

## **WP2 – REMITTANCES AND MIGRATION**

# **FINAL REPORT (WP 2.2 & 2.3)**

# CONTENTS

## **I THE MIGRATION PHENOMENON: RECENT TRENDS**

### **1.1 The migration phenomenon in Europe and Central Asia (ECA) Countries: an overview**

### **1.2 Circular migration: a new pattern of trans-national mobility versus permanent migration**

#### *1.2.1 An overview*

#### *1.2.2 The different policy options on circular migration*

#### *1.2.3 The "brain circulation" issue*

#### *1.2.4 Main issues concerned with the international circulation of labour*

## **II THE REMITTANCES FLOWS**

### **2.1 Introduction**

### **2.2 The scope and role of remittances: an initial overview**

### **2.3 The way remittance transfers function**

### **2.4 Effect of Remittances according to the new migration issues**

#### *2.4.1 Economic effects of Remittances*

#### *2.4.2 Social effects of Remittances*

#### *2.4.3 Some conclusion on the positive and negative effects of remittances*

### **2.5 Initiatives in the field of remittances and their role in development finance**

### **2.6 Actors and principles to support access to remittances**

#### *2.6.1 Demand Side: clients and access to remittance*

#### *2.6.2 Supply Side: providers of remittance services*

#### *2.6.3 The Core Principles*

### **2.7 Summary on the main characteristics and impact of remittances**

## **III REMITTANCE FLOWS AND TRANSFER CHANNELS IN ITALY AND VENETO REGION**

### **3.1 Italy**

### **3.2 Veneto Region**

### **3.3 Formal Remittance Transfer Channels**

#### *3.3.1 Banks*

#### *3.3.2 Money Transfer Operators (MTOs)*

#### *3.3.3 Postal Offices*

#### *3.3.4 Pre-paid Cards*

## **IV THE MIGRANT BANKING**

### **4.1 Foreign entrepreneurs in Italy**

### **4.2 The migrants' requirements and the financial offer**

### **4.3 Prevailing trends and bank strategies**

## **V REMITTANCES AS AN INSTRUMENT FOR DEVELOPMENT**

### **ANNEX I – REMITTANCES SECURITIZATION**

### **ANNEX II – DIASPORA BONDS**

### **ANNEX III - GOOD PRACTICES IN THE FIELD OF REMITTANCES AND FINANCIAL FACILITIES TO MIGRANTS**

#### **A. THE EXPERIENCE OF FOLADE (FONDO LATINOAMERICANO DE DESARROLLO)**

#### **B. THE EXPERIENCE OF CONFESEN (CONFESERCENTI SENEGAL)**



# **I THE MIGRATION PHENOMENON: RECENT TRENDS**

## **1.1 The migration phenomenon in Europe and Central Asia (ECA) Countries: an overview**

The phenomenon of migration in Europe is a rapidly changing issue in terms of nature and evolution.

Starting from 1990 till 2006, emigration in Eastern Europe and in the Commonwealth of Independent States (hereinafter CIS) appeared to be large by international standards. If movements between industrial countries are excluded, Europe and Central Asia (hereinafter ECA) accounts for over one-third of total world emigration and immigration. There are 35 million foreign-born residents in ECA countries. Overall, several ECA countries are among the top 10 sending and receiving countries for migrants worldwide.

The collapse of communism encouraged a massive increase in geographic migration from the ECA region, including internal movements, cross-border migration within ECA, outflows from ECA, and some inflows from other regions.

Migration flows in ECA tends to move in a largely bipolar pattern. Much of the emigration in western ECA (about 42%) is directed toward Western Europe, while much emigration from the CIS countries remains within the CIS (about 80%). Germany is the most important destination country for migrants from the ECA region while Russia remains the main intra-CIS destination. The United Kingdom, in particular, is becoming a destination for migrants from the ECA countries of the European Union (EU) who are temporarily barred from legal access to many of the other EU-15 labour markets.

The number of undocumented migrants from ECA countries to Western Europe and the CIS is believed to be large but, by definition, difficult to quantify according to common statistical standards. Currently, there are estimated to be upward of 3 million undocumented immigrants in the EU.

ECA countries show significant variation in terms of the direction of migration flows and their impact on net population changes. From 2000 to 2003, ECA countries were about evenly split between those that registered a natural decline in population — in which the number of deaths exceeded births — and those that registered population increases. In the EU, both



Germany and Italy already have declining populations and many other EU countries are expected to show natural decreases in the future as their populations age.

In recent years, migration may have declined for many ECA countries compared with the period following transition. Immigration countries, such as Russia, receive less net immigration, while emigration countries register lower outflows. This is consistent with the view that the early period of transition was marked by ethnic and conflict driven migration, while later, as the situation stabilized, migration became mainly economically motivated.

Labour migration in these States is still relatively small when compared with both population size and the size of the workforce. Furthermore, the great majority of migrant workers come from neighbouring Countries and Regions. EU membership and the rise in sustained foreign investment, however, will create the demand for additional, most probably foreign, labour.

Some interesting projections regarding future trends can be resumed as follows:

- while economic factors will continue to be important drivers of migration, demographic patterns will also play an increasingly important role
- migration flows that are generated in the short term may be unsustainable in a decade owing to the medium term population dynamics in most of the ECA region.
- with the exception of Albania and Turkey, all Central and Eastern European countries are forecast to experience population declines, many of them greater than in the destination countries.

The decline in the working-age population is already creating a demand for workers that can only be sourced from abroad (e.g. Poland). The more prosperous EU-8 countries may be able to obtain some of these workers from the rest of the region. However, for the region as a whole, demand will have to be met from elsewhere, probably from Africa and Asia.

Whether these flows are legal or undocumented will depend a lot on future immigration legislation.



## **1.2 Circular migration: a new pattern of trans-national mobility versus permanent migration**

### **1.2.1 An overview**

As briefly summarized above, global international migration has undergone a transformation in the last decade due to the new political and economic situation in the ECA countries. One of the main elements of this new trend has been the substantial increase in non-permanent migration between nations and the emerging pattern of a new model of migration defined as “circular migration”.

Circular migration can be described as a form of migration by which migrants move abroad for some months and then return to their origin countries when they can be most useful there. Circular migration is often part of a larger household strategy that seeks to diversify income streams and maximize consumption.

Even though the phenomenon has a long history, such international mobility seems to occur on a large scale only in the last decade (at least in Europe). As a matter of fact, circular migration is actually involving a greater cross-section of groups and taking a wider variety of forms than ever before. This change has produced a number of challenges to both policymakers and researchers.

A key role in such a phenomenon can be assessed taking in to consideration the so called “Immigration intentions” which consistently registered a shift from “permanent” to “temporary”.

Both from the researchers and policymakers viewpoint there is a need to reassess the prevailing mindset regarding temporary migrants in destination countries. This is summarized in the oft-repeated phrase that "there is nothing so permanent as a temporary migrant."

This arose largely out of the experience of post-war Europe when several countries opted to deal with labour shortages by importing temporary guest-workers. As time passed by, statistical surveys and empirical observations demonstrated that these groups developed substantial permanent communities in the previously “temporary” destination countries. One the main issues with regards to circular migration is then to understand to what extent in the actual situation is temporary migration a prelude to permanent settlement. Even if we are actually lacking of any empirical evidence, the prevalent hypothesis assume that this may be less the case than in the past for the two following reasons:



1. Modern forms of transport and communication have greatly reduced the friction of distance between origin and destination countries (above all inside Europe). This has meant that migrants are able to maintain closer and more intimate linkages with their home countries than ever before. Cheapening the cost of telecommunication, the introduction of internet, and the cheapening and speeding up of international travel have not only made it possible for migrants to interact in real time with their home country on a regular basis, but also to visit home more frequently in emergencies and for breaks. Nowadays the pressure to bring entire families to the destination is not as great as it could have been in the past.
2. Migrants in the contemporary situation can obtain the best of both worlds in that they can earn in high income, high cost destinations and spend in low-income, low-cost origins. Furthermore, they can maintain valued traditions, family ties etc. in the origin country by keeping their family there, remaining citizens of that country, and making frequent visits.
3. The possibility to develop new skill and to get relatively higher wages in the destination countries can push the migrants to save a part of their income to develop new small business in their origin countries together with their families or relatives
4. The migrants can be a mean of internationalisation for the SMEs operating in the destination countries and that are likely to invest abroad together with the migrants and taking advantage of their experience and technical skills.

For all these reasons, it could be argued that temporary migrants are less likely to move into destination countries with a long-term aim of settling in that country than was the case previously.

### **1.2.2 The different policy options on circular migration**

One issue arising here is the need for destination countries to develop policies and programmes aimed to facilitate and encourage migrant workers to interact with their home country.

The main advantage in this case should be that of lessen the pressure for those migrant workers to bring their family to, and settle in, the destination. In this field there are many



instruments that can be used in order to foster the trans-national mobility: the most common are the reduction of the difficulty and transaction costs associated with sending remittances, easing the availability of re-entry visas for migrant workers, financial inclusion of migrants in the banking system both in the destination and origin country, setup of financial facilities aimed at the development of new businesses in the origin countries, etc. All these actions, that will be further explained in the proceeding of the analysis may facilitate circular rather than permanent migration.

### **1.2.3 The “brain circulation” issue**

The recent path of globalization of labour markets has opened up much more opportunity for brain drain migration to impact on Less Developed Countries (LDC hereinafter).

Workers with high level skills are in great demand and More Developed Countries (MDC hereinafter) have reduced the barriers to immigration of these groups on both a permanent and temporary basis while strengthening the barriers against the semi-skilled and unskilled.

In any case, our knowledge of the impacts of this migration on origin countries is statistically limited. Certainly, there would seem to be benefits to countries experiencing "brain circulation" (which is one of the most interesting aspect of circular migration) with a constant stream of newcomers bringing new ideas, approaches, and networks with them. A certain concern is related to the brain drain impacts on countries that are experiencing a substantial net outflow of talent resulting in a consistent reduction of the possibility of economic and social development at home.

While these negative impacts undoubtedly occur, there are some cases where such moves can have a beneficial result for the origin country, such as:

- countries with insufficient capacity to productively absorb and use the migrants' skills
- countries where the inflow of remittances prevails over what the migrant would have contributed
- countries with significant return migration of the migrants with enhanced skills and capacities



- countries where the migrants forge productive economic linkages with the home country such as directing investment, providing beachheads for production from the home country etc.

The World Bank has called for More Developed Countries that recruit skilled migrants from Less Developed Countries to pay a charge to the latter to compensate for the investment in human capital made by the origin nations. There certainly needs to be a more sophisticated analysis made of the efforts of the "brain drain" phenomenon.

#### **1.2.4 Main issues concerned with the international circulation of labour**

To sum-up, several conditions in the contemporary world are highly conducive to the international circulation of labour, both skilled and unskilled. The development of transportation has meant that the money and time costs of travel have been dramatically reduced, which will not only facilitate the international "journey to work," but also enable migrant workers to readily return to their home countries in an emergency and for frequent visits.

The frequency of contact with the family based in the origin country are enhanced by the cheapening of international telecommunication, emailing and internet services in general. All this is at a time when demographic and economic differences between nations are widening, especially between the so-called "labour surplus" and 'labour shortage' nations.

Many labour markets have been transformed from being national to international, and labour market segmentation has produced situations in some countries where native workers have totally rejected some types of jobs and they have become the preserve of foreign workers (many of them circulators). Hence there have been strengthening gradients between potential origin and destination countries. Moreover, migration along these gradients has been greatly facilitated by the development of a large and all-pervading immigration industry and by the diversification and strengthening of social networks linking origin countries with communities of expatriates (sometimes real Diasporas) in destination countries.

This has resulted in a steady flow of information back to potential movers in origin countries, which has reduced the perception of risk among potential movers, as has the knowledge that these communities at the destination will assist them in entering the labour market and in adjustment to the destination. The resulting flows resulted in a much more substantial



redistribution of wealth from MDC to LDC than either development assistance or foreign direct investment.

These trends are undoubtedly linked with the increasing international flows of capital, goods, ideas, information etc. that are a peculiar aspect of the process of globalization.

Unlike the other international flows where barriers have been substantially reduced, those to movement of people have been increased. These barriers are partly a function of the nation-state maintaining its integrity, partly a concern about security issues, but are also based on some fears about the results of a uncontrolled flow of immigration (both legal and illegal). Certainly, however, the massive shifts that have occurred in global international migration in recent years have not seen an equivalent shift in our data collection systems, theoretical knowledge, and research effort into these newly important areas. It is not until such a shift occurs that the research community will be able to supply policymakers and planners with the knowledge necessary for the development of better policies with respect to international migration in both origin and destination countries.



## II THE REMITTANCES FLOWS

### 2.1 Introduction

Remittances are commonly defined as transfers of money by foreign workers to their home countries. In other terms, a “remittance transfer” refers to the transfer of money from an individual, usually a person who has emigrated from her city or country of origin, to another individual, usually a relative who remains at home.

Remittances are typically person-to-person payments and of low unitary value.

There are two basic categories of remittance transfers:

- domestic
- international

Domestic remittance transfers occur when an individual transfers funds from one location to another within the same country. The predominant pattern within this category is that the individual sending the funds, i.e., the remitter, hails from a rural area and has relocated to an urban centre.

In contrast, an international remittance involves an immigrant in a new country sending funds to his country of origin, or to individuals (usually family) in a third country. Frequently, the remitter has moved, for the purpose of employment, from a LDC to an MDC. Remittance transfers include neither the international sale and transfer of goods nor the cross-border transfer of funds between businesses. For the purposes of this study, a remittance transfer will refer only to international remittances.

Compilers of statistics tracking the amount of money that is remitted each year gather their data largely from the formal Remittance Service Providers (hereinafter RSP). Formal RSPs are those that are regulated and operate openly within the sending and receiving countries. These include banks, credit unions, and many wire-transfer services.

Money sent home by migrants constitutes the second largest financial inflow to many developing countries, exceeding international aid.

Latest World Bank estimates are that some US\$250 billion was remitted globally in 2006 and these figures are increasing by almost 30% year on year. Remittances contribute to



economic growth and to the livelihoods of needy people worldwide. Moreover, remittance transfers can also promote access to financial services for the sender and recipient, thereby increasing financial and social inclusion.

Even if official statistics include accountings of only the formal RSPs, a range of unofficial and informal modes of transferring funds and sending money exist, yet remain unmonitored. Informal modes vary widely: from a temporary worker or traveller mailing cash or checks using the regular postal service, or, alternatively, carrying cash on her person when he/she returns to his/her home country.

When transfers are made using unofficial techniques, remitters can avoid or mitigate commissions and fees. Moreover, they can bypass official currency-exchange rates and governmental regulation. In certain countries, the use of unofficial modes of remittances, and their lack of transparency, allows the remitter to avoid taxes and may also be favoured due to immigration concerns. Because most informal transfers are neither reported nor monitored, measuring them accurately is problematic, so projections for unofficial remittances are speculative. Nevertheless, experts place the total (i.e., formal and informal) amount of global remittances at over US\$ 350-400 billion.

Remittances are playing an increasingly large role in the economies of many countries, contributing to economic growth and to the livelihoods of needy people (though generally not the poorest of the poor). As remittance receivers often have a higher propensity to own a bank account, remittances promote access to financial services for the sender and recipient, an essential aspect of leveraging remittances to promote economic development.

The World Bank and the Bank for International Settlements have developed international standards for remittance services.

## **2.2 The scope and role of remittances: an initial overview**

In many countries of Europe and Central Asia (ECA), remittances are considered the second most important source of external financing after foreign assistance and foreign direct investment. As a matter of fact, for many of the poorest countries in the area they are the largest source and have served to mitigate the economic and political turbulence brought about by transition to the market economy.



The situation look substantially different in the new European Union (EU) member countries. Income levels are higher, cross-country income differentials are lower, and there is less need for workers living abroad to support their families' consumption. Moreover, the current and improving opportunities at home mean that there can be large gains from accumulating human and financial capital abroad, although as the economic situation at home improves, the incentives to migrate may themselves decrease.

Yet, relative to Gross Domestic Product (hereinafter GDP), remittances are significant in many ECA countries: for instance four of the world's largest recipients of remittances as a portion of GDP are in ECA (Moldova, Bosnia and Herzegovina, Albania, and Armenia). In 2004, officially recorded remittances to the ECA region amounted to over US\$19 billion, the equivalent of about 8% of the global total (US\$232.3 billion) and 12% of remittances received by developing countries (US\$160.4 billion). It is probable that even in most recent trends such a ratio has not changed much.

While remittances have increased dramatically in a number of countries, they have slowed for others. Interestingly, while remittances from migrants who have lived out of their home countries for more than one year represent the largest share of inflows, remittances from migrants who have lived abroad for less than a year represent an increasingly large share. The new patterns of migration (circular migration, seasonal workers, etc.) showed an impact even from the statistical point of view, gaining importance on the classical figure of migrant permanently (more than one year) working abroad.

Not all migrants, however, send remittances, particularly in those cases where the stay in destination countries is short. Surveys conducted in the World Bank 2007 report found that in Bulgaria, 80% did not; in Bosnia and Herzegovina, 37%; and in Romania, 62%.



## 2.3 The way remittance transfers function

Functionally, most RSPs operate in similar ways. In order to send and receive funds, RSPs must be networked. First, they must all have access points, or physical locations along the remittance “chain.” At one end of the remittance chain, the “capturing agent” collects the funds from the sender, or remitter and, at the other end of the chain, the “disbursing agent” disburses the funds to the receiver. These access points may be banks, wire transfer offices, or grocery stores, to give but a few examples, and are the most visible components of the network.

Apart from the physical access points, most of the remittance system remains invisible to the public. RSPs must provide a way for the capturing agent to communicate information to the disbursing agent with regards to the transfer that is occurring: this is referred to as “messaging”. A “settlement”, comprised of some arrangement for the actual transfer of the funds, is also required. Whether considered formal or informal, the World Bank separates channels for international remittances into four categories: unilateral, franchised, negotiated, and open.

Unilateral remittance networks involve only a single RSP. This occurs when a bank, credit union, or other financial institution maintains branches in both the sending country and the receiving country. A unilateral RSP has physical locations in both the sending and receiving countries, and is therefore able to capture, message, settle, and disburse the funds entirely intra-RSP. Unilateral remittance networks also include the electronic transfer of funds, where the access points are virtual rather than physical. A virtual remitter sends the funds from one remote access point, such as her home computer, directly to the receiver, who is at another virtual access point in his home country. Though efficient, unilateral providers are rare. Their scarcity is due to the unavailability and uneven distribution of physical access points, as well as remitters' lack of access to electronic banking or banking in general. Even so, the development of unilateral RSPs is an area of future growth.

In a franchised service, an RSP creates the network for transfers without necessarily owning any of the physical access points. Generally, the RSP provides the messaging and settlement portions of the transfer, and relies on capturing and disbursing agents who have franchised the service based on standardized and contractual terms. Wire-transfer services, such as Western Union, fall into this category. A negotiated service involves an RSP in one country that has negotiated and established a network with an institution, or institutions, in other countries. Agreements between banking institutions and credit unions, can constitute negotiated services. In many negotiated services, the messaging and disbursement of funds



often occurs before the actual settlement, such that the disbursing agent releases funds to the receiver based on the expectation of future settlement by the capturing agent. This practice leads to fees and interest rates higher than more formal systems. In an open service, the RSP in the sending country locates an RSP in the receiving country. These networks are not pre-established and usually result in the messaging segment of the transfer occurring simultaneously with the settlement of the transfer.



## **2.4 Effect of Remittances according to the new migration issues**

As described in chapter n. 1, the issues concerning the new concept of circular migration had resulted in a substantial shift in the interpretation of the scale and effects of remittances which, until relatively recently, had been sent home as relatively small amounts spent purely on consumption, and having little positive developmental effect.

This interpretation is changing, even if we must acknowledge a certain lack of statistical data about this important phenomenon. It is now recognized that although perhaps about a half of the remittances go unrecorded (above all those of near countries e.g. Intra-European), they constitute one of the world's most substantial financial flows. In several countries of Asia and in few countries of Europe (e.g. Albania), they are larger than the earnings from any single community export and are recognized to have important impacts on family, community, regional, and even national economies.

Moreover, research is indicating that the development-based spending of remittances has been understated in the past. Often, too, migrants are drawn from the poorest, most marginal areas in origin countries and remittances are magnified in their effects because they are concentrated in those areas. Problems remain, however, because of a lack of reliable and fair channels for remittances in some countries.

Remittances can reduce poverty and fuel high rates of household savings and investment. At the same time, however, remittances may exert upward pressure on the real exchange rate and reduce the competitiveness of exports. This phenomenon is commonly known as the "Dutch disease": Dutch disease is an economic concept that tries to explain the apparent relationship between the major inflow of foreign currency and the decline in the economy combined with moral fallout. The theory is that an increase in revenues could tend to de-industrialise a nation's economy by raising the exchange rate, which makes the manufacturing sector less competitive and public services entangled with business interests. However, it is extremely difficult to definitively say that Dutch disease is the cause of the decreasing manufacturing sector, since there are many other factors in the very complex global economy.

Also a large inflows of foreign currency, including a sharp surge in natural resource prices, foreign assistance, and foreign direct investment are indicated as potential cause of the Dutch disease.

With a specific regard to the development impact of remittances in ECA, we observe that remittances are often an important source of foreign exchange, domestic consumption, and



investment. More than this, unlike other international transfers, remittances may be countercyclical.

Remittances also are an important and stable source of income for many households in the region, especially in the rural areas. Though the underlying remittances data are poor, the estimations of the broader, macroeconomic impact of remittances suggest that they exert a mild positive impact on long-term patterns of macroeconomic growth, while evidence on their impact on the distribution of poverty is mixed.

Another characteristic of remittances is that they often serve as a key source of foreign exchange for countries involved. For example, remittances have represented a key source of foreign exchange for Albania and helped to finance its rapidly mounting deficit on trade in goods and services since 1990. In contrast, both official and private financial inflows on capital account have played a relatively small role, although some increase in direct investments in Albania since the turn of the millennium has occurred.

Being a significant source of foreign exchange, remittances can serve as a pillar to support and improve creditworthiness and access to international capital markets for many countries in the ECA region.

The ratio of external debt to exports, a common indebtedness indicator, declines substantially for some ECA countries if remittances are also included as a potential source of foreign exchange.

Because they are a significant source of foreign exchange, remittances can improve creditworthiness and access to international capital markets for many ECA countries. For example, if remittances are included as a potential source of foreign exchange, the ratio of debt to exports falls by close to 50% for Albania and for Bosnia and Herzegovina in 2005. Unlike capital flows, remittances do not create debt servicing or other obligations. Thus, they can provide financial institutions with access to better financing than might otherwise be available.

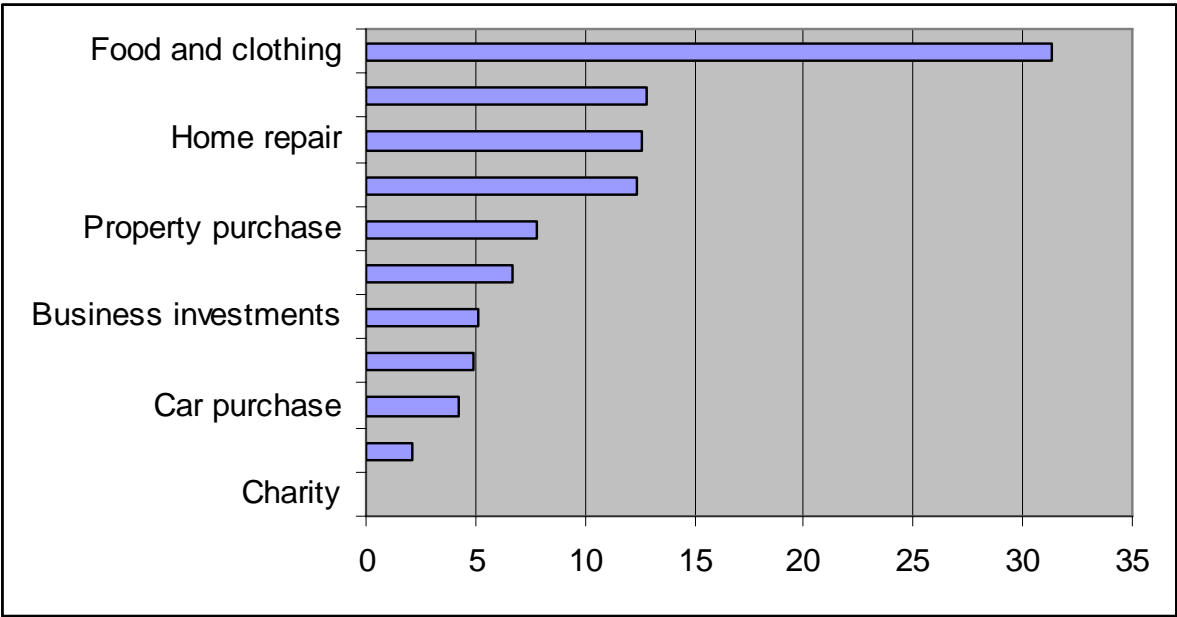
#### **2.4.1 Economic effects of Remittances**

The economic consequences of remittances are not easy to be assessed cause they can affect growth through a variety of channels. A basic distinction can be made between effects on poverty and inequality and the influences upon investment, growth, and macroeconomic stability. Like any income, remittances are partially spent on household consumption and



partially saved and invested. If we subscribe to a traditional macroeconomic model, the expansionary effect of remittances will be greater if they are spent on investment or saved in the formal financial sector. Results from surveys with returned migrants in ECA found that the majority of remittances are utilized for funding consumption of food and clothing but that large quantities are also used for education and savings (over 10%). Smaller amounts are spent on business investment (about 5%).

**Figure 1 - Expenditure Patterns from Remittances in Six ECA Countries**



Source: Results from a World Bank survey with returned migrants in Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyz Republic, Romania, and Tajikistan.

Anyway, it is important to notice that the latter amount is actually tending to increase and more and more people are returning to their home country attempting to open their own business maybe together with some relatives and keeping relationships with the country where they're were working abroad. It can be said in some cases that the opening of a familiar business can be cyclically supported and financed by the logics of circular migration and the mixed management of the activity itself. This is normally the case of small or micro-businesses in traditional sectors.



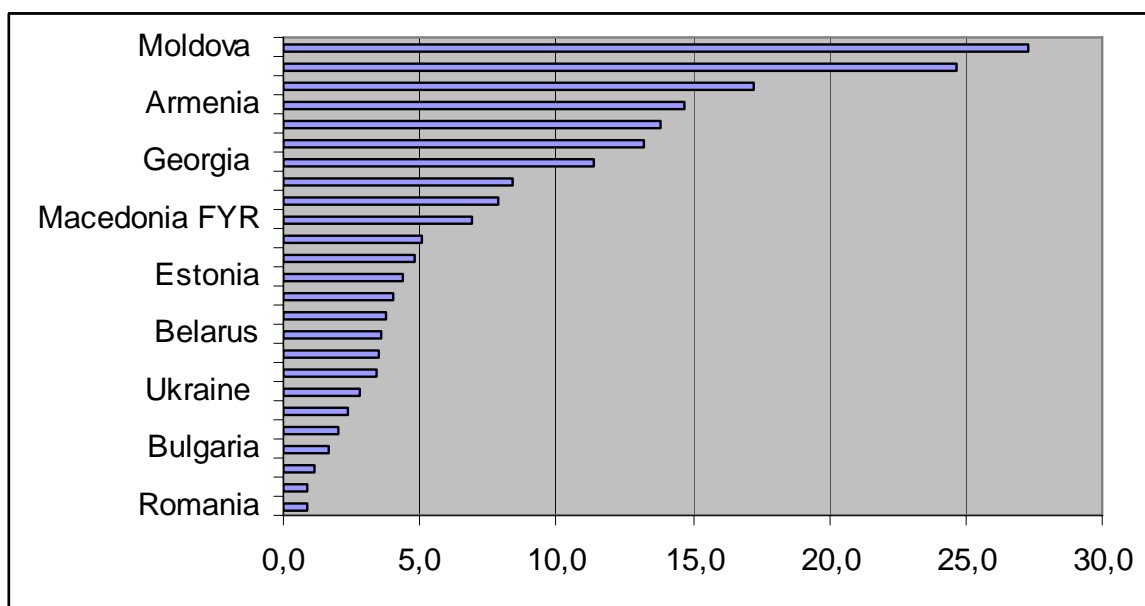
There is a debate over the extent to which remittances actually boost the economy of the migrant-source country, because, as the discussion above demonstrates, a substantial portion of income has been used for consumption purposes and not saved or invested.

Recent strands of literature, however, indicate that remittances can lead to economic growth simply by increasing the migrant's household income, regardless of whether this additional income is spent on consumption or savings. For example, Ratha (2003) indicated that if remittances are invested, they contribute to output growth, but they generate positive multiplier effects if consumed. Research on Moldova corroborates this information, as economic growth has been strongly driven by a spike in gross national disposable income since the late 1990s, a period characterized by high levels of international remittances (World Bank 2005).

As a matter of fact, we can argue that remittances augment national income and aggregate demand as a whole. According to the most recent statistics of the World Bank (2007) figure 2 shows that the leaders of ECA, with respect to income received from relatives abroad as a proportion of the national income are Moldova, Armenia, Georgia and Macedonia. It is interesting to note that in Moldova, for example, earnings abroad constituted in 2006 almost one-quarter of the national income. Unsurprisingly the results seem well correlated with GDP shares, given that consumption is a main component of GDP. If the propensity to consume from remittances is similar to other income, it can be concluded that, for some countries, remittances encouraged a significant portion of total consumption.

#### **Figure 2 - Remittances as Share of Total Household Expenditure in 2004**





Source: World Bank, 2007

However, it is worthy to recognise that this statistics were done before some countries as Romania and Bulgaria entered the EU so that the total evaluation of figure 2 seems to be a bit underestimated. The reduction in the use of informal channels and the major level of work-mobility that accompanied the inclusion of Romania and Bulgaria into the EU are all factors that could probably rise-up the level shown in the official statistics above.

Significant empirical evidence indicates that remittances lead to positive economic growth, whether through increased consumption, savings, or investment. Lucas (2005) cites several case studies that show signs that remittances may indeed have accelerated investment in Morocco, Pakistan, and India.

Additionally, the results of the analysis conducted by León-Ledesma and Piracha (2001) for 11 transition economies of Eastern Europe during 1990–99 show support for the view that remittances have a positive impact on productivity and employment, both directly and indirectly through their effect on investment.

There is also evidence of important multiplier effects from remittance spending, particularly from housing construction. The multiplier effect can be high—Durand, Parrado, and Massey (1996) find that every “migradollar” that enters a local economy generates as much as \$4 in demand for goods and services, though such analyses may rely on extreme assumptions. Moreover, Desai et al. (2003) indicate that additional consumption increases indirect tax receipts, thus also increasing government consumption or savings.



Therefore, there is evidence that remittances have enabled economic growth through greater rates of investment. Even more certainly, remittances have important multiplier effects, raising income levels in the economy beyond the households of remittance recipients. There are, nevertheless, at least two points of reservation regarding these optimistic conclusions. One is the possibility that countries can face a situation similar to the Dutch disease, in which the inflow of remittances causes a real appreciation, or postpones depreciation, of the exchange rate, restricting export performance and hence possibly limiting output and employment. More importantly, researches ascertained that income from remittances may be plagued by a moral-hazard problem, permitting the migrant's family members to reduce their work effort.

Part of the explanation for these distinct findings may be that the studies suffer from an omitted variable bias: the role of institutions. We hypothesize that the impact on remittances of macroeconomic growth and development is conditioned by the quality of the recipient country's political and economic policies and institutions. The quality of institutions might play an important role in determining the exact effect of remittances on economic growth, because institutions exert substantial influence on the volume and efficiency of investment. Overall, estimations conducted with dynamic-panel methods find that remittances have a positive impact on macroeconomic growth.

#### **2.4.2 Social effects of Remittances**

It is widely assumed that remittances play a distributive role on poverty and inequality. Of the two factors, the effect of remittances on poverty seems much less controversial, because remittances "per se" do not lower anyone's income. Remittances contribute to household income and thus, in the short run, reduce poverty. Recent analysis by Adams and Page (2003) confirms that a 10% increase in the share of international migrants in a country's population will lead to a 1.9% decline in the share of people living on less than \$1 per person per day. In addition, Adams finds that international remittances could have a negative statistically significant effect on three poverty measures (poverty headcount measure, poverty gap, and squared poverty gap measure).

When it comes to the overall impact of remittances on income inequality, Ratha (2003) finds the evidence mixed. Some find that remittances sharpen inequality (Stark, Taylor, and Yitzhaki 1986; Adams 1991), while others claim that in the long run, income distribution becomes more equal as a result of the liquidity provided for capital accumulation, or through trickle-down effects in the labour market (Taylor and Wyatt 1996).



The distribution of remittances across urban and rural seems to be characterized by different patterns in different countries. For example, according to the statistics of the World Bank in Tajikistan and Albania the volume of remittances goes to the rural areas (almost 70%), while in Armenia and Georgia the pattern is the opposite, almost 70% of remittances channelled into the countries go to large metropolitan areas and other cities. There appears to be a link between such findings and population distributions; undeniably Armenia and Georgia have proportionally less of their populations living in rural areas. The relationship between remittances and inequality becomes even more evident when we look at the specific areas from which international migration is more prevalent. In the case of Albania, it is the poor regions in the north and other rural areas in the country that send international migrants. In Armenia or Georgia, most households that report receiving remittances (and thus have relatives or other acquaintances abroad) hail from urban areas; the majority share of remittances reported by households goes into urban areas as well.

However two explanations exist in order to assess the trend toward remittances to urban areas. First, individuals may find it relatively difficult to migrate abroad from rural areas. Second, most households that receive remittances might move into cities as a result of their newfound wealth.

When some portion of households receives relatively high amounts of income from remittances, as a result this enables them to move to urban or capital areas, which are considered safer and more convenient to live in, though more expensive.

An interesting result derived by the observations carried by the World Bank shows that richer households receive more remittances as a proportion of all households. The main explanations of such a tendency can be resumed in the following:

- First, movement internationally may be costly. Fixed costs of migration include transportation, as well as visa and work-permit fees. Furthermore, migrants likely support themselves for the first months of living abroad. Such expenditures may be relatively costly once the differences in prices between host and sending countries are taken into account.
- Second, richer households have better access to information: they can employ expensive consulting services and on average have higher education levels, factors that may facilitate migration. Third, existing social relationships help facilitate migration. Richer households with better opportunities to move initially may also pass on the knowledge and networks they obtain to households that interact with them.



Finally, remittances received have an effect on household income and some households are likely in the top range of income distribution precisely because they receive remittances.

It is likely that over time the difference in shares of remittances received for every category of income tends to equalise or sometimes even reverse; migrants that moved earlier on may return home to start their own businesses. Furthermore, the costs of moving is supposed to decrease in the long run.

#### **2.4.3 Some conclusion on the positive and negative effects of remittances**

It is widely recognised that one of the positive aspects of international remittances is that they represent a flow of income for families in the developing world who might not otherwise receive assistance. In other terms, irrespective of their location or social status remittance receivers could be defined as “invisible” poor. Remittances also help to foster a sense of financial democracy. Unlike other official forms of aid, they are distributed directly to an individual who retains full discretion to decide how it will be used. Remittances could be defined as non-reciprocal in that they are just one-way financial flows with no anticipation of return or reimbursement. The accessibility of remitted funds may also help (indirectly) the communities within developing nations where the money is destined and spent. For instance, the extra income coming from remittance transfers may cover the basic needs and make available money which can be spent on education and health care, thereby resulting in a concrete improvement of the civil society.

Remittances also represent a secure form of external finance, and, unlike other forms of private capital inflows, remittances tend to remain quite stable in time and often increase during periods of economic adversity. Such a stability is due, partially, to the tendencies of those living abroad to send more money in the moment more help is needed, and also because, in general, the remitter is located in a more economically developed country. From this viewpoint we can say that the amount of money remitted is inversely related to the strength of the receiver's national economy. That's why remittances increase sharply follows economic crises or depressions. Remittances, as a result, provide a safety net during sudden economic downturns, financial crises, and unexpected short-falls. Economically speaking, they play a countercyclical role (they increase during times of economic downturn).

On the other side, one of the negative effect could be when the migrants living abroad continuously remit funds to their home countries conditioning the recipients to become fully



dependant upon those remittances and be inducted in the so called moral suasion. An abrupt stop in the remitters' flow in such a case, can be devastating. Obviously, the risk of such a catastrophe is bigger in those countries where the amount of remittances represent a high percentage of that nation's GDP.

Another potential problem regarding the remittance transfers as a whole, is whether they increase or decrease inequality between those who "have" and those who "have-not". According to many studies carried out by different international organisations (as World Bank, IFAD, etc), the global trend suggests that remittances do, in fact, increase the gap between the poor and the wealthy.

However, the major criticism related to international remittance transfers is focused on the lack of transparency of the actual formal systems and the poor quality of informal ones.

The question regarding the lack of transparency of formal channels is of particular concern with respect to open-network RSPs. It was noticed that the sender is often not aware of or able to distinguish what fees may be applied to the receiver. Depending upon the local economy and the network, a disbursing agent may charge a fee in order to ensure he is compensated for his role in the remittance. Lack of transparency and hidden fees are further problematic in light of the disproportionate participation of the "invisible" working poor. Indeed, these people often lack access to bank accounts or other official institutions and financial services and are consequently exposed to deceptive practices on both ends of the remittance chain: the most common are:

- unusually high fees or interest,
- alteration of the rate of exchange.

In many situations, neither the sender nor the receiver is totally aware of the actual exchange rate between the currencies and is therefore vulnerable to dishonest service providers. In the last few years, increased government awareness of international terrorist financing has amplified concerns over the transparency of remittances. Informal remittance-service providers have been used to launder money, and fund terror or other criminal activities. In order to curb this illegal usage, and to better regulate the remittance system, financial institutions, wire services, have recently been proposing changes as for instance the new services of the so called "migrant banking" aiming at a major inclusion of migrants into the banking system (see chapter n. 5).



## 2.5 Initiatives in the field of remittances and their role in development finance

Often remittances used be compared to other capital flows such as foreign direct investment or official development assistance. Even though a basic difference should be taken into account: in facts these different flows are characterized by different functions, economic effects and policy frameworks as partially expressed in the findings above. Migrant remittances are primarily personal or private transfers, not commercial or public transfers, since migrants often hold multiple jobs and limit their own spending in order to send money home.

Channelling remittances through formal mechanisms that are accessible and attractive to consumers increases financial transparency and promotes the inclusion of a largely “unbanked” population into the financial system.

The typical mechanisms in the formal financial system that transmit remittances include cheques, bank transfers and dedicated services such as Western Union, MoneyGram and Vigo according to the mechanisms indicated in figure n. 3.

It is worthy to stress on the fact that financial systems and services, however, have not created financial mechanisms for the transfer of money among many remitters and receivers, though postal financial services and savings banks often have large branch networks. Remittances then represent a market possibility for financial institutions ready to provide related services on a profitable basis.

In the context of development finance, the primary question relating to remittances revolves around ways to facilitate the healthy competition that generates better remittance services for poor customers who often live in under-developed areas.

Emerging good practices in remittances promote:

- a greater availability and access to remittances, especially in under-developed areas
- more options for linking remittance services and access to other financial services such as savings, credit and insurance
- solutions that minimize transaction costs; and
- transparent service fees and costs in remittance transactions (e.g., losses on foreign exchange).

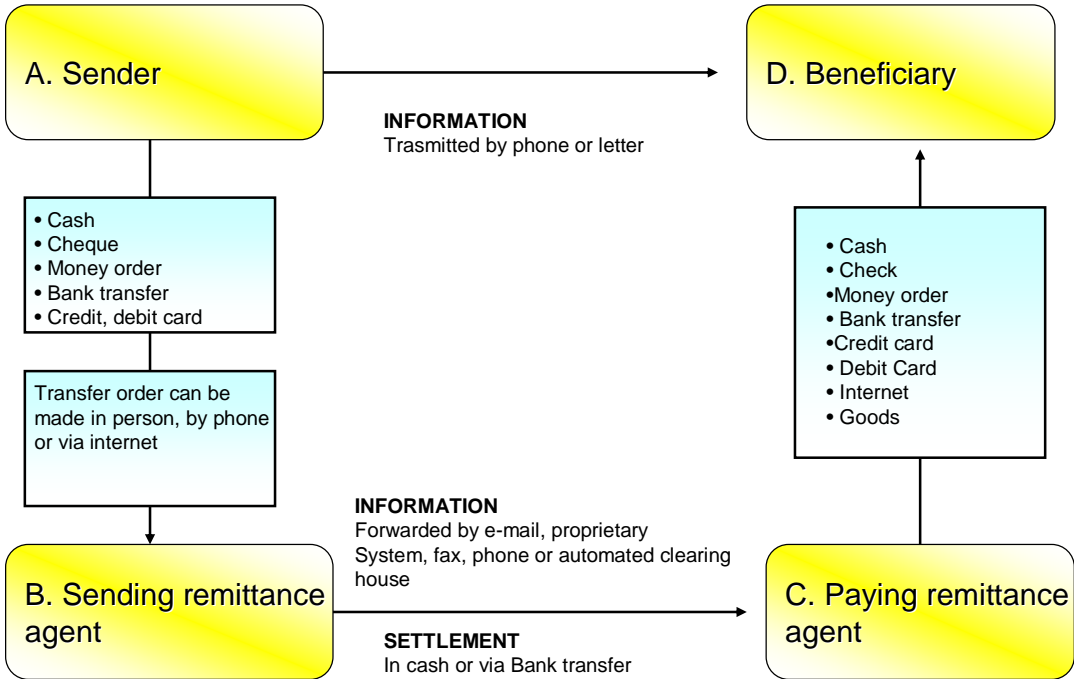


This complex approach to remittances is important given that a focus merely on the reduction of transfer fees could fail to notice the possible impact on service levels (i.e., low-price pressures that lead to fewer service outlets).

Similarly, these approaches to remittances must not introduce market distortions, as would be the case if a donor-funded initiative benefiting from subsidies were to create competition that led to lower prices.

The figure below provides a general indications of the primary path remittances follow from the remitter to the final beneficiary.

**Figure 3 – The flow of remittances: a general scheme**



Source: Ifad, 2006

A wide number of International organizations, multilateral and bilateral donors and the governments of countries attracting significant levels of remittances are considering how to



promote lower cost transfers, facilitate the developmental use of remittance inflows and attract more remittances via formal channels.

Even if not exhaustive the following highlights illustrate their diverse niches and advantages:

**Inter-Agency Task Force on Remittances (IATF).** IATF is the most significant actor in remittances and represents group initiated at the Conference on Migrant Remittances, organized by the Department for International Development (DfID, UK) and the World Bank in London in October 2003. Coordinating international donor responses on remittances, the IATF is establishing core remittance principles, voluntary standards for services, costs and access for banks and money transfer companies and guidance for regulators and governments. The IATF also disseminates data on remittances through a web site.

**World Bank (WB).** As part of the IATF, the WB has undertaken research to understand how central banks collect data on remittances, the size of flows, channels, sources and destinations and the regulatory regime. The WB has also conducted small-scale surveys of remittances to identify their characteristics, the frequency and size of flows, channels and possible uses of remittances. As part of its work on this topic, the Bank is also developing general principles for cost-effective remittance systems. The project aims to develop general principles that service providers, regulators and supervisors should adopt to guarantee that the remittance market is competitive and that remittance services are offered at the lowest possible cost.

**Department for International Development (DfID)** is another agency participating in the IATF, also plans to conduct household surveys on remittances in its partner countries and in the UK in cooperation with the World Bank. DfID launched the report and web site ([www.sendmoneyhome.org](http://www.sendmoneyhome.org)) on this work in March 2005 and plans to add additional countries to the web site as results become available. As part of its G8 commitment, DfID is also developing remittance partnerships with Bangladesh, Ghana and Nigeria in order to remove impediments to remittance flows, improve access for poor and rural people to remittances and other financial services and strengthen the capacity of the financial sector to provide efficient and widespread transfer payment services.

**The International Monetary Fund (IMF)** has worked on identifying good practices in order to construct a regulatory framework for remittances and develop operational guidance for the regulation of the informal remittances sector as part of the IATF. The IMF Committee on Balance of Payments Statistics has initiated work to strengthen international guidelines for the reporting of remittances and to support enhanced international coordination so as to improve the compilation of data on remittances. In addition, IMF is developing



recommendations to address the specific problems facing cash-based economies in complying with supervisory and anti-money laundering/combating the financing of terrorism requirements for the remittances sector.

**Multilateral Investment Fund (MIF).** The MIF in the **Inter-American Development Bank (IDB)** is also involved in facilitating the transfer of remittances in Latin America and the Caribbean (LAC). In addition to examining the high transaction costs of remittances, MIF has also emphasized the related need for a modern regulatory and financial infrastructure, increased competition to lower the cost of remittances and additional services for the unbanked. Along these lines, in 2004, MIF published the Lima Statement, which detailed recommendations for the remittance market in LAC.

**Consultative Group to Assist the Poor (CGAP).** In addition to MIF and IATF, the CGAP launched an initiative on Pro-Poor Money Transfers in 2004. This three-part initiative will focus on South-South and domestic remittances and will increase the efficiency and impact of remittances through better knowledge of underserved market segments and the development of improved remittance mechanisms and other financial services for these markets.

**Table 1 – Overview on the main Donors having current activities areas on remittances**

Activity areas	Dfid	IFAD	ILO	IMP/IOM	MIF/DB	Microfinance networks	CGAP	UNPD	USAID	WB
Identify flows (global/regional/national)	X		X		X	X	X			X
Articulate the role of the economy	X	X								X



Lower the transfer cost of remittances					X	X	X		X	
Integrate formal financial services	X	X	X			X	X		X	
Channel remittances through MFIs		X	X		X	X	X		X	
Increase the use of remittances in development		X	X			X	X		X	
Harmonise financial rules on money laundering					X	X	X	X	X	X
Develop policies on migration and remittances	X			X						

Source: Based on Sander 2003; Orozco 2004a

*Legenda:* **DfID** Department for International Development (UK); **IFAD** International Fund for Agricultural Development; **ILO** International Labour Organization; **IMP** International Migration Policy Programme; **IOM** International Organization for Migration; **MIF** Multilateral Investment Fund (Inter-American Development Bank); **IDB** Inter-American Development Bank; **CGAP** Consultative Group to Assist the Poor; **UNDP** United Nations Development Programme; **USAID** United States Agency for International Development; **WB** World Bank.



## 2.6 Actors and principles to support access to remittances

Unlike public aids or funds channelled through the international institutions, remittances are private money and transferred from individual to individual or eventually from individual to household.

Obviously, this money should be controlled by the people who have earned it and the role of the institution should in this case only to support remittance services that maximize the options that individuals have for dealing with their own money. The overall objective in the provision of remittances services is to facilitate and increase access to remittance services through professional entities (including MFIs and others) at affordable, competitive prices.

The main assessment of how to strengthen financial services should consider the role of remittances within the local financial systems, beginning with the relevance of remittances in the market (e.g., sub-region, country, region) in which finance initiatives are to be supported. The questions should be in such a case: how important are remittances in this market? Are appropriate financial services available?

Where relevant, a consideration of remittances should be reflected in the design of interventions as specific initiatives, as components, or as a cross-cutting topic. The type of support and the partner to be supported should be determined on the basis of the specific issues and constraints to be addressed.

Whether international or trans-national subjects are working with a certain type of financial institutions (e.g., cooperatives, banks), the relevance of remittances to the actual or potential client market of the institution should be considered, in addition to the regulatory environment and the overall capacity of the market and the institution.

The idea is to facilitate and leverage demand-driven initiatives backed by experienced, capable partners. In addition, there is a need to support and promote the transparent, fair pricing of financial services, as well as compliance with regulatory requirements. The up-mentioned institutions should also look for opportunities for close coordination, collaboration and joint support with other donors, especially those with strong technical expertise or a local presence.

A six dimension model is designed in Figure n. 4 to improve access to remittance services according to an interlinked perspective.

**(a) The market for services.** The business of facilitating money transfers operates on volume, which thus requires an assessment of critical flow levels for break-even and the



profit pricing of services. It also requires a presence in critical markets that both originate and receive remittances. Sending markets can be domestic, regional, or global, each with its own implications for market potential, client segments and operations.

**(b) The regulatory and policy environment.** Policies and regulations impact who can provide which financial services and how they can do it. Regulations on foreign exchange trading, money transfers, anti-money laundering, combating the financing of terrorism, and deposit-taking are particularly critical for remittances.

**(c) The payment systems.** This dimension includes the payment systems that remittance senders and receivers typically use (e.g., cheques, debit cards, account-to-account transfers, account-to-person transfers, electronic transfers, person-to-person transfers) and any other alternatives that may be introduced.

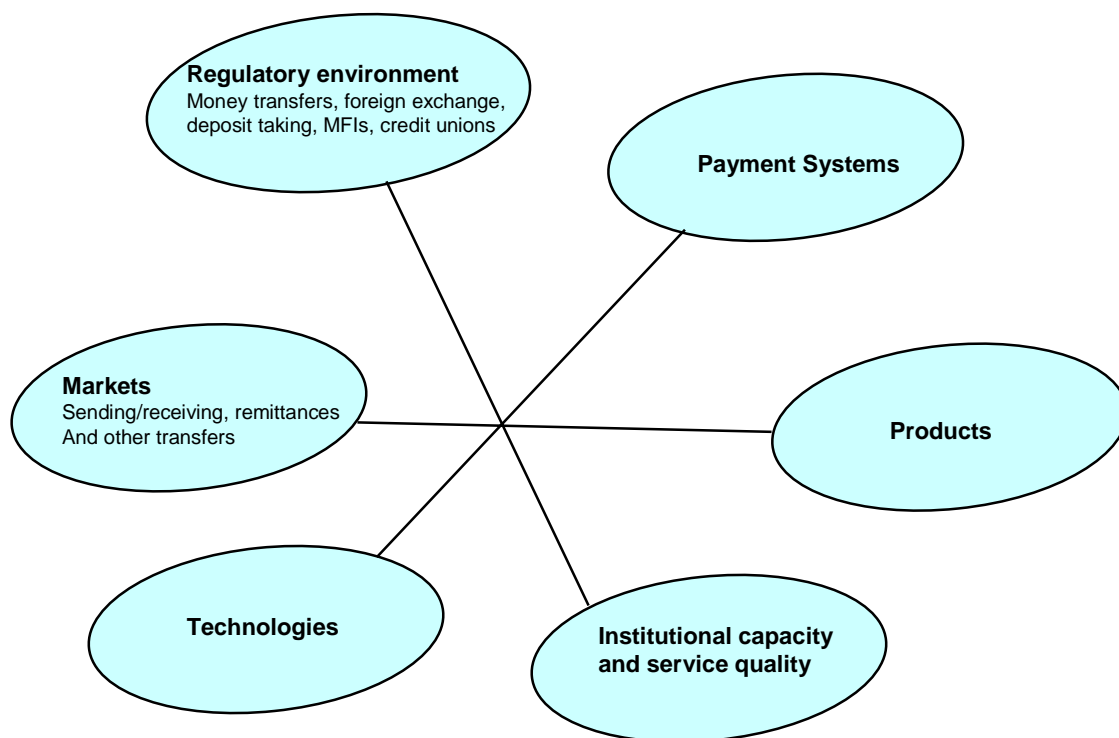
**(d) The products.** In response to client demand, Micro-Finance Institutes (MFIs) have developed a range of remittance products and are continually experimenting with new approaches.

**(e) The technologies.** The technologies (e.g. fax, e-mail, Internet, mobile communications for financial transfers, point of service, networks of automatic teller machines, or ATMs) that are either already used for money transfers, or that may become available are an important dimension of remittance services in rural finance. This also includes other applications or technologies that could generate more effective outreach to customers and help lower transaction costs.

**(f) The institutional capacity.** This final critical dimension relates to the capacity of financial actors to provide remittances and other financial services. For instance strategic linkages between financial institutes, with their comparative advantage in outreach, and money transfer organizations, with their connections to transfer networks, can also leverage additional institutional capacity.

**Figure 4 – A six-dimension model for remittances services**





Referring to the above figure n. 4, there is no ideal circular shape of linked points on these axes that would capture a “best practice” service. The intention is rather to indicate the areas that require consideration and action. A conservative regulatory environment, for example, would limit the range of service that providers may be authorized to offer. Missing or weak markets or networks, or limited institutional capacity indicates that support in pursuing remittance-related financial services is likely to be inappropriate.

These strengths and constraints should be identified and addressed, while the services offered should be suitable to the current regulatory system and market environment. All support options should focus on approaches that do not distort the market (e.g., a donor-funded initiative should not distort price competition).



We can then distinguish two main critical issues in order to assess the needs for a reliable, functional, leveraged and relevant system of remittances: the demand side and the supply side.

### **2.6.1 Demand Side: clients and access to remittance**

The demand side of remittances focuses on the clients of RSPs, including both the senders and the receivers. The priority from the demand side is the access of clients to remittance services and other appropriate, attractive, reliable and affordable financial services (e.g., savings, financial instruments, access to credit, leasing, mortgages, etc ).

The critical challenge from this perspective is that many remittance recipients include poor or low-income populations living in areas who have limited and costly access to financial services.

Researches carried by different actors (as WB, IFAD, Cespi, IATF) has indicated that clients favour the following features of a remittance product:

- reliability
- accessibility
- the support of a service network
- affordability
- efficiency and timeliness

While many of the constraints related to the demand side reflect challenges relevant to all financial services (above in depressed or rural areas), the following issues are often amplified in the case of remittances:

- significant distances to the closest service point and high costs
- weak links between the local RSP at the receiver's location and financial institutions in the sender's location
- unfamiliarity with other options offered by financial service providers
- limited options, such as only account-to-account transfers with access obstacles (e.g., minimum balance requirements)



- lack of opportunity, information and familiarity with ancillary financial services, such as savings accounts
- preference for informal remittance channels due to a lack of trust or unfamiliarity with formal financial services

### **2.6.2 Supply Side: providers of remittance services**

The supply side of remittances consists of institutions (bank and non-bank) and products (e.g., remittances, credit, savings, insurance). A range of service providers, including banks, postal banks and post offices, foreign exchange bureaux, and dedicated money transfer operators, offers remittance services.

Remittance operators such as Western Union extend their service networks through agency agreements with banks, other financial service providers, or retail shops (e.g., supermarkets, corner stores, pharmacies and druggists), where permitted by the regulatory environment.

Facing high operational costs, financial institutions tend to shy away from service provision in areas which are not particularly attractive according to the standards financial institutions require, above all where regulatory regimes require full-service branches needing significant investments though they are often not financially sustainable.

Institutions may also not recognize market opportunities related to remittance services. While many of these obstacles pertain to financial services in general, remittance services face additional, unique constraints that include:

- regulatory barriers to the provision of savings services or other products
- regulatory constraints to the provision of remittance services and to the trade in foreign currencies (which may be necessary for international money transfer systems)
- costs imposed because of the need to comply with regulatory requirements (e.g., systems, reporting, data archiving)
- absent or weak links to networks in sending markets
- lack of operational capacity to provide remittance services or other products



- liquidity and security risks in handling money transfer payments (e.g., insufficient liquidity, safety concerns, high-cost cash transfers, insurance, maintaining floats for payments)

In determining whether support for remittances is appropriate, the six dimensions introduced earlier are the starting point for determining if:

- sufficient demand and the potential to link to relevant networks exist
- regulatory requirements have been satisfied
- sufficient institutional capacity is in place to offer remittance services

The experience of commercial banks, credit unions and regulated and unregulated MFIs in remittances indicates that remittance services can offer excellent profit margins if good products and services are offered in the appropriate markets. These experiences also show, however, that only a few unregulated institutions typically offer remittances, due in part to the regulatory constraints involved. The early experience of “newcomers” to remittance services highlights the importance of conducting careful feasibility assessments to inform the design, pricing and introduction of products.

Experience has also shown that proprietary products or mechanisms can respond to a need in the short term, but, due to many limitations, they either rapidly exhaust their utility, or face severe growth constraints. These mechanisms include, for example, schemes that pool remittances or use MFI accounts or cheques drawn on an MFI account.

Eventually, NGOs and Associations that offer such services tend to find themselves looking to become part of a larger network. As agents in one of the large service networks, such NGOs and Associations often have the best opportunity to build a sufficient volume of business, master the business and build trust among a regular clientele. While service fees are an important factor for many clients, the availability and proximity of a service, as well as trust in the service provider, are at least as important as the price.

Local institutions, public and semi-public stakeholders must also determine whether to engage in remittance services at the domestic, intraregional, or international level, taking the market, regulatory and institutional context into account. In any case they must have the capacity and regulatory approval to manage foreign exchange flows and liquidity and risk management requirements due to the relatively high cash volumes involved in being a payout point for remittances arriving from middle- and high-income countries.



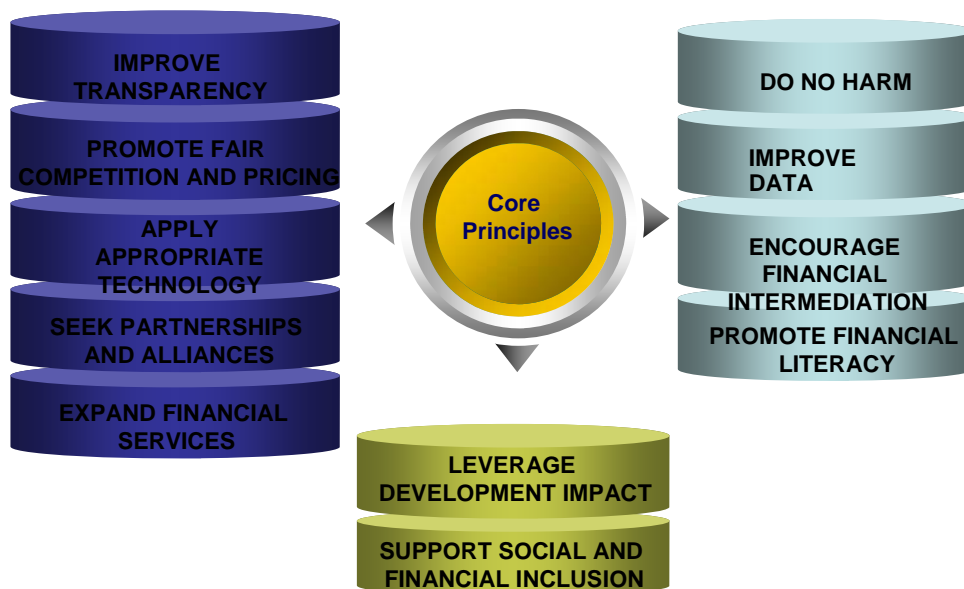
This service could scale up from micro-transfers between individuals to migrant remittances and the payment of school fees and then expand to remittances between small traders, retail distributors (e.g., petrol or phone cards), wholesalers, export commodity traders and large companies (e.g., mining, agro-producers). These actors would be well served by such remittance services, as these businesses often physically transport cash to make payments for purchases or salaries, given that there are frequently no reliable, efficient financial services available for money transfers.

### **2.6.3 The Core Principles**

Another interesting issue regards the Core Principles that should inspire the remittance system in each country as they are represented in the figure below.

**Figure 5 – The core principles: a general overview**





- **Governments (Public Authorities): Core principles on remittances**

**1. Do no harm:** Public authorities should facilitate remittance markets, and avoid attempts to tax, over-regulate or otherwise take actions that impede the flow of remittances.

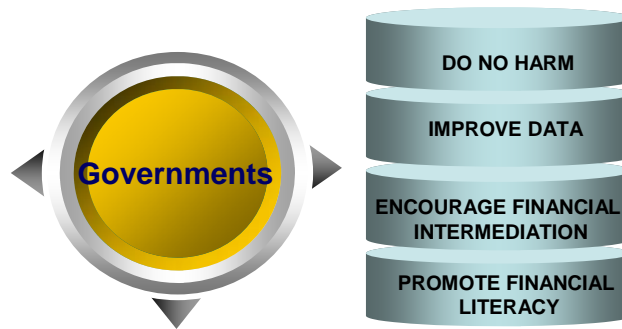
**2. Improve Data:** Public authorities should improve systems for collecting and reporting remittance market data, and help to develop international standards for measuring such data.

**3. Encourage Financial Intermediation:** Public authorities should facilitate the mainstreaming of remittance into financial institutions by improving regulatory and financial sector frameworks.

**4. Promote financial literacy:** Public authorities should raise awareness of the benefits of savings and other financial products, and inform consumers of their rights involving remittance transactions.

**Figure 5a – Core principles: the Governments viewpoint: Core principles on remittances**





- **Remittance Institutions**

**5. Improve Transparency:** Remittance institutions should disclose in a fully transparent manner, complete information on total costs and transfer conditions, including all commissions and fees, foreign exchange rates, and execution time.

**6. Promote Fair Competition and Pricing:** Remittance institutions should complete on the basis of non-discriminatory contractual arrangements. They should refrain from unfair pricing and the use of high exchange rate margins.

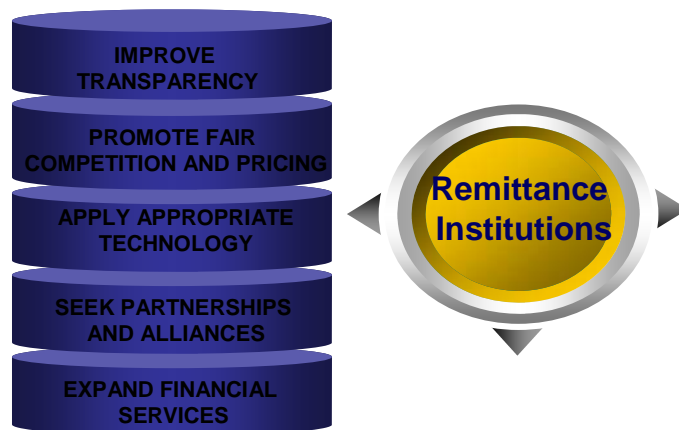
**7. Apply Appropriate Technology:** Remittance institutions should apply cost effective technology and deploy innovative platforms to cut costs, improve speed and security, and create new products. Such systems can also help to reduce money-laundering and other illicit activities.

**8. Seek Partnerships and Alliances:** Remittance institutions should seek partnerships and alliances, including linkages between money transfer companies and financial institutions, in order to leverage capabilities and promote “cash to accounts” services, and other forms of financial intermediation.

**9. Expand Financial Services:** Financial institutions should deepen financial markets through inclusive and integrated services for remittance customers, such as current account services, savings, credit, and mortgage products, among others.

**Figure 5b – Core principles: the Remittance Institutions viewpoint**





- **Civil Society: core principles on remittances**

**10. Obstacles identification:** civil society and private sector organisations should systematically identify obstacles to leveraging the development impact of remittances and engage with all relevant stakeholders to address and remove such obstacles.

**11. Family support:** social and financial inclusion of transnational families into their communities should be supported. Innovative partnerships should be developed to promote training and local productive opportunities.

**Figure 5c – Core principles: the Civil Society viewpoint**





## **2.7 Summary on the main characteristics and impact of remittances**

To sum up the importance and the characteristics of remittances involve a wide network of actors.

As seen in the previous chapter it is recognised that migration can, under certain conditions, generate important net gains for the emigrants' home countries. These gains may be in terms of growth, poverty reduction, insurance against risk and the accumulation of human capital. Moreover migration may interact in various and complex ways with other policy vectors such as trade, investment and development assistance, all of which may have various joint impacts on development itself. The most direct link between migration and development in countries of origin is through remittances.

Remittances are a benefit to development at both the macro- and micro-economic level. They increase both the income of the recipient and the foreign exchange reserves; provide valuable support to balance of payments of migrants' countries of origin. "If remittances are invested, they contribute to output growth, and if they are consumed, then also they generate positive multiplier effects," notes Dilip Ratha.

Drawing from the experience of Latin American Countries, a 1990 study found that Mexico's Gross National Product (GNP) rose by between \$2.69 and \$3.17 for every dollar Mexican households received from workers in the United States. In 2004, migrants collectively sent US\$ 45 billion home, exceeding the combined total of foreign direct investments and foreign aid for the entire region. The World Bank reported that Malians living in France have helped build 60% of the infrastructure in their home country. The French government has supported 150 projects initiated by Malian migrant associations. On the other hand, however, remittances can also be a bane to development resulting in what has been called the "Dutch disease".

Too much reliance on remittances, anyway, can delay structural change in the domestic economy. For instance it was observed in the Philippines, that remittances have discouraged modernisation in the agriculture sector and diverted attention from attracting foreign investment in manufacturing while other Asian countries made these changes. Remittances can also lead to greater vulnerability to external shocks by increasing imports and reducing the incentive to develop exports.

Taking stock of the direct impact of remittances, their effects can be better described at three different levels



- **Household level**

a) Studies reveal that up to 80% of remittances are used for basic household consumption and investment in human capital for the next generation such as education, health and better nutrition.

b) Investments in land, building or improvement of homes, and livestock are often seen as (future) assets of emigrants themselves.

c) Smaller portions of remittances are spent on socio-cultural events and life cycles (birth, baptism, marriage/dowry, graduation, death, fiesta, pilgrimage), for loan repayments (often loans to pay for cost of migration), savings and some amount is invested in employment and income generating activities.

- **Community level**

a) Associations build small and medium-sized infrastructure projects (road pavement, rural electrification, schools, improvement of church and plaza) which help improve the socio-economic and cultural well-being of the people they left behind.

b) Support small livelihood activities (sewing, piggery, poultry projects)

c) Support education of the poor children.

- **Country level**

a) Remittances increase the foreign earnings of the countries as well as the income of the receivers.

b) Serve as an important source of foreign exchange, facilitating imports that cannot be funded from domestic sources.

c) Serve as amortization against natural shocks (such as hurricanes, earthquakes or other natural disasters).

d) Buffer against economic meltdowns caused by significant financial crisis or political crisis.

**Table 2 – Main characteristics and impact of remittances**

Positive	Critical Issues	Policy interventions	Actors
- Remittances reduce poverty	- Perpetuate culture of dependency and culture of migration - Inclusion in strategic	- Enabling environment; - Coherent remittance policy; - Provision of incentives on savings and investments - Stimulate competition among	- Government and financial institutions



	development strategy of the remittance-receiving countries - High cost of remittance transfers specifically for low-income migrants	money transfer operators both formal and informal	- MTOs, banks, governments, , banks/financial institutions, governments
- Remittances are private money and support individuals, households, communities and countries of origin	- Create economic inequality between families with migrants and those without. Migrants' families are better off than those who have no families working abroad - "Unbankables"; No access to financial services	- Support productive initiatives that spur local economies and create local jobs - "Do no harm"; avoid double taxation - Financial inclusion of the "unbankables" - Encourage migrants to redirect a portion of their income for savings and investments in partnership with MFIs - Provide better investment climate Confidence building on the part of remitters towards financial institutions	- Local and national government, - Private sector, - MFIs, - Local or transnational Associations
- Supporting human investment (education)  - Building homes, covering costs during illness	- Non-productive and non-wealth generators (mostly spent on consumables)	- Financial literacy - Access to financial services (MFIs offer health insurance, housing and educational loans, mortuary, etc.)	- Local and national government, - Development agencies
- Sources of foreign exchange; balance of payments; helping development through essential imports	- Economic growth is not based on local economy - "Dutch Disease"  - Bubble economy  - Differing money transfer regulations (exchange rate, fees, etc.)	- Refer to Core Principles on Migrant Remittances - Remittances should not be a substitute for official development aid	- National government - Financial institutions, - Money transfer operators
- Diaspora - Local and transnational associations	- Many initiatives are very small and unsustainable - Lack of capacities to manage programs - Volunteer-based; lacks institutional support - Lack of access to funding; donor criteria are difficult to meet	- Promote collaborative and inclusive partnerships - Matching fund - Joint partnerships between donors and Diaspora organisations - Tapping migrants' skills and expertise - Provide incentives (offer service at lower prices than other remittance providers and develop financial products appropriate to migrants' needs; Cross-sell finance products to families - Facilitate capacity building (proposal writing, skills training, leadership and organising skills) - Stimulate linking and learning among Associations - Respect ownership of initiatives; avoid co-optation	Diaspora organisations, development agencies, private sector, MFIs government line agencies, and other stakeholders MFIs Development organisations and other stakeholders



### III REMITTANCE FLOWS AND TRANSFER CHANNELS IN ITALY AND VENETO REGION

#### 3.1 Italy

Traditionally known as a net remittance receiver, Italy became a net remittance sender starting from 1998. At the present, Italy is considered one of the main remittance sender countries in the world. According to the data released by the Ufficio Italiano Cambi (UIC, Italian Foreign Exchange Office), official remittances (defined as “workers’ remittances” only) from Italy amounted to EUR 2,4 billion in 2005, having increased +15,8% from EUR 2,1 billion in 2004 and +312% from EUR 588 million in 2000. The substantial growth of official remittance flows in recent years can primarily be credited to the significant increase in the number of migrants and especially of legal foreign residents.

According to per capita data (i.e., official remittances / resident foreign population), a foreigner resident in Italy officially remitted a total of EUR 1.010 in 2005. Not taking into consideration the population under 18 from the actual foreign residents (as they presumably do not send remittances to their countries of origin on their own accord), the same figure sums up to average level of EUR 1.276.

Using the compound definition of the IMF (i.e., the sum of “workers’ remittances”, “compensation of employees” and “migrant transfers” ), an estimated USD 4,7 billion of remittances were sent from Italy through formal channels in 2005. Such amount places the Country at the eighth position amidst the top remittance sending countries in 2005.

The following table n. 3 lists the top destination countries of official remittance flows (as defined by the UIC) from Italy in 2005 taking stock of the total amount, the relative share and the per capita ratio. It is worthy to notice that whilst the Albanian community represents 13,2% of the legally residing foreign population in Italy, only 3,1% of official remittance flows from Italy are destined for Albania.

As a consequence, at EUR 239, the ratio of remittances per capita for Albanians is substantially lower than the one of all other foreigners residing in Italy. The Romanian community, on the other hand, represents 10,4% of the foreign population, but accounts for 16,9% of official remittances. The remittance per capita ratio for Romania, at EUR 1.644, is hence higher than the average one. Moldova’s share in resident foreign population is somewhat higher than its share in official remittances (1,6% and 1,2% respectively), with a



remittance per capita ratio equal to EUR 757. Finally, while migrants from Serbia & Montenegro make out 2,4% of the resident foreign population in Italy, they account for only 1% of remittances. Although higher than the ratio for the Albanian community, Serbia & Montenegro's remittances per capita ratio is low (EUR 434).

**Table 3 – Top 20 Developing and Transition Remittance Destination Countries, Italy: 2005**

Country	Amount (million EUR)	% of total for Italy	Remittances/capita (EUR)
1. China	575,5	23,7%	5 152
<b>2. Romania</b>	<b>409,1</b>	<b>16,9%</b>	<b>1 644</b>
3. Philippines	155,5	6,4%	1 882
4. Morocco	155,3	6,4%	527
5. Senegal	99,6	4,1%	1 846
6. Colombia	81,5	3,4%	5 146
<b>7. Albania</b>	<b>75,7</b>	<b>3,1%</b>	<b>239</b>
8. Brazil	63,0	2,6%	2 440
9. Ecuador	58,9	2,4%	1 107
10. Dominican Republic	55,9	2,3%	3 655
11. Ukraine	43,7	1,8%	468
12. Peru	39,8	1,6%	746
13. India	39,6	1,6%	730
<b>14. Poland</b>	<b>36,2</b>	<b>1,5%</b>	<b>712</b>
15. Tunisia	35,5	1,5%	454
16. Moldova	28,7	1,2%	757
<b>17. Bulgaria</b>	<b>25,7</b>	<b>1,1%</b>	<b>1 671</b>
18. Serbia & Montenegro	25,2	1,0%	434
19. Russia	24,7	1,0%	1 436
20. Nigeria	21,0	0,9%	665

Source: Calculations based on UIC and ISTAT data (remittances = workers' remittances).

The extensive of informal over formal channels by many of the residents in Italy (above all Albanians and Romanians) determined that the real figures on remittances could even reach the double of the official data of table n 3. Geographical proximity, availability of ferries and low-cost flights and close family ties combined with liberal cross-border regulations make it easy (and cheap) for some foreigners to bring money back home on a regular basis.



Moreover, formal channels (namely banks) often represent an unattractive option due to the general described in the previous chapters. Finally, the preference for sending cash directly is also linked to cash being the primary means of payment in Albania, 95% of all retail transactions are carried out in cash.

### **3.2 Veneto Region**

The UIC estimates that official remittance flows from the Veneto Region to other recipient achieved the amount of EUR 150 million in 2005.

This data represents a net increase of +4,5% from EUR 144 million in 2004 and a major +364% boost from EUR 32,3 million in 2000.

The Veneto Region's share of total Italian official remittances in 2005 amounted to 6,2% up from 5,5% in 2000. This data has to be considered as relatively low since the Veneto Region hosted 12,0% of the entire foreign population resident in Italy in 2005. However, the regions of Lombardy and Lazio surprisingly seem to dominate the official Italian remittance market.

Official remittances per capita (i.e., official remittances / resident foreign population) in the Veneto Region amounted to EUR 521 in 2005, only half of the Italian average. Not taking into account minors, a foreigner resident in the Veneto Region officially remitted a total of EUR 677 in 2005. This could lead to believe that migrants in the Veneto Region make extensive use of informal channels to an even larger extent than the "average" migrant in Italy in general. This is probably due to the specific geographic position of the Region and to the intense road transport traffic passing through the area.

The following table n. 4 lists the top destination countries for official remittance flows (as defined by the UIC) from the Veneto Region in 2005 in terms of amount, relative share and per capita ratio.

As in the general Italian case, Albania's share of official remittance flows from Veneto is substantially lower than its share in the foreign population residing in the Region (3,4% and 10,7% respectively). Although to a lesser extent, the same situation seems to involve also the communities from Moldova and Serbia & Montenegro. Moldovan migrants represent 3,8% of the foreign population residing in the Veneto Region and 1,6% of official remittance flows from the region, while the community from Serbia & Montenegro accounts for 6,5% of the population and 2,5% of the remittances. However, while the Romanian community



represents 12,7% of the legally residing foreign population in the Veneto Region, a total of 19,3% of official remittance flows from the Veneto Region are destined for Romania.

Albania's, Moldova's and Serbia & Montenegro's remittance per capita ratios (EUR 165, EUR 221 and EUR 203 respectively) are hence lower than the one for all foreigners residing in the Veneto Region, while that of Romania is higher (at EUR 793). Nevertheless, all four countries' ratios for the Veneto Region are considerably lower than the ones for their respective communities in all of Italy.

Based on the estimates over the extent of the informal market for Albania (between 60-83%), Moldova (around 50%) and Serbia & Montenegro (around 47%), total/actual remittances from the Veneto Region destined for Albania could amount to between EUR 12-30 million, while around a total of EUR 5 million could be remitted to Moldova and EUR 7,5 million to Serbia & Montenegro.

It seems noticeable that the amount of average formal remittances sent from the Veneto Region to the origin countries seems to directly increase with distance.

The quote sent to Philippines (4.085 EUR) is more than four times the amount sent to Romania (793 eur). Similar situation can be observed with regards to Colombia and Dominican Republic whilst one of the lower EUR/per capita amount regards Albania 165 EUR.

Under this level the only situation observed are those of China (156 EUR) and Macedonia (134 EUR).

**Table 4. Top 20 Developing and Transition Remittance Destination Countries, Veneto Region: 2005**

Country	Amount (million EUR)	% of total for the Veneto Region	Remittances/capita (EUR)
<b>1. Romania</b>	<b>29,0</b>	<b>19,3%</b>	<b>793</b>
2. Philippines	14,8	9,8%	4 085
3. Morocco	14,5	9,7%	359
4. Colombia	7,9	5,3%	4 068
5. Tunisia	7,2	4,8%	1 459
6. Senegal	6,9	4,6%	1 014
7. Dominican Republic	6,3	4,2%	3 968
8. Brazil	5,3	3,5%	1 493
<b>9. Albania</b>	<b>5,0</b>	<b>3,4%</b>	<b>165</b>



10. Serbia & Montenegro	3,8	2,5%	203
11. India	3,6	2,4%	478
12. Ghana	2,7	1,8%	276
13. Moldova	2,4	1,6%	221
14. Ecuador	2,3	1,5%	2 424
15. China	2,2	1,5%	156
16. Nigeria	2,1	1,4%	264
17. Ukraine	1,9	1,3%	262
18. Macedonia	1,7	1,2%	134
19. Peru	1,4	0,9%	1 139
20. Burkina Faso	1,3	0,8%	704

Source: Calculations based on UIC and ISTAT data (remittances = workers' remittances).



### 3.3 Formal Remittance Transfer Channels

#### 3.3.1 Banks

Both in terms of volume and the number of transactions, Italian banks play a fairly limited role in the remittance market. In 2004, less than 10% of all formal remittance flows were transferred through the banks own money transfer services (i.e. not including those transfers carried out on behalf of MTOs).

Although the migrant population makes out a good portion of Italy's total population, it seems it is not yet sufficiently integrated into the Italian banking/financial system. A 1999 study showed that out of 1,7 million legal and illegal migrants in Italy, around 1,3 million (or three-quarters) did not have a bank account. With regard to legal migrants, only around one-third had a bank account and hence access to the banking system and its services (including remittance transfers).

However, a more recent survey on migrant banking in Italy estimates that a total of 1,2 million migrants from developing and transition countries have an account with a commercial bank in Italy. As much as 57,3% of the legal adult migrants from developing and transition countries are hence actually "banked". It should also be noted that migrant account holders with the Banco-Posta (the bank account of the Italian Postal Office) were not included in the survey. The actual number of migrant bank account holders is probably therefore even higher.

In terms of nationality, in 2003, Romanians accounted for 7,3% of migrant bank account holders, while Albanians accounted for 5,1%, both lower than their respective share of the foreign population. Around three-quarters of Albanian migrants in Italy are estimated to be bank account holders.

The increase in the bank utilization rate on part of migrants can be attributed to a number of factors, including the recent years' regularization processes (giving formerly irregular migrants legal status and hence access to the banking system), the increase use of banking channels on part of employers for salary payments, and an increasing awareness on part of banks with regard to migrants' specific needs and demand for products.

Outcomes from the survey on migrant banking in Italy (with respondent banks accounting for 62,5% of the total number of Italian banks) show that only 34% of respondent banks provide general financial services explicitly tailored to meet migrants' needs and only 28% provide



specific remittance services that are cheaper and/or with shorter execution time compared to other cross-border credit transfers. Most Italian banks do, however, act as agents for MTOs.

As remittance flows continue to grow, however, Italian banks are now becoming increasingly aware of the business opportunity in developing remittance services. They are hence more willing to engage in the remittance market by especially targeting the various migrant communities in Italy (whose savings are becoming quite relevant) as well as the recipients in the destination countries. An increasing number of banks is investing resources in establishing cooperation agreements with banks operating in the [migrants'] home countries and devising marketing policies focused on [migrants'] specific requirements.

Furthermore, reinforced by the institutional efforts of Banca d'Italia and Associazione Bancaria Italiana (ABI, the Italian Banking Association), Italian banks are now involved in a number of activities aimed at promoting the General Principles for International Remittance Services (as presented above) as well as the Italian Action Plan on Remittances including:

- Microfinance and social/ethical banking
- Bilateral agreements with banks in destination countries (with consequent improvements in transparency and efficiency of remittance services)
- Language facilitation
- Multi-ethnic desks specifically targeting some banks' migrant customers.

Demand for financial services, other than just remittance transfers, on part of migrants in Italy is also increasing as we will see in the session dedicated to migrant banking (chapter 5). For example, in 2004, credit (primarily related to housing and household durables) to migrant bank clients amounted to USD 6,1 billion, or around 5% of total bank credit to households (compared to USD 1,7 billion in 2000).

A recent ABI initiative, "basic banking service" (servizio bancario di base), although not specifically targeted at migrants, addresses the needs of most "unbanked" people.

- **Albanian banking system**

In Albania, although trust in the banking system crumpled at the collapse of the pyramid schemes in 1997, deposit levels have slowly been restored, amounting to USD 4 billion in 2004 (compared to USD 0,7 billion in 1995). Nevertheless, relatively few Albanians have a



bank account. Although around three-quarters of Albanian migrants in Italy are estimated to have a bank account (as presented above), only between one-fifth to a quarter of the remittance-receiving households holds one in Albania.

At the end of 2005, the Albanian bank system included 17 banks and a total of 240 branches. The results from a cross-country survey (as presented in Table n. 5) show that Albania ranks comparatively low with regard to access to banking services in terms of both geographical and demographic penetration of bank branches and Automated Teller Machines (ATMs). Furthermore, while there are relatively few loans (and deposits) per capita, the average loan (and deposit) size is very high.

**Table 5. Access to and Use of Banking Services in Albania: 2005**

Bank branches / 1 000 km <sup>2</sup>	2,5 (63)
Bank branches / 100 000 people	2,1 (85)
ATMs / 1 000 km <sup>2</sup>	2,7 (62)
ATMs / 100 000 people	2,4 (76)
Loans / 1 000 people	4,4 (43)
Average loan size / GDP per capita	15,4 (4)
Deposits / 1 000 people	161,3 (47)
Average deposit size / GDP per capita	2,8 (9)

*Source:* Beck, Thorsten et al (2006). Country ranking out of 99 surveyed countries in italics and parentheses.

Albanian migrants in Italy can remit funds through the banking system with the intermediation of a correspondent Italian bank, a transaction process that is relatively complex, expensive and slow. Unfortunately, surveys of Albanian banks reveal that most have little interest in establishing agreements with Italian banks.

Amidst the funds remitted through the banking system between Italy and Albania, Banca Italo-Albanese (Italian Albanian Bank) channelled almost 90%.

- **Romanian banking system**

In Romania, the banking sector is undergoing a major restructuring and privatization process as part of its recent accession to EU.

As presented in Table 6 below, Romania ranks in the upper third of surveyed countries in terms of geographical and demographic penetration of bank branches and in the upper half



in terms of geographical and demographic penetration of ATMs. In terms of deposits per capita, it ranks relatively high, while the average deposit size is somewhere in the middle.

**Table 6. Access to and Use of Banking Services in Romania: 2004**

Bank branches / 1 000 km <sup>2</sup>	13,3 (32)
Bank branches / 100 000 people	13,8 (30)
ATMs / 1 000 km <sup>2</sup>	12,0 (43)
ATMs / 100 000 people	12,5 (53)
Deposits / 1 000 people	1 207,9 (18)
Average deposit size / GDP per capita	0,3 (47)

Source: Beck, Thorsten et al (2005). Country ranking out of 99 surveyed countries in italics and parentheses.

### 3.3.2 Money Transfer Operators (MTOs)

An estimated EUR 1,2 million were remitted from Italy through MTOs in 2004. The Italian MTO market thus is second only to the one in the USA.

A total of 25 MTOs (including the larger international ones, such as Western Union and MoneyGram, as well as smaller ones serving only one or a few countries) with a total of 12 679 agents (including all major banks) operated in Italy in 2005. Although the transfer fees are relatively high, MTOs (as opposed to banks) are commonly a preferred remittance transfer channel by many migrants because of the speed of transfers (basically instant availability) and because they provide services to anyone, regardless of legal status as long as the client can present a valid identification document.

In Albania, MTOs in general and Western Union in particular dominate the formal remittance transfer market. In fact, between Italy and Albania, Western Union are estimated to carry out around 80% of all formal MTO transactions. At the end of 2004, Western Union had a network of 181 agents in 61 towns (including remote areas) – the largest network of any remittance intermediary in Albania. Its main local partners are the postal office (Albapost), Unixel and Union B. The second largest MTO network in Albania is provided by MoneyGram with 104 agents in 44 towns. Its principal Albanian partners include Raiffeisen Bank



(previously Savings Bank of Albania), Exchange and AK Invest. MoneyGram account for around 10% of all MTO remittance transfers between Italy and Albania.

### **3.3.3 Postal Offices**

The Poste Italiane (Italian Postal Office), with approximately 14 000 offices all over the country constitutes the largest Italian network for remittance transfers. Its services are generally considered “reliable and cheap by the migrant community”.

The range of their financial product is resumed in the following list. All services are designed both for private and for business customers:

- **Accounts**

Poste Italiane current accounts are designed to manage collection and payment needs in a similar way to services in the Bank.

- **Cards**

Poste Italiane offers a range of credit, cash and debit cards. Postepay is the Poste Italiane's prepaid rechargeable card, allowing secure operation worldwide. In order to obtain it there is no need for an account.

Postamat, VISA and Visa Electron circuits, allows to use postepay anywhere: in Italy and abroad, on the Internet at all post offices in Italy.

- **Money transfer**

The money transfer service of Poste Italiane allows to send money without being a BancoPosta or bank customer

In order to send money abroad (remittances), these are the basic services required:

International money order: the international money order allows to send money abroad from any post office in Italy. The international money order is payable at the post office mentioned in the order or at any other post office.

MoneyGram: the MoneyGram service to send money abroad in real time. Within a few minutes, your money reaches the recipient in some 150 countries worldwide.



Eurogiro: Eurogiro allows to send or receive money in 4-8 days in countries belonging to the Eurogiro circuit. The system enables you to send and receive money via an IT network linking all the countries that belong to the circuit.

- **Investments**

Poste Italiane offers some simple and reliable solutions designed to diversify investments:

Mutual Funds: Banco Posta Fondi fits different needs and profiles. Poste Italiane expanded its range of products introducing BancoPosta Profilo family, an investment at the lowest management costs. Available at post offices providing this service.

Bonds: are an investment product whose interest rate is linked to the stock markets flows.

Insurance products: Poste Vita is the insurance subsidiary fully owned by Poste Italiane. It offers a range of products comparable to the traditional insurance offer.

Savings Book (Libretto di risparmio postale): it's an investment providing cash whenever required. Available at all post offices, savings books are free of opening/closing and handling/managing costs.

Buoni Fruttiferi Postali(maturing postal bond): For medium and long-term savings. Registered credit certificates, payable on request.

- **Financings**

Poste Italiane offers a diversified range of solutions to the borrowing needs

Loans and Mortgages: they are provided in co-operation with Deutsche Bank.

Loan (Prestito BancoPosta): for personal loans from 1.500 euro to 30.000 euro. Interest rates are generally among the lowest on the market. Free of inquiry charges. Installments are free of payment fees and charged on postal accounts. Duration: from 12 to 80 months.

Mortgages (Mutuo BancoPosta): a range of tailored solutions for purchasing real estates.

- **BancoPosta Leasing**

Poste Italiane's solution for businesses wishing to be adequately equipped

### 3.3.4 Pre-paid Cards



In Italy, a total of 5 million pre-paid cards have been issued. Around 1,5 million of these have been issued by the Italian Postal Office, which require only a *codice fiscale* (tax identification number) from those who wish to purchase one. Pre-paid cards are considered a relatively cost-effective way of transferring money back home, although their use is limited by the availability of ATMs in the destination countries.



## **IV THE MIGRANT BANKING**

From a wider perspective, the so-called migrant banking activities seem to well fit to the changes occurring in the Italian civil society according to the new flows of immigration and the specific financial services devoted to the new regular residents in the country.

Irrespective of the greater amount of remittances flowing from Italy to other EU and non-EU countries, the major interest of the Banks is concentrated on the possibility to attract new customer by opening a regular bank account rather than exploiting the transaction fees merely connected to the remittance transfers.

### **4.1 Foreign entrepreneurs in Italy**

As a specific target of the present work and in order to assess the peculiarities of each group of migrant willing to return to their own countries (and get involved in a self-employment circuit), the following table n. 7 concentrates on the categories of migrants actually working their personal firms in Italy.

As a matter of fact, the table below highlights that both Albanian and Romanian communities are amidst those with a major presence of entrepreneurs on the overall population reseeding in the country with respectively 6,4% and 5,3% on the total.

Such a figure demonstrates a natural higher entrepreneurship-rate capable to render those two countries an ideal target for policies focused on the mobility of workers.

It can be assumed that entrepreneurs already working in Italy since some years could be those who give major guarantees of success once they will decide to return to their origin countries and open their own firms. It is quite clear that such a mechanism could easily interact with the already mentioned models of circular migration (see chapter n. 1.2).

The know-how that many of these foreign entrepreneurs learnt while in Italy, actually represents an important resource to disseminate new knowledge once they will be back home to implement the same or similar activities.

As regards to the geographical distribution of the foreign individual entrepreneurs in Italy, the town with the highest number is still Milan (9,3% of the total individual firms) with Roma and Turin respectively in second and third position.

The cities in Veneto show data ranging between 0,3% (Rovigo) and 2,1% (Treviso) of the total migrants' firms in the area. Also Verona is recorded in the highest range with a percentage of 2,1%.

The advantage for a foreigner to run a firm is visible from the financial point of view on terms of his possibilities to access the credit lines in the country of residence and then, if the right instrument will be set up, in his origin country.

The non-EU citizens are the represented in 2005 the highest percentage of 85,0%. After the access of Romania into EU the same percentage results as been reduced of 78,5%.



The greatest presence of foreign entrepreneurs in Italy belongs to the non-EU citizens.

**Table 7 - Foreigners individual firms in Italy**

<b>Origin country</b>	<b>Total</b>	<b>% on total migrants</b>
Morocco	30.143	14,7
China	19.231	9,3
Switzerland	15.298	7,4
<b>Albania</b>	<b>13.283</b>	<b>6,4</b>
Senegal	11.385	5,5
Germany	11.367	5,5
<b>Romania</b>	<b>11.016</b>	<b>5,3</b>
France	7.744	3,8
Tunisia	7.334	3,6
Serbia	6.505	3,2
Egypt	6.384	3,1
Argentina	4.252	2,1
Bangladesh	3.913	1,9
Nigeria	3.821	1,9
Belgium	3.157	1,5
Pakistan	3.089	1,5
Venezuela	3.058	1,5
UK	2.976	1,4
Brazil	2.340	1,1
USA	2.321	1,1
<b>Non-EU citizens</b>	<b>143.373</b>	<b>85,0</b>
<b>EU-citizens</b>	<b>25.244</b>	<b>15,0</b>
<b>Foreigners</b>	<b>168.617</b>	<b>100,0</b>

Source: Chamber of Commerce of Milan, 2005

Given the above findings, an interesting observation relates to the diversified specialization of working activities according to the ethnical provenience of each group analysed. While the Chinese are pretty concentrated on manufacturing activities so the people from Morocco are in commercial activities. On the other side both migrants from Albania and Romania concentrate their presence in the building sector and transport.

The difficulties that are linked to the enterprises foundation could be both of bureaucratic nature and financial. The formalities required in order to open a new activity (often with the



help of the local Chambers of Commerce) and the formalities required to obtain a loan could be perceived by the migrant as too hard if not supported by the right information set.



## 4.2 The migrants' requirements and the financial offer

Regardless of the major problems related with different ethnicities and with the individual behavioural models (that's to say cultural, social, personal and psychological factors), the requirements of the migrant can be resumed in the following figure n. 7 representing a migration model at the real base of their financial needs.

**Figure 7 – The needs of migrants according to the different phases of their settlement**

	Initial phase	Second phase		Third phase	Fourth phase
Phases	Initial settlement	Legalization and definitive settlement		Consolidation of presence	Return to origin country Vs. Embedding of new generations
Needs	Survival needs (find house, work, send money home, etc)	Send money home, find a house, develop their own private business	Need to invest. Buy insurance, healthcare, consumer debts, etc	Progressive growth of needs in line with the local population	Progressive growth of needs in line with the local population

- Country of origin
- Social, cultural and psychological characteristics
- Ethnic group

Source: Adaptation of Anderloni, 2004

The up-mentioned scheme allows us to understand in which phase the migrants in the destination country are supposed to be so to better assess the kind of services and financial products to be offered: we argue that the best option for the banks involved will be that of offering different kind of services accordingly.

The migration process is divided in different phases each of them representing a specific financial product the banks could offer.

In the first phase the migrant tries to meet his/her basic needs with a few inclination for savings and sometimes even for remittances to the origin country. The instruments which are normally used in order to make remittances are generally represented by informal channels or MTOs with a little involvement of the banking system.



In the second phase (see table above) we can assist to a form of initial settlement corresponding to the growth of the basic needs for survival as finding a stable place to live, a mean of transport, sending money home, etc. Each of these needs can meet a financial correlated product which can be well represented, for instance, by the services linked to the microfinance system. These are normally savings products, micro-credit for consumer as well as side-services to financial needs. In the case of the so-called microfinance, the offer is often characterized by common elements which can be resumed as a substitute of the traditional guarantees (as for instance social collateral, peer pressure, etc). The lowering of some transaction costs, the presence of simplified procedures, the existence of some atypical services (higher flexibility of reimbursement, immediate loan issue, etc.) are all aspects characterizing the second phase of migration.

The third phase evolves from simple settlement to the consolidation of the presence of the migrant which is by all means comparable to a citizens of the destination country. In this phase the needs vary from the purchase of a house, to the settlement of a private business but also needs as those linked to education, advanced training, etc.

To sum up we can argue that in the first phase of migration the basic need of the migrant is that of transferring money to his/her origin country through the MTO, the Postal service and sometimes through the banking system.

In a second phase, the needs of the migrants tend to harmonize with the needs of the local clientele while in a more advanced phase of settlement in the country the specific needs of the migrants evolve into a transnational perspective oriented to a major financial inclusion into a transnational financial circuit.

The fourth and last phase is represented by the needs of a definitive settlement in the destination country or in a perspective of return to the origin country. The mobility factor versus the concept of migration seems to have a peer-implication even in the new financial products that the bank is supposed to offer.

Of course, in Italy, we are in developing phase of such services, even though fundamental steps have been performed in the most recent times. As a matter of fact the migrants have shown being as an interesting segment of the financial market not only for the big amount of money transferred through remittances but also by mean of a subject capable to the express a more sophisticated financial demand.

According to the research carried out by ABI-Cespi in 2005 on a sample of 64% of all Italian commercial banks, the number of foreign citizens actually possessing a bank account



amounts to 1.450.000. If this amount is depurated by the presence of those citizens coming from the more developed countries of the EU, the total number is about 1.200.000 individuals coming from transition or less developed countries.

Considering that the regular immigrates in Italy amounted in 2005 at 2.730.000 of which 430.000 individuals under 18 and 200.000 from more developed EU counties, the evidence shows that 2.100.000 immigrates are the target of our research. In other terms, the rate of bank inclusion of the migrant reaches the percentage 57,3%.

Such figures show that the process of bank inclusion is more and more growing with time according to a spontaneous trend of demand for financial services and that the so called activities of migrant banking are in the way to show a further boost in the next years.



### 4.3 Prevailing trends and bank strategies

The prevailing trends registered in Italian banks with regards to the migrant banking activities resulted in the following general assumptions:

- Universal approach: the migrant is considered equal to the national clientele and the proposed services are based on the assumptions of the so called “social banking” oriented to increase the access to the bank system even by those categories of customers belonging to the weak or marginal range of the civil society. The banks adopting such a view do not offer specific services for migrants but normal facilities in order to simplify the bureaucratic process to include the customer into the system and offer to the most reliable of them a wider range of services.
- Migrant-oriented approach: the banks of this group do offer the migrant specific financial products with *ad hoc* service packages specifically designed according to different standards as ethnicity, family needs, etc. This group is to be considered as the main target of our research. The offered service packages, in this case, normally include facilities for the money transfer abroad, the set-up of twin accounts, credit and debt cards and other facilities in terms of savings product and access to mortgages, insurances, etc.

As a matter of fact the new tendencies involve a mix of the two above mentioned visions in order not to discriminate the migrants but contemporarily to consider them as a specific target of specific marketing policies.

The major initiatives registered in Italy in this field can be resumed as follows (even if not exhaustive of all the initiatives put into place):

- **Banca Sella - Sella World Service (SWS)**: specifically designed for migrant living and working in Italy. It includes facilities for money transfers, insurance and medical assistance. A specific service is dedicated to the Muslim clientele following the rules of Koranic Law.
- **Unicredit Banca - Agenzia Tu**: is a network of subsidiaries specifically dedicated to offer services to the foreign clientele with personnel speaking different languages and offering advanced services for bank inclusion and specifically internet banking. Many facilities as money transfers, insurance, medical assistance, mortgages, internet banking, twin accounts, debt and credit cards are offered to the migrants.



- **Carige Banca:** Assistance Desks are specifically dedicated to the migrant customers offering a wide range of service to ease the bank inclusion of regular workers.
- **SanPaolo IMI:** Desk Assistance with specific personnel dedicated to the needs of the migrant together with specific financial products.
- **Banche di Credito Cooperativo:** many Cooperative Banks are actually devoting services to the migrant above all in the field of money transfer and microfinance for small entrepreneurial activities. Each bank plans the services according to their specific local vision.
- **Banca Intesa:** signed a wide number of agreements with foreign banks in the field of international cooperation.

The most interesting actions at the Bank level can be focused according to a double view considering two different time perspectives:

1. Short run vision: it concentrates on matching demand and offer in Italy for new services devoted to the inclusion of the migrants in the bank system.
2. Medium-long run vision: it concentrates on channeling and transferring the migrants' savings in specific financial flows so to improve the circulation of money according to a transnational perspective. According to such a view one the main purposes is improving the development actions in the origin countries of the migrants.



## **V REMITTANCES AS AN INSTRUMENT FOR DEVELOPMENT**

In the search for channels and financial instruments capable to develop virtuous models, an important role is played by those factors of social cohesion and local development which make the difference between a simple flow of remittances and the use of remittances as resources to foster the economy of a specific country.

As it was argued in the previous chapters, we'd rather consider remittances according to a much ampler point of view consisting not only of financial resources sent to the origin country but also of human and social resources transferred from the migrants living abroad to their compatriots.

Diasporas represent a complex mix of resources that could be transferred to the origin countries through different economic, financial and social instruments.

Remittances have a wide range of functions that must be valorised thanks to the usage of adequate instruments and strategies. We acknowledge that remittances are basically a source for survival and consume to the origin family of the migrant but we also acknowledge that remittances thanks to the reduction of costs of transaction and the bank inclusion of migrants could have a noticeable influence on the usage of the remittance itself. The idea is that remittances could become a source for future consumptions with specific reference to education, purchase of real estates, healthcare, insurances, etc.

In such terms the availability of specific financial products (savings and investments) and the transferability of accumulated funds both seem to work as a key element.

Remittances should then become a resource for development and support of entrepreneurial activities both in the origin country of the migrants and at transnational level. The channelling of remittances to ease the access to financial activities require new and adequate instruments.

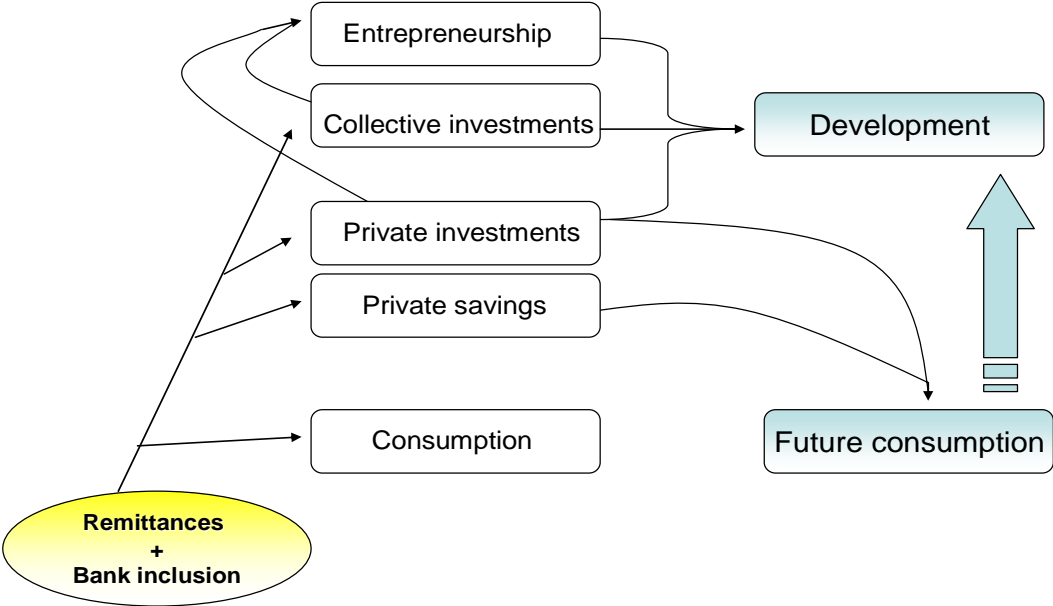
Finally the usage of remittances, thanks to financing of collective project can become an interesting instrument devoted to support the community of origin. An example of such a practice can be individuated in the so called Diaspora bonds.

The following figure n. 6 represents an attempt to schematise the process that leads from the simple flow of remittance to their usage purposes other than mere consumption. The mechanism below shows all the possible function of remittances both in terms of sustain of the family of the migrant and the development of the country.



The path evolves from a pure function of consumption to the implementation of entrepreneurial projects. The future consumption model is the key to reach real development.

**Figure 6 – Remittances and Bank-inclusion as instruments of local development**



Since today remittances still seem to be perceived as a pure transfer of financial resources; the most of them come from private sources without any real intervention of intermediaries (except for the services of pure money transfer). That's to say that remittances do not benefit of any added value but, on the contrary, the commission fees paid for transfers do represent a net withdrawal of available resources.

Contemporarily, in the destination countries we often face problems related to the accessibility of financial resources, an excess of liquidity ratio in some Microfinance Institutes (MFIs) and a lack of bank inclusion impeding the flows to reach the target population.

We deem a different approach is actually needed in order to give an added value to remittances as instruments capable to generate a financial multiplying effect and to reach support not only the basic needs of the families but also the local entrepreneurship representing the real engine for development.



The approach should enhance the partnership between public and private actors favouring the migrant as an active subject of the development process. For this purpose it's useful to project specific financial mechanism capable to generate added value for the recipient countries in terms of transnational integrated cooperation.

In other words it is useful to create the basis for a financial intermediation activity which is not merely focused on transfers but on mechanisms conceived to stimulate the foundation of new economic activities. The inputs should proceed both from the devoted public Institutions and both from the banking system as an integrated approach to development issue. Only an intervention focused on both sides could allow to foster a process valorisation of collective and individual savings according to the criteria of efficiency and efficacy and with an adequate base of guarantees.

The main challenge is to switch from the pure channelling of remittances to the set up of a system of financial inclusion of the migrants willing to start new activities in their origin countries.

The equation should be in this case to consider remittances as forms of savings capable to generate resources:

$$\text{Remittances} = \text{Savings} = \text{Resources}$$

The model from Remittances to Credit Guarantee (RtoCGs) described in the next sections seems to respond well to such a need and could represent an interesting instrument to link private and public needs in an integrated perspective.

Of course many criticalities should be considered even though the advantages to be included in such a system are recognised both from public and private stakeholders.



# ANNEX I – REMITTANCES SECURITIZATION

## A. INTRODUCTION: WHAT IS REMITTANCES' SECURITIZATION?

As we have described in the previous chapters, remittance flows demonstrated an intrinsic value.

Moreover we can argue that worker remittances are often among the few reasonably steady sources of foreign exchange for countries undergoing severe balance-of-payments difficulties.

The experience coming from Banks in Turkey and Latin America have successfully tapped into this investment market through securitization.

Remittance securitization is a way for banks in emerging markets to borrow hard currencies by issuing bonds

From a technical point of view, securitization is the transfer (generally as a “true sale”) of receivables to a Single Purpose Vehicle (“SPV”), which incurs debt secured by its ownership of these receivables/rights.

While similar to a secured financing, a “true sale”- based securitization is distinct in various ways, including that sold receivables are not owned by the bank and would not be included in its bankruptcy estate.

Remittance securitizations can differ in some important respects from traditional securitizations in developed markets

These transactions are “future flow” securitizations that securitize the on-going business of the bank “future flow” transactions are generally “on balance sheet”

- A primary goal of the structure is to insulate the remittances as much as possible from sovereign-related risks
  1. A “true sale” to the SPV under local law of the bank’s rights in (but none of its obligations under) the securitized remittances
  2. The SPV finances its purchase of the remittances by incurring debt secured by the remittances and their collections

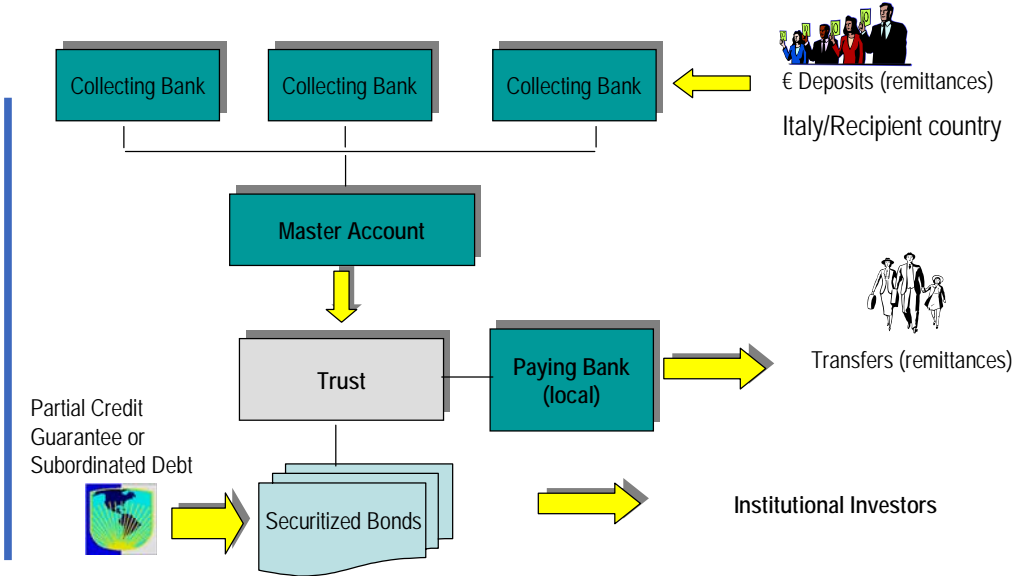


**B. THE FLOW OF FUNDS**

The scheme designed to focus the process of remittances securitization implies the presence of different stakeholders and a critical number of collecting banks that will channel the flow of fund into a master account having relationships with a trust directly connected with the local paying bank.

The figure below shows the path securitization should follow:

**Figure 7 – Remittances securitization: flow of funds**



In other term the process of securitization should be implemented according to the following steps:

1. Bonds are collateralized by the future flow of remittances (and other electronic payment flows) originating in other countries



2. Securitization mitigates emerging market country and currency risk by establishing an offshore collection account for foreign currency receipts
3. A future flow transaction is a securitization of a company's future and existing payment right receivables that are due from offshore obligors (e.g. export receivables, airline receivables, telephone receivables)
4. Well established asset class in emerging markets
5. Often receive higher ratings than sovereign bonds issued from the same countries

### **C. THE ADVANTAGES OF SECURITIZATION**

The main advantages of starting a process of remittances' securitization can be resumed as follows:

- Enhance development impact of remittances
  - *Proceeds of securitization used to extend loans by the local banks for productive purposes*
  - *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)*
- 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*
- Access increase to international capital markets for non-investment grade countries
- Improve financial conditions of local banks
  - *Securitization helps improve asset / liability management of local banks through access to longer term / lower rate funding*
  - *Banks can replace its short-term borrowings in hard currencies with longer term loan with securitization*
- Remittance payments relating to electronic payment orders are owned by the local bank and not the named beneficiary



- 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
- Source of long term capital (5-10 years) not always available to banks in emerging markets
- Establishing relationships with new creditors, including potential for “AAA” investors if a “wrapped” structure is used
- Alternative to funding from commercial banks
- Attractive pricing compared to unsecured bonds
- Achieve a rating higher than the host country’s foreign currency sovereign rating (often as high as the bank’s domestic or “survivability” rating)

#### **D. MAIN CRITICALITIES**

- Though this may be mitigated by having full or partial recourse to the bank, the creditors take the risk that the volume of remittances will decline or even disappear
- As a portion of the remittance collections are withheld from the bank and used to pay creditors, the bank needs alternative sources of liquidity to make its payments to the beneficiaries
- While governmental interference is intended to be mitigated, banks remain subject to oversight and control by local governments



## **ANNEX II – DIASPORA BONDS**

### **A. THE ECONOMIC IMPACTS OF DIASPORAS AND EXAMPLES FROM OTHER COUNTRIES**

A Diaspora bond consists of a debt instrument issued by a country or potentially, a sub-sovereign entity or a private corporation to raise financing from its Diaspora. The main examples in this field is represented by the cases of Israel and India which have raised \$35-40 billion using these bonds. Drawing on their experiences, we can assess the rationale, methodology and factors affecting the issuance of Diaspora bonds for raising external development finance. For instance the rationale behind the Government of Israel's issuance of Diaspora bonds has been different from that of the Government of India's. The Government of Israel has offered a flexible menu of Diaspora bonds since 1951 to keep the Jewish Diaspora engaged. The Indian authorities, in contrast, have used this instrument for balance of payments support, to raise financing during times when they had difficulty in accessing international capital markets.

Each country then, according to its specific characteristics, should be able to engage its Diaspora abroad on a convincing basis and try to stimulate mechanisms of self-identification. This could possible above all in communities having a strong cultural identity and a numerous population of emigrants. The Romanian Diaspora, for instance, thanks to the number of emigrants abroad, could be a possible target in Europe for such an pilot-project.

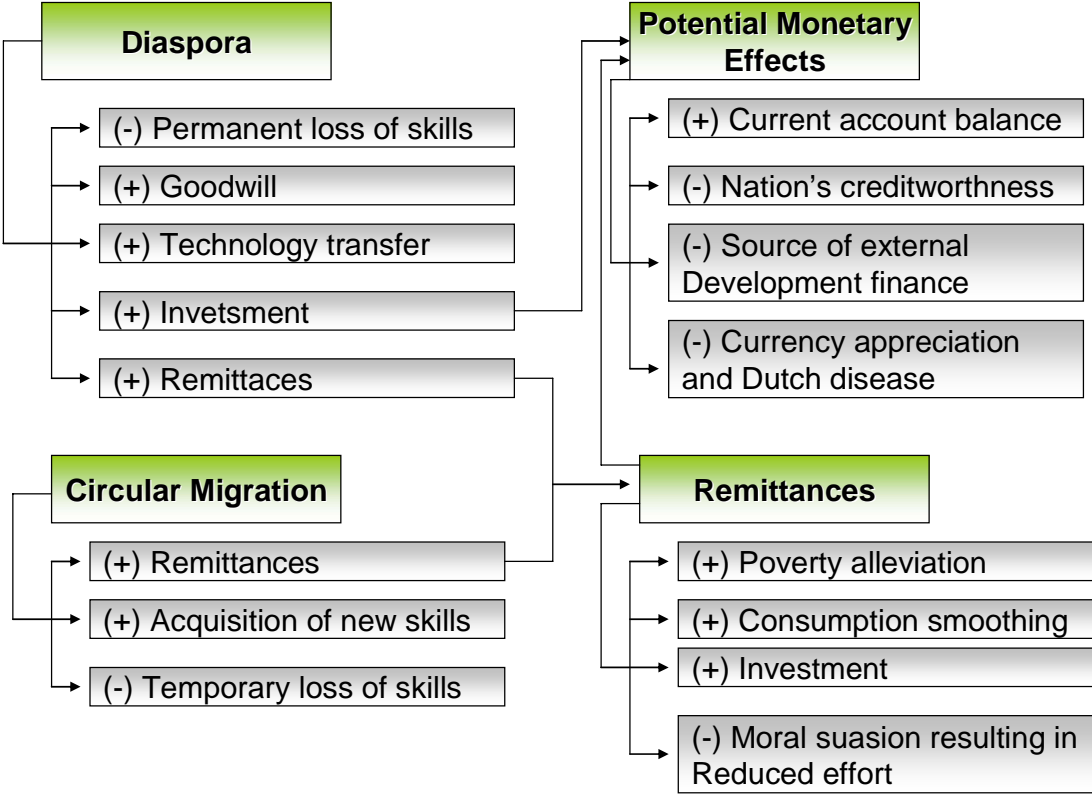
Generally the economic effects of Diasporas and remittances are positive even though we can notice some possible negative implications (see figure n. 8 below). There is a strict link between investments and the potential monetary effects in the community of origin. This is the main reason why Diaspora bonds could be a viable instrument to raise-up equity and improve liquidity in the origin country.

From a another point of view, circular migration is preferred to the establishment of a stable Diaspora because it implies just a temporary and not a permanent loss of skills-work.

As a matter of fact Diaspora bonds, if well sustained at government level and properly linked to the incoming flow of remittances, could become a very interesting instrument of development.



**Figure 8 – The economic impacts of Diaspora and circular migration on the country of origin**



## **B. HOW DIASPORA BONDS WORK**

Diaspora bonds are often sold at a premium to the Diaspora members, thus attracting a “patriotic” discount in borrowing costs. Besides patriotism or the desire to do good in the investor’s country of origin, such a discount can also be explained by the fact that Diaspora investors may be more willing and able to take on sovereign risks of default in hard currency as well as devaluation as they may have local currency liabilities and they may be able to influence the borrower’s decision to service such debt.

Countries with strong and transparent legal systems for contract enforcement are likely to find it easier to issue such bonds. Absence of civil conflict is a plus. While not a prerequisite, presence of national banks and other institutions in destination countries facilitates the marketing of bonds to the Diaspora.

The rise of various Diasporas and their economic status in their adopted countries are fast becoming a source of pride as well as financial resources for developing countries. If seeking remittances is a way of tapping into Diaspora income flows on a regular basis, issuance of hard-currency-denominated bonds to the Diaspora is a way of tapping into the latter’s wealth accumulated abroad. Anyway Diaspora bonds are not yet widely used as a development financing instrument.

As mentioned above, Israel since 1951 and India since 1991 have been on the forefront in raising hard-currency financing from their respective Diasporas. Bonds issued by the Development Corporation for Israel (DCI), established in 1951 to raise foreign exchange resources from the Jewish Diaspora, have reaches an amount of over \$25 billion. Diaspora bonds issued by the government-owned State Bank of India (SBI) have raised over \$11 billion to date. The Government of Sri Lanka has also sold Sri Lanka Development Bonds (SLDBs) since 2001 to several investor categories including non-resident Sri Lankans raising a total of \$580 million to date. South Africa is reported to have launched a project to issue Reconciliation and Development (R&D) bonds to both expatriate and domestic investors (Bradlow 2006). Although the Lebanese government has had no systematic program to tap its Diaspora, anecdotal evidence indicates that the Lebanese Diaspora has also contributed capital to the Lebanese government. Indirect evidence may be that the Lebanon’s government bonds are priced higher than the level consistent with the country’s sovereign credit rating.

## **C. MAIN CHARACTERISTICS OF DIASPORA BONDS**



Diaspora bonds should not be conceived as Foreign Currency Deposits (FCDs) that are used by many developing countries to attract foreign currency inflows.

Diaspora bonds are typically long-dated securities to be redeemed only upon maturity. FCDs, in contrast, can be withdrawn at any time. This is certainly true of demand and saving deposits. But even time deposits can be withdrawn at any time by forgoing a portion of accrued interest. Therefore, FCDs are likely to be much more volatile, requiring banks to hold much larger reserves against their FCD liabilities, thereby reducing their ability to fund investments.

Diaspora bonds, on the contrary, are a source of foreign financing that is long-term in nature. Consequently, the proceeds from such bonds can be used to finance investment.

Diaspora bonds are structured as asset-backed securities of medium-term maturity that give investors a share of the profit associated with proceeds from such issuance.

The Diaspora purchases of bonds issued by their country of origin are likely to be driven by a sense of patriotism and the desire to contribute to the development of the home country. Thus, there is often an element of charity in these investments. The placement of bonds at a premium allows the issuing country to leverage the charity

#### **D. RATIONALE FOR DIASPORA BONDS**

##### *Rationale for the issuer*

Countries are expected to find Diaspora bonds an attractive vehicle for securing a stable and cheap source of external finance. Since patriotism is the principal motivation for purchasing Diaspora bonds, they are likely to be in demand only if some specific conditions are satisfied

The patriotic discount, which is equivalent to charity, raises an interesting question as to why a country should not seek just charitable contributions from their Diaspora instead of taking on debt associated with the Diaspora bonds. Seeking contributions may be considered politically degrading in some countries. More importantly, Diaspora bonds allow a country to leverage a small amount of charity into a large amount of resources for development.

Yet another factor that might play into the calculus of the Diaspora bond-issuing nation is the favourable impact it would have on the country's sovereign credit rating. By making available



a reliable source of funding that can be availed in good as well as bad times, the development of the Diaspora bond market improves a country's sovereign credit rating.

#### *Rationale for the investors*

Why would investors find Diaspora bonds attractive? Patriotism explains in large part investors purchasing Diaspora bonds. The discount from market price at which Israel, India and Lebanon have managed to sell such bonds to their respective Diaspora is reflection of the charity implicit in these transactions.

Beyond patriotism, however, several other factors may also help explain Diaspora interest in bonds issued by their country of origin. The principal among these is the opportunity such bonds provides for risk management. The worst-case default risk associated with Diaspora bonds is that the issuing country would be unable to make debt service payments in hard currency. But its ability to pay interest and principal in local currency terms is perceived to be much stronger, and therein lies the attractiveness of such bonds to Diaspora investors. Typically, Diaspora investors have current or contingent liabilities in their home country and hence may not be averse to accumulating assets in local currency. Consequently, they view the risk of receiving debt service in local currency terms with much less fear than investors based on the destination country (purely euro for instance). Similarly, they are also likely to be much less concerned about the risk of currency devaluation.

Still other factors supporting purchases of Diaspora bonds include the satisfaction that investors have from contributing to economic growth in their home country. Diaspora bonds offer investors a vehicle to express their desire to do "good" in their country of origin through investment. Furthermore, Diaspora bonds allow investors the opportunity to diversify their assets away from their adopted country. Finally and somewhat speculatively, Diaspora investors may also believe that they have some influence on policies at home, especially on bond repayments.

## **E. CONCLUSIONS ON DIASPORA BONDS**

Amidst the factors that mainly facilitate (or constrain) the issuance of Diaspora bonds, it is noticeable the presence of a sizeable and wealthy Diaspora abroad and a strong and transparent legal system for contract enforcement at home. Absence of civil conflict is a plus. While not a pre-requisite, presence of national banks and other institutions in destination countries facilitates the marketing of bonds to the Diaspora.



Anecdotally a number of countries are believed to have issued such bonds in the past (e.g., Greece after World War II) but one difficulty that mainly affect data gathering is the confusion between Diaspora bonds and Foreign Currency Deposits, and some times between Diaspora bonds and local currency deposits.

Encouraging the Diaspora members to deposit money in domestic banks is quite different from asking them to purchase foreign currency denominated bonds in international capital markets. Indeed, as it was briefly pointed out above, Diaspora bonds are also different from Islamic bonds even though both are targeted to investors belonging to a specific group rather than to all investors. There is a need for better data gathering, including on pricing of these bonds, and on the cyclical characteristics of the flows associated with these bonds.

There is also a need for clarity on regulations in the host countries that allow or constrain Diaspora members from investing in these bonds. A pertinent question in this respect is, should these bonds be non-negotiable, or should we make an effort to develop a secondary market for these bonds? An argument can be made for the latter on the ground that tradability in the secondary market would improve liquidity and pricing of these bonds.

With regards to the Romanian Diaspora, we deem it is probably too early to meet all the suggested conditions to issue Diaspora Bonds even though the Associations of migrant in Italy could become sensible promoters of such an option for the raising of financial capital from the destination country of migrants.



# **ANNEX III - GOOD PRACTICES IN THE FIELD OF REMITTANCES AND FINANCIAL FACILITIES TO MIGRANTS**

## **C. THE EXPERIENCE OF FOLADE (FONDO LATINOAMERICANO DE DESARROLLO)**

### **A1. BACKGROUND**

The Latin American Development Fund (FOLADE), was founded in 1993 as an initiative of The Latin American Association of Promotion Organizations (hereinafter ALOP). Since the beginnings the Fund worked as an autonomous trust of NGOs of all Latin American countries interested in finding innovative financial mechanisms for development and reaching satisfying levels of financial autonomy.

FOLADE originally grouped 14 organizations from 13 countries of the region. To date, its membership has increased considerably: organizations with a solid career and wide experience in technical cooperation and the provision of financial services for the social economy, (small and micro-businesses, and the building of social infrastructure), have joined the trust.

### **A2. RATIONALE**

The deep transformations recently occurred in the geopolitical sphere have affected the Latin American economic and social environment, and particularly the field of international cooperation.

As a result of such changes:

- the areas of interest have been redefined
- new geographical and thematic priorities have been established
- Latin America has been downgraded in terms of international cooperation
- there is a notable tendency to favour multilateral cooperation entities to channel financial resources.



In order to face the difficulties above, new types of responses have been developed, new systems to secure financing are emerging and many changes regarding cooperation and financial criteria used by multilateral organizations are in the way to be implemented. The channelling of resources from such entities, through local NGOs, to selected projects are no longer the exception. Yet the relationships between multilateral organizations and NGOs are mediated through complex and expensive negotiations and through a series of technical conditions and regulations NGOs are not used to deal with.

This is precisely one of FOLADE's main challenges: to fill the institutional gap existing between the new financial resources and the NGOs working with the excluded sectors of the population throughout the region.

There have been also substantial modifications in the economic activities of the excluded sectors of the Latin American population NGOs are actually working with. For instance, a group of small producers and micro business that are now in conditions to operate with reimbursable capital, has been consolidated. In other words, this group is now able to run into debt, but has no access to the conventional financial system.

In response to these situations, many NGOs have established a series of mechanisms to provide credit and other financial services to this segment of the population. However some constraints are still to be faced as for instance:

- some mechanisms must be modernised
- the volume of resources must be widened
- new services responding to the needs of these manufactures groups must be implemented

Another important challenge accepted by FOLADE is to support the consolidation and modernization of financial specialised mechanisms to work with those segments of the economy constituting the basis of any equal, sustainable modernization process.

### **A3. MISSION AND LINES OF ACTION**

FOLADE's mission is to provide technical and financial services to entities working in Latin American countries with the excluded social sectors, which have no access to conventional financial schemes. The organization works to give an effective contribution to the institutional modernization and consolidation of such entities.



The strategic lines of action are:

- to build regional financial mechanisms of mediation capable to channel resources coming from various cooperation and investment sources. Such an activity shall be carried out designing new training systems and providing financial resources to help the target population
- to create an easy system of communication, training, technical assistance and other ways of mobilizing institutional resources. This will contribute to generate efficient and differentiated systems capable to operate in the financial markets while attending the needs of the region's economy.
- to establish a strategic coalition (with ALOP and other actors ) resulting in a more effective influence on cooperation policies and mobilizing resources toward Latin American NGOs.

#### **A4. STRATEGY AND SERVICES**

FOLADE bases its strategy on the advantages offered by the presence of its affiliates throughout the region: this allows FOLADE to operate at highly decentralised level. FOLADE has a first-hand knowledge of the institutions involved (Latin American NGOs) and, therefore, a unique capacity to mobilize their existing technical resources.

At the same time, the scale of FOLADE's operations enables to obtain and mobilize resources efficiently from international and multilateral cooperation and investment sources. The process of securing and mobilizing resources is achieved by establishing strategic alliances and promoting resource leverage mechanisms.

FOLADE offers the following services to its affiliates and to all organizations qualified as users:

- **Seed Fund:** This Fund is set up in alliance with other financial bodies and development cooperation agencies. It offers financial support (equity-capital participation and loans) as well as technical cooperation resources to facilitate the creation and consolidation of regulated financial bodies linked to NGOs, which specialize in providing financial services to small producers and micro business.
- **Guarantee Funds:** These funds are set up with the participation of banks and international guarantee funds. They offer guarantees to financial mechanisms linked



to NGOs, enabling them to seek resources from non-traditional funding sources, or to conduct fund-raising operations based on the issue of bonds which are backed by the fund.

- **Trustee Services:** Administration of assets and funds for regional development cooperation programmes and projects, as well as the administration of investments of affiliates and other users in the international stock markets.
- **Information Services, Training and Technical Assistance:** These services are aimed at the institutional strengthening of organizations providing financial services to social initiatives, in order to enhance their quality and efficiency.
- **FIAR: Facility for Self-Financing Initiatives and Reconversion of NGOs.** FIAR offers loans, promissory notes, guarantee arrangements, and equity-capital investment to back economic initiatives and the processes of transformation within these organizations.

## **A5. ORGANIZATIONAL STRUCTURE**

FOLADE operates as an association based in Costa Rica. The main components of its organisational structure are:

- The General Assembly, which includes all members
- The Controller
- The Board of Directors, constituted by the President, the Vice-President, the Secretary, the Treasurer and the Member-at-Large
- The Executive Body, comprising the Executive Director, the Financial Director and the Director of Information, Training and Technical Assistance. The Executive Body is supported by the necessary technical information and administrative staff to ensure the efficient accomplishment of its functions.
- The Consultative Council, made up of individuals who have extensive experience in the field of development cooperation and in the provision of financial services to the excluded social sectors.
- External Audit.



## **A6. THE INITIATIVE “REMESAS INSTANTANEAS”**

With regards to the initiatives in the field of remittances, FOLADE offers a service called REMESAS INSTANTANEAS resulting from an agreement with a network of NGOs and Bilateral cooperation agencies working in Latin America. The project pursues the objective to enhance the productive usage of remittances in order to create small businesses and small entrepreneurial units having facilities to access local financial services.

The main objectives of REMESAS INSTANTANEAS service are:

- to stimulate the number of formal remittance both from private sources and from Migrants Associations in order to generate economic development
- to ease the transfer of money
- to lower the costs of transfer (commission fees)
- to offer assistance to the remitters
- to individuate mechanisms capable to make use of the difference of the administrative costs of transfer in order to generate economic stimulation activities as the creation of micro-enterprises
- to strengthen the local capacities to serve marginal areas where the needs for development are much higher

The advantages of service in comparison with other operators are:

- a strong institutional image widely by recognised both at beneficiary and institutional level
- a simple and effective communication platform capable to perform transaction on line with immediate effects
- additional services at financial level for new-born enterprises in cooperation with regional NGOs
- competitive transactional costs
- training in order to channel remittances not only to consumption purposes but also to investments and savings





## **D. THE EXPERIENCE OF CONFESEN (CONFESERCENTI SENEGAL)**

The FUND OF MUTUAL GUARANTEE for the MIGRANTS was set up by Confesen with the aim of financing the projects of the migrants willing to return to their home country.

### **B1. PRESENTATION**

The Fund offers specific financial tools whose purpose is to help the Senegalese migrants in search of investment opportunities to return to their origin country and make use of the existing financial tool in order to fund Small and Medium-sized companies (SMEs) of production and services. The Fund helps to endow them with the broadest guarantees.

### **B2. AIMS AND STRUCTURES**

- the Fund of guarantee have a mutual form
- the object is to mobilize financial resources through the issue of guarantees to be presented to the banking system. This will make possible for the migrants (potential investors) to establish projects by acquiring the needed equipment by direct purchase, supplier credit, endorsed drafts, leasing raising funds for their starting activity.

### **B3. BENEFICIARIES AND ASSOCIATES**

- the Fund is firstly dedicated to those Senegalese emigrants or Associations of emigrants, companies, etc. in Europe and elsewhere, willing to return to their home country with an investment project
- in order to reinforce its capacity, under certain circumstances, The Fund could help national and international operators of different countries, with the objective to create SMEs in Senegal.

### **B4. FINANCING**

The equity and financing of the Fund is entirely ensured by the subscriptions of the associate members and the technical provisions coming from the financial backers and/or the State

### **B5. RESOURCES OF THE FUND**



The resources of the funds derive from:

- subscriptions of the associate members
- commissions and premiums of insurance
- interests on the placements of assets
- bilateral and multilateral institutional support
- technical provisions coming from the State, backers, official companies, semi-public stakeholders, etc.

## **B6. MANAGEMENT**

- the Fund is managed within the framework of project B.I.C. “Investment Business & Center Co-operation” of Confesercenti Senegal – CONFESEN
- the Fund is managed by a Board of directors inclusive of the representatives of the associate members and partners
- the Board of Directors is continuously assisted by a team of experts (financial, lawyers, accountants, techniques...).

Under the management, a bureaucratic office takes care of the assistance to the beneficiaries and associates. The main responsibilities in this field are:

- to study the business plans, the marketing plan, feasibility studies and the financial compatibility of the projects
- to search for adequate technologies
- to provide administrative and legal advisory.
- to train and assist the promoters of projects
- to report to the management about the state-of-the-art and control the financed projects,

## **B7. CHARACTERISTICS OF THE STRUCTURE**

The main characteristic of Confesen is that it takes the responsibility for the co-administration of all projects financed for all needed period of credit refunding. Further assistance can be supplied even after the end of the refunding period, if the entrepreneur considers it useful for the success of a specific project.

## **B8. FUNCTIONING OF THE PRIVATE STRUCTURE OF ASSISTANCE**



- the Fund is supposed to establish relations between different departments, consultants and structures of support to assist the entrepreneurs and their companies
- each contracting structure supplies assistance to a maximum number of entrepreneurs
- the contracting structure supports the entrepreneurs starting from the definition of the project till the operational phase (credit issuance, purchase of the equipment, start-up of the activities, training, technical and financial follow-up)
- the contracting structure will be remunerated on the basis of the achieved results according to the mutual agreement specifications.

### **B9. OBJECTIVES of the FUND**

- to promote entrepreneurship and return in the origin country of the Senegalese migrants
- to support the regular presence of immigrants and their integration in Europe
- to mobilize the savings of the migrants and to motivate them to invest in their country of origin
- to reinforce the exchanges between Europe and Africa.

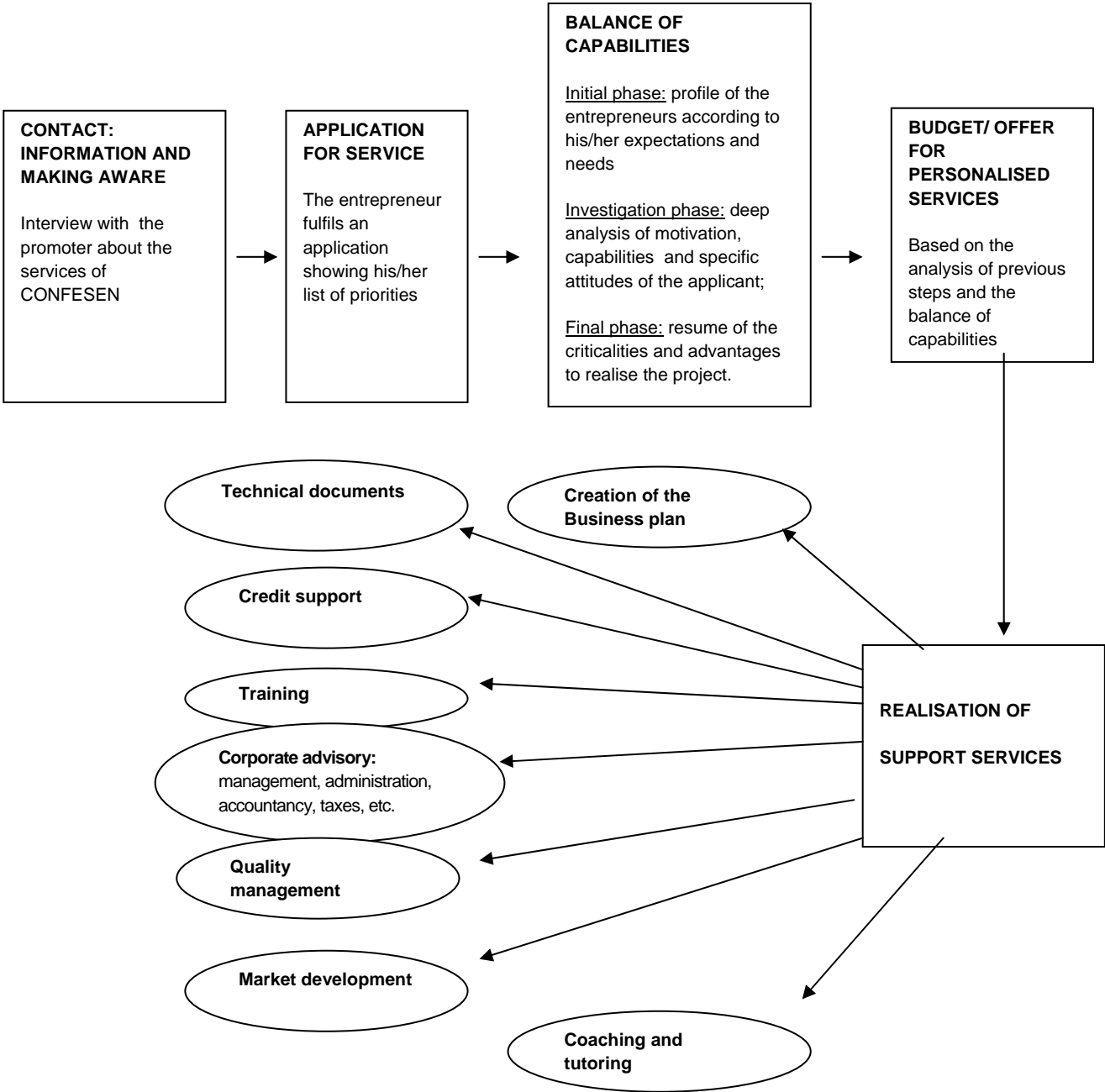
### **B10. PROCEDURES TO ACTIVATE THE FUND**

- the Fund receives the application for credit, according to the indication received after the preliminary interview with the potential beneficiary.
- the examination of the application by the Fund members consists of the analysis of the socio-economic criteria, the costs to be sustained, the technical skills of the applicant, his managerial and commercial qualities, the quality of the project and the financial criteria like the solvency of the applicant, the profitability of the project, the guarantees offered, its capabilities of self-financing; etc.
- the Examination Committee of the Funds meets and makes its decision on the application
- the guarantees of the applicant of credit from one side, the guarantee of the Funds on the other, allow the bank to issue the requested loan
- the Fund has a principal account in the main reference bank. From this account, money is transferred to the local banks.

The figure below shows the process for inclusion of beneficiaries in the mechanism:



**Figure 8 – Process for inclusion of beneficiaries**



**B11. OPERATING MODE**

The guarantee is issued on the principle of shared-risk. The applicant must provide his/her own guarantees and the Fund intervenes on a purely complementary basis. The share of intervention is generally limited to 80% of the amount of the credit with a maximum of 150.000 EUR of assets.

The Funds is reinsured by a specialized structure covering the 50% of the risk.

**B12. ELIGIBLE TYPES OF CREDIT TO THE GUARANTEE**



The Fund guarantees all the short, average and long terms loans issued for:

- the creation of a company or the purchase of a commercial activity
- the modernization an existing facility
- the purchase of materials, furniture and of vehicles
- the construction, acquisition, transformation of buildings of professional use or mixed
- the acquisition or the constitution of intangible goods such studies, researches, licences, patents
- increase the capital stock of the company

### **B13. RESPONSIBILITIES of the FUND**

The Fund guarantees the repayment of capital, interests and accessories granted by the banking organizations and their co-operators.

In collaboration with the company and the bank, the Fund monitors and analyses the evolution of the project, assesses the success of the operation and suggests counter-measures to make the activity successful making use of advisory companies previously selected by the Funds.

The Fund develops a durable relation with the supported company in order to properly respond the its needs

### **B14. OBLIGATIONS of the BENEFICIARY**

- opening an account in the bank of reference
- deposit the amount of the agreed contribution
- payment to the Fund of the subscribed premium.

