying the remittance either oneself or sending it with a family member or friend

Informal channels tend to be used more where the financial sector is either missing (e.g. as can be the case in conflict or post-conflict countries), weak, or mistrusted (for instance due to bankruptcies). Similarly, forex controls generally lead to a higher use of informal channels.

Conversely, formal sector use increases in stronger, more liberalised economies with a stronger financial sector.

Key issues regarding accessibility of services are familiarity, trust, proximity, reliability, and awareness of a service. Many of the smaller MTOs and also the informal services are successful because they work with a market segment of migrants who are located in 'micro-markets' – often certain cities and neighbourhoods within them.

Access to the transfer service at both the sending and the receiving end is a critical factor. Many of the remitters need to send money to locations with often weak or no financial infrastructure and where banks of their host country have little or no other business volume or connection. While capitals and other urban centres have fairly good financial service availability, rural regions tend to be much less well serviced by the financial industry. Thus, while the main transfer channel into a country such as Bangladesh may be banks for some sub-regions, for other sub-regions informal channels are more popular. The choice of service is often limited at the receiving end due to lack of an outlet or point of sale close to the receiving home, unfamiliarity with the service, or, for instance in the case of banks, due to perceived or actual rejection of the potential client by the service provider. Banks can be intimidating to people not used to dealing with them and banks typically prefer to target high net worth individuals and corporate clients; this they project in image, choice of buildings and locations, as well as through access barriers such as account fees and/or minimum balances on accounts.



3. CHANNELS USED FOR INTERNATIONAL MONEY TRANSFERS

A sample of feedback from surveys illustrates the variations of channels used according to surveys of remittance recipients in different countries or regions.

4. INFORMAL SYSTEMS

Informal systems have been dated back to ancient China. In the wake of 11 September 2001, especially Hawala, but also informal systems more generally, have received a lot of attention. Numerous studies have been conducted and many media reports have covered the topic, the latter in part in a highly sensationalist tone.

The debate is polarised between discussions of Hawala, Hundi and other informal money transfer systems as illegal operations that serve money laundering and financing of terrorism, on the one hand, and as essential services filling a market gap which is crucial for many migrants and their remittance receiving families, on the other hand. To date there is no clear indication that informal transfer systems or small scale MTOs are more likely to be instrumentals for money laundering or sending funds in support of terrorist activities. While revenues from illegal transactions of precious metals or drugs may flow through informal transfer channels, for money laundering the use of formal channels is an essential step in the process of the 'laundering'.

Informal services as well as some of the smaller MTOs, however, do not readily comply with international standards of transparency and accountability, which are also becoming tighter as the Financial Action Task Force (FATF) and other stakeholders seek to ensure better control and security through regulations and their enforcement.

Nor do they necessarily have the capacity to comply readily or within the price margins with which they currently act as informal systems often provide an essential service where formal systems have left gaps, aims of transparency and accountability should be balanced with assessments of actual risk of misuse in informal systems on the one hand, and of risk and cost of clamping down on informal services regarding the effect on flows of remittances and the cost of transfers, on the other hand. Both of these can have strongly felt effects on livelihoods. The latter is underlined, for instance, in the case of Somalia (see Omer, 2002).

The interface of formal international remittance services with service points in the receiving country is an important aspect as many formal remittance channels weaken or break down beyond an initial 'arrival point' in the migrant's home country. For instance, only banks which are part of SWIFT or similar systems or have correspondent banks can have international transfers sent to them. In some countries this excludes post banks (for instance in Kenya, which can receive transfers but only as an agent of Western Union). Similarly, ATM systems, where they have sprung up and are expanding, are often not yet integrated but either proprietary to a specific bank and for use only with their cards, or limited to one or another network, such as either VISA or Mastercard (e.g. Uganda).

In domestic and regional markets, some transfer services have developed a niche due to inefficient domestic financial systems but do not extend to international transfers. For instance, in East Africa some of the courier and overland bus or coach companies provide money transfer services which many people use for private transfers, including remittances, as well as for business purposes.

Market failures, such as weak or mistrusted banking industries and inefficiencies in their transfer systems, have prepared the ground for MTOs to be as successful as they are. For



instance, bank transfers are relatively frequently delayed as anecdotal evidence as well as conversations with experts in banking operations and national payments systems indicate. In part this is due to inherent weaknesses of systems such as SWIFT whereby banks tend to use cash floats of transfers to their advantage as there is no agreed settlement time.

Similarly, post offices, a prime service provider as far as access or outreach is concerned, are often not used in receiving countries because clients have experienced their services as inefficient and unfriendly. Stories of insufficient cash on hand or other delays in receiving the funds are commonly cited. At the same time, where post offices do operate effectively, such as in the case of Japan in collaboration with Banco do Brasil, they are an excellent agent or service provider precisely because of their network of outlets.

Another common factor is lack of familiarity with services. Many of the banks, post offices, or other providers are not necessarily good at marketing their services or at pursuing segmented strategies, such as advertising in different languages or having multi-lingual staff. Some recipient country governments have recognised this market failure and seek to compensate by informing their migrant communities through newsletters and information events through their embassies in sending countries. Informal systems tend to operate on the basis of word of mouth, while the larger MTOs and their agents often advertise heavily and aggressively. Smaller, regionally focussed MTOs can be found to target their client group through advertising in community papers or shops popular with the specific migrant community.

Informal systems such as Hawala and Hundi, and MTO services are typically the fastest. Some services are almost instantaneous; others take 1 to 3 days. Bank transfers are slower with 3 to 5 business days as a standard minimum quotation for a transaction. MTOs as well as informal systems are also the most straight forward and least complicated person-to-person transfer services, whereas for a bank transfer both the sender and receiver typically need an account.



5. TRANSACTION COST

This has raised awareness also with international development agencies and others interested in the welfare of migrant workers.

Studies indicate an average cost of about 13% of the remittance value. Costs vary by amount remitted, service used, the destination, and also from where it is sent; typically they range from a low of 0.2% to about 20% for average remittance transactions.

Costs tend to be highest for small transactions as most of the transfer services charge a minimum fee. While some studies find that certain migrant groups show high sensitivity towards cost, others find that familiarity or convenience can often lead to the use of a more expensive service.

Of the various transfer products, transaction costs are on average higher with MTOs compared to bank transfers between accounts, such as negotiated through SWIFT. At the same time, MTOs have a more demand-oriented network of points of sale, on average much shorter transaction times, and do not have access barriers such as requiring an account.

Speed and reliability is part of their service and also their marketing strategy.

6. TRANSACTION COSTS TO THE USERS

Often neither the remitter (sender) nor the recipient knows the actual cost involved. Even for a financially very educated client this can be difficult to determine unless one uses several services in parallel on the same day and sends the same amount.

What is paid out depends not only on the forex fee applied that day but, for instance, also on how the operation is structured.

Some services book everything into US\$ independent of where they operate so that they often incur forex revenues in receiving as well as in paying out – so a double forex loss to the client.

As studies estimating transaction costs typically look at direct costs (commissions / fees) and forex losses, they are still not a full reflection of transaction costs. Some of the cost factors are difficult or tedious to measure. Cost factors include:

Direct costs:

- minimum fees
- percentage commission

Indirect or hidden costs

- getting to/from point of sale such as a bank branch
- phone calls (to inform recipient of transaction and, in the case of nonaccount transactions, of a password or similar identifier)
- lower/unfavourable forex rates often used, for instance by banks and MTOs compared to either forex bureaus or the black market or maintaining a minimum balance or account fees (in the case of account-based transfers).

Especially in recent years, the competition among service providers in some markets has already begun to lower the costs, such as for transfers from the US to Mexico. Thus, the sending cost can often be cheaper when the funds are sent to a high volume destination



and, especially, when there is competition in the market, either among MTOs or between MTOs and informal services. For instance, MTOs such as Western Union have a single set of standard rates for transactions from some of their markets but in a high volume market such as London, UK, they offer lower rates for money transfers selected high volume destinations such as Ghana, Nigeria, Bangladesh, India, and Pakistan.

For global MTOs such as Western Union and Money Gram the lowest fees typically start around GBP10 but again actual fees depend on the sending and receiving country. The fee structure is by bracket of the transfer value. Smaller MTOs typically charge a commission on a percentage basis, commonly around 5%, though it can be higher.

Banks typically combine a minimum fee with a percentage fee. Minimum fees at banks range from about GBP 3 to 30 depending on the sending and receiving country as well as the product. Percentage fees are sometimes flat, sometimes bracketed on a declining percentage for larger amounts. Informal services charge about 3 to 5% though they can at times be substantially higher. In some cases there are no fees for informal services and the revenue is realised solely from the forex gain.

A compelling arithmetic suggests that a lowering of transaction costs by even 5% would increase remittance flows by \$3.5 billion. As remittances constitute many small transactions with sometimes a high degree of geographic dispersion of both the senders and the receivers, however, fees also reflect the availability and accessibility of services. Understanding the differences in markets and in cost structures of existing services such as by banks and MTOs are areas which, to date, have not received much documented attention.

Initiatives to Promote Remittances, Use of Formal Channels. Improved Access, and Reduced Cost

Governments of remittance receiving countries have in the past attempted to legislate inflow through mandatory remittances (e.g. Philippines), and some still do (e.g. in part Viet Nam), or through channelling all forex trade through the central bank (e.g. Mexico). More recently, however, many governments aim to provide their migrant communities with better information on transfer services and costs (e.g. Mexico, Bangladesh), and some aim to attract remittances also into investment vehicles or programmes they have launched, such as a pension plan or business ventures based on matching or joint inputs (e.g. Philippines, Mexico).

On cost, access and channels, initiatives such as IRNet aim to provide a cheaper alternative for remittance transfers that reach into the communities of migrants and their families in their home countries. This was started by WOCCU building on the network of credit unions in the US with support of a number of donors such as USAID and IADB/MIF.

IADB's MIF has been very active and vocal in the remittance debate regarding Latin America and the Caribbean. Through a number of conferences and key studies looking at flows and costs, MIF has been instrumental in putting remittances 'on the map' and in engaging various stakeholders, especially commercial banks and MTOs, in the debate and in initiatives for better and cheaper transfer services. Developmental Effects of Remittances.



7. MACRO-ECONOMIC EFFECTS

Due to the sheer value of monies remitted to selected countries and/or the weakness of their economies, remittances can have a substantial effect on macro-economic indicators. Additionally, the stability of the flow has led to remittances constituting a major factor in international credit rating and securitisation analysis. Generally, however, while remittances contribute to balance of payments such as foreign exchange reserves and off-setting trade deficits, they are seen to contribute little to economic growth.

The bulk of the impact is a substantial positive effect on the receiving households in terms of improved standard of living with a knock-on effect for the local economy due to consumption and investment such as in land, housing, and livestock. Both the macro-economic effects as well as the contributions to household wellbeing can also have the effect of delaying government reforms to restructure economic and other policies to tackle underlying causes.

Generally, remittances are most important to low-income countries. Overall, remittances constituted not only 1.9% of GDP but also 6.2% of imports to this group of countries. For low-income countries, remittances are also relatively more important by contributing close to one third of all international resource flows compared to one fifth and one eighth for lower and upper middle income countries, respectively.

For individual countries, this contribution can be much more pronounced. By region, remittances contribute most significantly in the Middle East (72% of total capital flows), North Africa (54%), Caribbean (51%), and South Asia (51%). Countries which rely much more on remittances than on ODA include Turkey (ratio 39:1), Mexico (34:1), Costa Rica (24:1), Jamaica (15:1), Philippines (8:1), Nigeria (7:1), India (6:1), Tunisia (5:1), and Lesotho (4:1). For Africa (excluding North Africa), ODA contributes the larger share with 50% of all flows compared to 14% from remittances. This interpretation of high aid dependency is, however, heavily skewed as it is based on IMF tables with data for only about one third of Sub-Saharan Africa.

Measured against GDP, for individual countries, remittances account for up to 37 % of GDP and make the strongest impact for countries like Tonga, Lesotho, Jordan, Albania, and Nicaragua. For countries where remittance flows are heavily channelled through informal services or are largely unrecorded due to a lack of systems, the figure could be even higher (e.g. Sudan, Somalia, Afghanistan).

Hence, by relying on an analysis of official data alone, one risks overlooking countries and populations for which remittances constitute an important part of their resources, and in the extreme, their lifeline. Somalia, for instance, received an estimated \$800 million to \$1 billion in 2000. On a per capita basis Somalia would rank 13th compared to recorded remittances in other developing countries.

Benefits to the country vary depending on the structure of the local economy and related policies and regulations, such as foreign exchange controls. They also vary by both the capacity and the opportunity of the recipients to make productive use of these transfers, such as due to poverty levels and the freedom, ease of access, and available ways to invest.

8. USE AND BENEFITS OF REMITTANCES

Data from a number of surveys and much anecdotal evidence indicates that the bulk of remittances is used for consumption as well as for investment in human capital (education, health, and better nutrition). Especially where migration is coupled with high cost, such as in



the Philippines for fees for recruitment agencies and travel to the destination, loan repayment is another important use of remittances. Investment in land, livestock, and in building or improving a home is also relatively common but secondary to daily needs and human capital expenses. Still less of remittances is used for investments such as in savings or in business. Insecurity tends to be the main motivator for investment, and the type of insecurity affects the type of investment.

Typically remittances constitute a transfer from relatively richer to relatively poorer individuals or households. The high proportion going to consumption is congruent with the aspect that, to a great extent, migration and remittances are part of a livelihood and poverty reduction strategy of the individual migrant and their families.

The use of remittances shows fairly consistent patterns. The majority is used for:

- Daily needs and expenses -- typically labelled as consumption or as improving the standard of living
- Medical / health care expenses or education – grouped together with the above when seen as improving the standard of living
- Consumer durables (stereos, televisions, washing machines...)
- Improving or building houses or buying land or livestock
- Investment in socio-cultural life (birth, wedding, death)



9. LOAN REPAYMENTS

Consumption alone can have a clear follow-on effect of an improved standard of living and educational opportunities for the receiving individual or household. Consumption, land or other purchases, and investments overall, also constitute contributions to the local economy.

A look at analyses of household or migrant surveys highlights some general messages on benefits and use, despite many variations in the detailed findings:

The contribution of remittances to household income is often substantial and domestic and international remittances are important generally, and relatively more important where there are no or only very limited public transfers

Remittance receiving households tend to be better off (e.g. have higher average incomes and asset bases) than households that do not receive remittances

Transfers tend to flow from relatively richer to relatively poorer households, mostly from children to parents (in contrast to an inverse flow in industrialised countries), and receiving households are on average more likely to be headed by single females or by the elderly

Receiving households in less developed regions will spend a higher proportion on daily expenses or consumption than households in more developed regions. Some researchers have raised concern over the growing income inequality migrant remittances can cause in a community, such as price increases for land, as well as the demonstration effect of a more affluent place beyond the village in contrast to the simpler life and poverty in the village. As migrants are typically from a socio-economic band between the poorest and the richest – the former cannot afford to leave, the latter have no reason, at least if the situation is stable – the benefits tend to go to the slightly better off households in a community (those that could afford to send someone to migrate). In communities, especially villages, where extended families still function as a support network, the income distribution effect, while not equal, could however be expected to spread beyond the immediate recipient of the remittance.



10.REMITTANCES AND INVESTMENT

Savings are of growing interest as one of the areas of investment and integration of remittances with the formal financial system. Data on this is very sketchy, but, for instance the Central Bank of El Salvador estimates that 1% of remittances go to savings. A study on Mexico shows estimates of 11% going to savings.

Remittances also finance lending. In Viet Nam i.e. whereas the majority of remittances are gifts and given to relatives, to non-relatives tend to be given loans. Gifts are typically used for consumption (72%), whereas loans are much more likely used for investments (91%).

Anecdotal evidence suggests that remittances potentially finance loans to neighbours, who will ask for loans because they know their neighbour receives money from overseas.

While daily expenses and consumption are the main use for remittances, they are also a source of business investments. In several instances migrants returning home use their savings, new skills and attitudes to set up a business; in line with much of micro-enterprise development generally, these tend to be service or transport businesses.

In other cases, remittances sent home are used to finance businesses. One study found that almost one fifth of capital invested in micro enterprises in urban Mexico came from remittances. Another study of Mexico shows estimates of about 5% of remittances being invested in small business. Especially in Mexico, government programmes have aimed to attract remittances into business ventures. In a survey in Albania, researchers found that 17% of the capital to establish a firm came from remittances.

Overall, however, the leveraging or success of such programmes is still unclear. In part this may be due to the cost of such programmes, in part also because migrants are generally no less likely to be entrepreneurs than non-migrants.

While remittances are typically transfers between individuals or families, some of the migrants participate in community associations or groups that make collective remittances to their home communities. These are for a range of investments, including building or renovating schools or churches. The Home Town Associations (HTAs) of Latin Americans living in the United States have probably received the most attention as NGOs or foundations and, through them, donors, have begun to work with them on facilitating community investments in their home villages or regions.

The phenomenon is, however, much broader both in terms of the ethnicity of the groups and also in the organisational forms.

There are a number of references to communal or collective sending and use of remittances. For instance: the contributions of remittance following the devastation by Hurricane Mitch in Nicaragua, the financial contributions by Poles at home and abroad to the rebuilding of the old town, there is the example of the Somali Diaspora that built the University of Hargeisa back home, and in Mali, the Kayes region, home to the great majority of migrants to France, has benefited from support by some forty immigrant associations in France, most of which have counterparts in Kayes.

The focus on policies and regulations regarding remittances has primarily been on the receiving countries. An individual migrant's choices of whether and how much to remit, through what channel, and for what use are typically shaped by factors such as the economic and political stability or volatility of a migrant's home country as well as foreign exchange and taxation policies.



As part of creating a more enabling environment for the freer flow of remittances, the emphasis has been on reducing barriers by getting governments of receiving countries to stop taxing remittances and to liberalise their financial markets and, in particular, foreign exchange trade. Some governments have gone further having recognised the importance of remittance flows to their economies and the receiving households. As case examples such as Mexico and the Philippines illustrate, some governments have become proactive, not only in reducing hurdles, but also in attracting more remittances, and attracting them in part into investment schemes.

What have received much less attention are the effects of policies and regulations in the host / sending country on remittance flows and channels used. For instance, this choice can be influenced by whether MTOs can operate in the sending country and what licensing and other regulatory requirements they have to fulfil.

The following provides a first illustrative introduction and discussion to issues in the host / sending countries, followed by those occurring in home / receiving countries. A subsequent section provides a brief overview of some of the regulatory changes and incentive policies some home / receiving countries have employed in an effort to attract more remittances and/or make their investment more attractive.

Globally, the efforts of the Financial Action Task Force (FATF), working with country regulators to implement regulations to prevent money laundering and financing of terrorist activities, have had a noticeable effect on the financial industry, including money transfer services.



11. SENDING COUNTRIES

In sending or host countries, the most pronounced policy and regulatory aspects affecting remittances are linked to those which shape the availability and access to money transfer services that connect with a service point close to the family back home. Questions include whether policies and regulations facilitate migrants' access to bank services; and whether other service providers, such as MTOs, can operate.

The most common money transfers using a bank's services require the sender and receiver to be account holders. The requirements for opening an account, such as identification and proof of residence, can make it difficult for someone to open an account, even if their status as a migrant is legal. New or tightened interpretations following the anti terrorism and anti money laundering initiatives, such as the Know Your Customer (KYC) requirement, contribute to better controls, accountability and transparency; however, they seem to also increase access hurdles to using banks, both for individuals and MTOs. KYC rules have added new compliance requirements for all financial service providers around client identification, verification, and record keeping. The necessary development of adequate or updated policies or protocols, new or adjusted systems, manuals, staff training and other related cost are relatively more burdensome to the smaller MTOs who have to finance this from narrow margins and ensure roll-out throughout their network of agencies as well.

For MTOs, for instance, the KYC rule has changed the way they do business in terms of how they deal with client identification to comply with the rule. It also applies in terms of how banks look upon MTOs as a client. A link into the banking system is an essential part for an MTO's operation.

Anecdotal evidence suggests that banks have become highly risk averse and are less likely to open accounts for MTOs or have actually asked MTOs to move their accounts to another bank.

Another aspect of the regulatory environment is licensing requirements for MTOs. While banks have correspondent banks or use membership in SWIFT as a basis for their money transfer products, MTOs have to set up a network of agents. Thus banks typically do not have to deal with the regulatory environment in the country where the money is received, whereas MTOs have to comply with often complex and different rules in the receiving as well as the sending country. Where the agents are banks, they may not need to register but the partner bank has to get the approval of the central bank. In some cases, the MTO has to additionally set up a company as a legal entity to be allowed to operate in the country. In a few instances, forex restrictions, which are typically discussed as hurdles in connection with remittance receiving countries, can apply to sending countries. South Africa is one such example which has a large migrant and remitting population from around Southern Africa.

Germany MTO would need a full banking licence (high cost), in Norway and Scandinavian countries MTOs are unregulated, South Africa Regulator prefers that banks handle money transfers, in part due to the strict reporting requirements related to the country's forex controls, UAE now has registration and reporting system for hawaladars, in UK there is mandatory registration of 'Money Service Business (MSB)'; previously unregulated; licensing requirement is said to have driven out a plethora of small and inefficient MTOs, in US MTOs have to comply with federal as well as state licensing requirements; they need to register federally and pay a fee; they also need to register in each state where they want to operate, or have an agent operate; at state level in addition to fees a bond has to be posted; fees



and bond values vary by state; there are also capitalisation requirements; for credit unions, as per the US Credit Union Act, remittance or money transfer services can only be offered to members. The legislator has interpreted this as allowing potential members access to remittance services as well.



12. RECEIVING COUNTRIES

Regulatory and policy contexts vary widely in receiving countries and there is no readily accessible comprehensive overview of hampering and enabling conditions. The focus of discussions has tended to be on monetary policies, particularly forex policies, and on taxation. Less attention has been paid to financial and private sector regulations and policies which can affect either the availability and accessibility of financial services and products or the ease or attractiveness of investing in financial products or a business.

Hampering factors of a regulatory or policy nature regarding sending remittances, especially through formal channels, include, for instance:

monetary policies, such as forex restrictions or channelling of all forex dealings through the central bank or a state bank

financial sector regulations which affect the availability or outreach of financial services; for instance, when bank regulations or supervision require banks to open full branches wherever they want to operate and do not allow for less costly alternatives; or when MTOs cannot get licensed or cannot get permission to operate through a variety of agents, not just banks

Deciding factors regarding the investment of remittances include, for instance:

- restrictions on forex holdings, such as opening of forex denominated bank accounts
- denial of repatriation of savings / funds
- 'taxation' of remittances through forex rate controls or withholding of portions of remittances
- the range of financial investment products available
- 'red tape' in setting up a business

The following draws together a brief discussion and examples on three topics regarding the policy and regulatory environment in remittance receiving countries: financial market liberalisation vs. control; licensing and regulation for money transfer services; and incentives for sending and investing remittances.

Generally forex controls and state-regulated financial sectors are seen as a deterrent to remittances. Especially where governments enforce official forex rates or taxes for remittances, informal transfer channels are seen to be more likely to avoid such direct or indirect taxation.

Countries like Brazil and Colombia, for instance, control foreign remittances through foreign exchange rules. In Brazil, all international transfers have to go through the central bank. In Colombia a 3% tax is levied on funds received. In Viet Nam the state controls all forex trade and temporary migrants pay 30% of their earnings into a government fund. In contrast, countries such as India and Uganda have moved on from such practices. In Uganda, for instance, the liberalisation of the financial market, and particularly of forex trade and allowing foreign denominated accounts, is said to have led to increased remittances.

Where forex trade or remittances themselves are state controlled, the central bank or a government bank is the officially licensed channel. In countries where forex trade has been liberalised, typically commercial banks, or at times also forex bureaux, offer money transfer services or act as agents to one of the MTOs.

Licensing or the granting of permission for money transfer services (MTS) is not consistently



regulated. Where it is addressed by law or process, it is usually handled by the central bank. As different entities provide MTS, however, such as banks and forex bureaus, different parts of the central bank deal with licensing or permissions in connection with remittances. The two key departments tend to be bank supervision and foreign trade.

Banks are generally licensed to deal in forex as part of their bank licence. This is, however, not true for many of the postal banks which tend to operate under communications as opposed to banking acts. Either, however, is typically required to consult with the supervision department of the central bank to get approval prior to introducing a product which involves forex. Failure to do so can lead to closure of the service.

The licensing for MTOs varies by country. In many cases the agents are licensed as banks and seek permission by the central bank. Similarly forex bureaus typically require a license to trade, usually granted by the central bank. The forex trading license is again not necessarily sufficient on its own to set up as MTO or operate a MTS. Again it is prudent, if not required in most cases, to seek permission of the regulator within the central bank. Some countries have additional rules, such as India where the MTO has to set up an incorporated company to provide a legal business entity in-country even if all operations are done through, for instance, a bank as an agent.

Central banks are on average more inclined to grant permission to a bank than to a forex bureau. This depends on the country, however. For instance, Bank of Uganda's Forex and Trade Department is generally supportive and positively inclined towards granting permission, whereas the Central Bank of Kenya seems less keen. Similarly, South Africa has a preference for banks to deal with money transfers, particularly following the experience with Western Union and Union African Money Transfers (UAMT) which ran afoul of compliance with forex control regulations.



13.SENDING / INVESTMENT INCENTIVE POLICIES

Countries such as Bangladesh, India, Korea, Mexico, Pakistan, the Philippines, Thailand, and Turkey stand out among emigration countries where either state and/or federal government levels are actively engaged in attracting remittances to the country or in creating incentives to invest, in addition to the following brief summary of examples of policy initiatives cited in the literature.

Governments such as in Mexico and the Philippines aim to attract remittances into investment vehicles or programmes they have launched, including pension plans or business ventures on matching or joint inputs. Pakistan offers a non-repatriable investment scheme and investment and business set-up advisory services are available through a foundation. India has preferential access to capital goods and raw material imports for recent returnees. Korea has a training programme for returned migrants and Bangkok Bank in Thailand advises on investment opportunities. Bangladesh has taken active steps to attract more remittances such as reduced commission rates and opening of monitoring units in banks.

Especially in recent years, governments such as Mexico and Bangladesh have recognised the value of providing their migrant communities with better information on transfer services and costs, both in terms of creating competition, and thus lowering prices in the money transfer business, as well as in making migrants aware of financial services as a viable alternative to informal channels they may be using. Thus Mexican consulates in the US now provide their migrant communities with information and ID cards to facilitate access to banking services. Similarly Bangladesh informs for instance with newsletters.

Stakeholder Interests

Through the immediate connection with migrant labour, researchers and other stakeholders interested in migration have had the longest and most consistent interest in remittances.

Facilitating action on remittances has been part of international agreements on migration and development.

More recently, interest from other perspectives has emerged -- both from developmental angles (economic, financial systems, and livelihood aspects) as well as from concerns with international security. More specifically, these include:

- the developmental contributions of remittances given the immense and still growing flow of remittances to developing countries -- especially the macro-economic dimensions of remittances;
- the question of access and cost of money transfers affecting remittances;
- the better integration of the flow and use or investment of remittances through the financial sector;
- and the heightened attention to money transfers, more generally, resulting from anti-terrorism and anti money laundering initiatives.

The financial services aspects have served as the primary focus for this study. The heightened attention from stakeholders concerned with crime prevention and regulation of financial flows has generated a lot of activity and changes; these have been touched upon as they relate to remittances, primarily in the context of the discussion on regulations and policies as well as in terms of any knock-on effects regarding access and costs.



In sum, current research and initiatives by donors, NGOs, associations, foundations, and also governments aim to improve access and reduce cost, to promote awareness of services among migrant communities, or to create investment mechanisms and promote developmental use.

Banks and non-bank financial institutions, especially in recent years, have expanded with more services coming onto the market. The following sections provide further detail on trends and interests in the private sector.



14.PRIVATE SECTOR PROVIDERS – TRENDS & INITIATIVES

Business strategies for banks or post offices are very different from those of MTOs; for the latter it is the core and often only business, whereas for banks it constitutes one of a myriad of products.

Thus, while MTOs such as Western Union and MoneyGram have pursued fairly aggressive expansion strategies in recent years, among the banks the bulk has continued with business as usual while a select few have recognised a niche, taken initiative and introduced products and marketing to boost this business segment. Similarly, other non-bank financial agents have recognised the business opportunities offered by money transfer, such as for remittances, and have entered the market as MTOs in more recent years.

Banks

Banks have typically overlooked or been dismissive of remittances as a business, focusing on corporate services and money transfer for the corporate client. In recent years some of them have woken up to the opportunities remittance transfers can offer.

Banks in markets such as the US and Spain have recognised the market potential for remittance services and begun to offer attractive services in part through strategic links. American banks such as Wells Fargo have set up a competitive money transfer service to parts of Latin America. Similarly, Spanish and Ecuadorian banks have recently hooked up to provide money transfer and other financial services around remittances.

Other banks and financial service providers, especially in developing countries, are entering the remittance money transfer business more actively by becoming an agent to one of the MTOs. Many of the MTOs are actively seeking new agents and new deals are constantly being struck, such as between UAE Exchange and Financial Services Ltd, part of the UAE Exchange group, and India's Dhanalakshmi Bank to operate a money transfer service (Xpress Money) out of 55 locations across India.

ATMs and debit cards have recently been introduced as remittance transfer products, especially between the US and Mexico. For instance, Bank of America's SafeSend program and Citibank's Money Card each issue debit cards to a designated person in Mexico upon enrolment of a person in the United States.

SafeSend charges \$10 per transfer while Money Card charges \$7.95, plus a \$5 monthly maintenance fee.

Through this service, some banks offer a very low transfer fee and profit instead from the exchange rate.

In 2001, an estimated 88% of remittances to Mexico were sent as electronic transfers and 9% as Money Orders. This represented a 24% increase in electronic transfers over the previous year and more than a 50% reduction in both Money Orders which has in part been fuelled by the introduction of ATMs and smart cards.

A recent market study suggests that money transfer by ATM will be the revolutionary change that will allow others to rival Western Union some of its market share and will also push smaller, regional MTOs out of business. Given the high set-up cost, however, these technologies are currently still viable only in high volume markets with the requisite infrastructure.



Domestic Transfer Services

In countries where financial systems are weak and burdened with structural problems, especially in the national payments system, many companies, organisations, and individuals have to revert to informal or self-managed means to transfer money within the country. A few banks stand out as having identified this market opportunity and pursuing it. Banks such as National Microfinance Bank of Tanzania, CRDB of Tanzania, and Teba Bank of South Africa, for instance, have very actively increased the capacity within their respective branch networks to provide money transfer services domestically. Fee-based products such as money transfer are often seen as an excellent opportunity that requires some start-up investment, but as a volume business it turns very good profits once start-up and operational costs are covered.

Money Transfer Operators (MTOs)

Market leaders among the MTOs are Western Union and MoneyGram. They have the greatest global reach and have long been capturing a significant part of remittance flows. In recent years they have expanded and marketed more aggressively. The industry has also seen the emergence of more of the smaller, often regionally focussed MTOs.

New providers, such as FirstRemit which is building a global network, tend to compete on the basis of a slightly lower fee. Other MTOs have developed regional markets, such as RapidMoney between the US and Latin America. Dahabshiil is another example. Originally a more niche market oriented company, servicing different Muslim communities, especially Somalians, Dahabshiil has recently expanded globally and also become the biggest provider in Somalia – replacing Al Barakaat which suffered an extended closure following an AML investigation post 9/11. Crown Agents, another MTO, grasped a market opportunity and has moved into Afghanistan to provide money transfer services primarily to humanitarian and other aid organisations or official delegations.

The current trend in the market is clearly to grasp the opportunity. The challenge then is to get to scale quickly, either within a niche market that generates sufficient volume, or by rapidly building up a network globally in key sending and receiving locations.

Other companies provide the software or backbone, allowing their clients to set up their own products or brands and network. Another variation is platform providers, which offer a platform that is compliant with all regulations and can link participating banks and MTOs.



15.AREAS FOR INITIATIVES

The analysis of the remittances puts in evidence that:

- remittances are very important financial resources that it must be intercepted and be canalized in adequate way
- various options and interesting experiences exist in order to favour the transfer of the remittances and use it as a key factor of development for the territories of origin
- the remittances can be inserted not only in the within the flow of the circuit of the consumption and the satisfaction of the primary needs or to satisfy teh need of durable goods, but also in the within of the financial activities and investment (lending, start of new activities).
- the public programs publics finalized to the attraction of the remittances for economic development goals are based on mechanisms of boosting of the investments, while the mechanisms of canalization of the remittances are not put in argument.
- the management of the risk above all remains an important obstacle in the countries in which the financial market is weak and little structured.
- the involvement of the banks in the process of remittances transfer is increasing, in the market of the sending countries, but they act as managers of the investment activity in the receiving countries.

Some models of participation can therefore be assumed that concur the improvement of the practice of management of the flows of remittances in the various countries.

The hypotheses on which it has been worked are two:

1. Construction of a channel of collection of the remittances from part of the banking system integrated from bilateral agreements with the countries of destination of the remittances in order to transform the flows in investments for local productive system
2. Construction of a mixed public/private fund between banks and public agencies of local development in order to integrate the remittances with the financial resources for development of the public policies.

Both systems take advantage of the interest of the banking systems for the increasing dimension of the remittances and for the conquest of positions in a market in expansion in the sending countries.

The banks are subject of great interest also for the policy makers of the receiving countries since the structure of the banks concurs to increase in enormous way the participation potentialities, in collecting and investing remittances.

The competition of the MTOs is carried out on the price and the capillarity of the presence, however it remains an extremely specialized service and need of an agreement with the banking system also for the delivery services. The relatively recent products introduced on the mass market by the banks (ATM and debit cards) put MTOs in a competitive risky position.

In both models the problematic of the risk has to be managed through modalities that are acceptable and favourable to the presence of the banks in the process of collection and employment of remittances.



16.MANAGE THE RISK GUARANTEE FUND AND CREDIT BUREAU

For this reason it is necessary that instruments for the management of the risk are activated. Two possible solutions exist: one more traditional and experimented, the other of more structural character. The first one is the system of the guarantee funds, whose spread and flexibility can make prize on the relative effectiveness within situations in which the risk it appears very high. The second is constituted by the systems of credit bureaus, in which the reliability of the investor it can make prize on the reputation of the customers in the sending countries. Every combination of the two solutions can be taken in consideration.

The first model presupposed the presence of a market of the remittances, a structured financial system in the receiving countries, consistent opportunities of investment in receiving countries and a low country-risk.

The model adapt therefore to flows of remittances in which the receiving countries are in a process of supported development, or at a stage of ongoing industrialization.

According to model, it has presupposed the interest of the banking system to acquire a condition of partnership with local public institutions, in a process of development of the local financial market, where the operating risk for the banks is reduced from the presence of public resources.

Naturally all that must be rendered compatible with the application of the agreements of Basel II, with more diffused will to render the operative and competitive conditions of the international markets homogenous and with the necessity to guarantee the shareholders of the banking enterprises of a reasonable certainty of generating value from the own investments. In this context the relationship between availability of the credit, automatic management and measure of the expected risk (the so-called Probability of Default), information availability on the credit behaviour of the lender and guarantors represent a particularly delicate mechanism.

Every subject that acts as intermediary of the risk in reason of the emission of a credit it must necessarily be in a position to carrying out a transparent management of the risk, supported from systems of verification and appraisal it. For guarantee fund, the main difficulties tregard objective requirement above all. In fact:

the personal guarantees from the guarantee fund are of subsidiary nature and they do not satisfy the requirement of the NCA, second which the guarantee must immediately be charged from the bank to taking place itself of the insolvency of the main debtor.

In reality, the effectiveness of the guarantees offered by the Fund would happen at the moment of the insolvency. However, the liquidation is not definitive, and the payment cover only the presumed loss;

moreover Basel previews that the guarantees are quantified in explicit way on the amount of the financing, while the guarantees are determined in percentage of the loss endured from the bank.

Clearly, the presence of guarantee fund is essential, but is not completely safe for the involvement of the banks in the management of the use of remittances for the economic development of the receiving country.

To this point it goes faced the last problematic aspect of the system: the availability and the quality of the information. All the subjects that work for the inclusion in the credit circuit of



remittances, and also try to address remittances to business investment purpose must necessarily deal with the information that accompanies the debtor.

Currently the accordancy of credit by banks is based on two categories of information. Before, that it is of socio-demographic type, it is based on the possession of personal and private information tied to the typology of the customer (age, sex, marital status, area of origin, field of activity, typology of job relationship and contractual shape etc); the second one regards the merit of the credit relationship and the behaviour of the customer in the financial system (to es. typology of contracts of financing in course or extinguished with the system financial, punctuality in the payments, number and importance of incidents in the payment flow registered in active or in done contracts), that is the information supplied from the c.d. "systems of credit reference" or "positive risks Credit Bureau".

The first type of information is an attempt of structuring of subjective information, the second one is more objective. For this reason the information of the second type turn out prevailing in the preliminary investigation procedures on the demands for financing, also because are rendered available in data banks (Credit Bureau) present in the various countries, that they allow an easier analysis and comparison also in different economic-social contexts.

The currently operating system in Italy previews the presence of a managed system of credit reference from specialized private societies, as it happens in Germany and Great Britain. The system of credit reference is based on the storage of information concerning the behaviour of the financial debtors in terms of the punctuality in the payment of the planned reimbursement.

We can distinguish two categories of Credit Bureaus:

- Negative Risks Credit Bureau
- Positive Risks Credit Bureau.

Negative Risks Credit Bureau only manages data on incidents of payment and, therefore, only information concerning pathological events of the credit relationship of the customer.

Positive Risks Credit Bureau manages data on credit relationship, non only on payment incidents therefore relative information to physiological events (the good behavior of credit of the Consumer) and in marginal measure pathological (only lacks payments to you), define a more complete picture of the riskness of the banking customers.

Negative Risks Credit Bureau, is simply a lists of bad payers, its only purpose is to avoid to finance subject in serious difficulty.

Positive Risks Credit Bureau work instead like the presentation made by one person about the reliability of another person. It bring back in fact "the total" data concerning all the events that happen in the development of the contractual credit relationship..

Positive Risks Credit Bureau on hand puts in the industry of the credit an informative patrimony very defined and delimited, that it comes used from the single bank or financial company on the base of the own rules of appraisal of the merit of credit.

This system satisfy the information needs of the debtors punctual payers (which have all the interest to demonstrate of being such: who has a good behavior of payment can approach new credit more easy, to better conditions), the banks and also the debtors with lack of payment.



So, the Positive Risks Credit Bureau is the information base for the start and the development of a strong financial system because it can distinguish and select a group of reliable customers for the banking system, that could be the group to which address the financial resources for the economic development.

The systems of credit reference have the effect to reduce the "informative asymmetries" on the credit market, are in the competition between subject backers, are in the relationship between distributing of credit and customers, with a positive impact on the total availability of credit and its cost.



17. ENHANCEMENT OF FORMAL CHANNELS AND FEED THE REMITTANCE FUND

The availability of information is the base for the development of entrepreneurial activities with an acceptable risk, in accord with the needs of riskiness of banking investments and of remittances characteristics and scopes.

In fact, the problems to face for the destination of the remittances to the feeding a fund for the economic local development are the following:

- To guarantee that the remittances reach destination
- To guarantee the underwriters of the Fund in case of losses
- To feed and to favor the increase of the Fund remittances
- To compensate the concentration of asset of the banks

Under an operating profile the first point can be realized through the typical instruments of the transfer automatic ATM using the network of financial institutions, and eventually also the net of the treasuries, with stipulates agreements between public authorities and local banks or the post-office, or with the instruments of the international discount and the twin account. The Fund would operate therefore as a classic MTO with automatic instruments whose operating costs would be reduced from the possibility to activate a large-scale operations. In this case the public resources would be dedicated to the support of the net whose capillarity will have to be guaranteed in every place of the territory. The public investment would be therefore destined to favor the spread of the banking services on the territory and represents an indirect support to the activity of system of the territorial network of the banks.

This process has to be founded on an important third party instrument: the securitization of the remittances.

Remittance securitization is a way for banks in emerging markets to borrow hard currencies by issuing bonds. Such bonds are collateralized by the future flow of remittances (and other electronic payment flows) originating in other countries.

The specific of remittances-backed securitization is that it mitigates emerging market country and currency risk by establishing an offshore collection account for foreign currency receipts.

Notwithstanding remittance securitization monetizes future flows, often receive higher ratings than sovereign bonds issued from the same countries. For this reason, the lower cost of interest of the fund managed in this way could be treated as an excess cash for the local bank that pay the beneficiaries.

The other specific advantage of the remittances-backed securitization is the gain coming from the exchange rate variability. Because the remittances are denominated in hard currencies and are located in trust based in developed countries the currency risk is very low, and the value of the fund in domestic currency rise over time. This generate an excess cash that could be devoted to development programs.

For these reasons, there are clear advantages of Remittance-backed Securitization.

First of all, the enhancement of development impact of remittances: the proceeds of securitization are used to extend loans by the local banks for productive purposes because banks could pass on interest savings from the remittance securitization to its customers as well as offer longer term loans or new products (such as mortgage loans).



Second, there is a greater focus by local banks on remittances as a viable and attractive product: banks realizing the funding advantages inherent in packaging securitized remittance flows, will become more competitive in terms of fees charges for remittance transfers.

Third, the securitization allow access to international capital markets for non-investment grade countries.

Fourth, there is an improvement of financial conditions of local banks: securitization helps improve asset / liability management of local banks through access to longer term / lower rate funding so that banks can replace its short-term borrowings in hard currencies with longer term loan with securitization.

Fifth, remittance payments relating to electronic payment orders are owned by the local bank and not the named beneficiary. This mean that when the bank receives the remittance funds from another bank or money transfer agent, it receives cash (an asset) and has a corresponding obligation to pay the beneficiary (the matching liability). The steady flow of cash assets is what is actually being securitized and is the basis for the whole asset class of future flow securitizations.

Because the bank has legal right to assign the Overseas Workers flow, it will have an obligation to pay the recipient an equivalent of money (in the stipulated currency), but it does not have the obligation to deliver the exact same funds received from the Overseas Workers.

Normally, the Bank can assign the foreign currency funds received to the Special Purpose Vehicle or Trust and source the money to be delivered to the recipient elsewhere, and when the Bank pays the recipient the stipulated amount, it will have performed its contractual remittance obligation.



18. CONCLUSIONS

The model proposed for the development and the canalization of the remittances of the migrants towards activity of development of the territories of arrival of the money movements therefore is composed from three pillars:

1. A guarantee fund for the small and medium enterprises in the investment areas
2. A system of credit reference in a position to selecting ex-ante the reliability and the reputation of the deep petitioners
3. A system of remittances-backed securitization used to guarantee the negotiability of the financial resources on a broader financial market, to reduce the country risk for the banking system, to favour the opportunities of investment in the country of beneficiaries, to canalize the maximum quota of remittances sent to the arrival country, to reduce the costs of transfer of the remittances.

The presupposed of this model are:

The canalization of the remittances in the various countries can be affected only in a competitive market, where the efficiency and the reliability of the service of money transfer are the most important criteria.

The reputation and the reliability of the agencies that intercept the remittances are the most important immaterial factors that conditions the availability of the migrants to approach the channels to send remittances.

The local authorities in the origin countries are been involved to three levels:

Address of the investments in accordance with the plans of local development;

Feeding of the guarantee fund;

To support the development of a system of credit reference and networking of local banking system.

