# LEVERAGING REMITTANCES WITH MICROFINANCE:

# SYNTHESIS REPORT
# AND
# COUNTRY STUDIES

MONASH ASIA INSTITUTE
INSTITUTE FOR REGIONAL DEVELOPMENT, UNIVERSITY OF TASMANIA
FOUNDATION FOR DEVELOPMENT COOPERATION

December 2007

## TABLE OF CONTENTS

## ACKNOWLEDGMENTS

This research project was made possible by an Australian Research Council Linkage Grant and contributions of financial and in-kind support from Australian and international industry partners, namely AusAID, the Foundation for Development Cooperation, the ANZ Bank, Bank Rakyat Indonesia, the South Pacific Business Development Foundation (Samoa), the Microfinance Council of the Philippines and the TSPI Development Corporation (Philippines).

The leaders of the research project were Judith Shaw of the Monash Asia Institute and Robyn Eversole of the Institute of Regional and Rural Development of the University of Tasmania. Judith Shaw and Robyn Eversole were the principal authors of Part 1 of this report. The principal authors of the country reports in Part 2 were Judith Shaw (Fiji and Sri Lanka), Robyn Eversole (Philippines), Fikreth Shuaib of the Foundation for Development Cooperation (Samoa and Timor Leste) and Frances Barns of the Foundation for Development Cooperation (Indonesia).

The team benefited from background material prepared by Biman Prasad, Nallaperuma Sirisena, Ruth Gonzaga, Kurniawan and Wood Selele. Special thanks are due for research assistance provided by Dilshani Samaraweera, Mary Johnson, Joyce Malmo and Keira Zen. Thanks are due to the following people for reviewing a draft of the Timor Leste country report: Jose Assalino, Abraão de Vasconselos, Helen Todd, Milissa Day, and, Tobias Nybo Rasmussen. Thanks also to colleagues from industry partner organizations and other institutions for their advice and support during the fieldwork phase, especially Craig Wilson, Carolyn Blacklock, Chandula Abeywickrama, Tim Barker, Ruben De Lara, Althea Ofreneo, Edgardo Garcia, and Lalaine Joyas, Jose Maria Guterres, Gastao Fransisco da Sousa, Joao Correia Pinto, Muhammad Busthami, Chris Durman, Gastao M G de Sousa, Frederico Pereira de Matos, Marcella Willis, Noel B de Carvalho, Colin Heartwell, Charles Andrews, Novanto Agus, Arcanjo Da Silva, Sergio M do Espirito Santo, and Jantje Bambang Soepriyanto. And finally, thanks to Wendy Ma for assistance with data entry and formatting and editing this report.

## EXECUTIVE SUMMARY

This Report presents the findings of a six-country Asia-Pacific study on 'Leveraging Remittances with Microfinance'. The purpose of the study is to investigate the potential for remittance-linked financial services to contribute to household well-being and economic development in six case study countries: Fiji, Samoa, Indonesia, the Philippines, Sri Lanka and Timor Leste.

All of the six case study countries send significant numbers of their nationals into labour markets abroad and receive sizeable international remittances. They range from heavily remittance-dependant economies like Samoa, to much more diverse economies like Indonesia; and from countries with clearly established migration and remittance policies and institutions to those without. Recognising the growing significance of remittances as contributors to GDP and household livelihoods, the central question of this research is: how can the development impacts of remittances be 'leveraged' through better policy, products, services, or other specific actions?

This project has thus been structured as a comparative study of the actual and potential development impacts of international migrant remittances in six different country contexts, with a specific focus on the role of financial services. The research process was a collaborative venture, with active involvement from industry partners. Each country study involved: a desk-based overview of the national economic, social, institutional and political context as it relates to microfinance and remittance, and a field study incorporating surveys of remittance-receiving households, focus groups and in-depth-interviews with remittance recipients and returnees, and profiles of case-study microfinance providers. The cross-country and multi-partner approach to this study has been particularly illuminating, allowing for a cross-pollination of ideas and approaches.

Results of this study confirm that remittances clearly make important and growing macroeconomic contributions, but the development dynamic at household level is complex and varied – both among households in the same country, as well as among country contexts. This enormous heterogeneity of remittance-receiving households is apparent with respect to remitting behaviour, the role of remittances in the household economy, remittance usage and ultimately, the economic outcomes of migration. Policy and institutional contexts also vary considerably across the case study countries, providing ample material for comparison and contrast. Clear opportunities emerge for both financial sector service providers and national governments to assist to leverage the development impact of remittances, responding creatively to complexity.

*Remitting Behaviour*

The size, frequency and duration of remittances clearly affect their development impacts for households. Average remittances were not large, ranging roughly between US$100 and $500 across the study countries. However, there were substantial variations among households in the size and frequency of remittances. While most remittances are in cash, 'in-kind' remittances in the form of goods sent back or brought home by returning migrants are substantial, accounting for 10 per cent or more of total remittances.

The vast bulk of remittances to the Asian countries are sent to the migrant's immediate family, usually to a spouse, parent of sibling. In some cases migrants remit additional funds to their personal bank accounts. In the Pacific countries, while the migrant's immediate family receives the largest share of remittances, migrants also remit to other households which are part of their extended families, and to church and community associations.

Factors influencing the size of remittance flows to households include: country destination, occupation, gender, and duration of migration. The country studies indicated that while South-South migration is common, developed countries account for a disproportionate share of remittances in relation to actual migrant numbers. In addition, nearly all permanent migrants take up residence in developed countries, while developing countries account for the vast majority of short-term contract workers. There were clear patterns among migrant-sending countries in terms of the extent to which short-term or long-term migration predominated.

Gender-linked wage differentials are substantial, and in most of the case study countries male migrants earn significantly more than women. Indonesia is an exception, due to the predominance of female migrants in relatively high-wage destinations such as Hong Kong. There was also considerable variation both between and within countries in migrant skills profiles and occupations.

*Remittances in the Household Economy*

The savings, expenditure and investment behaviour of remittance recipients also affects the development impact of the remittance. In general, remittances were found to have a significant positive impact on household income and economic welfare on objective and subjective measures. Most households across the six countries reported an improvement in their living standards as measured by asset acquisitions, though a few households were worse off economically as a result of negative migration experiences.

Remittances tended to contribute a large proportion of household income – averaging between 61 and 82 per cent of income in remittance-receiving households for four of the countries studied – and most households were found to combine remittances with one or more local income-generating activities. However, a substantial minority of households in each country have no local income sources and are entirely dependent on remittances.

In the country studies, the impact of remittances on microenterprise activity is mixed. Between a fifth and a half of respondent households in each of the case study countries operated microenterprises, however remittances were not always invested in microenterprises. In Indonesia, the evidence is suggestive of a decline in microenterprise activity in migrant households, while in the Philippines, remittances appeared to be contributing to some extent to microenterprise development. Effects of remittances on labour force participation were also mixed. In most households, remittances were found to contribute to savings, asset building and housing improvements, and for a smaller number, sustained improvements in income generating capacity. There was evidence that the developmental impacts of remittances vary with household income and are greatest for non-poor households.

*Country-Level Policy Environments*

There was significant variation among the case-study countries in the structure and quality of the policy environment regulating migration and remittances. Only two countries, Sri Lanka and the Philippines, had systematic policy frameworks. Both countries have designated government agencies for international migration, good research bases and a number of state organisations, NGOs, and specific programs dedicated to migrant well-being. Both have well developed commercial and cooperative banking sectors and sophisticated money-transfer services; and a strong presence of microfinance organisations.

Meanwhile, the new state of East Timor has designed and implemented a small number of flagship programs and policies, and further developments are likely with the deepening of its institutional infrastructure. At the same time, Indonesia, Fiji and Samoa have adopted a laissez-faire approach, with little or no attempt to provide a policy framework or develop specific incentives around migration and remittances. The absence of systematic policy development is striking in the Pacific countries in particular, given the centrality of remittances in their economies.

*The Role of Microfinance*

Microfinance – the delivery of small-scale financial services – is well-suited to address some of the key financial service needs related to remittances, given the relatively poor socioeconomic backgrounds of many remittance-receiving households, and the small size of most of their financial transactions. The findings of this study suggest that there are four distinct areas where microfinance institutions (MFIs) can contribute to leveraging the development impact of remittances, both within and beyond remittance-receiving households. They are:

- Money transfer services;
- Savings and cash management products;
- Remittance linked lending; and
- Non-financial services;

Specific opportunities for MFIs vary from country to country, according to:

- The nature and outreach of the MFI sector;
- Existing key players in financial markets;
- The nature of the remittance-receiving market; and
- The policy and regulatory environment for MFIs.

*Improving Remittance Transfer Services*

Most households use formal bank-based or MTO-based transfer services, and are generally satisfied with the services they use. In Indonesia, the Philippines and Sri Lanka bank-based services are widely used, while Western Union dominates the market in Timor Leste and the Pacific countries.

Transfer costs varied both within and between countries, according to the provider, the level of service and remittance corridor. In Indonesia and Sri Lanka widely available transfer services cost less than $5. Average transfer costs were highest in the Pacific countries, at over $20 per transaction. Strong competition, partnerships among providers, and innovative banking arrangements such as transfer bundling contribute to relatively low transfer costs in the Asian countries, while in the Pacific a lack of effective competition is associated with increased costs and fewer options for remitters.

Australian-owned commercial banks in the Pacific are well-positioned to make use of their international branch networks and local rural outreach to lower costs and increase their market share.

In most countries, access to transfer services is weakest in rural areas. For rural clients, the cost of travel to the nearest transfer agency is often quite significant in terms of time and fares, and must be factored into overall transfer costs.

Remittance transfer markets are difficult for non-bank MFIs to enter. These markets are typically dominated by large banks and MTOs with strong infrastructure and extensive overseas retail networks, and customers are generally satisfied with existing services.

Institutions seeking to enter the formal transfer market must obtain a foreign exchange license. In Sri Lanka and Indonesia, non-bank institutions face legislative restrictions. Elsewhere, central banks are understandably cautious about the extra supervision and monitoring responsibilities that would result from issuing forex licenses to small MFIs, few of which possess the expertise, overseas networks and technological infrastructure required for successful foreign exchange operations. There is however a case for broadening outreach and increasing competition in the transfer market by expanding the licensing regime to include large established MFIs which possess the capability to handle money transfers. Governments in the Asian countries should examine the feasibility of allowing MFIs to enter remittance transfer market, with attention to appropriate regulatory reforms, technological and management capacity and identification of suitable overseas correspondents.

*Improving savings and cash management services*

In all countries, most respondent households are 'banked' in the minimal sense of possessing savings accounts.

A substantial proportion of remittance-receiving households are regular savers, although there are significant variations between the case study countries. Respondents in the Philippines, Samoa and Sri Lanka were the most likely to report saving regularly.

Urban households, high-income households and those with significant local cash income sources tend to be the most frequent and sophisticated users of financial services, while poor and rural households tend to be weakly integrated into the banking sector. Many households maintain savings accounts but rarely use them.

The remittance transfer method used affects the propensity to save. In Fiji, Samoa and Timor Leste, where most recipients collect their transfers from MTOs, the lack of connectivity between transfer and savings facilities reduces the propensity to save, even though most households maintain savings accounts with other financial institutions.

Even where deposit facilities are available, many recipients using bank-based transfer services opt to convert their entire remittance into cash at the point of transfer. The preference for cash arises from a combination of factors including lack of access to convenient at-call facilities, weak financial literacy and a lack of local sources of cash income.

While ATMs and mobile phone banking can improve outreach and banking convenience at low cost, their practical application is limited by weak infrastructure, limited geographic penetration and in some cases low levels of customer acceptance. Strategies to encourage the use of ATMs should include expanding the number of ATMs in strategic rural locations; information campaigns targeting rural, less educated clients; an improved security presence during non-banking hours; and steps to reduce the frequency and duration of breakdowns.

MFIs which offer competitive remittance-linked savings products are likely to see a significant expansion in their deposit bases, highlighting the need for attention to regulatory regimes governing deposit taking and financial intermediation. In many of the case study countries, frameworks for regulating and supervising deposit-taking by non-bank institutions are ambiguous or non-existent, and should be resolved in the interests of transparency and certainty.

Demand for non-standard savings products is largely restricted to high-income families, as low- and middle-income migrant households have little interest in financial products that would lock up money for long periods of time. Products targeting higher-income migrants need to be internationally competitive in order to attract their savings, as most migrants in this group have access to banking services overseas.

Foreign currency deposit (FCD) accounts provide a hedge against inflation and usually offer significantly higher interest rates than those available on local currency accounts. With generally high minimum deposit bases and restrictions on withdrawals, FCD accounts are of little interest to lower-income migrant families, but are widely used by higher-income groups in Sri Lanka and the Philippines. There is scope for further marketing of FCD services in the Pacific, where they are available but not widely used.

Long-term migrants who maintain cultural and social ties to their home countries may welcome opportunities to invest their savings safely (for instance, in foreign currency denominated bonds) while explicitly generating economic and social benefits for home countries (perhaps in specific areas, such as rural infrastructure or health), if well designed and well marketed products are made available. Co-contributions from national governments, as has been done in Mexico, can also provide an incentive. Cooperative investments may be feasible in countries such as Fiji which have strong diaspora groups and village-level civil society organisations. MFIs and commercial banks have an interest in supporting remittance contributions to community projects which support rural economic development, and should consider the adoption of savings incentives such as interest premiums on accounts dedicated to cooperative investment.

*Lending services*

Access to pre-departure finance was identified as a significant issue in many of the case study countries. As bank loans are not generally available for these purposes, households that cannot rely on their own savings are often obliged to resort to high-cost informal sources of finance such as migration agents and moneylenders. Significant numbers of respondents indicated that they required loans to finance migration costs, and that they would be interested in pre-departure loan products, suggesting a market opportunity for MFIs. Importantly, such a product could potentially open the migration option to poorer households that cannot currently access affordable migration finance.

There is also scope for MFIs to offer general loans and credit lines, and specific loans for productive purposes, using remittance flows as a guarantee.

Migrant families are not necessarily the best entrepreneurs. A supportive regulatory framework for financial intermediation can assist in channeling remittance deposits to the most promising local entrepreneurs, who may or may not be migrants themselves. The regulation of savings mobilisation should take account of MFI size and capacity.

Close monitoring and regulation of deposit-taking activities is appropriate for small NGO-led MFIs.

MFIs can address a gap in the credit market for middle-income families who may be poorly served by both low-end small-scale informal lenders and the high-end loan products offered by mainstream banking operations.

There is scope for increased flexibility in mainstream bank lending products to extend loan eligibility to some remittance customers with minimal additional risk. Options include:

- Broaden standard loan eligibility requirements to allow remittance streams to be considered in credit evaluations, for example, where a customer has a substantial savings balance and a history of stable remittance flows.
- To demonstrate repayment capacity, borrowers could make a prior agreement with their bank to reach an agreed savings target in 6-12 months.
- Loans could be issued on the condition that funds are remitted through the bank.
- With evidence that migrants demonstrate better repayment rates than recipients, banks could consider issuing loans directly to migrants and deducting installments from remittances.

*Improving the local business environment*

Remittance inflows into an area do not create a commensurate expansion in local business activity.

Some households invest a share of their income in microenterprises; however, business activities were usually less important than remittances in the household economy, and the amounts invested are generally small.

In all of the case study countries, serious inadequacies are apparent in terms of: the absence of proactive business development policies and enabling environments; infrastructure, market and skills constraints; regulatory constraints; and economic and in some cases political uncertainty.

Evidence from past programs indicates that business development services are most effectively delivered by specialist agencies with training and community development skills. Interventions should target the strong enterprises and 'pick winners' that have the potential to grow employment opportunities for others.

*Non-financial support services for migrants and their families*

Migrant support policy is underdeveloped in most of the case study countries.

Development impacts are conditioned by the ways in which people access migration and overseas work opportunities, the levels of protection available to migrant workers overseas, and support services available to their families at home.

Community-based MFIs, particularly those which combine financial services with a strong social mandate, are well-positioned to offer a variety of non-financial support services, including:

- Communicating information to migrants on their rights as migrants and workers, job opportunities, reputable migration agents, and remittance transfer options;
- Providing financial literacy education and financial planning assistance;
- facilitating links between migrant-sending areas and overseas migrant communities.

## INTRODUCTION

In 2005, 190 million people lived outside their country of birth, and 82 per cent of them come from developing countries (World Bank 2007*a*). Migrant remittances have expanded in the last three decades to become a key balance of payments item in many developing countries. At over $200 billion per annum, the value of funds remitted to developing countries far exceeds that of official aid and is second only to foreign direct investment inflows. In response to their growing significance as contributors to GDP and household livelihoods, there has been increasing policy interest in remittances as a development resource, and several recent volumes and studies by agencies such as the World Bank consider policies and processes for harnessing their developmental impacts (see for example Maimbo et al 2005, Carling 2005, World Bank 2006, Terry and Wilson 2005).

This Report presents the findings of a six-country Asia-Pacific study on 'Leveraging Remittances with Microfinance'. The purpose of the study is to investigate the potential for remittance-linked financial services to contribute to household well-being and economic development in six case study countries: Fiji, Samoa, Indonesia, the Philippines, Sri Lanka and Timor Leste. It uses data gathered from remittance recipients, returnees, local financial institutions and other key informants to examine migration patterns, remitting behaviour, savings and expenditure in remittance-receiving households, and usage of financial services. The aim is to provide a resource for policy-makers, financial institutions and donors in designing strategies which maximise the contribution of remittances to economic and social development in the Asia-Pacific region.

All of the six case study countries send significant numbers of their nationals into labour markets abroad and receive sizeable international remittances. Yet they also represent a range of situations: from heavily remittance-dependant economies like Samoa, to much more diverse economies like Indonesia; from countries with clearly established migration and remittance policies and institutions to those without; and with a broad range of factors influencing the opportunities and constraints faced by remittance-receiving households and communities.

This study examines these diverse contexts, to identify opportunities for specific development interventions (policy, programs and products), as well as to understand the general patterns influencing the development impacts of remittances. Starting from the perspective that remittances comprise an important economic resource for both local households and larger economies, the central question of this research is: how can the development impacts of remittances be 'leveraged' through better policy, products, services, or other specific actions?

Our approach recognises that the key development actors in the remittances story are international migrants and their home households: those who earn, send, receive, and spend, invest or save remittances. Understanding how to leverage the development impact of remittances thus requires understanding the particular constraints and opportunities faced by migrants and their households, as well as the larger contexts influencing their choices and those of their neighbours.

The methodology of the six country studies has thus blended a macro-level attention to remittance flows, banking services, and policy and regulatory context in the six study countries, with micro-level attention to the situations of remittances-receiving households in specific local contexts, and case studies of the remittance-linked services available in each area. This approach, which employed a mix of desk research, policy analysis, case studies of financial institutions and field research (including household surveys, interviews and focus groups) for each case-study country, has yielded valuable insights for both policy and practice.

The recommendations of this report are focused on identifying ways to leverage the development impact of remittances, for both migrant-sending households, and for the larger communities of which they are a part. The underlying assumption here is that good development interventions must be both *responsive* and *visionary*: responsive to the identified needs of key groups such as remittance-receiving households, and then drawing on broader perspectives to envision how these needs might be met while 'leveraging' broader development benefits. It is here that the cross-country and multi-partner approach to this study has been particularly illuminating, allowing for a cross-pollination of ideas and approaches.

This report focuses on remittances, yet our findings highlight that migration processes are central to the kinds of development outcomes that can be achieved. The study focused on leveraging the economic development impacts of remittances for households, but also reveals a range of important non-economic and community-level impacts. Finally, the study's goal was to explore the role of financial services in leveraging remittances. It has done so, but has also unearthed broader policy lessons and practical needs well beyond the limits of finance. While attempting to take a narrow, focused view, we have repeatedly been led out to the broader contexts of the remittances–development nexus. Our findings must be presented in this context.

The structure of the Report is as follows:

- Part One synthesizes the findings of the country studies. It is divided into two sections.
    - The first section discusses the importance of remittances and their current development impacts for both household and national economies in the six case study countries. Summarising key findings from the country studies, this section identifies key similarities, differences, and issues that

must be addressed in the quest to leverage the development impacts of remittances.

- o The second section discusses areas of need for financial products that are appropriate, affordable and accessible for migrant workers and their families, and policy and regulatory issues that impact on the developmental potential of remittances.

- Part Two presents the full country studies for Fiji, Samoa, the Philippines, Sri Lanka, Indonesia, and East Timor, each with a country background, report on survey findings, and recommendations.

It is hoped that this Report succeeds in providing important insights on the challenges and opportunities of leveraging the development impacts of remittances, and in stimulating responsive and visionary strategies which maximise the contribution of remittances to economic and social development in the Asia-Pacific region.

**Methodology**

This project has been structured as a comparative study of the actual and potential development impacts of international migrant remittances in six different country contexts, with a specific focus on the role of financial services. The study has thus blended a macro-level attention to remittance flows, banking services, and policy and regulatory context in the six study countries, with micro-level attention to the situations of remittances-receiving households in specific local contexts and the remittance-linked services available in each area. The research process was a collaborative venture, with active involvement from industry partners, including microfinance service providers in the study countries.

While methodological details were adapted to country-specific conditions, each country study contained the same basic elements:

1) At the macro level, each country study included a desk-based overview of the national economic, social, institutional and political context as it relates to microfinance and remittance. Specifically, each country study provided:

   a) A review of the financial sector policy and regulatory environment and other economic, political and policy issues affecting the transformation of remittances into development capital in each country, with a focus on financial sector governance, the institutional capacity of banks and MFIs, and the absorptive capacity of the microenterprise sector; and

   b) A country-level analysis of remittance flows, examining the contribution of remittances to macroeconomic and household-level development.

2) At the micro level, each country study involved in-depth field research comprising surveys of remittance-receiving households, focus groups and in-depth-interviews with remittance recipients and returnees, and profiles of case-study microfinance providers. These yielded:

a) An inventory and description of key financial services available to remittance recipients and returnees in the study areas, including profiles of key microfinance institutions and their products,

b) Detailed information on the remittance transfer methods and financial services used by remittance-receiving households in the study area,

c) Detailed demographic and socioeconomic information on remittance-receiving households and their use of remittance funds, and

d) Information on levels of satisfaction with current remittance transfer services, as well as areas of unmet need and demand for remittance-linked services.

# PART 1: SYNTHESIS REPORT

Judith Shaw
Robyn Eversole

SECTION ONE
REMITTANCES AND THEIR DEVELOPMENT IMPACTS

## 1. MACROECONOMIC IMPACTS

The sheer size of international remittance flows captures the imagination, and the volume of money sent home by international migrants is continuing to increase. In 2006, remittance flows to developing countries through formal financial channels alone were conservatively estimated at $206 billion, up from $85 billion in 2000 and $193 billion in 2005, making remittances the largest source of external financing for developing countries after FDI (World Bank 2007). As Table 1 indicates, with the exception of FDI in Indonesia and ODA in Timor Leste, remittance flows to the case study countries are significantly larger than other types of flows. Due to deficiencies in data collection in some countries and the widespread use of informal transmission channels, recorded remittances understate actual remittance flows, and it is estimated that the inclusion of unrecorded remittances would increase the total by 50 per cent or more (World Bank 2006). While much of the dramatic increase in recorded remittances since 2000 is attributable to improved data collection and a reduction in the costs of formal transfers, there has also been a substantial increase in total remittance flows, driven by a growth in the number of migrants and in their incomes.

### Table 1: The case study countries: remittances and other financial flows*

| | GDP per capita | Recorded remittances ($ million) | FDI ($ million) | ODA ($ million) | Remittances (per cent of GDP) |
|---|---|---|---|---|---|
| Fiji | 3,280 | 300.0 | 67.0 | 56.3 | 10.3 |
| Indonesia | 1,280 | 3,000.0 | 5,556.0 | 1,405.0 | 1.0 |
| Philippines | 1,300 | 12,800.0 | 2,345.0 | 562.0 | 10.0 |
| Samoa | 2,722 | 96.0 | 0.5 | 47.0 | 22.0 |
| Sri Lanka | 1,160 | 2,300.0 | 480.0 | 796.0 | 9.7 |
| Timor Leste** | 366 | 5.0*** | 4.0 | 210.0 | 2.9 |

* Except where otherwise noted, all monetary values in this report are expressed in US dollars.
** Non-oil GDP.
***Approximate figure based on primary research in East Timor.
*Sources: Country Studies, Development Assistance Committee 2007 Development Cooperation Report 2007, UNCTAD 2006*

Remittance flows have distinctive features which make them more progressive and broad-based in their distribution than either aid or FDI. Unlike other financial flows, remittances flow directly to households, many of which are poor, and they are not subject to the problems of leakage and mismanagement that are sometimes associated with official development assistance. At the national level, Adams and Page (2005) have shown a statistically significant relationship between the quantity of remittances entering a country, and the number of people who pass the dollar-a-day poverty line. However, remittances and their macro-level equity impacts are not evenly distributed between regions or socioeconomic groups. In Indonesia, for instance, remittances make a relatively small contribution to GDP but have a concentrated impact in high migrant-sending districts such as East Java. In Sri Lanka, there are observable differences in remittance impacts between certain western coastal regions, which send a high proportion of migrants to relatively high-wage Italy, and other rural agrarian districts which receive remittances from the low-wage Middle East.

In addition, remittances may contribute significantly to macroeconomic stability in recipient countries, as they are less volatile than other external flows and operate counter-cyclically. Remittances typically increase in response to macroeconomic shocks caused by natural disasters or political or financial crises in recipient countries, as migrants increase their contributions to help their families through difficult times. In the Philippines and Indonesia, for example, there was a growth in remittance receipts in response to the 1997 financial crisis (World Bank 2006), and in Samoa, there is evidence of increases in remittance flows in response to recent cyclones and subsequent economic downturns (IMF 2005). In Sri Lanka, remittance increased sharply following December 2004 tsunami, as migrant workers returned (Deshingkar *et al* 2006) In Fiji, the political crises associated with military coups in 1987, 2000 and 2006 prompted dramatic increases in migration, although it is not clear from the national accounts data whether there were corresponding increases in remittances.

## 2. HOUSEHOLD-LEVEL IMPACTS

There is an extensive literature on the household-level development impacts of remittances. Recent research has linked migrant remittances with poverty reduction, both directly (Adams and Page 2005), and through spillover effects on non-migrant families (Yang and Martinez 2005, Taylor 1999). Remittances have been found to have a positive effect on savings and investment, increasing the propensity to save in recipient households (Ratha 2003, Stalker 1994), providing hard currency for investment in capital goods and smoothing consumption (Ammassari and Black 2001, Black *et al* 2003). They account for a substantial and growing proportion of investment in small and medium enterprises in recipient countries (Woodruff and Zanteno 2001, McCormick and Wahba 2002). There is also evidence that remittances are invested in human capital-building community infrastructure such as schools and health clinics (Martin et al 2002, Orozco 2000).

When considering the development impacts of remittances specifically (apart from the broader issues related to migration and development), two sets of factors play a key role in determining the development impacts of remittances for households. They are: 1)

**Remitting behaviour** (the size, frequency and duration of remittances); and 2) **How remittances are employed in the household economy of recipients** (savings, expenditure and investment behaviour). Both factors were investigated by the country studies, and they key findings are presented below.

**Remitting behaviour**

The country studies sought to investigate the dynamics of remitting behaviour: how much migrants remit and how often, the mode of transmission, who receives remittances, and how the characteristics of migrants and their jobs influence remittance flows.

Key findings in relation to remitting behaviour are summarised below:

- Average remittances were not large, ranging roughly between US$100 and $500 across the study countries. However, there were substantial variations in the size and frequency of remittances, even between households in the same village, and in a few cases individual remittances were very large, in the many thousands of dollars.

- While most households receive regular remittances – usually monthly – many receive infrequent or irregular remittances. These are often lump sums sent in response to a request for funds to support a land purchase, business investment or community obligation. There are patterns among countries, with regular monthly remittances predominating in the Philippines and Sri Lanka, while less frequent remittances are more common in Samoa and Indonesia. In Fiji, regular remittances were very common among short-term or recent migrants, but much less common among migrants who had been abroad for five years or more.

- The vast bulk of remittances to the Asian countries are sent to the migrant's immediate family, usually to a spouse, parent of sibling. In some cases migrants remit additional funds to their personal bank accounts. In the Pacific countries, while the migrant's immediate family receives the largest share of remittances, migrants also remit to other households which are part of their extended families, and to church and community associations.

- While most remittances are in cash, 'in-kind' remittances in the form of goods sent back or brought home by returning migrants are substantial, accounting for 10 per cent or more of total remittances. In-kind remittances are typically electrical appliances and other consumer durables. Imports of capital goods by returning migrants are rare.

In the case study countries a number of factors, discussed below, were found to influence the size of remittance flows to households:

## Migrant destinations

Each of the case study countries receives remittances from a diverse range of sources. In the Pacific case study countries, the most important migrant destinations are the Pacific Anglophone countries of Australia, New Zealand and the US. Additionally, the UK has become a significant destination country for Fijian males employed under the British army's Commonwealth Soldiers program. Reliable aggregated data on migrant destinations in Timor Leste does not exist, but the available information indicates that the main sources of remittances are developed countries, predominantly Australia, the UK and Ireland.

In the other Asian case studies, there is a more eclectic mix of developing and developed country destinations. In the Philippines and Sri Lanka, the Middle East is the most important destination region; however, both countries also send substantial numbers of workers into labour markets in Europe, East Asia and (in the case of the Philippines) North America. Malaysia is the principal destination country for Indonesian migrants, due to its close proximity and linguistic and cultural links between the two countries, with significant number of Indonesian workers also in the developed East Asian economies of Singapore and Hong Kong.

Globally, more than half of migrants from developing countries migrate to other developing countries. However, given substantial wage differentials for migrant workers between developed and developing countries, South-to-South flows represent only 30-45 per cent of total flows to developing countries. Similarly, the country studies indicated that developed countries account for a disproportionate share of remittances in relation to actual migrant numbers. In the Philippines, the US is the second largest source of remittances after Saudi Arabia, but does not appear on the list of the top ten destinations for Filipino migrants: indicating that a large share of remittances is coming from a relatively small number of migrants in the US. In the Sri Lankan sample, the mean value of individual remittances from Europe and Eastern Asia was more than double that of the Middle East, at $285 and $128 per month respectively. Similarly, the highest remitting destinations in the Indonesian sample were Singapore ($206) and Hong Kong ($198), compared with Malaysia at $110.

## Occupation

There was considerable variation both between and within countries in migrant skills profiles and occupations. The Pacific Island countries have relatively strong migrant skills profiles, reflecting broad access to secondary education and an emphasis on training people for overseas work. In the Samoan and Fijian samples 18 and 40 per cent of migrants respectively had post-secondary qualifications. In Sri Lanka, 15 per cent of the sample migrants had completed secondary school and only 8 per cent had a post-secondary qualification, while in Indonesia only one migrant from the sample had progressed beyond secondary school.

There is evidence that relatively well-educated Filipino migrants often take unskilled jobs due to lack of access to jobs commensurate with their qualifications. Thus, despite a relatively strong educational profile, only 13 per cent of Filipino migrant workers departing in 2006 took up skilled or professional occupations. In the other case study countries the migrant occupational mix is generally consistent with their skills profile: relatively high proportions of migrants from Samoa and Fiji worked in skilled, professional or white collar occupations, at 45 and 28 per cent respectively, while countries with low levels of migrant educational attainment, such as Timor Leste and Indonesia, send vastly higher proportions of migrants to unskilled jobs. In Timor Leste 14 per cent of migrants worked in skilled jobs, while in Indonesia only three migrants from a sample of 223 occupied skilled or supervisory positions.

In Fiji, skilled workers and those in military and quasi-military occupations remit significantly higher sums than unskilled workers, at $353 and $204 respectively. Elsewhere, however, the impact of occupation on remittances is less striking than might be expected. Skilled Sri Lankan migrant workers earn substantially more than their unskilled counterparts, but the choice of destination country is a more important determinant of remittance size than occupation. Thus, unskilled male workers in Europe earn more than skilled workers in the Middle East, and the earnings differential is reflected in their remittances of $257 and $164 respectively. In Samoa, there is little difference between remittances from skilled and unskilled workers, at $190 and $183 respectively.

**Gender**

In all of the study countries, both male and female migrants remit. In the Asian countries, however, women predominate among remitters, while men are the great majority of remitters in East Timor. Men are also a slight majority in Fiji, where there has been significant uptake of military contract employment. In Samoa there is a relatively even balance between male and female remitters. In all countries there was significant gender-based occupational segmentation. Males from the Asian case study countries are concentrated in the construction industry and, in the case of the Philippines, in the maritime industry. The vast majority of female migrants from Sri Lanka and Indonesia, and a significant proportion of Filipinas, work as housemaids; the feminization of the migrant labour force in these countries is due largely to a rapid growth in demand for domestic servants in the Middle East and East Asia. In Fiji, the majority of women work in the health professions, although there too there has been an increase in the number of women working in service roles as ‘care-givers’ in private households, mostly in the US.

Gender-linked wage differentials are substantial, and in most of the case study countries male migrants earn significantly more than women. Indonesia is an exception, due to the predominance of female migrants in relatively high-wage destinations such as Hong Kong, and is the only country in which female migrants remit more than their male counterparts, at $173 and $118 respectively. Although men send more money home in absolute terms, they remit a smaller share of their earnings than women. Men are less likely than women to work in private houses where board and lodging costs are covered by employers, so they need to retain more money for their survival needs. In the Asian countries, gender differences in remitting behaviour are also conditioned by social norms which allow men to keep a share of their wages for personal use but expect women to contribute all of their earnings to the household pool.

**Duration of migration**

In Indonesia and Sri Lanka, most migrants are short-term contract workers who leave their families at home. In contrast, in the Pacific countries, the majority of migrants have obtained permanent residence overseas with their immediate families. In Fiji, however, short-term contract migration is becoming increasingly common. The Philippines combines a large contract worker program with a significant number of remitters who are permanent residents abroad. Nearly all permanent migrants take up residence in developed countries, while the vast majority of short-term contract workers work in developing countries.

Undocumented migration is usually temporary in nature, though of longer duration than most contract migrations. Undocumented migration is significant in Indonesia and Sri Lanka, and it appears to be increasing in Fiji.

Long-term and permanent migration raises issues about the sustainability of remittance flows for households. Although different studies present conflicting findings, there is considerable evidence suggestive of a decline in remittances over time ('remittance decay') with the growing social and economic integration of permanent migrants in their adopted countries and a diminishing sense of connection with their relatives at home. Additionally, there is strong evidence of inter-generational declines in remittances as overseas-born migrants have a reduced sense of kinship with their overseas relatives.

In the two Pacific case study countries the evidence for remittance decay among permanent migrants is ambiguous. In the Fiji sample, there was no decline in the overall value of individual remittances over time, but long-term migrants remit far less frequently than recent migrants, typically sending large lump sums in response to requests from home rather than regular small payments to support consumption. In the Samoan sample, long-term migrants remit less than recent migrants; however, fewer than 5 per cent of respondents reported a fall in the value of their remittance receipts over time. Thus, there is little or no change in patterns of remitting behaviour over time; rather, older departure cohorts consistently remit less than more recent cohorts, possibly reflecting the higher skills profile of recent migrants and their tendency to opt for relatively high-wage destinations such as the US.

Even where migration is not a long-term undertaking, remittances may generate a long-term household income stream, as serial migrations are common among short-term contract workers. For some contract workers and their families, migration is a short-term strategy aimed at a specific goal such as a new house, a child's education or a post-return business venture. However, evidence from the Asian case studies indicates that many households view overseas labour markets as a long-term income source. In Sri Lanka and Indonesia in particular, migrant workers frequently extend their contracts while overseas, and those who return home often take up a new job abroad within a few months, or send another family member overseas. In Sri Lanka, it is not uncommon for women working as housemaids in the Middle East to spend up to 15 years of their working lives abroad, with daughters following their mothers into overseas employment.

**Remittances in the household economy**

As the economic decisions of recipients determine the household-level development impacts of remittances, the country studies sought to investigate the dynamics of remittance usage, including savings, expenditure and investment patterns and the role of remittances in the household economy. Key findings are summarized below.

**Impact of remittances on household incomes**

In general, remittances were found to have a significant positive impact on economic welfare on objective and subjective measures. In Sri Lanka, Indonesia and Fiji, where the average incomes of remittance recipients were compared with those of non-migrants, the remittance-receiving households did far better (Table 2). In Sri Lanka, the poverty incidence among the sample remittance-receiving households was only 3.2 per cent, in comparison with the national rural poverty headcount ratio of 24.7 per cent. In the Philippines, 69 per cent of migrant-sending households reported a positive shift in their economic status relative to neighbouring households following the migrant's departure. In Fiji, however, 40 per cent of the sample remittance-receiving households were in relative poverty, falling below a subjective deprivation line representing the minimum cash income required 'just to get by' (Luthria et al 2006).

**Table 2: Average household incomes: migrant and non-migrant households ($USD per month)**

| *Country* | **Average income (migrant)** | **Average income (non-migrant)** |
|---|---|---|
| Fiji | 597 | 500 |
| Indonesia* | 305 | 121 |
| Sri Lanka | 187 | 117 |

*Sources: Country reports (Part 2), FIBS (2006), Central Bank of Sri Lanka (2005)*
* Based on a comparison of migrant and non-migrant households in the survey villages

Most households across the six countries reported an improvement in their living standards as measured by asset acquisitions. In the Philippines, the average number of 'major' assets owned by remittance-receiving households increased from five to nine following the migrant's departure. In Sri Lanka, 59 per cent of respondents reported a 'substantial' improvement in asset ownership post-departure, while 16 per cent reported a 'moderate' improvement.

At the same time, it is important to observe that a few households suffered economic costs from migration, for instance when cheated by overseas employers after paying high up-front costs to migrate.

**Contribution of remittances to household income**

In the four case studies which examined the contribution of remittances *vis-à-vis* other household income sources, remittances were found to be by far the largest contributor, accounting on average for between 61 and 82 per cent of income in remittance-receiving households (Table 3).

In Fiji and Sri Lanka, analysis of levels of remittance dependence according to household income produced interesting findings. In Fiji, the poorest remittance-recipients were the most remittance-dependent: in households below the poverty line, remittances accounted for 66 per cent of income, whereas in the highest income group the share of remittances fell to 55 per cent. In Sri Lanka, middle-income households were the least remittance-dependent. Reliance on remittances was greatest in the two lowest quintiles, then rose again in the two highest quintiles. The poorest households in Sri Lanka receive low-wage remittances, mostly from housemaids working in the Middle East, and adults at home are unable or unwilling to participate in local labour markets, while several of the richest households receive large, stable remittance flows, typically from East Asia or Europe, which enable recipients to live comfortably with minimal participation in the local economy. Middle-income households in the third quintile, however, had the most balanced distribution of local and overseas income sources. Like poorer households, most of their remittances came from low-wage employment in the

Middle East, but middle-income households were more likely than their richer and poorer counterparts to maintain local wage-earning activities and microenterprises.

**Table 3: Average contribution of remittances to household income**

| Country | Per cent contribution of remittances to household income |
|---|---|
| Fiji | 61.4 |
| Indonesia | 81.6 |
| Philippines | 64.0 |
| Sri Lanka | 69.5 |

**Remittances and local income sources**

The impact of remittances on local household income sources is complex. The existing research points in two directions. On the one hand, the presence of an additional income source from overseas can induce household members to reduce or abandon their local economic activities (Gamburd 2000, Chami *et al* 2003). On the other, remittance may stimulate an increase in local contributions to household income by supporting microenterprise investment (Woodruff and Zanteno 2001). Both factors may be at work simultaneously, with evidence that remittances reduce wage employment but increase self-employment in recipient households (Funkhauser 1992).

In the case study countries, most households were found to combine remittances with one or more local income-generating activities. In Sri Lanka, 65 per cent of migrant-sending households combined remittances with one local income source, and 15 per cent earned local income from two or more sources, while in Indonesia, 53 per cent had one local income source and 28 per cent had two or more. However, a substantial minority of households in each country have no local income sources and are entirely dependent on remittances (Table 4). Moreover, in many cases local income sources were marginal farm-based semi-subsistence activities which earned minimal cash incomes. In all countries there is clear evidence of labour under-utilisation in recipient households, with high rates of unemployment and under-employment.

**Table 4: Households with no local income source**

| Country | Per cent of households with no additional income source |
|---|---|
| Fiji | 17 |
| Indonesia | 20 |
| Philippines | 14 |
| Sri Lanka | 19 |

*Source: Country studies, Part 2*

International evidence on the impact of remittances on household labour supply is mixed, with some studies reporting a decrease and others an increase in local labour force participation following the migrant's departure. In Indonesia, migrant households earn substantially less than non-migrants from local income sources (although their overall incomes are higher), suggesting the partial displacement of local income sources by remittances. In Sri Lanka, 27 per cent of households reported an increase in local economic activity following the migrant's departure, while 23 per cent reported a decrease. There is a well-documented tendency in Sri Lankan migrant households for men to reduce or abandon their jobs while their wives are sending remittances from the Middle East, and it was estimated that about 15 per cent of respondents fell into this category.

Internationally, the investment of remittances in microenterprises has attracted considerable attention as a strategy for local economic growth. A strong local microenterprise sector can enhance the developmental impacts of remittances by raising household incomes, supporting diversification, creating jobs for non-migrant household members and supporting post-return livelihoods. Remittances may assist in addressing capital constraints on microenterprise growth. In high migrant-sending regions, remittances may stimulate microenterprise investment by strengthening local demand and opening up new business opportunities.

In the country studies, the impact of remittances on microenterprise activity is mixed. Between a fifth and a half of respondent households in each of the case study countries operated microenterprises. In Indonesia, the evidence is suggestive of a decline in microenterprise activity in migrant households: 25 per cent of migrant-sending households were operating businesses, in comparison with 53 per cent of non-migrants, and the businesses of the non-migrants earned on average nearly twice as much as those of the migrants. In the Philippines, however, there was evidence of a positive connection between remittance and microenterprise development, with 22 per cent of respondents reporting having opened a new business post-departure and 20 per cent stating that they were spending more on their businesses as a result of receiving remittances.

In Sri Lanka, there were significant differences between poor and non-poor migrant households in patterns of microenterprise activity. The evidence suggests that remittances may support increased microenterprise activity in high-income households by providing funds for investment, while in low-income households, remittances displace microenterprise activity. Poor households were more likely than others to close or scale back business activities following the migrant's departure, particularly where the enterprise was previously operated by the departing migrant. Moreover, among households which were not operating a business at the time of the survey, plans to start or reopen a business following the migrant's return were positively correlated with income.

**Uses of remittances**

In most households, remittances were found to contribute to savings, asset building and housing improvements, and for a smaller number, sustained improvements in income generating capacity. There was evidence that the developmental impacts of remittances vary with household income and are greatest for non-poor households, while the poorest migrant households face particular difficulties in transforming remittance income into sustained improvements in well-being.

Remittances are spent primarily for routine household expenses, as well as assets acquisition, savings (particularly for education), housing, and for some households, business investments. In rural Fiji and Samoa, where households meet a high proportion of their food needs from subsistence production, remittances are used primarily for routine consumption needs than cannot be met from the subsistence economy. Loan repayments are a major destination of remittances in Indonesia, while many remittances in Samoa are used for traditional and community expenditure, including church donations.

There were wide variations in the proportion of households which saved a share of their income (Table 5). These variations are attributable at least in part to the relative accessibility and convenience of savings facilities, and are discussed further in Section 2. Significant savings accumulation was, however, unusual, and few recipients used remittances to start or expand entrepreneurial activities. Rather, most savings were destined for short and medium term use (e.g. education expenses, housing improvements) and as a cushion for emergencies.

**Table 5: Savings behaviour among remittance recipients**

| *Country* | **Households which saved during the survey period (per cent)** |
|---|---|
| Fiji | 38 |
| Philippines | 75 |
| Samoa | 75 |
| Sri Lanka | 63 |
| Timor Leste | 23 |

## SECTION TWO
## LEVERAGING REMITTANCES: DEVELOPMENT POLICY ISSUES

In this section, we consider remittance-linked financial services and, more generally, the policy and institutional environments of the six study countries. Appropriate, accessible and affordable financial services have a key role to play in assisting migrant families to manage their money and build financial assets. We begin by reviewing the lessons learned from this study with respect to existing remittance-linked financial services and the policy and regulatory environment in which they operate. We then review the case study findings on broader policy issues relevant to the development impacts of remittances, notably the domestic environment for small business development and the role of non-financial support services for migrants and their families. Through this section, we present recommendations for both financial institutions and governments as guidance for enhancing the development impact of remittances.

Significant variation exists among the case-study countries in the structure and quality of the policy environment regulating migration and remittances. Only two countries, Sri Lanka and the Philippines, had systematic policy frameworks managed by designated government agencies. Both countries have good research bases on international migration and a number of state organisations, NGOs, and specific programs dedicated to migrant well-being. Both have well developed commercial and cooperative banking sectors and sophisticated money-transfer services; and a strong presence of microfinance organisations. The new state of East Timor has designed and implemented a small number of flagship programs and policies, and further developments are likely with the deepening of its institutional infrastructure. Meanwhile, Indonesia, Fiji and Samoa have adopted a laissez-faire approach, with little or no attempt to provide a policy framework or develop specific incentives around migration and remittances. The absence of systematic policy development is striking in the Pacific countries in particular, given the centrality of remittances in their economies.

The socioeconomic diversity of migrant-sending families must be taken into account in the design of policies aimed at harnessing remittances for development. One message that has come out strongly in this study, both within and between countries, is the enormous heterogeneity of remittance-receiving households with respect to remitting behaviour, the role of remittances in the household economy, remittance usage and ultimately, the economic outcomes of migration. Policies which aim to strengthen the investment climate at home and encourage high-income migrants to remit savings to local financial institutions rather than storing them offshore are appropriate for non-poor households in receipt of large, stable remittance flows. However, such policies have little relevance for poor households which have limited ability to save or invest, and use remittances to support consumption. The interests of low-income migrant families are best served by policies aimed at reducing the costs of migrating and remitting, promoting financial literacy, extending financial services to remote rural areas and protecting the welfare of migrants abroad and their families at home.

**Remittances, microfinance and development**

By being attentive to the needs of migrant workers and their families and developing services which are appropriate and attractive to this significant market segment, financial institutions can play an important role in strengthening the contribution of remittances to sustained improvements in living standards. By assisting migrant families to save and to manage their income streams, financial institutions can support asset accumulation, encourage sound financial habits and improve creditworthiness, thereby promoting sustained poverty reduction. Financial services which reduce pre-departure costs and remittance transfer charges increase disposable income. The strengthening of financial intermediation mechanisms assists in channelling remittance savings into local business development, supporting economic growth and the development of sustainable rural livelihoods.

In the Asian case study countries in particular, banks have taken the lead in developing innovative micro-level products targeting remittance clients. However, it is clear from the country studies that existing financial services could do more to reduce transfer costs and attract remittances into domestic financial assets and investment. Access problems and, in some cases, a lack of connectivity between transfer points and savings facilities, discourage saving as they leave recipients no option but to take their transfers entirely in cash. Low interest rates on savings accounts and a lack of appropriate remittance-linked business credit facilities have led migrants and recipients to invest in non-productive assets such as housing and consumer durables and to hold savings offshore. In some cases, excessively high transfer costs reduce the disposable income available to recipients.

Given the socioeconomic backgrounds of most remittance-receiving households, and the small size of most of their financial transactions, the focus is on microfinance – the delivery of small-scale financial services. Microfinance began in the 1970s as a grassroots movement to provide financial services to the many households in developing countries which lack access to the formal banking sector. Since its beginnings, microfinance has moved well beyond its origins among village-level NGOs and cooperatives, and there is now a much greater diversity in the range of institutions offering microfinance services. Many microfinance institutions (MFIs) are large, well-established institutions with significant capital bases and professional management teams, and operate at a regional or national level. With the mainstreaming of microfinance in the 1990s, many commercial banks in developing countries, including industry partners the Bank Rakyat Indonesia and the ANZ Bank in the Pacific, operate microfinance programs as a supplement to their more traditional operations and markets.

Microfinance has proven an effective tool in reducing poverty and strengthening local economic opportunities in poor communities and regions. Many remittance-receiving households are poor and in remote rural locations, and the size of their financial transactions is typically small. Moreover, prior to the migrant's departure, many remittance-receiving households had limited engagement with the cash economy. They fall outside standard bank client profiles, but are well within the market segment targeted by microfinance. By extending remittance-linked services to the 'unbanked', microfinance has the potential to promote broad-based development, as well as vastly expanding the volume of remittance flows mediated through the financial system.

Given institutional diversity within the MFI sector, and the variety of financial services required by migrant families, different types of institutions have particular strengths and weaknesses in addressing diverse client needs. Banks have access to and expertise with international transfer systems and are permitted to engage in unrestricted foreign exchange dealings, and are thus usually better-positioned than non-bank MFIs to offer transfer services. Non-bank MFIs are particularly good at reaching poor and remote communities and targeting credit customers considered by banks to be high-risk. They are also good at providing supplementary services, such as financial literacy training and business development assistance, which have been found to be of particular benefit for low-income groups. In addition, unlike commercial banks, which are driven by market imperatives to re-route rural savings towards more profitable urban and large-scale investments, the local and pro-poor mandates of most non-bank MFIs encourage the reinvestment of savings in the rural migrant-sending communities which produce them.

Internationally, the microfinance sector has begun to respond to demand for financial products that make international transfers easier and cheaper, assist migrant-sending households with cash management, and make the saving and investment of remittance income more accessible and attractive. Among the case study countries, the entry of MFIs into remittance markets has been uneven. In Sri Lanka, the Philippines and Indonesia, banks are heavily involved in the remittance transfer market and, to varying degrees, have developed savings, cash management and lending products targeting remittance clients. Non-bank MFIs, while they typically number many migrant households among their members, have been slower to enter the remittance markets, and few have developed products targeting remittances. In the Pacific, remittance-linked financial services are relatively undeveloped. Neither banks nor MFIs have identified migrant families as a distinct market segment. The transfer market is overwhelmingly dominated by money transfer organisations (MTOs) such as Western Union, and there is little evidence of market research or product development targeting remittance clients.

In this study, the strongest opportunities identified for non-bank MFIs (NBMFIs) are in remittance-linked savings and loan products. Many of the households in this study save, either formally or informally, and a number indicated that tailored savings or loan products were of particular interest. Some opportunities are also available in the money transfer market, though this is a challenging area for NBMFI involvement. Non-financial services such as information provision and business development services also offer opportunities. As institutional supports for migrants and their families increase, NBMFIs may be able to trade on their local knowledge to provide intermediary services to larger agencies and organisations.

**PROVIDING EFFECTIVE REMITTANCE TRANSFER SERVICES**

In relation to the use of remittance transfer services, the following salient points emerge from the country studies.

- Most households use bank-based or MTO-based transfer services. In Indonesia, the Philippines and Sri Lanka bank-based services are widely used, while Western Union dominates the market in Timor Leste and the Pacific countries.

- Most transfers are through formal arrangements. In the Indonesian and Sri Lankan surveys, informal funds transfer (IFT) methods represented between 10 and 12 per cent of transfers, while in the Philippines, Timor Leste and the Pacific countries, IFTs were estimated at less than 5 per cent. Within countries, there may be regional variations in the propensity to use informal methods. For instance, in Sri Lanka, there is evidence that of high use of IFTs in the northeastern districts, where access to formal banking infrastructure is limited by the prevailing civil conflict, and in regions which send a high proportion of undocumented migrants to countries such as Italy. Bank-based transfers are relatively cheap in Sri Lanka, and the evidence suggests that IFTs are a default option: where formal methods are available, people use them.

- In all case study countries, recipients expressed high levels of satisfaction with the speed, convenience and reliability of the services they use, with approval ratings above 90 per cent.

- While some institutions charge recipients a processing fee, transfer costs are borne predominantly by the sender. In most cases, recipients do not know how much the migrant pays to effect a transfer.

- Remittance transfer costs varied both within and between countries, according to the provider, the level of service and remittance corridor. Strong competition, partnerships among providers, and innovative banking arrangements contributed to relatively low transfer costs in the Philippines and Sri Lanka, while a lack of effective competition (eg. in Fiji) was associated with increased costs and fewer options for remitters. Average transfer costs were highest in the Pacific countries, at over $20 per transaction.

- In most countries, access to transfer services is weakest in rural areas. In Samoa, Fiji and Timor Leste, Western Union is the only transfer agency with significant rural outreach. For rural clients, the cost of travel to the nearest transfer agency is often quite significant in terms of time and fares, and must be factored into overall transfer costs.

- Electronic methods are widely used by banks and MTOs, and were preferred by the vast majority of recipients. MTO wire transfers are virtually instantaneous, while bank-based telegraphic transfers may involve a delay of up to 48 hours for processing by the recipient bank. Paper-based bank drafts are hardly ever used as they are both slow and expensive.

- Although banks in most of the case study countries offer various SMS banking applications, none offered a phone-banking service for remittance transfers at the time of the survey. High rates of mobile phone ownership in all of the case study countries offer the potential for improving access and reducing transfer costs through SMS-based transfer technologies.

*Banks in the transfer market*

From a developmental perspective, transfers to savings accounts are preferable to cash transfers because they encourage savings and reduce the safety risks and potential for leakage associated with holding cash. Where bank-based transfers predominate, as in Indonesia, Sri Lanka and the Philippines, recipients have the option of depositing part or all of the transfer (although, for reasons discussed in the following section, many do not avail themselves of the savings option). In Timor Leste and the Pacific countries, where cash-to-cash transfers through MTOs are the most common method, those who wish to save must take their cash to a deposit facility, which may be some distance away. The lack of connectivity between transfer and deposit points reduces both the incentive and opportunity to save.

In Sri Lanka and the Philippines, competition and innovative partnerships with MTOs and financial institutions in destination countries have contributed to substantial reductions in bank-based transfer costs. In the Pacific, however, bank transfer costs remain unnecessarily high, at around $30 per transaction. In the Americas, banks with cross-border branch networks have devised highly efficient intra-bank electronic transfer arrangements which cost as little as $6 per transaction. The largest commercial banks in Samoa and Fiji, the ANZ and Westpac banks, have extensive branch networks in the key destination countries of Australia and New Zealand, but have made little use of the potential market advantage provided by the opportunity to reduce costs via intra-bank transfers. Standard telegraphic transfers remain the norm, and transfers between ATM accounts are only slightly cheaper than telegraphic transfers.

Through its mobile rural banking program, the ANZ Bank is the only financial institution in Fiji with the potential to challenge the rural market dominance of Western Union. However, the ANZ Bank's transfer service is not competitive with Western Union's, being relatively expensive and inconvenient. It is estimated that the ANZ Bank could increase its deposit base by around $5 million per month by capturing the remittances of its 54,000 rural banking customers. As the only banking institution with a substantial rural presence, and with extensive networks in the major destination countries Australia and New Zealand, the ANZ is well-positioned to compete in the rural remittance transfer market with an accessible, affordable product which allows remittances to be transferred directly to recipient accounts. This would allow it to expand its rural deposit base and promote savings behaviour among remittance clients.

Where large volumes of remittances originate from particular regions in destination countries, bundling arrangements may vastly reduce costs. Sri Lankan banks have devised speedy, low-cost transfer bundling systems with correspondent banks and exchange houses in destination countries. The correspondent agency maintains an account with a Sri Lankan bank, and on receiving cash from the sender, debits a corresponding value from its Sri Lankan account to the credit of an account nominated by the sender. At the end of the day the agency tops up the balance on its Sri Lankan account, thereby covering all of its transactions for the day – up to 500 for the larger exchange houses – with a single electronic transfer. Sri Lankan banks charge handling fees of up to $1.50, and exchange houses charge the sender a similar fee. With minor variations between banks, common features of the system include:

- maintenance of accounts for regular senders by the exchange agent, with magnetic identification cards issued to senders;
- regular recipients are linked to the exchange agent's account in Sri Lanka;
- the agent maintains daily currency rates;
- recipient details, currency conversion rates and commissions appear automatically when the sender's account number is entered, to promote transparency and reduce processing time at the sender's end;
- non-account holders at both ends can use the system on production of identification;
- the sender can view the status of the transaction at the receiving end, to confirm receipt of funds.

Recent international developments in international money transfers via postal networks warrant attention from banks and governments seeking to improve the effectiveness of existing transfer services. The Eurogiro international payments network is a coalition of banks and postal services which provides fast international transfers between more than 60 countries in Europe, Africa and Asia for a fixed cost of $5-8. Its membership includes significant destination countries such as Australia, New Zealand, the US, the UK, South Korea and Italy. Among the case study countries, only the Philippine postal service is connected to the Eurogiro network, while in Sri Lanka, access to Eurogiro is available to clients of the National Savings Bank, an institutional member.

**Non-bank institutions in the transfer market**

The money transfer market is large, lucrative, and offers the prospect of social benefits through opportunities to offer lower-cost services to clients. Not surprisingly, therefore, it has begun to attract serious interest from non-bank MFIs. It is notable that CGAP has recently prepared a technical guide to money transfer services for MFIs (Isern *et al* 2005). However, remittance transfer markets remain a difficult area for non-bank MFIs to enter. Although MFIs in Africa and Latin America have developed successful money transfer services through partnerships with banks, MTOs and postal networks, it may take several years for a service to become profitable (Hastings 2006:16). In the case study countries there was only one example of non-bank MFI engagement in the transfer market, in the form of a pilot project in the Philippines, conducted in partnership with a major bank.

Countries with a well-developed MFI sector tend to have a well-developed mainstream banking sector already providing a sophisticated range of financial services including international transfers (e.g. the Philippines and Sri Lanka). It is difficult for non-bank MFIs to compete in markets that are already relatively well served by transfer services with extensive overseas retail networks. Meanwhile, countries that have limited competition from mainstream banks in the international funds transfer market also tend to have limited outreach by MFIs, and little capacity within them to take on a new and technically complex operations (e.g. Samoa, Fiji and East Timor). In these markets, specialised and relatively expensive money transfer providers (e.g. Western Union) predominate.

Another important finding is that, across the case study countries, the households of migrants are generally satisfied with the money transfer services that they use. Costs vary, but recipients were often unaware of the costs of transfer, as these are generally borne by the remitter. Thus, while there is the potential to provide lower-cost services in some markets, these services should focus in the first instance on providing an accessible service to remitters in key remittance corridors. Meanwhile, convenience, speed and security were not major problems for most remittance recipients, although for Indonesian respondents in particular, there were high costs associated with travel to collect remittances. There is room to provide services that decrease transaction costs for more geographically isolated customers.

In all of the case study countries, institutions seeking to enter the formal transfer market must obtain a foreign exchange licence from their central bank. In Indonesia and Sri Lanka, foreign exchange licences are restricted by legislation to fully fledged commercial banks and (in the case of Sri Lanka) to a small number of designated non-bank institutions such as the postal service. In the other case study countries, non-bank MFIs may apply for a license to exchange foreign currency. Central banks are understandably cautious about the extra supervision and monitoring responsibilities that would result from issuing forex licences to small MFIs, few of which possess the expertise, overseas networks and technological infrastructure required for successful foreign exchange operations.

There is however a case for broadening outreach and increasing competition in the transfer market by expanding the licensing regime to include large established MFIs which possess the capability to handle money transfers. In the Pacific countries and in Timor Leste, it is doubtful that any MFIs possess the required capabilities; but in countries such as Sri Lanka and the Philippines, with their well-developed microfinance sectors, governments should work with selected MFIs to examine the feasibility of MFI-based money transfer services. Governments in the Asian countries should examine the feasibility of allowing MFIs to enter remittance transfer market, with attention to appropriate regulatory reforms, technological and management capacity and identification of suitable overseas correspondents.

If the issuing of full forex licence to MFIs is deemed inappropriate, consideration could be given to licensing MFIs to operate as sub-agents for banks. Partnerships with existing money-transfer providers, in which MFIs can leverage their competitive advantage to reach rural and isolated clients to tie them into established systems, may be the most feasible option for some MFIs. Here, MFIs should choose their potential partners with care, with attention to the four pillars of cost, convenience, speed and security as they affect clients on both sides of borders. Potential partners should have extensive retail networks in key remittance-sending countries, should be open to working with MFIs who are new to the money transfer market, and should charge fees low enough to allow the MFI to offer a competitive service to their clients. In return, MFIs can offer established infrastructure, networks, and market reputation in their target areas among their client groups, with the potential to expand market share accordingly.

International feasibility studies have identified a number of considerations of relevance for prospective entrants to the remittance transfer market (Isern *et al* 2005, Sander 2003):

- Development of transactional service relationships: availability of overseas correspondents, access to reliable information on financial soundness and suitability of correspondents, fee-sharing arrangements.
- Does the institution possess or can it readily acquire the necessary operational and management capacity including the technology required for electronic transfer mechanisms?
- Can it afford to hold sufficient liquidity reserves?

- Size and frequency of expected transfers, as this will affect pricing and revenue projections;
- Profiles of sending and receiving clients. Client characteristics such as age, gender, income and savings capacity, financial literacy, and use of other financial institutions will influence product design and ability to cross-sell other products.
- Competitive environment: what other transfer agencies operate in the area, what market segments do they serve, how well do they meet client needs?
- What transfer product features do clients prefer – low cost, security, speed, convenience?

**PROVIDING EFFECTIVE SAVINGS AND CASH MANAGEMENT SERVICES**

In all countries, most respondent households are 'banked' in the minimal sense of possessing savings accounts. Financial inclusion is a necessary precondition for channeling remittances into savings; however, by itself it is not sufficient. The following general points emerge from the country studies:

- A substantial proportion of remittance-receiving households are regular savers, although there are significant variations between the case study countries. Respondents in the Philippines, Samoa and Sri Lanka were the most likely to report saving regularly.
- Urban households, high-income households and those with significant local cash income sources tend to be the most frequent and sophisticated users of financial services, while poor and rural households tend to be weakly integrated into the banking sector. Many households maintain savings accounts but rarely use them.
- The remittance transfer method used affects the propensity to save. In Fiji, Samoa and Timor Leste, where most recipients collect their transfers from MTOs, the lack of connectivity between transfer and savings facilities reduces the propensity to save, even though most households maintain savings accounts with other financial institutions. In Fiji, respondents who used bank-based transfer services were far more likely than those who used Western Union to report depositing a share of their remittances in savings accounts. Similarly, respondents in the Philippines, where the use of commercial bank-based transfers is most extensive, were more likely than those in other countries to report saving regularly.
- Even where deposit facilities are available, many recipients using bank-based transfer services opt to convert their entire remittance into cash at the point of transfer. The preference for cash arises from a combination of factors including lack of access to convenient at-call facilities, weak financial literacy and a lack of local sources of cash income.

Poorer households which rely heavily on remittances for day-to-day consumption require services which assist them to manage their money effectively. Convenient at-call facilities which enable them to keep their excess cash in the bank, making small withdrawals as needed, are among the most important financial services for low-income families. For those with limited capacity to save, bank accounts are a means of storing money to be called upon when needed, reducing the unnecessary handling of cash, and encouraging the habit of saving.

While ATMs and mobile phone banking offer excellent tools to improve outreach and banking convenience at low cost, their practical application is limited by weak infrastructure, limited geographic penetration and in some cases low levels of customer acceptance. ATMs are often unreliable and 'off-line', while mobile phones depend on effective telecommunications infrastructure and are limited by 'black spots', highlighting the importance of government-supported infrastructure in ensuring that these services are accessible and reliable. In most of the case study countries, ATMs are restricted to major towns, presenting problems of access for remote rural households. In addition, many respondents have a poor understanding of ATM technology and some reported a security concerns at transaction points. In most of the case study countries, the majority indicated that even where ATMs are available, they preferred to visit the bank to conduct their transactions on person with bank staff. Strategies to encourage the use of ATMs should include expanding the number of ATMs in strategic rural locations; information campaigns targeting rural, less educated clients; an improved security presence during non-banking hours; and steps to reduce the frequency and duration of breakdowns.

Remittance savings are beneficial not only for households but also for the financial institutions in which they are deposited. For non-bank MFIs in particular, remittances provide capital to support scaling-up and progress towards financial self-sufficiency, thereby producing potentially significant flow-on effects into local economies and promoting the developmental goals of microfinance. MFIs which offer competitive remittance-linked savings products are likely to see a significant expansion in their deposit bases, highlighting the need for attention to regulatory regimes governing deposit taking and financial intermediation. In many of the case study countries, frameworks for regulating and supervising deposit-taking by non-bank institutions are ambiguous or non-existent, and should be resolved in the interests of transparency and certainty.

There is less obvious potential for MFIs to develop non-standard savings products, as demand for these is largely restricted to high-income families who are unlikely to be microfinance clients. Evidence from low- and middle-income migrant households indicates little or no interest in financial products that would lock up money for long periods of time. Their savings are primarily for specific medium-term goals such as housing improvements and school fees, and they value accessibility and convenience in savings products rather than the financial returns they generate.

High-income families and migrants abroad provide a more receptive market for non-standard products. Products targeting higher-income migrants need to be internationally competitive in order to attract their savings, as most migrants in this group have access to banking services overseas. Foreign currency deposit (FCD) accounts provide a hedge against inflation and usually offer significantly higher interest rates than those available on local currency accounts. With generally high minimum deposit bases and restrictions on withdrawals, FCD accounts are of little interest to lower-income migrant families, but are widely used by higher-income groups in Sri Lanka and the Philippines. There is scope for further marketing of FCD services in the Pacific, where they are available but not widely used.

Established long-term migrants who maintain cultural and social ties to their home countries may welcome opportunities to invest their savings safely (for instance, in foreign currency denominated bonds) while explicitly generating economic and social benefits for home countries (perhaps in specific areas, such as rural infrastructure or health), if well designed and well marketed products are made available. Co-contributions from national governments, as has been done in Mexico, can also provide an incentive. The use of remittances for cooperative social investment requires not only an effective financial infrastructure; but also well-established social networks capable of channeling overseas earnings for local development. Cooperative investments may be feasible in countries such as Fiji which have strong diaspora groups and village-level civil society organisations. MFIs and commercial banks have an interest in supporting remittance contributions to community projects which support rural economic development, and should consider the adoption of savings incentives such as interest premiums on accounts dedicated to cooperative investment.

Other options available to governments and financial institutions seeking to encourage remittance savings include:

- Tax incentives such as the removal of withholding taxes on accounts in which remittances are deposited;
- Premium rates for foreign exchange conversions to those who meet predetermined savings targets;
- Linking remittance savings to eligibility for credit.

## REMITTANCE-LINKED LENDING

MFIs are well-placed to address demand for pre-departure finance. The costs related to accessing migration opportunities – such as identifying an employer, obtaining visas and other required documentation, as well as travel – can be significant for migrants and their home households. As bank loans are not generally available for these purposes, households that cannot rely on their own savings are often obliged to resort to high-cost informal sources of finance such as migration agents and moneylenders. Significant numbers of respondents indicated that they required loans to finance migration costs, and that they would be interested in pre-departure loan products, suggesting a market opportunity for MFIs. Importantly, such a product could potentially open the migration option to poorer households that cannot currently access affordable migration finance through their current networks.

In addition to loan products that finance the migration itself, there are other opportunities for remittance-linked lending. These include:

*General loans and credit lines that use the remittance as a guarantee.* In the same way that a salary can be used to guarantee a bank loan, regular remittance receipts can be used to guarantee loans for consumption, housing, special events, travel, emergencies, or other purposes, including generic credit lines. Such loans and credit lines can offer households more money-management flexibility. They also potentially reduce reliance on transfer services, for instance the need to pay for a fast transfer provider or make special trips into town to see if a transfer has arrived. At the same time, credit services do involve the risk of over-spending, and credit-card products were sometimes viewed with hesitation for this reason.

*Loans for specifically productive purposes that use the remittance as a guarantee.* As above, regular remittance receipts can be used to guarantee loans, but with a specific focus on lending for productive uses. The availability of targeted loans could encourage more remittances to be channeled to productive purposes. The most obvious area for targeting is business development; nevertheless, microenterprise loans are generally available through MFIs in the study areas, and so were not identified as an area of specific need. Yet it is important to recognize that remittance-linked enterprise loans can potentially offer greater flexibility than existing loan products: for instance to loan larger amounts, to loan to different kinds of clients, or to loan for innovative purposes and projects that would not normally qualify for a microenterprise loan.

*Loans funds built from the capture of remittance-linked savings and investment.* Savings can be recycled into funds for existing lending programs. At the same time, there is also the opportunity to consciously harness the remittance resource to finance targeted loan funds. For instance, an MFI could develop and market a savings or investment product that guarantees to use these funds for on-lending to specific target groups in the local area. Financial institutions can and should offer services aimed specifically at migrant households, but it is important to acknowledge that recipients and returnees are not necessarily the best entrepreneurs. Governments should ensure the existence of a supportive regulatory framework for financial intermediation, which will increase the economic impacts of remittances by channeling remittance deposits to the most promising local entrepreneurs, who may or may not be migrants themselves. The regulation of savings mobilization should take account of MFI size and capacity. Close monitoring and regulation of deposit-taking activities is appropriate for small NGO-led MFIs, many of which have limited capacity for financial intermediation.

In Sri Lanka, MFIs are well-positioned to address a significant gap in the credit market for migrant families. The needs of low-income families are generally restricted to small, short-term loans which can be obtained from informal lenders or village savings and credit groups, although sometimes at a high cost. The mismatch between credit demand and supply is most pronounced among middle-income respondents, who seek loans of $5,000-20,000 to finance land purchases, housing improvements and business investments. The informal sector does not meet the larger loan requirements of middle-income borrowers; however, many of these borrowers are also excluded by banks, which consider only 10-15 per cent of remittance customers to be acceptable credit risks.

There is scope for increased flexibility in mainstream bank lending products to extend loan eligibility to some remittance customers with minimal additional risk. However, it must be acknowledged that the effects of such reforms as the banks may be willing to introduce will be limited to the high-income households. A range of options are available to banks which are considering broadening their lending services to migrant households:

- Broaden standard loan eligibility requirements to allow remittance streams to be considered in credit evaluations, for example, where a customer has a substantial savings balance and a history of stable remittance flows.
- To demonstrate repayment capacity, borrowers could make a prior agreement with their bank to reach an agreed savings target in 6-12 months.
- Loans could be issued on the condition that funds are remitted through the bank.
- With evidence that migrants demonstrate better repayment rates than recipients, banks could consider issuing loans directly to migrants and deducting installments from remittances.
- Banks and MFIs should examine feasibility of partnerships to broaden credit outreach and promote local remittance investment.

## CREATING AN ENABLING ENVIRONMENT FOR BUSINESS DEVELOPMENT

Investing remittances in local enterprise development is frequently cited as a strategy for leveraging remittances' development impacts. It is often assumed that if only migrants and recipient households would focus on investing their remittances in business development, flow-on benefits for both household and local economies would duly appear. Yet this approach, while theoretically sound, fails to recognise the complexities of the environments in which businesses must operate. Remittance capital alone cannot solve the broader challenge of business development.

Indeed, evidence from the case studies suggests that remittance inflows into an area do not create a commensurate expansion in local business activity. This is in spite of the fact that several households across the study countries were investing their remittances in microenterprises. Business activities were important in many household economies (though usually less important than remittances), and some remittance income was certainly being channeled to them – though generally, only a small amount. At the same time, it was equally clear that businesses across the case study countries faced a number of serious constraints. The obstacles to business development were not about households making poor investment choices; but rather, about a range of institutional and policy obstacles to business development.

Business and investment opportunities at home are central to leveraging the development potential of remittances, yet these are limited by a number of key policy and institutional issues. In all of the case study countries, serious inadequacies are apparent in terms of the absence of proactive business development policies and enabling environments. Constraints on local business development identified in the country studies include:

- Poor physical infrastructure, particularly transport, power and telecommunications infrastructure;
- Financial instability and inflation;
- Political instability, corruption, and ineffective legal institutions;
- Weak local markets and lack of access to urban and export markets;
- Lack of connections between entrepreneurs and suppliers;
- Credit constraints (inadequate financial intermediation, inappropriately designed financial products);
- Land tenure and titling issues;
- Pressure on natural resources (land, forests);
- Skills deficiencies; and
- Lack of business information and support services for existing and prospective micro entrepreneurs.

Effectively leveraging remittances for business investment thus requires an integrated policy response which aims to promote local business development, particularly in rural areas, through sound macroeconomic policies, strengthening local infrastructure, and providing responsive credit, training, and business assistance.

In Indonesia, the effects of the financial crisis are still echoing in the small business sector, while in East Timor and Fiji, political and governance crises continue to have their effects on the flight of skilled labour and capital and the generally inhospitable, low-trust environments for businesses. Corruption, inadequate infrastructure, and entrepreneurs isolated in weak local markets are issues across the region. Meanwhile, entrepreneurs and prospective entrepreneurs themselves often stated that they lacked skills and information on the business environment and market opportunities, even when local business development support was ostensibly available.

Targeted business assistance clearly has a role. Evidence from past programs indicates that business development services are most effectively delivered by specialist agencies with training and community development skills. Economies of scale could be achieved by a dedicated regional business development services (BDS) agency supported by local banks and MFIs. Models for cost-recovery based BDS complementing microfinance programs have been successfully developed and applied elsewhere, and could help provide a solution to the challenges of business development in the region.

Interventions should target the strongest enterprises, which tend to be found in higher-income urban households with good access to infrastructure and markets, sound asset bases, risk tolerance, skills, and a keen interest in developing their businesses. The microenterprises operated by the poor are usually marginal working capital investments with low earnings and little capacity to absorb additional investment. While there is scope for interventions aimed at adding value to survival-level enterprises, it should be recognized that for the many low-income families which lack the means, inclination or aptitude for successful entrepreneurship, the principal benefits of business development programs may lie in the jobs created by higher-level businesses.

**NON-FINANCIAL SUPPORT SERVICES FOR MIGRANTS AND THEIR FAMILIES**

Migrant support policy is underdeveloped in most of the case study countries. While there is a growing awareness of the economic importance of remittances, there is much less awareness of the socio-economic realities of migration, or the costs and risks borne by migrants and their families. Best-practice policy environments in the region include the Philippines and Sri Lanka, with their formal overseas worker programs, policies regulating placement agencies, and signed agreements between migrant sending and receiving countries. Yet even these countries only offer limited policy and institutional supports for migrants and their families, whether this is in the form of pre-departure facilitation, protection of workers abroad, or safety nets for families at home. Effective outreach to client groups is still an area where improvement is needed.

Across the case study countries, the evidence shows that development impacts rely heavily on three key policy areas related to migration and migrant support:

- *How people access migration opportunities.* This includes, for instance, policies and programs regulating overseas placements, visa requirements, and immigration laws and policies in destination countries. Migrants and their households often undergo high transaction costs and risk, particularly when dealing with unscrupulous migration agents. Visas and other required travel documentation often involve high transaction and monetary costs. The migration process is often costly, financing and support seldom available, and the final result is not guaranteed. Meanwhile, immigration policy and licensing requirements in destination countries may limit the jobs to which migrants have access.

- *How overseas workers are protected and supported*. This includes policies, programs, organisations, laws, and bi-national and multi-national accords that seek to protects the rights and interests of overseas workers: for instance, guaranteeing that contract conditions are met, fair wages and working conditions observed, and providing recourse for migrant workers to appeal unfair treatment, developing institutional supports and safety nets for workers abroad, and opening options for families of overseas workers.
- *How family welfare and well being at home is ensured,* including the quality of information and assistance available to the families of overseas migrants, the well-being of children with absent parents, household income security, and 'reinsertion' planning for migrants on short-term contracts.

Leveraging the development impacts of remittances must imply a proactive policy stance toward key migration policy issues, in order to lower transaction costs, personal costs, and risks for overseas workers and their families. High costs for would-be migrants, lack of access to information and assistance for migrants and their families, limited access to skilled work in host countries, unfair treatment of migrant workers, work in high-risk environments, enforced family separation due to visa requirements, and stress experienced by home households and returnees were all issues that emerged in their study, particularly in countries where short-term, contract and informal labour migration is common.

Attention to non-financial migrant support issues also highlights opportunities for community-based MFIs, particularly those which combine financial services with a strong social mandate. Civil society organizations which support and protect migrants and their families can promote the development impacts of remittances through community development, information and advocacy services. The participatory practices and grassroots links of community-based organizations make then more effective than the top-down approaches of government agencies in communicating information, building social capital and promoting behaviour change. MFIs can provide support and advocacy services to assist migrant families in their dealings with state authorities and migration agents. They can communicate information on job opportunities, reputable migration agents, and remittance transfer options; informing migrants about their rights and avenues for seeking assistance; providing financial literacy training and financial planning assistance; and channeling family welfare support to areas of need. Finally, MFIs can also potentially facilitate links between migrant-sending areas and overseas migrant communities, to explore how they might work together to reduce transaction costs of money transfer and new hires, provide increased mutual support, and provide targeted support to home communities and businesses.

**REFERENCES**

Adams, Richard (2004): *Remittances and poverty in Guatemala*, Policy research Working paper 3418, World Bank, Washington DC.

Adams, Richard and John Page (2005): Do International Migration and Remittances Reduce Poverty in Developing Countries? *World Development* 33,10, 1645-69.

Ammassari, Savina and Richard Black (2001): *Harnessing the Potential of Migration and Return to Promote Development: Applying Concepts to West Africa*, Sussex Migration Working Papers, University of Sussex.

Black, Richard, Russell King and Richmond Tiemoko (2003): *Migration, Return and Small Enterprise Development in Ghana: A Route out of Poverty?* paper presented at the International Workshop on Migration and Poverty in West Africa, University of Sussex, March 13-14.

Carling, Jorgen (2005): *Migrant Remittances and Development Cooperation*, International Peace research Institute, Oslo.

Central Bank of Sri Lanka (2005): *Consumer Finances and Socio-economic Survey 2003-04*, CBS, Colombo.

Chami, Ralph, Connel Fullenkamp and Samir Jahjah (2003): *Are Immigrant Remittance Flows a Source of Capital for Development?* Working Paper WP/03/190, IMF Institute, Washington DC.

Deshingkar, Priya and M. M. M. Aheeyar (2006): Remittances in Crisis: Sri Lanka after the Tsunami, Overseas Development Institute, London.

Development Assistance Committee, OECD (2007): Development Cooperation Report 2007, OECD, Paris.

Fiji Islands Bureau of Statistics (FIBS) (2006): *Report on the 2002-03 Household Income and Expenditure Survey*, FIBS, Suva.

Funkhauser, Edward (1992): Migration from Nicaragua: Some Recent Evidence, *World Development* 20, 3, 1209-18.

Gamburd, MR (2000) *Transnationalism and Sri Lanka's migrant housemaids: the kitchen spoon's handle.* Ithaca and London: Cornell University Press.

Hastings, Anne H (2006) Entry of MFIs into the Remittance Market: Opportunities and Challenges. Paper presented at the Global Microcredit Summit, Halifax, November.

IMF (2005) *Samoa: Selected Issues and Statistical Appendix*, IMF, Washington DC.

Isern, Jennifer, Rani Deshpandi, and Judith van Doorn (2005) Crafting a money transfer strategy: Guidance for Pro-Poor Financial Service Providers. CGAP Occasional Paper No. 10, March.

Luthria, Manjula, Ron Duncan, Richard Brown, Peter Mares and Nic MacLellan (2006): *Home and Away: Expanding Job Opportunities for Pacific Islanders through Labour Mobility*, World Bank, Washington DC.

McCormick, Barry and Jackline Wahba (2002): Return Migration and Geographical Inequality, unpublished paper, University of Southampton, UK.

Maimbo , Samuel M and Dilip Ratha (Eds) (2005): *Remittances: Development Impact and Future Prospects*, World Bank, Washington DC.

Martin, Philip, Susan Martin and Patrick Weil (2002): Best Practice Options: Mali, *International Migration* 40, 3, 87-99.

Orozco, Manuel (2000): Latino Hometown Associations as Agents of Development in Latin America, *American Dialogue*, June.

Ratha, Dilip (2003): Workers' Remittances: An Important and Stable Source of External Development Finance, in *Global Development Finance 2003*, World Bank, Washington DC.

Sander, Cerstin (2003) "Capturing a market share? Migrant remittances and money transfers as a microfinance service in Sub-Saharan Africa" *Small Enterprise Development* 15(1):20-34.

Stalker, Peter (1994): *The Work of Strangers: A Survey of International labour Migration*, ILO, Geneva.

Taylor, J. Edward (1999) The New Economics of Labour Migration and the Role of Remittances in the Migration Process. *International Migration* 37 (1):63-88.

Terry, Donald F and Steven R Wilson (Eds) (2005): *Beyond Small Change: Making Migrant Remittances Count*, Inter-American Development Bank, Washington DC.

UNCTAD (2006): World Investment Report 2006
http://www.unctad.org/Templates/Page.asp?intItemID=1465.

Woodruff, Christopher and Zanteno, Rene (2001): Remittances and Microenterprises in Mexico, unpublished paper, University of California, San Diego.

World Bank (2006): *Global Economic Prospects: Economic Impacts of Remittances and Migration*, Washington DC.

World Bank (2007*a*): *World Development Report 2007*, World Bank, Washington DC.

World Bank (2007*b*): *Global Development Finance 2007*, World Bank, Washington DC.

Yang, Dean and Claudia Martinez (2004): Remittances and poverty in Migrants' Home Areas: Evidence from the Philippines, in Ozden, Caglar and Maurice Schiff, Eds: *International Migration, Remittances and the Brain Drain*, World Bank, Washington DC.