Remittances: strategic and operational considerations

Annex to IFAD Decision Tools for Rural Finance

IFAD

Credit to Expert Work on Remittances

This document draws heavily on work on migrant remittances by experts in the field. While the experts are not credited directly in the text in each instance, this document has benefited greatly from earlier studies listed in the references.

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Preamble

IFAD's *Decision Tools for Rural Finance* translates the broad directions given in the *IFAD Rural Finance Policy* paper into concrete operational recommendations. It also incorporates the main themes of the *Strategic Framework for IFAD 2002-06* and the subsequent elaboration of that framework into regional strategies.

The *Decision Tools* were specifically designed to support programme and project formulation and monitoring. It is hoped that this publication and the annexes will become useful reference tools for country programme managers, programme and project staff, and consultants seeking advice on technical and operational issues related to rural finance. As a 'living document', the *Decision Tools* will be updated as the rural finance field evolves and new principles and practices emerge, and will be expanded through the addition of technical annexes on lessons learned through IFAD-specific rural finance models.

This annex to the *Decision Tools* on remittances offers an introduction to migrant remittances in the context of development finance. The annex, which also presents principles and areas for IFAD support, is designed to provide a basis for country programme managers to make informed decisions in programme design and the assessment of funding proposals. While this annex only highlights key discussions and considerations, the reader who wishes to explore the topic further will find several links to additional information and resources in the annex.

Contents

Abbreviations and acronyms 6

INTRODUCTION 8

REMITTANCE FLOWS 10
- Global Flows 10
- Intra-regional and Domestic Flows 11
- Collective Remittances 11

THE EFFECT OF REMITTANCES ON DEVELOPMENT 12
- Economic Analysis 12
- Regional and Country-level Analysis 12

REMITTANCES IN DEVELOPMENT FINANCE 14

INITIATIVES ON REMITTANCES 16

IFAD'S POTENTIAL ROLE IN REMITTANCES 20
- Remittances and IFAD's Strategic Framework and Rural Finance Policy 20
- Key Areas for Support by IFAD 20
- Common Principles to Support the Area of Remittances 21
- Options for Support and Challenges for Remittances in Rural Finance 22
- IFAD's Ongoing Interventions in Remittances 24
  - Demand Side: Clients and Access to Remittances and Other Rural Financial Services 25
  - Supply Side: Providers of Remittance Services and Other Financial Services 26
  - Enabling Environment: Regulators and Policies and Regulations 30

ANNEXES

I	Financial Action Task Force on Money Laundering	32
II	Remittances as Financial Flows	34
III	Capacity Considerations by Type of RFI	36
IV	Internet Resources and Tools	38
V	WSBI Fair Value Remittances Value Proposition	40
VI	References	42

TABLES

1	General Overview of Donors and their Current Activity Areas in Remittances	17
2	Indicative Options for Remittance-Related Products at Various Levels of Regulation of RFIs	31

BOXES

1	IFAD Multilateral Investment Fund	18
2	Key Questions and Challenges for MFIs Considering a Remittance Product	27

FIGURES

1	General Remittances	15
2	Remittance Support Levels	21
3	Six Dimensions of Remittance Services	23
4	Institutional Capacity Areas for Remittance Services	28

Abbreviations and acronyms

ADB	Asian Development Bank
AML/CFT	anti money laundering/combating the financing of terrorism
CGAP	Consultative Group to Assist the Poor
collective remittances	(Also called communal remittances.) Monies sent by diaspora groups (e.g., migrant associations, church groups) to their home communities; typical uses include community infrastructure, other local development initiatives, and construction or improvement to a church. While collective remittances are almost negligible in volume relative to migrant remittances, they can be quite significant to the receiving community.
CPM	Country Programme Manager (IFAD)
DfID	Department for International Development (UK)
domestic remittances	(Also called national remittances.) Remittances sent by individuals who have migrated within their home country (e.g., rural-to-urban migration). (See also international remittances.)
FATF	Financial Action Task Force on Money Laundering
FMTS	formal money transfer system Within the formal financial system, money transfers are offered primarily by banks through account-to-account transfers (e.g., through SWIFT) or by money transfer operators (e.g., Western Union, MoneyGram). Card-based products are also increasingly common, such as those offered by Visa. When targeted to remittance clientele, card-based products are typically either debit cards (which draw on an account), or stored-value cards (the sort commonly used for mobile phone services, for example).
Hawala	A form of informal money transfer system found typically in the context of the Middle East and Arab countries and among migrant populations.
Hundi	A form of informal money transfer system found typically in South Asia (especially Bangladesh).
IADB	Inter-American Bank for Development
IATF	Inter-Agency Task Force on Remittances
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMP	International Migration Policy Programme
IMF	International Monetary Fund
IMTS	informal money transfer system These include: (a) migrants carrying money themselves or sending it with relatives, friends, or transport drivers (e.g., bus, taxi, truck drivers) and (b) informal services typically operating as a side business to an import-export operation, retail shop, or currency dealership. Many of the informal services operate with no or very little paper or electronic documentation; transactions are communicated by phone, fax, or e-mail to the counterpart who will disburse the payment.

international remittances	Remittances sent by migrants who have left their home country. Unless the individual is remitting from a country within a monetary union, international remittances are denominated in foreign currencies, though they may only be paid out in local currency. (See also domestic remittances.)
IOM	International Organization for Migration
LAC	Latin America and the Caribbean
MFI	microfinance institution
microtransfers	Remittances sent by individuals; the amounts are typically small.
MIF	Multilateral Investment Fund (Inter-American Development Bank)
migrant remittances	(Also called worker remittances.) Monies sent from one individual or household to another. Typically, the remittances are in cash rather than goods, though imports or goods purchased on location are also common. Balance-of-payments statistics of the IMF capture these as worker remittances; in some cases, countries report them as employee compensation or do not report them at all.
MIS	management information system
OECD	Organisation for Economic Co-Operation and Development
MTS	money transfer service A generic term for money transfer products or services
PMU	Programme/Project Management Unit (IFAD)
remittances	A range of funds transfers, including the profit remittances of multinational corporations, school fee payments and remittances by individuals.
RFI	rural finance institution
SWIFT	Society for Worldwide Interbank Financial Telecommunication An industry-owned cooperative headquartered in Belgium that supplies secure, standardized messaging services and interface software to over 7 500 financial institutions in 199 countries. (www.swift.com)
USAID	United States Agency for International Development
UNDP	United Nations Development Programme
WSBI	World Savings Banks Institute

Introduction

Along with savings and credit services, remittance services are among the most important financial services for low-income people. Many people who receive remittances live in rural areas that lack or have limited access to financial services, including efficient and reliable remittance services. Travelling to the nearest pay-out point is often time consuming and costly, thus reducing the remittances received. Since each withdrawal has a high personal overhead cost, saving some amount of the remittance is not attractive.

Recent studies have emphasized that migrant remittances and their investment are hampered by inefficiencies and access barriers in financial services both in sending and receiving countries. While estimates indicate that one third of global remittances flow through informal transfer channels, those countries with weak financial sectors and systems tend to have the highest remittance flows. Not only is this a regulatory concern (see Annex I), it also limits the opportunity for poor men and women to become better economically integrated by gaining access to basic financial services.

The lack of remittance services is due to policies and regulations for the provision of financial services, as well as the lack of interest or awareness among financial institutions. For institutions located at the receiving end of the "remittance corridor", remittances offer the opportunity to develop new products and acquire new customers from low-income communities. Institutions are beginning to become aware of these market opportunities that could make operations downmarket a viable option.

Remittances offer financial institutions such opportunities. Migrant remittances – especially those from high- and middle-income to low-income countries – have reached tremendous volumes. At the same time, there is a significant and growing demand for remittance systems in domestic markets that would serve both individuals and businesses (micro, small and large) for payments of all kinds.

This annex to *Decision Tools* offers an introduction to migrant remittances in the context of development finance and introduces key principles and potential areas for IFAD support. *Remittances: Strategic and operational considerations* is designed to provide IFAD country programme

managers with the basic information and resources necessary for informed decisions on this topic. Readers in search of more detailed information will find numerous links throughout the paper to additional information and resources.

IFAD's Role

As discussed in IFAD's *Decision Tools on Rural Finance*, remittances pose issues related to the access to financial services, especially in regard to increasing the outreach of pro-poor, rural financial services. Considering IFAD's mandate to improve access to financial services among poor men and women in rural areas, remittance services are important elements of IFAD interventions. Indeed, IFAD has already supported and engaged in initiatives involving remittances. By improving remittance services, making them more accessible and linking them to savings and other financial services, rural finance has already taken on a new dynamic in some high-volume remittance markets.

Remittance flows

Global flows

Remittances – the transfer of funds between individuals – represent an increasingly significant flow of capital to the developing world. The World Bank has reported that migrant remittances to developing countries totalled more than USD 160 billion in 2004, an increase of over 65% since 2001, when remittances stood at an estimated USD 96.5 billion. If informal and underreported flows are included, estimates of migrant remittances are two to three times higher (see Annex II). Compared to other forms of capital transfers and investments, the volume of remittances surpassed that of official development assistance in the mid-1990s and is currently second only to the volume of foreign direct investment.

The East Asia and the Pacific region and the Latin America and the Caribbean region receive approximately the same amount of remittances (USD 40.9 billion and USD 40.7 billion, respectively, each about 25% of the total amount of remittances to developing countries). While remittances to sub-Saharan Africa are the lowest (USD 7.7 billion, or 5%), they are also heavily underreported in the region, thus underestimating their significance.

In each region, one or two countries account for much of the volume of remittances. India, Mexico, and China, for example, lead the list of recipient countries both in their respective regions and globally. While Morocco accounts for the highest volume of remittances in all of Africa, Nigeria leads in sub-Saharan Africa. In many countries, including Albania, the Dominican Republic, El Salvador, India, Yemen and Tonga, remittances are an essential and often the single largest inflow of foreign capital, exceeding both official development assistance and export revenues. The main areas from which remittances are sent include the United States, parts of the Middle East and Western Europe.

Intraregional and Domestic Flows

Though dwarfed in volume by the flows from high-income countries in the North to developing countries in the South, other remittance flows may be equally or more important to recipients. **Domestic remittances** flow within a country or a region, such as from urban to rural areas or from export-cropping regions to economically depressed areas. **Intraregional remittances** emanate from regional economic hubs to neighbouring or nearby countries, as from the Ivory Coast to Mali, South Africa to Botswana, Colombia to Nicaragua, India to Bangladesh, and Romania to Moldova.

Collective Remittances

Collective remittances (also called **communal remittances**) are monies sent by diaspora groups such as migrant associations and church groups to their home communities. Unlike household or individual remittances, collective remittances are typically intended for community infrastructure, other local development initiatives, or the construction or improvement of churches and have been widely studied (see Vargas-Lundius, 2004). Collective remittances can best be described as diaspora charity or philanthropy. Though collective remittances are almost negligible in volume relative to overall migrant remittances, they may be critical to the recipient community.

The effect of remittances on development

Economic Analysis

Remittances generate both micro- and macroeconomic effects. In microeconomic terms, remittances:

- make an important welfare contribution to the receiving household and often provide emergency stopgap monies;
- tend to increase during an economic downturn or following natural disasters;
- improve the standard of living through funds that are typically invested in human and social capital (e.g., health care, nutrition, education) and in building assets (e.g., real estate, business, savings); and
- generate ripple effects that impact the extended family and community beyond the receiving households, due in part to the increased consumption.

In macroeconomic terms, remittances:

- provide a stable flow of funds that is often counter-cyclical (they increase during times of economic downturn);
- offer an important source of foreign exchange for many countries; and
- exert upward pressure on the value of the local currency in cases of high inflows of remittances.

Regional and Country-Level Analysis

According to total capital flows, remittances make the most significant regional contributions in the Middle East (72% of total capital flows), North Africa (54%), the Caribbean (51%) and South Asia (51%). At the national level, some countries rely more on remittances than on official development assistance; these countries include Turkey (ratio 39:1), Mexico (34:1), Costa Rica (24:1), Jamaica (15:1), the Philippines (8:1), Nigeria (7:1), India (6:1), Tunisia (5:1) and Lesotho (4:1). In sub-Saharan Africa, however, a greater

percentage of total capital flows are due to official development assistance (50%) than to remittances (14%).[1]

Remittances represent as much as 37% of GDP in individual countries. They have had the most significant impact on countries such as Albania, Lesotho, Jordan, Nicaragua and Tonga. The figures among countries may be even higher because remittance flows are typically channelled through informal services or go largely unrecorded due to a lack of systems (e.g., Afghanistan, Somalia, Sudan). Somalia, for instance, receives an estimated USD 1 billion per year in remittances, which would put it, on a per capita basis, among the top 15 recipients of recorded remittances among developing countries.

At the macro-level, the benefits of remittances are generally seen as positive, though significant flows of remittances can mask problems and delay needed economic or regulatory reforms. Some researchers argue that, at the micro-level, remittances may exacerbate income inequalities in communities. Despite these potential problems, remittances make, on balance, a net positive contribution to welfare and thereby to the reduction of poverty.

The benefits of remittances vary among countries according to the relevant national policies and regulations (e.g., foreign exchange controls) and the structure of the local economy and financial sector. The opportunities for recipients to make productive use of remittances also vary from situation to situation due to poverty levels, ease of access and possibilities for investment. *The investment of remittances in savings and assets is severely constrained by limited access to appropriate financial services.*

1 While this statistic may imply high aid dependency among countries in sub-Saharan Africa, the tables of the International Monetary Fund on which these calculations are based only include data for about one third of the countries in sub-Saharan Africa.

Remittances in development finance

While remittances may, in some respects, be compared to other capital flows such as foreign direct investment or official development assistance, these flows are characterized by different functions, economic effects and policy frameworks. Migrant remittances are primarily personal or private transfers, not commercial or public transfers, since migrants often hold multiple jobs and limit their own spending in order to send money home.

Channelling remittances through formal mechanisms that are accessible and attractive to consumers increases financial transparency and promotes the inclusion of a largely "unbanked" population in the financial system. The typical mechanisms in the formal financial system that transmit remittances include cheques, bank transfers and dedicated services such as Western Union, MoneyGram and Vigo. (Figure 1 offers a generic illustration of remittances.)

Mainstream financial systems and services, however, have not created financial mechanisms for the transfer of money among many remitters and receivers, though postal financial services and savings banks often have large branch networks. Remittances thus represent a market opportunity for financial institutions ready to provide downstream services on a profitable basis.

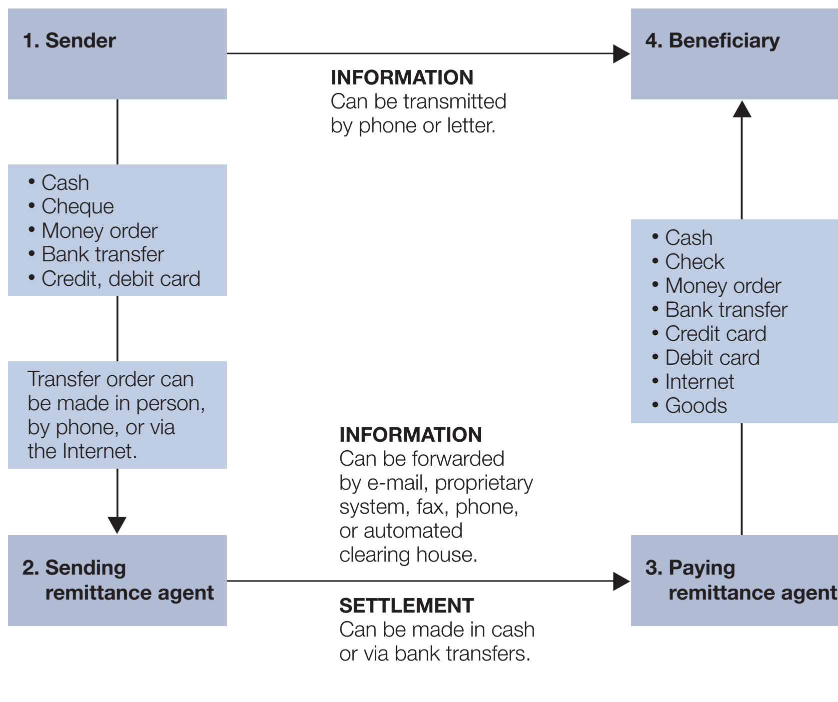
In the context of development finance, the primary question relating to remittances revolves around ways to facilitate the healthy competition that generates better remittance services for poor customers who often live in rural areas. Emerging good practice in remittances promotes:

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

This multifaceted approach to remittances is important given that a focus solely on the reduction of transfer fees could overlook the possible impact on service outreach (i.e., low-price pressures that lead to fewer service outlets). Similarly, these approaches to remittances must not introduce market

distortions, as would be the case if a donor-funded initiative benefiting from subsidies were to create competition that led to lower prices.

Figure 1
General Remittances



Initiatives on remittances

International organizations, multi- and bilateral donors and the governments of countries that attract significant levels of remittances are considering how to promote lower cost transfers, facilitate the developmental use of remittance inflows and attract more remittances via formal channels.[2] Their varied roles in remittances indicate their diverse niches and advantages, as the following highlights illustrate.

Inter-Agency Task Force on Remittances. The most significant actor in remittances has been the Inter-Agency Task Force on Remittances (IATF), a group initiated at the Conference on Migrant Remittances, organized by the Department for International Development (DfID, UK) and the World Bank in London in October 2003. Coordinating international donor responses on remittances, the IATF is establishing core remittance principles, voluntary standards for services, costs and access for banks and money transfer companies and guidance for regulators and governments.[3] The IATF also disseminates data on remittances through a web site.

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

DfID, another agency participating in the IATF, also plans to conduct household surveys on remittances in its partner countries and in the UK in cooperation with the World Bank. DfID launched the report and web site (www.sendmoneyhome.org) on this work in March 2005 and plans to add additional countries to the web site as results become available. As part of its G8 commitment, DfID is also developing remittance partnerships with Bangladesh, Ghana and Nigeria in order to remove impediments to remittance flows, improve access for poor and rural people to remittances

2 *The G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty*, one of the outcomes of the Group of Eight Sea Island Summit (Georgia, US) of June 2004, is a set of recommendations that includes the facilitation of remittances to help families and small businesses. See: www.g8usa.gov/d_060904a.htm.

3 The World Bank and DfID co-chair this task force. Contacts are Robert Keppler (rkeppler@worldbank.org) and Douglas Pearce (d-pearce@dfid.gov.uk). Members of the IATF include the Asian Development Bank (AsDB), DfID, the European Union, the International Labour Organization (ILO), the International Monetary Fund, the International Organization for Migration (IOM), the Office for National Statistics (UK), the US Treasury, the World Bank, the World Savings Banks Institute (WSBI), IFAD, the Consultative Group to Assist the Poorest, the World Council of Credit Unions (WOCCU) and NOVIB (Oxfam Netherlands).

and other financial services and strengthen the capacity of the financial sector to provide efficient and widespread transfer payment services.

The International Monetary Fund (IMF) has worked on identifying good practices in order to construct a regulatory framework for remittances and develop operational guidance for the regulation of the informal remittances sector as part of the IATF. The IMF Committee on Balance of Payments Statistics has initiated work to strengthen international guidelines for the reporting of remittances and to support enhanced international coordination so as to improve the compilation of data on remittances. In addition, IMF is developing recommendations to address the specific problems facing cash-based economies in complying with supervisory and anti-money laundering/combating the financing of terrorism (AML/CFT) requirements for the remittances sector.

Table 1
General Overview of Donors and their Current Activity Areas in Remittances

Activity areas	DfID	IFAD	ILO	IMP/IOM	MIF/IDB	Microfinance networks	CGAP	UNDP Somalia	USAID	US Foundations	World Bank
Identify flows (global/regional/ national)	x		x		x	x	x				x
Articulate the role of the economy/ livelihoods	x	x								x	x
Lower the transfer costs of remittances					x	x	x		x		
Integrate formal financial services	x	x	x			x	x		x		
Channel remittances through MFIs		x	x		x	x	x		x	x	
Leverage, increase the use of remittances in development		x	x			x	x		x	x	
Mitigate, harmonize FATF requirements with MTS					x	x	x	x			x
Develop policies on migration and remittances	x			x							

Sources: Based on Sander 2003; Orozco 2004a.

Multilateral Investment Fund. The Multilateral Investment Fund (MIF) in the Inter-American Development Bank (IDB) is also involved in facilitating the transfer of remittances in Latin America and the Caribbean (LAC). In addition to examining the high transaction costs of remittances, MIF has also emphasized the related need for a modern regulatory and financial infrastructure, increased competition to lower the cost of remittances and additional services for the unbanked. Along these lines, in 2004, MIF published the Lima Statement, which detailed recommendations for the remittance market in LAC.[4] (see box below).

Consultative Group to Assist the Poor. In addition to MIF and IATF, the Consultative Group to Assist the Poor (CGAP) launched an initiative on Pro-Poor Money Transfers in 2004. This three-part initiative will focus on South-South and domestic remittances and will increase the efficiency and impact of remittances through better knowledge of underserved market segments and the development of improved remittance mechanisms and other financial services for these markets.[5]

Box 1
IFAD Multilateral Investment Fund
Three Eligible Financing Areas

1. Knowledge development for community-based organizations and rural development.
These are designed to strengthen the capacity of immigrant community-based organizations to manage, promote, and carry out rural development projects in their home countries. Organizations eligible for knowledge development projects include nongovernmental organizations, immigrant philanthropic groups working to support their home countries, and academic institutions.

2. Development of rural financial services.
In an effort to facilitate access to credit through formal financial institutions among the low-income population, these projects promote financial products for rural communities with high emigration rates, including efficient remittance transfer methods. Eligible rural finance institutions include specialized financial companies, microfinance institutions, and banks.

3. Development of rural productive investment.
Incentives to mobilize savings and capital investment in productive activities can help strengthen the income-generating capacity of the rural poor. Institutions eligible for rural productive investment projects include NGOs, foundations, and other non-profit organizations providing business development support in rural areas of the region. Local governments and other public institutions that forge partnerships with the private sector are also eligible.

For more information: www.iadb.org/mif

4 See: www.iadb.org/mif/v2/files/Statement_Lima2004eng.pdf.

5 Contact Jennifer Isern (jisern@worldbank.org) at CGAP for more information.

IFAD's potential role in remittances

Remittances and IFAD's Strategic Framework and Rural Finance Policy

Whether international, regional, or domestic, or for short, seasonal, or longer periods, remittances are a major source of income for the rural poor, even when the financial mechanisms for remittances are inflexible and offer limited services. Compared to urban areas, a greater proportion of people in rural areas receive remittances, though access to financial services for remittances remains particularly limited in rural areas.

IFAD supports a pro-poor approach to financial sector outreach and sustainability that advocates for the inclusion of low-income and rural populations in the financial sector and the development of financial services specifically designed to meet the needs of these people. One of IFAD's core priorities is improving the remittance options for the rural poor, including by finding ways to decrease transaction costs and link remittances to other financial services (e.g., savings, insurance, investment with complementary loans). This approach implies building the capacity of rural finance institutions (RFIs) to manage these services and improve access through innovative mechanisms, such as service partnerships between banks and microfinance institutions (MFIs). The inclusion of remittances in the design and analysis of rural finance initiatives offers opportunities to improve the access to and affordability of products and services and build institutional capacity and sustainability, thereby expanding the options of the rural poor in managing their money.

Key Areas for Support by IFAD

Support for effective remittance mechanisms can involve the demand and supply side, as well as the enabling environment that surrounds remittances and related financial products (e.g., savings, insurance). Figure 2 illustrates these various levels and their implications. Support may focus on one level or pursue an integrated approach across two or three levels.

IFAD's primary focus in rural finance is to improve sustainable access to rural financial services, primarily by building the capacity of RFIs. In this context, IFAD support for remittances should target:

- improved access to affordable, reliable remittance services and other financial services;
- greater availability and cross-selling of other financial services, especially savings;
- strengthened institutional capacity to provide relevant services and more accessible service points for rural and low-income clients; and
- larger, more accurate flows of information on regulatory compliance requirements.

In terms of the reach and depth of the financial sector, the integration of remittances into rural finance strategy can contribute to establishing or strengthening:

- links with new or current client segments;
- new or more relevant financial products and delivery mechanisms;
- links between RFIs and other financial institutions; and
- additional income for RFIs from fee-based transfers or cross-selling services.

Common Principles to Support Access to Remittances

Unlike public funds channelled through development agencies or non-profit organizations, remittances are private money. As such, this money should be controlled by the people who have earned it. IFAD and other agencies should support remittance services that maximize the options that individuals have for dealing with their own money. The overall objective in the provision of remittances services is to **increase access to remittance services**, especially in rural areas, through professional entities (including MFIs and others) **at affordable, competitive prices**.

IFAD's assessment of how to strengthen rural financial services should consider the role of remittances within rural financial systems, beginning with the **relevance of remittances in the market** (e.g., subregion, country, region) in which rural finance initiatives are to be supported. How important are

Figure 2
Remittance Support Levels

Access	Services	Policies and Regulations
Demand	**Supply**	**Enabling Environment**
Clients	Service Providers	Regulators and Policymakers

remittances in this market? Are appropriate financial services available? Where relevant, a consideration of remittances should be reflected in the design of IFAD interventions as specific initiatives, as components, or as a cross-cutting topic.

The type of support and the partner to be supported should be determined on the basis of the specific issues and constraints to be addressed. Whether IFAD is working with a certain type of RFI (e.g., cooperatives) or a specific institution, the relevance of remittances to the actual or potential client market of the institution should be considered, in addition to the regulatory environment and the overall capacity of the market and the institution.

IFAD should facilitate or leverage demand-driven initiatives backed by **experienced, capable partners**. In addition, IFAD support should **promote the transparent, fair pricing of financial services**, as well as **compliance with regulatory requirements**. The appropriate financing instruments for supporting technical assistance and capacity-building are more likely to be grants, not loans. IFAD should also look for opportunities for close coordination, collaboration and joint support with other donors, especially those with strong technical expertise or a local presence.

Options for Support and Challenges for Remittances in Rural Finance

In supporting efforts to improve access to remittance services, six dimensions are interlinked, as discussed below and illustrated in Figure 3.

(a) The **market** for services. The business of facilitating money transfers operates on volume, which thus requires an assessment of critical flow levels for break-even and the profit pricing of services. It also requires a presence in critical markets that both originate and receive remittances. Sending markets can be domestic, regional, or global, each with its own implications for market potential, client segments and operations.

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

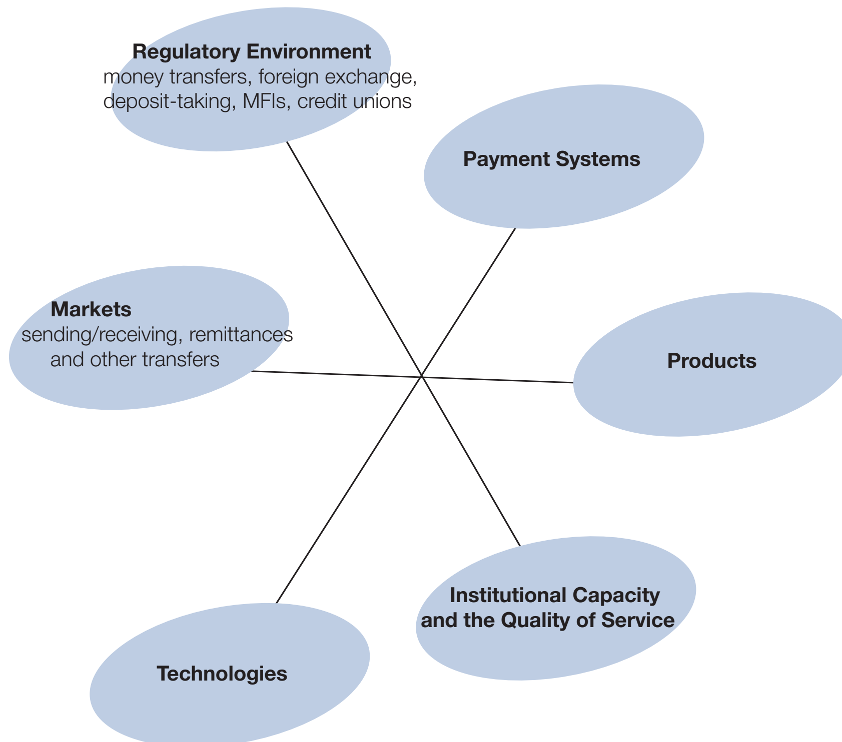
(c) The **payment systems**. This dimension includes the payment systems that remittance senders and receivers typically use (e.g., cheques, debit cards, account-to-account transfers, account-to-person transfers, electronic transfers, person-to-person transfers) and any other alternatives that may be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

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

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

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

Figure 3
Six Dimensions of Remittance Services



Referring to Figure 3, there is no "ideal" circular shape of linked points on these axes that would capture a "best practice" service. The intention is rather to indicate the areas that require consideration and action. A conservative regulatory environment, for example, would limit the range of service providers and the services providers may be authorized to offer. Missing or weak markets or networks, or limited institutional capacity indicates that support in pursuing remittance-related financial services is likely to be inappropriate.

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

IFAD's Ongoing Interventions in Remittances

IFAD is engaged in two major joint initiatives involving remittances, one with MIF and the other with the European Union (see below). In addition to these ongoing initiatives, preliminary discussions at IFAD indicate interest in considering other implications of remittances and identifying additional operational opportunities in rural finance in countries such as Albania, China, India, Mali, Moldova, the Philippines and Senegal.

1. MIF and IFAD

IFAD and the IADB's Multilateral Investment Fund (MIF) have jointly launched a USD 6 million facility on remittances to fund innovative approaches towards remittance services. The programme's long-term goal is to facilitate poverty reduction in rural communities by promoting economic development in partnership with the migrant diaspora. The IFAD-MIF collaboration will help credit unions and MFIs in low-income rural areas improve their remittance services, reduce the costs of remittances and work with hometown associations in the provision of collective remittances. The first call for proposals from MIF occurred in November 2004, and the second will be in 2006.[6]

In the first round of MIF, proposals were funded in Haiti, El Salvador, Paraguay, Mexico, Dominican Republic, Honduras and Guatemala. Fonkoze, as one example, is a microfinance NGO with 18 branches in Haiti, a country that receives approximately USD 1 billion in remittances each year. Fonkoze offers clients remittance services (*Ayiti Dirèk Dirèk*), as well as savings accounts, microloans, currency exchanges, business development and educational services and is spinning off its financial services into a commercial microfinance bank. Fonkoze also won an IFAD/CGAP Rural Pro-Poor Innovation Challenge grant in 2005.

6 See www.ifad.org/gbdocs/eb/81/e/EB-2004-81-R-22.pdf and www.iadb.org/NEWS/Display/PRView.cfm?PR_Num=83_04&Language=English.

2. The European Union and IFAD

Building on the experience and success of the IFAD/MIF initiative, a parallel Europe-based Funding Facility for Remittances (FFR) was established to promote activities in countries outside Latin America. The goal of the FFR is to promote poverty reduction in rural areas through the development of innovative remittance services that are cost effective and easily accessible and that widen the economic opportunities of the rural poor. Based on a demand-driven competitive approach, the FFR is the most flexible and appropriate way to select and fund innovative remittance proposals.

The FFR will guarantee the rapid approval of proposals and the swift disbursement of funds for the implementation of the activities identified. The selection of proposals will be carried out through calls for proposals (two calls are to occur over the first 18 months of the programme). The FFR is open to a variety of institutions, from the South as well as the North, and will seek proposals that: (a) harness the potential of remittances and address the variety of "gaps" resulting from pervasive market failures and (b) facilitate the access of low-income people to appropriate and attractive remittance and financial services. By improving remittance services and linking them with savings and other financial services, the facility will create or support the dynamics already at work in some of the high-volume remittance markets where competition and innovative providers have begun to improve access and lower service costs.

Demand Side: Clients and Access to Remittance and Other Rural Financial Services

The demand side of remittances focuses on the clients of remittance service providers, including both the senders and the receivers. The priority from the demand side is the access of clients to remittance services and other appropriate, attractive, reliable and affordable financial services (e.g., savings). The critical challenge from this perspective is that many remittance recipients include poor or low-income populations living in rural areas who have no or very limited and costly access to financial services.

Research has indicated that clients favour the following features of a remittance product:

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

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

- significant distances to the closest service point and high costs;
- weak links between the RFI at the receiver's location and financial institutions in the sender's location;
- unfamiliarity with other options offered by financial service providers;
- limited options, such as only account-to-account transfers with access hurdles (e.g., minimum balance requirements);
- lack of opportunity, information and familiarity with ancillary financial services, such as savings accounts; and
- preference for informal remittance channels due to a lack of trust or unfamiliarity with formal financial services.

IFAD Support Options

Expanding access to financial services by low-income rural populations is an important objective for IFAD and its partners. This translates into support for initiatives aimed at achieving better access to and awareness of remittance services, as well as integration with ancillary services such as savings. Support options include:

- **market research** for RFIs or apex organizations so that they can assess product feasibility and attractive product features;
- **market information** that facilitates transparency and access to information about money transfer products and the pricing of different service providers; and
- **financial literacy** to increase client awareness about remittances and related financial services (e.g., an introduction to the use of debit cards and ATMs).

Supply Side: Providers of Remittance Services and Other Financial Services

The supply side of remittances consists of institutions (bank and non-bank) and products (e.g., remittances, credit, savings, insurance). A range of service providers – including banks, postal banks and post offices, foreign exchange bureaux, and dedicated money transfer operators – offers remittance services. Remittance operators such as Western Union extend their service networks through agency agreements with banks, other financial service providers, or retail shops (e.g., supermarkets, corner stores, pharmacies and druggists), where permitted by the regulatory environment.

A key challenge is that rural financial services are much more limited and are available at higher cost relative to services in urban areas or major trading centres. Facing high operational costs, financial institutions tend to shy away from service provision in rural areas, particularly where regulatory regimes require full-service branches needing significant investments though they are often not financially sustainable.

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

- regulatory barriers to the provision of savings services or other products;
- regulatory constraints to the provision of remittance services and to the trade in foreign currencies (which may be necessary for international money transfer systems);
- costs imposed because of the need to comply with regulatory requirements (e.g., systems, reporting, data archiving);
- absent or weak links to networks in sending markets;
- lack of operational capacity to provide remittance services or other products; and
- liquidity and security risks in handling money transfer payments (e.g., insufficient liquidity, safety concerns, high-cost cash transfers, insurance, maintaining floats for payments).

Box 2
Key Questions and Challenges for MFIs Considering a Remittance Product

Key Questions

- Market. Does the MFI have a market? Is there demand for these services? Do clients trust the MFI?
- Capacity. Does the MFI have the capacity adequately to manage such a product?
- Network. Is the MFI part of or can it join a transfer network?
- Regulation. Do regulatory requirements allow the MFI to engage in international or domestic money transfer services?

Key Challenges

- strong, efficient management information system (MIS) and back-office systems;
- effective monitoring and control systems;
- sufficient staff capacity;
- setting prices that cover a sustainable level of costs, yet are attractive to clients;
- maintaining sufficient liquidity and cash floats between high-volume pay-in and pay-out service locations;
- moving cash between high-volume locations, especially without access to central bank cash centres;
- cost of insurance;
- finding and cultivating a sufficient, consistent market presence; and
- addressing foreign exchange issues (international transfers).

Source: Sander 2003.

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

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

Figure 4 details the areas in which institutional capacity may need to be built, though this varies according to institution, country and the specific remittance product (see also Annex 3 for considerations on capacity by type of RFI).

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

Experience has also shown that proprietary products or mechanisms can respond to a need in the short term, but, due to many limitations, they either rapidly exhaust their utility, or face severe growth constraints. These mechanisms include, for example, schemes that pool remittances or use MFI accounts or cheques drawn on an MFI account. Eventually, RFIs that offer such services tend to find themselves looking to become part of a larger network. As agents in one of the large service networks, such RFIs often have the best opportunity to build a sufficient volume of business, master the business and build trust among a regular clientele. While service fees are an important factor for many clients, the availability and proximity of a service,

Figure 4
Institutional Capacity Areas for Remittance Services

Operations	Systems
• Staff capacity • Front office capacity • Liquidity management • Risk management • Cash handling	• Reporting • Settlement • MIS
Additional costs	**Utilities**
• Security • Insurance • Cash transport	• Communications • Electricity

as well as trust in the service provider, are at least as important as the price, if not more so.

RFIs must also determine whether to engage in remittance services at the domestic, intraregional, or international level, taking the market, regulatory and institutional context into account. RFIs must have the capacity and regulatory approval to manage foreign exchange flows and liquidity and risk management requirements due to the relatively high cash volumes involved in being a payout point for remittances arriving from middle- and high-income countries. A focus on domestic remittances would open the RFI to a broader market that is not limited to migrant remittances from outside the country. Such a service could scale up from micro-transfers between individuals to migrant remittances and the payment of school fees and then expand to remittances between small traders, retail distributors (e.g., petrol or phone cards), wholesalers, export commodity traders and large companies (e.g., mining, agro-producers). These actors would be well served by such remittance services, as these businesses often physically transport cash to make payments for purchases or salaries, given that there are frequently no reliable, efficient financial services available for money transfers.

In conclusion:

- Regulated institutions (e.g., RFIs, postal banks, money transfer organizations) are more likely to be in a position to offer remittance services.
- Domestic remittance services can be as attractive to RFIs as international remittance services (and perhaps more attractive) since they avoid foreign currency risks and open up market opportunities for transfers for other private payments (e.g., school fees) and commercial operations (e.g., purchase of inputs or stock).
- Remittance services are products requiring systems and capabilities different from those that characterize lending operations.
- Costs are an important feature of the choice among remittance services, but customers often find the advantages of access to and reliability of the service as significant if not more significant than the burden of costs.

IFAD Support Options

Building sustainable RFIs that provide access for low-income, rural populations to a range of financial services is an important objective for IFAD and its partners. This commitment translates into support for initiatives to improve the capacity of RFIs to offer more integrated financial services to their clients, including remittance services, through the following options:

- **market and feasibility assessments**, including market and client research, assessments of regulatory requirements and training that builds the capacity of RFIs to conduct their own research;

- **product identification and development** in order to design products and make operational refinements throughout product testing and roll-out;
- **pilot testing** among selected branches, markets, or client groups;
- **product roll-out** across an RFI's network of operations;
- **service integration** to cross-sell financial services, such as savings, that may require operational front- or back-office adjustments and staff training; and
- **compliance reviews and system adjustments** to support assessments of compliance and achieve compliance with regulatory requirements.

Enabling Environment: Regulators and Policies and Regulations

The enabling and regulatory environment consists of the bank and non-bank regulations and policies that influence the provision of remittance services and the opportunity to cross-sell other services. Payment systems are an important element in the enabling environment for remittances. The recent introduction and tighter enforcement of regulations intended to eliminate money laundering and terrorist financing have raised requirements in licensing, reporting and transparency. These regulations have also led to more conservative licensing assessments and changes in the supervision of financial services and added additional compliance burdens and costs for service providers and clients.

Among the key challenges in this regard is the frequent lack of familiarity with and access to information about the regulations on non-bank financial services. The provision of remittance services requires different levels of licensing and permission. Some countries require a full bank licence, while others require a licence for money transfer operators. In addition, when services involve international transfers, service providers must have the authorization to deal in foreign currencies. In situations where the services are integrated with savings products, another set of licensing and regulations applies, given that deposits are supervised and regulated much more heavily than lending or remittances.

RFIs interested in introducing remittance services need to assess the possibilities dictated by their current legal status. As detailed in Table 2, sometimes only a change in legal status or registration can put them in a position to offer remittance services or deposits. Given that RFIs should always be supported within the regulatory context, initiatives that refine regulations to facilitate access to financial services, such as remittances, should also be considered.

IFAD Support Options

IFAD may support targeted research on regulatory impact assessments, particularly in regard to the provision of remittances in rural areas. The demonstration effect generated by pilot initiatives or the dissemination of experiences around the globe may also lead to improved awareness and more appropriate regulatory reform. When engaging in a policy dialogue, IFAD should partner with other donors that have technical expertise and a field presence in the relevant countries.

Table 2
Indicative Options for Remittance-Related Products at Various Levels of Regulation of RFIs[7]

	Money Transfers	Foreign Exchange Trade	Deposits
Rural banks or branches of commercial banks	Typically permitted with a full licence, but supervisory authorization must be requested.	Typically permitted with a full licence, but supervisory authorization must be requested.	Typically already offered as part of a full licence.
Regulated MFIs	Varies by country. Must inquire or request permission from regulators.	Varies by country. Must inquire or request permission from regulators.	Varies by country and type of registration and regulation. Must inquire or request permission from regulators.
Unregulated MFIs	Varies by country, but is typically not permitted as a direct service. Can become a subagent or point of sale in some countries.	Typically not permitted.	Typically not permitted.
Credit unions, member-based services	Varies by country, but is typically not permitted as a direct service. Can become a subagent or point of sale in some countries.	Often not permitted.	Typically aloowed to take deposits, but only from members.

7 This table provides only a general overview, as these options vary greatly according to the specific country.

ANNEX I

Financial Action Task Force on Money Laundering[8]

Created in 1989 by the Group of Seven Heads of State and the President of the European Commission, FATF has since grown to 29 member countries, most of whom are OECD members.[9] Initially, the purpose of FATF was to function as a policy-making inter-governmental body that would develop and promote policies to combat money laundering both nationally and internationally and mobilize the political will necessary to enact national legislative and regulatory reforms. The organization has neither a rigidly defined constitution, nor a rigidly defined lifespan; every five years, member governments consider whether to continue it. The last review was in 2004.

In 1990, FATF published 40 recommendations to counter money laundering in three areas: (a) legal; (b) financial and regulatory; and (c) law enforcement. In the legal area, the recommendations involved making money laundering a criminal offence and providing legal measures to confiscate any proceeds from crime. In the financial and regulatory area, FATF required the prohibition of anonymous accounts and called on financial institutions to identify and report suspicious transactions. In the law enforcement area, it recommended that assistance be forthcoming among jurisdictions in money laundering investigations and prosecutions. These recommendations have since been implemented by most member countries; worldwide, they have become a policy benchmark for money laundering countermeasures and have been adopted by, among others, the UN General Assembly.

Building effective anti-money laundering systems within FATF member countries depends in part on the quality of monitoring, follow-up and cooperation. Most members are strongly committed to the discipline of multilateral monitoring, involving both an annual internal self-assessment and an external FATF-led evaluation. Both assessments check the country's progress in implementing the 40 recommendations.

This mutual evaluation process is coupled with FATF's policy on dealing with non-compliant members. If countries fail to take measures in areas highlighted by FATF, they can be blacklisted or even suspended. The public naming and shaming of non-compliant nations often spurs these countries to take the corrective actions that are expected of them. Continued non-compliance can yield severe economic consequences. International credit rating agencies (such as Standard and Poor's) have downgraded countries on FATF's blacklist, thus increasing the cost of capital for these countries.

Compliance reviews for 2001 showed that even founding members such as the United States and Canada have problems meeting FATF standards. Nevertheless, FATF manages to maintain compliance pressure on countries both inside and outside the membership sphere. Since 2000, it has published blacklists of "non-cooperating jurisdictions" (non-member countries) that risk being placed off-limits by western financial institutions if they do not "clean

8 Sander 2003.

9 See CGAP Focus Note 29, "AML/CFT Regulation: Implications for Financial Service Providers that Serve Low-Income People", for more information (www.cgap.org/docs/FocusNote_29.pdf).

up their act". These included small offshore centres (e.g., Lichtenstein, the Cayman Islands), as well as larger countries such as Hungary, Israel and Russia.

Shortly after the terrorist attacks of 11 September 2001, FATF expanded its mission beyond the struggle against money laundering to encompass the detection and prevention of the misuse of the world financial system by terrorists. A set of recommendations, called the Group of Seven Action Plan, was rapidly produced, and, by February 2002, 200 countries and jurisdictions had agreed to implement plan. Initial results have been impressive, though not without imperfections. While many countries have tightened their legislation, new burdensome rules continue to deter part of the banking community from complying.

The attention given to the financing of terrorist activities has, however, encouraged many governments to combat money laundering more seriously as well. Much of the burden of compliance and the associated costs, however, remain in the financial industry and are likely to be passed on to industry clients as much as possible. Banks have also tended to be very cautious, erring on the side of over-compliance, which has thus introduced additional hurdles or barriers for migrants and money transfer operators in accessing banking services.[10]

10 See FATF website for more information: http://www1.oecd.org/fatf/

ANNEX II

Remittances as Financial Flows[11]

Though official remittance data – published in the IMF's Balance of Payment Statistics Yearbook and the World Bank's annual *World Development Indicators* – are excellent starting points for the analysis of remittance flows, the accuracy of these important data is compromised by the low quality of submissions and the uneven reporting at the country level. Data for African countries are particularly weak. Figures for 2000 and 2001 are available for only about 60% of all African countries and only about one third (16 of 49 countries) in sub-Saharan Africa.[12]

Reported data do not always reflect private transfers through banks or other regulated channels. In addition, the data also suffer from varying levels of underreporting, notably of transfers through informal channels, which can be significant. Underreporting tends to be higher for countries with weak financial sectors or unstable political-economic situations and for countries in which significant migration occurs within the service distance of alternative or informal remittance channels. In Sudan, Choucri (1984, cited in Puri et al. 1999) estimated that 85% of all remittances were unrecorded. Though Kenya reports no data at all, Kenyans apparently received approximately USD 420 million in 2002.[13] In other cases, some flows reported as remittances belong in other categories. Uganda, currently in the process of improving its data collection, has been reporting residual foreign exchange transactions as remittances.[14]

Data presented in this study are based on the source used in the respective studies quoted. Dilip Ratha, the stated source for some figures and graphs, based his data set on balance-of-payments data of IMF on worker remittances, migrant transfers and employee compensation (item codes 2391, 2431, 2310).

Remittances are unlike other private financial transfers in that they "do not constitute financial flows in the strict sense" (Buch et al. 2002). In addition, remittances are classified as current transfers in current accounts, unlike other financial flows, which are recorded in the capital or financial accounts of the balance of payments. Finally, remittances are transfers between nationals rather than a capital import from non-residents or non-nationals, which would give rise to a change in the assets and liabilities of residents vis-à-vis non-residents.

11 Adapted from Sander and Maimbo 2003.

12 If a country does not report on time, a proxy is used to generate an estimate that appears in the statistics (Buch et al. 2002).

13 Author's conversations with the staff of commercial banks in Kenya, January 2003.

14 Author's conversation with Bank of Uganda and Ministry of Finance staff, February 2003.

ANNEX III

Capacity Considerations by Type of RFI

	General Notes
Rural banks or branches of commercial banks	• Well-managed, readily-connected banks or branches could assess the feasibility of introducing money transfers as a service. • Apart from the considerations discussed in this section on the supply side, it will be important to assess the effect on service efficiency (front office) as many of services are typically already overloaded and inefficient as main payout points such as for government salaries and pensions.
Regulated MFIs	• Well-managed MFIs that are ready to offer another product could assess the feasibility. • Money transfer is a different service from credit and requires front- and back-office changes, as well as staff training. • The possibilities are determined by the market, the regulatory environment and the capacity and potential network for money transfer services.
Unregulated MFIs	• An immediate determinant is whether the regulatory environment allows money transfer services. • If yes, as these institutions typically offer loan products exclusively and are often group based, money transfers and also savings would be a new product requiring different systems, staff capacity, liquidity management, etc. • A well-managed, sustainable MFI could assess the feasibility of introducing money transfers as a service.
Credit unions, member-based services	• A similar situation as above for regulated/unregulated MFIs, with a few differences, especially regarding savings.

Money Transfer: Domestic / Regional / Global	Deposits	Other Ancillary Services
• Most likely to be connected with some of the standard transfer systems. • At a minimum they are part of the domestic payment and clearing system. • Will typically offer account-to-account transfers, though some offer other services. • Domestic transfer services typically offered. • Typical challenges are liquidity, risk management, weak communication, and the MIS.	• Typically already offered. • Cross-selling with other services. • Not typically well managed and needs to be addressed strategically and followed through with adjustments in systems and staff training.	• Other financial services such as mortgages might be offered. • Insurance products could be integrated or offered by some, though typically there are few insurance providers and often a weak insurance industry, as well as limited acceptance of insurance among low-income earners.
• Subject to the regulatory framework, they can become linked with international service networks. • For many of the service operators, MFIs can be too small or too risky as agents, though strong institutions in the right market are attractive to them as agents. • A domestic service could provide the learning ground for international services.	• Subject to the type of licence, some offer savings, and others are not permitted to do so. • MFIs with savings products are more relevant from the perspective of the financial inclusion and integration of services, as cross-selling can be promoted. • At the same time, even MFIs without savings offer the prospect of better access.	• Other financial services might be offered or they might act as a point of sale or as agents, though there are still only very few with such a range of products and the capacity to offer the products.
• Subject to the regulatory framework, unregulated MFIs can become linked with international service networks, though only few examples exist. • For many of service operators, an unregulated MFI will be too small and too risky as agents. • A domestic service could provide the learning ground if the institution is strong and well placed to offer it.	• Only a few offer savings, and most are not permitted to do so. • MFIs without savings offer the prospect of better access, if not integrated financial services.	• Other financial services might be offered or they might act as point of sale / agents, though there are only a very few with such a range of products and the capacity to offer them. • In most cases, building their core business and their institutional capacity is more important than offering additional services.
• Subject to the regulatory framework, they can become linked with international service networks. For many of the service operators, they are be too small or too risky as agents, though strong institutions in the right market are attractive as agents. • A domestic service could provide the learning ground for international services. • Credit unions can assess the feasibility of becoming part of WOCCU's IRNet.	• Subject to the institutional and regulatory framework, many credit unions and some member-based institutions offer some form of savings. • Those with savings products are more relevant from the perspective of financial inclusion and the integration of services, given that cross-selling can be promoted. • At the same time, however, those without savings offer the prospect of better access.	• As for regulated MFIs.

ANNEX IV

Internet Resources and Tools

Market research tools

- MicroSave offers practical guidelines on the steps needed to undertake market-led, rather than product-driven microfinance. See www.microsave.org.
- The USAID site for Microenterprise Learning, Information and Knowledge Sharing: www.microlinks.org.

Financial literacy

- FinMark Trust 2004, Financial Literacy Scoping Study and Strategy Project, prepared by Equity Consultants, Inc., final report, FinMark Trust, South Africa, March 2004: www.finmark.org.za/researchmaterial/research_type/research_type.asp?uno=3.
- Federal Reserve Bank of Chicago provides online resources for financial education: www.chicagofed.org/cedric/financial_education_research_center.cfm.

Savings

- MicroSave materials on savings at www.microsave.org, including a number of toolkits such as a pilot test toolkit on savings: www.microsave.org/relateddownloads.asp?id=14&cat_id=72&title=Pilot+Test+Toolkit+%2D+Savings.

Product development and piloting

- MicroSave has created a study programme on product development www.microsave.org/relateddownloads.asp?id=11&cat_id=50&title=Product+Development+Process.
- Another of MicroSave's toolkits covers product development risk analysis: www.microsave.org/relateddownloads.asp?id=14&cat_id=59&title=Product+Development+Risk+Analysis.
- MicroSave has also produced briefing notes entitled "Why Bother with Product Development?": www.microsave.org/get_file.asp?download_id=563&myurl=%2FBriefing%5Fnotes%2Easp%3FID%3D19.

Operational capacity and MIS

- The Microfinance Gateway is a portal to current microfinance research and discussions: www.microfinancegateway.org.
- The site includes an article on "Management Information Systems for Microenterprise Development Programmes": www.microfinancegateway.org/content/article/detail/1253.
- CGAP's web site, at www.cgap.org, includes a section on institution building: www.cgap.org/priorities/institution_building.html.

Rural finance

- The USAID site for Microenterprise Learning, Information and Knowledge Sharing: www.microlinks.org.
- Proceedings of the conference "Paving the Way Forward for Rural Finance: An International Conference in Best Practice": www.basis.wisc.edu/rfc/.
- IFAD's own site, at www.ifad.org, includes a section on rural finance (at www.ifad.org/ruralfinance/).
- The German Agency for Technical Cooperation runs a rural finance programme that includes various country-specific initiatives. A donor programme review can be found at www.gtz.de/themen/economic-development/download/donor_gtz.pdf.

Regulatory impact assessment

- The Centre on Regulation and Competition, Institute for Development Policy and Management at the University of Manchester is a partnership among institutions in the UK, Africa and Asia to provide research, advisory services and capacity-building relating to regulation and competition (http://idpm.man.ac.uk/crc/).
- Regulatory impact assessment documents include http://idpm.man.ac.uk/crc/pbdl/issue%203.pdf and http://idpm.man.ac.uk/crc/wpdl149/wp30.pdf.

FATF

- The Financial Action Task Force on Money Laundering has been at the forefront of the effort to counter the misuse of the international financial system: http://www1.oecd.org/fatf/.

ANNEX V

WSBI Fair Value Remittances Value Proposition[15]

For the Remitting Customer (the "Originator")

i. Lower costs
ii. Full transparency of end-to-end charges
iii. Guaranteed execution time
iv. Clear redress procedure

For the Receiving Customer (the "Beneficiary")

i. Higher receipts
ii. Predictable income frequency
iii. Clear redress procedure
iv. Privileged access to financial services, including loan facilities

For the Remitting Bank (the "Originator's Bank")

i. Differentiated positioning vis-à-vis potential remitters ("ethical")
ii. Marketing assistance (community-based) from receiving banks
iii. Clear dispute resolution mechanism
iv. Greater customer retention and cross-selling opportunities

For the Receiving Bank (the "Beneficiary's Bank")

i. Standardized framework for establishing and managing relationships with remitting banks
ii. Higher receipts for account-based customer population
iii. More predictable cash management, lower processing costs
iv. Differentiated positioning vis-à-vis other receiving banks and money changers
v. Customer retention and broadening of products acceptance opportunities
vi. Clear dispute resolution mechanism

15 "International Remittances Delivering Fair Value: Savings Banks Take on the Challenge", WSBI Conference, Brussels, 11 December 2003.

ANNEX VI

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