International Remittances and Eastern Europe

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Preface

Remittances have long been recognized as important by the development community. The purpose of this report is to aid those formulating a development agenda which includes remittance-related programs. It is divided into two sections: a summary of the role of remittances in Eastern Europe and their potential uses by the development community, and an annotated bibliography of remittance-related works.

The first section gives an overview of the effects and nature of remittance flows in Eastern Europe. Particular emphasis is placed on Moldova, Armenia, Albania, and Serbia, countries for which remittance income is equal to more than 10% of the nation's GDP. (Bosnia and Herzegovina also satisfies this criterion, but is not analyzed in detail simply because studies of remittances in this country were not available.) Development programs involving remittances which have been, will be, or could be implemented throughout the world are also discussed, with an emphasis on bringing remittance senders and recipients into the formal financial system. These programs represent best practices which could be applied to countries in the Eastern European region.

The second section is an annotated bibliography of remittance-related studies. Emphasis is placed on studies of Eastern Europe and studies of private sector and donor community programs which enhance the effects of remittances or use remittance income to accomplish development objectives. This bibliography is annotated in some detail to aid future researchers. Included are papers which do not deal with Eastern Europe specifically, but present programs or analyses which might be applicable to the region.

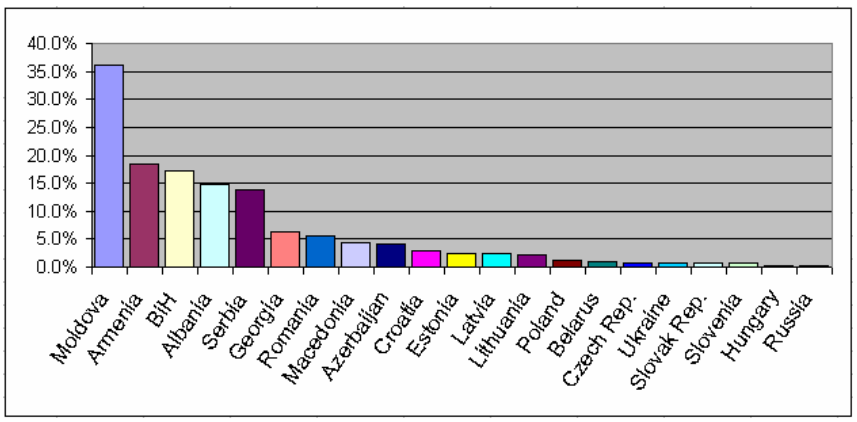
Remittances in Eastern Europe and Development

Introduction

Remittances are not a new topic in the development community. USAID, the World Bank, and others have studied the topic for years. However, remittance-related development programs *are* relatively new. In both the private sector and the development community, few organizations have made a concerted effort to use remittances to enhance their positive impacts on recipients. The purpose of this report is to examine the importance of remittances to Eastern Europe, and to analyze programs which would use remittances for development, with a particular emphasis on using remittances to develop the formal financial sector.

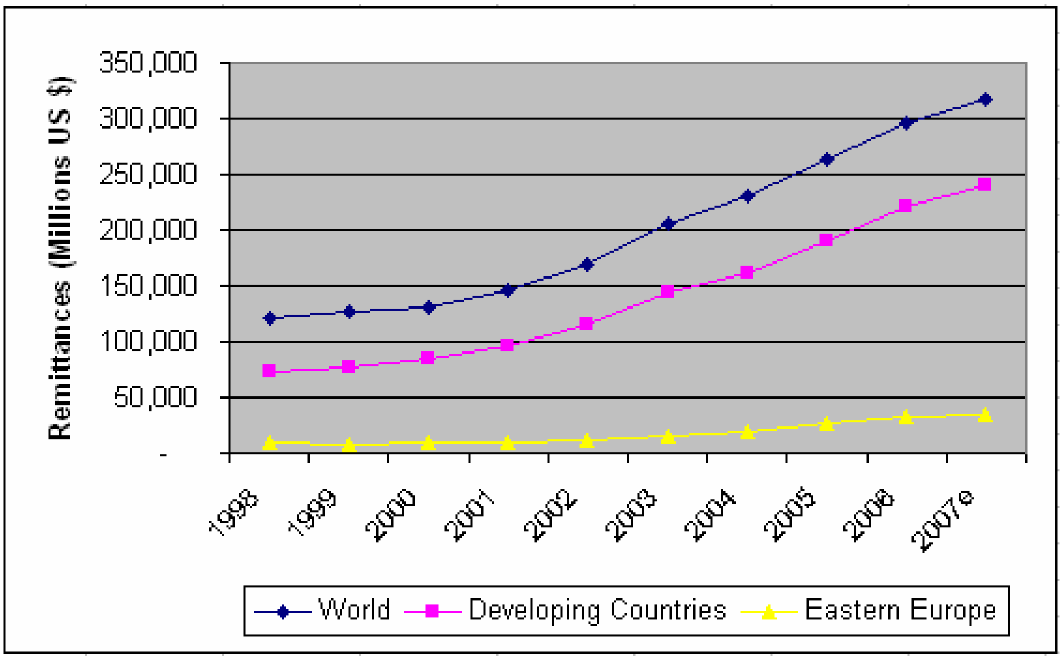
Remittances are important to the economies of many Eastern European countries. The chart below shows the percentage of each country's GDP equivalent to incoming remittances in that country (World Bank, 2008b).

Country	Remittances as portion of GDP (2006)
Moldova	*36.2%*
Armenia	*18.3%*
BiH	*17.2%*
Albania	*14.9%*
Serbia and Montenegro	*13.8%*
Georgia	*6.4%*
Romania	*5.5%*
Macedonia	*4.3%*
Azerbaijan	*4.0%*
Croatia	*2.9%*
Estonia	*2.4%*
Latvia	*2.4%*
Lithuania	*2.1%*
Poland	*1.3%*
Belarus	*0.9%*
Czechia	*0.8%*
Ukraine	*0.8%*
Slovakia	*0.8%*
Slovenia	*0.8%*
Hungary	*0.3%*
Russia	*0.3%*



For no country in this region are remittances negligible; even for Russia, remittance receipts are equivalent to .3% of GDP. Also, by the World Bank's admission, these results are likely underestimates which do not fully account for unrecorded formal and informal flows[1] (World Bank, 2008a).

Flows of remittances have increased steadily and markedly in the last decade, both worldwide and within Eastern Europe. In 2007, worldwide remittances were $318 billion, remittances to developing countries $240 billion, and remittances to Eastern Europe (those countries included in the graph above) $35 billion (World Bank, 2008b; again, these figures are likely to be underestimates.) The graph below shows remittance trends over the last decade. It seems clear from the graph that the increase in worldwide remittances is largely due to an increase in remittances to developing countries.



Remittances are in some ways more efficient than foreign aid: they are direct transfers of money to households, many of which are impoverished. Remittance flows far outstrip foreign aid flows in many developing countries, including in Eastern Europe. They can be larger than foreign direct investment and may exceed net exports in countries with very high remittance flows. Also, unlike foreign direct investment, they may be countercyclical (World Bank, 2006): when conditions in the receiving country worsen, remittances increase. This amplifies remittances' role as a consumption-smoothing mechanism.

Remittances also have important macroeconomic effects. They are an important source of foreign currency, and thus improve a country's current account and stabilize the

[1] It took some investigating to determine exactly what this meant. According to an email from the World Bank Client Services and Communications, these data "report officially recorded remittances where some countries' officials may have included the flows through informal channels depending on the countries' own statistical manual. Thus it is country by country case and in order to determine the countries those include unofficial flows, you have to look at the each countries statistical manual or the note in the Balance of Payments statistics from the International Monetary Fund's website."

balance of payments. On the other hand, there are critics who claim that if remittances are spent mostly on imports, they can create a trade deficit (Kireyev, 2006); and that by appreciating the domestic currency, they make exports less competitive (ibid.).

The question of to what uses recipients put remittances is not easy to answer. There are various techniques to determine this question. One is to simply ask people to what uses remittance income is put (as in Aretha et al., 2005; Ghencea and Igor, 2006; SECO, 2007). This approach is unsatisfactory, because money is fungible: that a respondent feels that he/she is spending remittance income on a good does not necessarily imply that the respondent in fact buys more of that good than he/she would in the absence of remittance income. A more robust method is to analyze the consumption patterns of those who receive remittances and those who do not, and to determine how these patterns differ (as in Castaldo and Reilly, 2007). Results of studies commonly conflict; it is just as common to read that remittances tend to be used for short-term consumption (Kireyev, 2006; Quillin, 2007) as it is to read that a large portion of remittances goes to savings and investment (Nicholson, 2004; Poprzenovic, 2007). One relatively robust result is that a significant portion of remittances in Eastern Europe tend to be invested in housing and real estate (Aretha et al., 2005; Ghencea and Igor, 2006; Poprzenovic, 2007; SECO, 2007; Orozco, 2007).

Remittances in Eastern Europe often flow through a few specific corridors. In Albania, 90% of migrants go to Greece, and most of the rest to Italy (Orozco, 2004b); in Moldova, 55% of remitters live in Russia, and 18% in Italy (Ghencea and Gudumac, 2006); in Armenia, 68% of remittance transfers are from Russia (Roberts et al., 2004). Serbia has a more heterogeneous group of remitters; the largest group is in Germany, which accounts for about 20% of remittances (Martinez et al., 2006). Russia is a large source of remittances in the region, and the second largest source of remittances worldwide (World Bank, 2008a). The fact that remittances tend to be concentrated in specific corridors facilitates development programs targeting senders and receivers.

Many remittances in Eastern Europe flow through the informal sector. In Albania, 81% of remitters use informal channels (Gedeshi, 2002); in Armenia, over 80% of remitters never use formal channels (PA Consulting Group, 2006); in Moldova, 42% (European Bank for Reconstruction and Development) to 50% (Orozco, 2007) use informal mechanisms or hand carry the money. Estimates of informal flows to Serbia range from 50% (Martinez et al., 2006) to 80% (SECO, 2007). This is the case despite the fact that costs for formal transfers are generally similar to costs for informal transfers (e.g., PA Consulting Group, 2006; Quillin et al., 2007; Roberts and Banaian, 2004; Orozco, 2007). (An exception might be Serbia; remittance transfer costs to Serbia tend to be high, in part because of lack of competition and Serbian banks' lack of penetration in other countries [Martinez et al., 2006].) However, those using formal transfers must often meet criteria such as having an account at the bank making the transfer. Also, costs for sending very small amounts can be disproportionately high in the formal system. While some migrants use Hawala-type networks to send remittances (Bryan and Banaian, 2004; PA Consulting Group, 2006), quite often they are sent through informal couriers such as bus drivers (bus drivers are particularly used for remittances to Serbia: Martinez et al., 2006; SECO, 2007) or hand-carried by the migrant (e.g., Aretha et al., 2005; PA Consulting Group, 2006).

The prevalence of informal transfers has several adverse effects. It causes increased costs for senders and receivers. While this is not a large issue in Eastern Europe where both formal and informal transfers are relatively inexpensive, informal transfers are more susceptible to theft or fraud. Informal transfer networks provide opportunities for money laundering and the financing of organized crime and terrorism. Informal remittance flows are often not taken into account when calculating a country's income to determine creditworthiness. This can have significant effects on the sovereign spread. For example, Serbia and Montenegro's 2005 credit rating without remittances counted as income is B+, while its rating with remittances counted as income is BB-, equivalent to a sovereign spread rating of 150 basis points (Ratha, 2005).

When transfers occur informally, an opportunity to bank the unbanked is lost. This means recipients lose credit and interest-generating activities, while banks and firms have fewer funds available for investment and onlending. Those receiving remittances are often poor and/or rural households who have little experience with banking. When remittances are not banked, this prevents families from leveraging the income fully. Furthermore, remittances can be a way to tie families into financial services which they would not otherwise access.

Banking the Unbanked: Targeting Remittance Senders and Recipients

One way to bring more remittances into the formal sector is to help banks to target the remittance community. Ways in which banks can make themselves and their services appealing to remittance senders and receivers include: the incorporation of remittance income in income calculations to determine creditworthiness; mechanisms to channel remittances directly and conveniently to financial products or regular expenses; marketing of financial products to remittance senders and receivers; facilitation of remittance withdrawals and deposits; and the development of financial products targeted specifically at the remittance market. These phenomena are becoming more common in the private sector, and represent best practices which can be disseminated to financial institutions.

Banco Solidario in Ecuador has made a concerted effort to target both remittance senders and receivers (CARANA Corporation, 2004; Orozco, 2004b; http://www.banco-solidario.com). The bank partners with Spanish banks in order to be able to target migrants and remittance recipients. The bank has special bank accounts which allow the sender to limit how much the recipient can withdraw, which encourages savings. Solidario provides credit access to migrants in Spain to cover short-term needs. It uses remittances to draw senders and recipients to other products, particularly credit lines, housing and home buying credits, savings accounts, and insurance. It markets to senders and recipients through its distribution channels, radios, and TV. It also facilitates remittance transfer by allowing their clients to make transactions using a Point of Sales network. In 2004, Solidario transferred $50 million through their program, hundreds of remittance recipients had financed homes using remittances, and over a thousand had opened savings accounts.

Banco Salvadoreño, El Salvador is another bank which has targeted the remittance market (Orozco, 2004b; Hamilton and Orozco, 2006; Orozco, 2007; http://www.bancosal.com). It facilitates remittance flows by allowing Internet-based account-to-account transfers. In an example of a very direct way of including remittance income when determining creditworthiness, the bank allows remittance recipients to access loans up to 80% of the value of total remittances received in the previous six months. Banco Salvadoreño markets its services with print, billboards, and radio, with television ads planned in the future. It has strategic alliances with several money transfer organizations (MTOs) to increase its presence and market its services in the U.S. In 2005, the bank made over 1 million transfers totaling $256 million. Remittance receivers had opened over 29,000 savings accounts, and the bank had distributed 9,000 debit cards and over $10 million in loans to recipients.

The State Bank of India has unique programs to target Non-Resident Indians with the objective of keeping as much of their business within the Indian banking system as possible (Orozco, 2004b). They offer accounts with special interest rates and certain tax exemptions to NRIs. They offer products to NRIs wishing to invest in India (such as by buying property). They also have partnerships which allow foreign banks to sell Indian government bonds to non-resident Indians. (In the U.S., these products are sold as CDs due to SEC regulations.)

Wells Fargo has a number of programs to target the remittance market in several countries (Orozco, 2007; FDIC, 2004). It packages other services with remittances. It offers financial literacy campaigns, in which it works with an NGO to distribute free literature explaining check-cashing, ATM use, and other financial services to remittance recipients. A remitting Wells Fargo customer now uses an average of seven financial products, while non-remitting customers use an average of five. In an act demonstrating how important it can be to understand the needs of the migrant community, Wells Fargo was the first U.S. bank to accept the Matricula Consular as valid documentation for opening a bank account in the U.S. The Matricula Consular is an identification card issued by the Mexican (not the U.S.) government. In the two and a half years after Wells Fargo began this practice, (November 2001 – May 2004), 400,000 U.S.-based Mexican immigrants opened Wells Fargo bank accounts. Currently, Wells Fargo processes over 25,000 remittance transfers from the U.S. to Mexico monthly.

Initiatives to tap the remittance market can be found outside the banking sector. Construmex, a subsidiary of Cemex, is a home construction/finance company which has worked to channel remittance flows to mortgages and loans to build or remodel homes (Orozco, 2007; http://www.construmex.com)[2]. Construmex partners with the money transfer organization DolEx Dollar Express to allow convenient loan payments with

[2] Note that some figures in Orozco's report contradict those on Construmex's website; where a conflict exists, I use the Construmex website figures. The website is quite informative about the program (but is in Spanish).

remittances. It works with Mexican embassies and consulates to promote the program among migrants in the U.S. Construmex's website offers live interactive chat with a service representative to discuss the program. Because of Construmex's large physical presence in Mexico, migrants can build or finance homes in over 200 cities and towns in Mexico. Thus far, the company has served over 30,000 Mexicans and built or financed over 8,000 homes. In 2006, 5 times as many people were approved to purchase a home through this program as in 2005, and sales of building materials increased 30% over 2005.

A program like Construmex seems particularly applicable in areas with underdeveloped mortgage markets, such as Mexico and much of Eastern Europe. In Eastern Europe, many people save remittances at least in part to finance housing. Different studies indicate that 42% of bank-using Moldovan recipients (Orozco, 2007), 52% of Serbian recipients (SECO, 2007), and 33% of Albanian remittance recipients (Aretha et al., 2005) invest at least part of their remittances in housing.

Credit Unions and Microfinance Institutions as Remittance-Receiving Institutions

Microfinance institutions (MFIs) and credit unions (CUs) often reach rural consumers whom larger banks do not. They are also more likely to be interested in attracting customers opening small accounts than larger banks. One way to bring the remittance community into the formal financial sector is thus to enable MFIs and CUs to act as remittance-receiving institutions. MFIs and CUs have a significant presence in parts of Eastern Europe. In Moldova, for example, under the name Savings and Credit Associations, there are over 400 credit unions serving more than 200,000 clients (Orozco, 2007). A report published by the International Organization for Migration recommends that regulations restricting these organizations from dealing in remittances be loosened and that donors focus on developing remittance capacity in these institutions in order to bring more remittances into the formal financial sector (ibid.).

In Moldova and elsewhere, there are several hurdles to overcome in this process (Hamilton and Orozco, 2006). Complying with country regulations regarding international money transfers can impose significant costs. Money transfers offer more complicated liquidity and risk management than traditional MFI activities. MFIs and CUs need well trained staff to adapt to the needs of remittance senders and receivers. Proper marketing is necessary to achieve a critical mass of remittance transfers, to make the endeavor profitable. The MFI or CU must have strong financial analysis capabilities.

Most MFIs or CUs who deal with remittances act only as agents to money transfer organizations such as Western Union. This is fine in and of itself: small financial institutions generally cannot pay the large costs needed to engage in international money transfers independently. However, because these organizations are small, they often cannot effectively bargain with much larger and more knowledgeable MTOs. This results in large costs for the MFI or CU and subsequently for customers. Hence, donor aid can help MFIs and CUs in at least two ways: 1) they can provide technical assistance to help the financial institution process remittances and market remittance transfer and other services, and 2) they can help MFIs and CUs to effectively bargain with MTOs to work out low cost money transfer arrangements. These types of programs strengthen smaller financial institutions and benefit consumers.

WOCCU, the World Council of Credit Unions, has a program to integrate credit unions into its remittance transfer network, IRnet (Orozco, 2004; Hamilton and Orozco, 2006; http://www.woccu.org/dev/remittances). The program currently works with CUs and MTOs in the U.S., El Salvador, Guatemala, Honduras, Nicaragua, Mexico, and Jamaica. They provide low cost international wire transfer service to credit unions through partnerships with MTOs like Vigo Remittance services. They assist credit unions to develop the financial infrastructure to handle remittance flows. They also assist in developing and marketing remittance related products, with some success: 14-28% of non-members who transferred funds through an IRnet credit union opened an account, and 37% of participating CU members save a part of their remittance receipts.

WOCCU's work with Caja Popular Mexicana (CPM), the largest CU in Mexico, is an example worth highlighting (Orozco, 2004; Hamilton and Orozco, 2006). USAID partially funded a successful program to connect CPM to IRnet and to market related services. CPM now processes 25,800 transfers per month and transferred $90.5 million in remittances from the U.S. to Mexico from January-September 2007. The CPM experience also highlights the importance of marketing. Initially, only 5-6% of those who used CPM for remittance transfer used other services. After cashiers and managers were trained to market other services, this number increased to 25-30%.

The Multilateral Investment Fund (MIF) has a number of projects related to remittances, many of which involve working with MFIs.[3,4] One project, done in partnership with the International Fund for Agricultural Development, worked to strengthen MFI remittance capacity in Bolivia (Inter-American Development Bank; http://www.prodemffp.com). The overall goal of the program was to promote a remittance management model to bring disadvantaged rural communities into the financial services system. Specifically, they worked with PRODEM, a Bolivian MFI, to enable them to handle remittance transfers. They funded research to profile senders and receivers for product design. Products designed include: long-distance credit lines with Visa or MasterCard secured by remittances; medical, life, property, automobile, and other insurance paid by remittances; payment of taxes, school tuition, and other services with remittances; and structured savings accounts for housing, education, healthcare, or retirement for remittance senders and recipients. MIF also worked to upgrade PRODEM's technological infrastructure. Previously, PRODEM was limited to sending

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[3] Information on MIF projects can be found at http://www.iadb.org/mif/projects.cfm?language=English. Select "Financial Sector and Capital Markets", then "Remittances." Project summaries include projected and (if available) historical contributions from MIF, local governments, and other organizations. Much of the documentation is in Spanish, though usually there are documents in English which contain most or all information of interest.

[4] Some of MIF's other programs include: entrepreneurial training for Brazilian remitters and their families, in order to channel remittances towards productive investment; integration of Ecuadorian credit unions into a high-technology Internet payment system; and assisting several LAC Central Banks to better process and record remittance flows.

and receiving remittances using software put in place by Western Union, which did not allow access to the database of remittance receivers. This made it difficult to identify and link senders and receivers to offer them financial services. Technical upgrades allowed PRODEM to capture monetary and information flows to bring senders and recipients lines of customized financial products and services.

USAID and Remittances

USAID has funded several programs related to remittances in the past. USAID/Mexico partially funded the Caja Popular Mexicana program mentioned in the previous section (Orozco, 2004). USAID El Salvador funded a pilot program to attract donations from El Salvadoran hometown associations[5] (HTAs) in the U.S. to give scholarships to poor children in El Salvador. USAID also planned to work with the Salvadoran Ministry of Education to receive HTA donations and channel them into scholarships (ibid.). USAID/Jamaica, in agreement with the Jamaica National Building Society (JNBS), a remittance company, worked to introduce smart card technology to reduce the cost of transfers and create greater accessibility of funds. JNBS planned to leverage savings from this technology for development work, including a program to provide computers to schools (ibid.). USAID's Global Development Alliance has worked on a number of initiatives, with the primary foci 1) increasing market driven alternatives to large wire transfer companies, 2) strengthening the capacity of HTAs and broker groups, and 3) developing alternate technology to reduce transaction costs of remittances (ibid.).

USAID currently has several pilot programs in various stages of preparation or implementation which deal with remittances. USAID and the Global Development Alliance have a mission statement regarding remittances[6]. The overarching theme is to focus programs on diasporas; that is, to channel diaspora funds to productive investments in their country of origin.

Some of the programs in preliminary or exploratory stages are particularly innovative. Some highlights are[7]:

1) *Home finance loans in El Salvador backed by remittances* In this program USAID would work with Microfinance International Corporation (MFIC), a U.S.-based financial institution, and two MFIs in El Salvador. MFIC would help to ensure that remittances were reliably reported to the MFIs so that they could be included as income when assessing creditworthiness. A mortgage or home improvement loan would be extended to the migrant or his/her family

[5] Hometown associations are migrant philanthropic organizations, wherein migrants pool money together to fund philanthropic initiatives in their community of origin, often focusing on education or infrastructure. One particular well-known HTA program is the Mexican government's 3x1 program: for every dollar raised by a hometown association, the municipal, state, and federal governments each contribute a matching dollar (Orozco, 2004).

[6] http://www.usaid.gov/our_work/global_partnerships/gda/remittances.html

[7] It's important to note that all of these programs are, to one degree or another, tentative as of August 15, 2008.

for home purchase or renovation in El Salvador. Because of the risk involved, USAID would guarantee these loans through the Development Credit Authority. A similar program is planned in Guatemala which would focus on enterprise lending.

2) *Micro-insurance in Haiti* In this program, USAID would help an insurance company to market funeral, weather, and other types of insurance to Haitian migrants in the United States through MTOs. When a migrant goes to an MTO to send remittances, he/she would be offered the opportunity to pay for insurance for his/her family back in Haiti. This program is an example of how remittances can be used to draw people into financial services which they would not normally access. It is also a way to attracts migrants and remittances to activities which enhance their families' welfare back home.

3) *Securitization of remittances in West Africa* Securitization of remittances was first executed in Mexico in the 1990s and subsequently by banks in several countries, including Brazil, El Salvador, Kazakhstan, Peru, and Turkey. Basically, banks securitize remittances by selling bonds backed by the future flows of remittances[8]. They can typically leverage one fifth to one fourth of their annual remittance flows in this manner. To date, there has not been a major default in such an arrangement. These deals have historically involved one or a few banks handling hundreds of millions of dollars or more of remittance flows annually. USAID is in talks with several ECOWAS banks to attempt to form a partnership of several smaller banks to collect a sufficient remittance flow to make securitization worthwhile. This could provide substantial leverage to banks in a region where access to credit can be quite limited.

[8] More accurately, these deals are generally structured through a Special Purposes Vehicle, so that the bonds have a risk rating better than the sovereign risk rating of the nation in which the bank operates. For more information, see Ratha, 2005; Willms, 2004; World Bank, 2006.

Remittances in Eastern Europe: An Annotated Bibliography

Amuedo-Dorantes, Catalina and Susan Pozo. 2004. "On the Use of Differing Money Transmission Methods by Mexican Immigrants." Economic Working Papers at Centro de Estudios Andaluces E2004/06.
http://public.centrodeestudiosandaluces.es/pdfs/E200406.pdf

- 70% total volume of remittances sent to Latin America are to areas with little or no banking
- Non-formal money transfer mechanisms have high fees compared to banks and credit unions, but have extensive networks in Mexico
- Survey data results of Mexican emigrants to US:
    - Most Mexicans use non-bank formal money transfer mechanisms, but these have lost market share in recent years
    - Non-formal mechanisms have become less popular than in past (15% 1999-2000 to 11% 2003-2004)
- Regression results based on survey:
    - Undocumented immigrants less likely to use banks
    - Higher education individuals more likely to use banks
    - Having social networks in US make individuals more likely to use banks

Aretha, Lisa, Organ Solberg and Mira Snobol. 2005. "Cross-border migration and remittances in a post-communist society: return flows of money and goods in the Korçë district, Albania." *South-Eastern Europe Journal of Economics* 3: 9-40
http://dspace.lib.uom.gr/bitstream/2159/89/1/sjoberg.pdf

- Uses results of 2002 survey from border district in southeastern Albania to assess basic features of remittances
- 28.1% sample received remittances (higher percentage in rural areas)
- 1/3 households with migrant do not receive remittances
- 35% aggregate income comes from remittances
- Remittance transfer mechanisms
    - Most common method is to hand carry money personally
    - 2nd is through friends or relatives
    - Few use formal transfers: 11.8 % (urban) and 4.4% (rural)
- Use of remittances
    - Paper determines remittance use by asking recipients to what use they put remittances
    - Most use remittances for food and clothing; only a few use for household goods or home improvements
    - Some use remittances to invest in land or housing

Baldwin-Edwards, Martin. 2005. "Migration policies for a Romania within the European Union: Navigating between Scylla and Charybdis." Mediterranean Migration Observatory Working Paper 7. http://aei.pitt.edu/5283/01/MMO_WP7.pdf

- Article focuses more on migration than on remittances *per se*

Burgess, Robert and Vikram Haksar. 2005. "Migration and Foreign Remittances in the Philippines." IMF working paper WP/05/111
http://www.imf.org/external/pubs/ft/wp/2005/wp05111.pdf

- Overview of remittance flows and their affects in the Philippines

CARANA Corporation. 2004. Diasporas, Émigrés and Development: Economic Linkages and Programmatic Responses. A Special Study under USAID Trade Enhancement for the Services Sector (TESS) Project
http://www.tessproject.com/products/special_studies/diasporas_emigres_&_development.pdf

- Analaysis of diaspora-development link, including results of interviews with migration experts, donor and NOG staff, representatives of diaspora organizations and development practitioners
- While remittances may alleviate poverty, they may not provide the means to leave poverty if not mobilized for productive purposes
- Banks involved in remittance transfer business:
    - Groupe Banques Populaires, Morocco
        - State-owned bank with extensive network of branches in Morocco and throughout Europe
        - Used to transmit at least 60% of Morocco's annual $3.6 billion annual in remittances
        - ¾ transfers deposited in checking account
        - Moroccan emigrant can open joint checking account which family in Morocco can access; no fees for deposits or withdrawals
        - Money can be wired account to account for .1% fee
        - BP provides subsidized credit for real estate and entrepreneurial investments in Morocco
        - BP offers insurance schemes for emigrants
    - Banco Solidario, Ecuador
        - Partners with Spanish banks to offer remittances services
        - Remittances can be deposited at Spanish bank (even if depositor not a member) and received at Banco Solidario for 4% fee
        - Program can allow sender to limit amount recipient can withdraw
        - Emigrants have access to low cost short-term credit to cover urgent needs in Spain, and long-term low cost credit such as mortgages
- Multilateral Investment fund (MIF) of IADB has worked to promote remittances as a development tool:
    - In El Salvador, helped credit unions to develop automated transaction and management information systems, better training and governance and new financial products tailored to remittance recipients
    - In Dominican Republic, worked to strengthen capacity of remittance transfer services and to increase access to financial and business services for the poor when they need support for productive activities
    - Worked with Spanish saving bank system to make remittance distribution more efficient using ATMs and to reach low-income groups with tailored financial products and services

- WOCCU program (contains much of the same information as Grace, 2004, below)
- PRODEM, Bolivia
  - MFI which offers remittance transfer and financial services
  - Fills niche by targeting low income group not targeted by banks
  - Allows recipients to open savings account and obtain small loans with remittance stream as collateral
- Remittances and SME development
  - Remittances responsible for almost 20% of capital invested in micro enterprises in urban Mexico
  - MIF (IADB) programs:
    - Working with Banco Solidario (Ecuador) to support micro enterprises through utilizing line of credit
    - In Mexico, work to encourage productive use of remittances through interaction between producers in the communities of origin and migrating entrepreneurs
      - Improve business skills of producers
      - Prove access to markets and information
      - Facilitate access to financing
    - In Brazil, established Remittance Fund for Entrepreneurs
  - National Financiera, Mexico offers financial, technical, and marketing assistance for projects that channel remittances toward productive use
  - UNLAD-KABAYAN, Philippines helps migrants to identify investments and facilitates credit applications
- Points to consider regarding schemes to encourage remittance investment:
  - Remittances often must be used to meet more immediate needs
  - Programs should meet needs of consumer and not donor/gov't agenda
  - Weak domestic financial sector may impair access to remittances, particularly rural areas
  - Weak market environments for productive investments
  - Incentive schemes (e.g. premium interest rates) may create market distortions
- Hometown Associations
  - Pan American Development Foundation
    - Working with HTAs to make collective investments more productive by providing tools to implement developmentally sound activities
    - Provides matching funding, training, and other resources
  - Inter-American Foundation
    - Independent US gov't agency that funds grassroots development projects designed and implemented by LAC organizations
    - Is working with a Mexican NGO to use $400,000 in HTA remittances to capitalize revolving loan for low income farmers in the migrants' home states
    - In Haiti, IAF provides grants to fund development projects involving diaspora organizations and HTAs

    - In El Salvador, works to capture remittances for development projects
- Government initiatives in LAC include matching funds for HTAs, establishing enterprises for HTA investment

Castaldo, Adriana and Barry Reilly. 2007. "Do Migrant Remittances Affect the Consumption Patterns of Albanian Households?" *South-Eastern Europe Journal of Economics* 1: 25-54 http://www.migrationdrc.org/research/keythemes/castaldo.pdf
- Study analyzes consumption patterns of remittance receivers and non-receivers
- Results: External remittance-receiving households have lower food budget share, higher utilities and durables budget share than non-remittance receiving households
- However, international remittance receivers have higher MPC of food than non-remittance receivers

Consultative Group to Assist the Poor. 2006. "Mobile Phone Banking and Low-Income Countries: Evidence from South Africa."
- Study of WIZZIT, a mobile banking program in South Africa; does not specifically address remittances

Crăciun, Cristina. 2006. "Migration and Remittances in the Republic of Moldova: Empirical Evidence at Micro Level." MA dissertation, National University Kyiv-Mohyla Academy.
http://eerc.kiev.ua/research/matheses/2006/ccraciun/body.pdf

Daianu, Daniel, Liviu Voinea and Mugur Tolici. 2001. "Balance of payments financing in Romania: The role of remittances." Romanian Center for Economic Policies Working Paper
28. http://pdc.ceu.hu/archive/00002165/01/role_of_remittances.pdf
- Analyzes sources of financing balance of payment deficits in Romania
- Emphasis in importance of remittances in balance of payments

ESI. 2006. *Cutting the Lifeline: Migration, Families and the Future of Kosovo.* Berlin: European Stability Initiative. http://www.esiweb.org/pdf/esi_document_id_80.pdf
- Kosovars migrating abroad were historically single young men, who sent remittances home until returning or marrying
- Now, with migration restrictions in Western Europe
    - Kosovar diaspora has decreased
    - Diaspora not being replenished with single young men
    - Kosovans abroad are more likely to be married and have wife in host country, and so send fewer remittances
- Postwar remittance figures were inflated by return of migrants from Germany
- While remittances did help alleviate poverty while they lasted, they did not contribute to changing economic structures or the long-term development of Kosovo

- Restriction of remittances combined with increasing population have led to increased hardships in Kosovo, particularly in rural areas
- Remittance calculations for Kosovo from different sources are contradictory (as is often the case); however, IMF estimates 610 million Euros in 2001, and 316 million euros in 2006

European Bank for Reconstruction and Development. "Financial Sector Analysis for the South Caucuses" [sic]. http://www.ebrd.com/country/sector/etc/finsec.pdf

- Study of remittances and the financial sector in Georgia, Moldova, and Azerbaijan (i.e., "the Caucasus" for the purpose of this report)
- Table reports on migration destinations for Caucasus nationals
- Discussion of difference between Central Banks' and World Bank's statistics
- Table lists sources of remittances for Caucasus nations
- Study reports on demographics of recipients based on household survey
- Table lists prevalence of formal and informal transfer mechanisms in Caucasus
- MTO competition in Russia is high; 17 are registered with Russian Central Bank; each main company dominates one or two corridors
- In Russia MTO sector dominated by bank-created "Non-banking Financial Credit Institutions"
- Low profits on transfers make leave little excess revenue for Russian MTO investment in marketing or new technologies
- Table reports on Russian MTOs, market share, revenue, and profit margins
- Some older MTOs are losing market share as newcomers adapt new technologies
- Typical transfer cost is 3%, though some MTOs have deals for certain corridors
- Moldova and Azerbaijan require that banks be payers of remittances; Georgia allows MFIs to perform this role
- Banking sector in each "Caucasus" nation discussed in some detail, including specific banks and other financial institutions and specific efforts to link remittances with other financial services
- Original econometric analysis shows:
    - Receiving remittances is positively correlated with bank account ownership
    - Remittance recipients are more likely to be interested in investment activities than non-recipients
- Study recommends:
    - Allow MFIs to pay transfers and offer financial products to recipients
    - Engage banking institutions to provide broad financial services
    - Technical assistance to financial institutions for financial product design, marketing, and technology
        - Cites IFAD-EU-MIF initiative as example; facility awards eligible contributions award of up to EUR 200,000 per project for operational projects to leverage remittances
    - Financial assistance on financial and remittance literacy
    - A loan fund to financial institutions or remittance recipient clients seeking to explore product innovation

Federal Deposit Insurance Corporation. 2004. "Linking International Remittance Flows to Financial Services: Tapping the Latino Immigrant Market." *Supervisory Insights* Vol. 1, 2 (Winter): 17-24.
http://www.fdic.gov/regulations/examinations/supervisory/insights/siwin04/siwin04.pdf

- Many Latin American remittance senders in the US are unbanked
- Remittances in Latin America mostly pay for basic needs like food, clothing, shelter
- Western Union and MoneyGram controlled 40% of remittance transactions to Mexico several years ago, now only 15% due to competition from other wire transfer companies, banks, and credit unions
- Average cost (early 2004) 7.32% of amount transferred
- Banks capture <3% of remittance transfer market
- Citigroup (which acquired Banamex) has binational credit card; recipient uses card, sender pays bill
- 2001: US-MX "Partnership for Prosperity" program
    - Encourages banking institutions to market accounts that offer remittance features to Mexican workers
    - New Alliance Task Force launched in support of this program
        - Coalition of 62 members, including Mexican Consulate, 34 banks, community-based agencies, gov't agencies, and reps from secondary market and private mortgage insurance companies
        - Developing financial products that include remittance features
        - Educates immigrants on benefits and importance of holding accounts; 10,000 immigrants have participated
        - NATF banks developed programs like binational ATM or stored-value cards
        - 50,000 new accounts totaling $100 million have opened at NATF banks, many with remittance services
- 2004: US bank regulatory agencies clarified that financial institutions offering low cost international remittance services would receive credit under Community Reinvestment Act
- Many US banks now accept alternative IDs to help immigrants open bank accounts, etc., including the Individual Taxpayer Identification Number and foreign gov't issued ID
    - Example: Mexico's Matricula Consular card accepted at 178 banks in US
    - Wells Fargo began accepting Matricula Consular card 2001-2004
    - Opened >400,000 new accounts
    - Many new accounts feature remittance project: account-to-account wire transfer ($8 fee for up to $3000 transfer)
    - Transfers initiated and remittances collected in banks or at ATMs
- Ways to combat money laundering masquerading as remittance transfers:
    - Limit on daily transferable amount
    - Limit on credit or debit cards per customer
    - Monitoring to flag unusual activity
    - Limiting maximum balance on an account/debit card
    - Controlling the mailing of debit cards or distribution of funds to recipients

Gedeshi, Ilir. 2002. "Role of Remittances from Albanian Emigrants and their Influence in the Country's Economy." *Eastern European Economics* 40 (50), pp.49-72.

- Author states temittances have not helped economy to develop, but rather used for consumables
- Study presents results of a survey of legal Albanian emigrants (mostly in Greece, Italy, France, US, and Canada)
- Respondents generally young, educated, married, with their families, pay social insurance contributions, rent apartments, and have been emigrants for at least several years
- Migrants generally work in service, industry, construction, and agriculture
- Main reasons for emigration: unemployment, insufficient incomes, desire for better future for children
- Secondary reasons for emigration: low salaries, economic and political insecurity, lack of prospects for improved economic situation
- Transfer mechanisms used by respondents: carried by hand (43.8%), by courier (36.7%), banking system (19%)
- Primary reasons for not using banks
    - low quality of Albanian banking services
    - lack of banking system in whole territory of Albania
    - more favorable exchange rate in informal market
    - restricted knowledge of banking of emigrants and their families
    - preference for anonymity
- Most remittances sent to parents or wife and children
- Emigrants send average of $106 monthly
- Most emigrants save money in banks when saving in host country

Ghencea, Boris and Gudumac Igor. 2006. *Labour migration and remittances in the Republic of Moldova.* Chisinau: Moldova Microfinance Alliance.
http://pdc.ceu.hu/archive/00002327/01/Raport_Migration_Remittances_2.pdf

- Uses survey data to examine Moldovan migration and remittances
- 29.3% Moldovan families have at least one migrant worker
- 17.6% active age population is migrated
- Distribution of migrant households roughly same in urban and rural areas
- 54.7% go to Russia
- Study contains detailed breakdown of Moldovan migrant demographics, migration costs, conditions in host countries
- Top uses of remittances are household expenses, passive investments (e.g. house/home construction or automobile purchase), savings, and "special expenses" (e.g., education, health care, loans, housing improvements)

Grace, David C. 2004. "Using remittances to build financial relationships with credit unions." *Small Enterprise Development* 15 (1): 35-43. USAID desktop link:
http://www.ingentaconnect.com/content/itpub/sedv/2004/00000015/00000001/art00007

- World Council of Credit Unions (WOCCU) established IRnet to facilitate transfer of funds from US credit unions to other countries (particularly LAC)
- As of September 2003, 190 credit unions in 36 states with 850 points of service in US use IRnet to send money to 42 countries on 5 continents
- Reasons for credit unions to offer remittance services:
    - Builds relationships with new and existing clients
    - CUs earn fees from transactions
    - Demonstrates commitment to communities
- For IRnet credit unions, ATMs not encouraged over cash payment because:
    - Receiving money at ATMs does not facilitate savings and banking unbaked as effectively as well-trained tellers who cross-sell union services
    - Immigrants in US must have deposit account and ATM card associated with international network
    - Limited availability of international ATMs in rural destinations
    - Withdrawal size limitations
- Account based transfers unpopular since sender and receiver must maintain accounts with depository financial institutions with international correspondent relationships
- Cash-based electronic transfers most common and growing method for transmitting money
    - Requires broad physical network
- IRnet program has captured a significant portion of remittance business, generating income in the US and abroad
- Impacts in receiving countries:
    - Creates competition and lowers costs in transfer market
    - 14-28 per cent of non-member receivers at remittances at credit unions end up joining a financial institution for the first time
    - 37% remittance receivers who are members of the credit union end up saving part of their remittances

Hamilton, Eve and Manuel Orozco. 2006. "Remittance, Diasporas, and Economic Development: Issues, Lessons Learned, and Recommendations for Donor Interventions." A report prepared by Chemonics International, Inc. for review by USAID. http://pdf.usaid.gov/pdf_docs/PNADI830.pdf

- Study holds that use of financial instruments increases remittances and their effects, and that MFIs are good channels to reach remittance recipients
- In Latin America USAID is collaborating with the World Council of Credit Unions to introduce or strengthen money transfer services in credit unions
    - Allows small microfinance institutions to work collectively and be able to compete with larger institutions
    - Used WOCCU's remittance transfer network IRnet
    - USAID's work has focused on deposit taking institutions because they offer greater opportunities to bank unbanked than credit-only MFIs
    - USAID Guatemala money transfer program began 2001
        - End of 2004, 25 participating credit unions captured 6.7% remittance market and distributed $179 million in remittances

    - In Mexico, Caja Popular Mexicana (largest credit union in country) began offering money transfers through IRnet in August 2003
        - 2 years later credit union processed 20,000 transfers ($6.2 million) monthly
        - Initially, 5-6% of remittance clients used other credit union services
        - To increase conversion rate, CPM trained cashiers and managers to market benefits
        - Now 25-30% use other services
    - In Ecuador between April 2005 and September 2006, 15 participating credit unions handled 27,000 transfers for a total of $9.4 million
    - MFIs often have lower cost transfers than traditional money transfer companies and are often more accessible
    - Generally have low conversion rate to use of other financial services
- Domestic money transfers
    - Often overlooked and not a focus for donors
    - Important for urban-rural transfers
    - Domestic transfers smaller, but more numerous and to more households, than international transfers
    - Domestic transfer networks needed to ensure delivery of international remittances
    - USAID program in Bolivia focuses on domestic transfers
        - Foundation for Alternatives in Development developed own software
        - USAID assistance needed to manage business plan
        - National transfer system allowing MFI to reach remote rural areas
        - 2005: FADES processed 16,175 transfers ($2.9 million)
- Lessoned learned from using MFIs as remittance transfer institutions:
    - Complying with country regulations can impose significant costs
    - Integrated management information systems is critical
    - Money transfer offers more complicated liquidity and risk management than traditional MFI activities
    - Must have well trained staff and customer service to adapt to needs of remittance senders/receivers
    - Marketing essential to achieve critical mass
    - Strong financial analysis capabilities necessary
- Banco Salvadoreño in El Salvador offers Internet based banking services
    - 2005- made over 1 million transfers ($256 million)
    - Clients can send money from one account to other with website
    - Recipients can access loans <80% of remittances received in last 6 months
    - Bank has opened >29,000 recipient savings account, distributed 9,000 debit cards and given >$10 million in loans
- Mobile Banking: USAID Philippines MABS project
    - Chemonics International in collaboration with Globe Telecom developed and implemented G-Cash technology

    - Allows bill payment, deposit-taking, funds transfer between cell phones, and domestic and international remittances, loan payments
    - To make payment or deposit, customers purchase G-Cash at Globe outlet or department store
    - Saves time and money and is less susceptible to thieves
- ACCION program to increase both volume of remittance sent and cross-selling activities of MFIs in five countries (Bolivia, Columbia, Peru, Nicaragua, Haiti)
    - Many remittance receivers unlikely to be creditworthy; not all are entrepreneurs
    - Goals of senders and receivers parties change over time
        - At first, remittances primarily used for consumption; cost effectiveness is priority
        - Investment occurs in subsequent stages
    - Cross-selling takes time
    - One part of program allows senders to automatically channel a portion of remittances into a savings account
- Securitization
    - Mexico has used remittance backed bonds
    - Allows investment grade banks in below investment grade countries to borrow at a lower cost and for longer terms than otherwise possible
    - In 2001 Banco de Credito Peru was able to raise $100 million through securitization of remittance flows at a time of significant political uncertainty
    - According to World Bank estimates, developing countries could raise as much as $7 billion through securitization of remittances.
    - Structuring these deals is complex, costly, and time consuming

Holst, Elke. 2006. "Migration and Money - What Determines Remittances? Evidence from Germany." German Institute for Economic Research, Discussion Paper No. 566: 1-28
http://www.diw.de/deutsch/produkte/publikationen/diskussionspapiere/docs/papers/dp566.pdf

- Conclusions of study regarding remittance sending behavior of migrant workers in Germany:
    - Degree of integration into German society matters; stronger ties (e.g., owning land in Germany) decreases probability to remit
    - Probability to remit not influenced by migrant income
    - Migrants from Turkey and Former Yugoslavia, with strong pressure for return migration, remit much more than others

Inter-American Development Bank. "The Multi-Lateral Investment Fund: Promoting Inclusive Growth through Private Sector Investment."
http://www.iadb.org/mif/projects.cfm?language=English (Click "Select a Topic", then "Financial Sector and Capital Markets", then "Remittances")

- Summaries of recent or ongoing IDB MIF projects related to remittances
- This site has a lot of information, much of it in Spanish

Sample projects from this site:
MIF-IFAD Project for Rural Sector Development, Bolivia
http://www.iadb.org/projects/Project.cfm?project=BO-M1006&Language=English

- Goals: Improve access to banking for rural consumers, and strengthen remittance transmission network, primarily by working with Bolivian bank PRODEM
- Project components:
  - Develop strategic alliances between PRODEM and remittance agencies to increase presence in US market and Bolivia
  - Market study to help PRODEM determine preferences of customers
  - Develop remittance sending products
  - Upgrade PRODEM technology
- Total cost US$692,000

Mobilization of Remittances through Microfinance Institutions (Bolivia, Columbia, Peru, Haiti, Nicaragua http://www.iadb.org/projects/Project.cfm?project=RG-M1003&Language=English

- Business plan development Components:
  - Analysis of MFI remittance market
    - Studies of receiving and issuing markets
    - Gather information on demand, competitors
  - Development of business plan for each MFI
    - Set revenue, cost, profit margin projections
    - Diagnostic tools developed to assess technological needs
    - MFIs may decide whether or not to continue after this step
- Business plan implementation components:
  - Improvement of technology infrastructure; technology to
    - Develop products for target market and tie-in with transfers
    - Manage remittance operations, internal control, automation, and capacity to handle a larger volume of transactions
    - Develop internal distribution networks through MFIs, NGOs, or cooperatives
  - Development of microfinance products based on remittance flows, particularly to apply remittances toward investment/saving goals
  - Agreements in remittance-generating markets; IDB or contractor will
    - Support final phase of negotiations and implement alliances with partners
    - Design and develop financial products
    - Help MFIs establish ties with community organizations and immigrant associations to promote products
  - Dissemination of model and outreach
    - Exchange visits among network members
    - Publish experiences and achievements
    - Annual meetings to create forums for discussing experiences, innovations, and results
  - Historical cost: $1,620,000

Alternative Remittance Distribution Channel for Small Ecuadorian Financial Intermediaries, Ecuador http://www.iadb.org/projects/Project.cfm?project=EC-M1022&Language=English

- Objective: Bring remittance recipients, particularly in poor and rural areas, into the formal financial system through small financial intermediaries offering quality remittance transfer services (particularly credit unions)
- Component 1: Preparation and training of credit unions to join remittance networks
  - Identify and train regulated and unregulated CUs
  - Validate connections to national transfer network and provide software
  - Implement marketing plans in emigrant countries and Ecuador
- Component 2: Connect CUs to network
- Component 3: Evaluation and dissemination of outcomes
- Historical cost: $1,103,500
- Historic country contribution: $378,000

Remittances and Training for Brazilian Migrants and their Beneficiaries in Brazil.http://www.iadb.org/projects/Project.cfm?project=BR-M1032&Language=English

- Focus on Brazilian state of Minas Gerais and is in partnership with Brazilian bank CAIXA
- Programs goal is to ensure that
  - Brazilian migrants in US with entrepreneurial capacity receive training so they return to Brazil with ideas of businesses to start with savings
  - Remittance recipients in Brazil receive training to start or strengthen businesses
- Four components:
  - Information on senders and recipients of remittances, and dissemination of programs
  - Financial education and development of financial products and services
  - Business training in Brazil
  - Informational activities and dissemination of model and results
- Historic MIF cost: $1,064,560
- Historic counterpart financing: $594,580

Application of General Principles for Remittance Markets
http://www.iadb.org/projects/Project.cfm?project=RG-M1083&Language=English

- Program to help several Latin American Central Banks conform to General Principles for International Remittance Services put forth by G8
- Historical MIF cost: $3,812,646
- Historical counterpart cost: $2,053,346

Inter-American Dialogue Task Force on Remittances. 2004. *All in the Family: Latin America's Most Important International Financial Flow.*

- Overview of flows to remittances to Latin America and challenges to their full utilization (many unbanked, etc.)

Kireyev, Alexei. 2006. "The Macroeconomics of Remittances: The Case of Tajikistan." IMF Working Paper 602.

http://www.imf.org/external/pubs/ft/wp/2006/wp0602.pdf

- Russia largest migration destination from and source of remittances for Tajikistan
- Low bank consumer deposits and quick withdrawals of remittances suggest MPS is very small
- Increased imports in parallel with increased remittances suggest a substantial amount is spent on imported consumption
- Paper contains macroeconomic theory applied to remittances useful for understanding remittances in general, not just in Tajikistan
    - Keynesian model
        - Appropriate for large closed economy (not Tajikistan)
        - Suggests impact of remittances on growth should be small
    - Mundell-Fleming model
        - Keynesian approach applied to small economy
        - National Bank of Tajikistan has had difficulties in controlling reserve money, because to meet demand for domestic currency it purchases foreign exchange (including remittances)
        - Effect of remittances on exchange rate ambiguous
        - Remittances through monetary channel translated mainly into small inflationary pressures, rather than real growth
    - Rybczynski theorem (ambiguous effects on welfare and growth)
    - National accounts (balance of payments)
        - Net inflow improves current account, but much remittance income is spent on imports, widening trade deficits; overall, though, current account must improve due to the combined effects
        - Inflow of foreign exchange leads to real appreciation, making exports less competitive and worsening current account
        - Effect on prices depends on if remittances spent on tradables or non-tradables
- Effects of remittances in Tajikistan:
    - Mitigated poverty and cushioned civil disruption of 1990s
    - Results from National Bank of Tajikistan survey:
        - Remittances of <$1000/yr spent mainly on food, clothing, medical care
        - Remittances of $1000 to $5000 finance durables, home repairs, small scale import transactions
        - >$5000 rural house construction
        - >$10,000 remodeling of city apartments and larger-scale imports
    - Financed trade deficit and kept current account deficit manageable
    - Positively impacted public finances
        - Remittance-financed imports important source of VAT and import duty revenue
        - Provide social safety net
        - Contributed to exchange rate stability (however, in some nations remittances destabilize exchange rate)
    - Strengthened banking system and enhanced competition

        - For many Tajiks, remittance receipt was first contact with banking system
        - Though MPS from remittances is small, savings still help banking system expand credit access to private sector
    - Remittances may be more efficient than official development assistance
        - Based on private incentives
        - Intra-family transfers have no intrinsic incentive for corruption
        - Senders and recipients have incentives to strive for efficient transfers
- Policy challenges of remittances
    - Primarily used for consumption, not investment; they are a short term compensation for authorities' economic failures
    - Impedes monetary management and can cause inflation
    - Appreciation of local currency can hamper competitiveness
    - Expand trade deficit (if remittances used to purchase imports)
    - Create disincentive for domestic savings
    - Provide opportunities for money laundering (particularly if transferred informally)

Maimbo, Samuel Munzele and Dilip Ratha, eds. 2005. *Remittances: Development Impact and Future Prospects*. World Bank. http://books.google.com/books?id=IVhiyHtrkh0C&printsec=frontcover

- A comprehensive book exploring many aspects of remittances, including:
    - Remittances as a source of development finance
    - Remittances in Africa
    - Remittances and poverty reduction
    - Remittances and economic development in India and Pakistan
    - Remittances as a source for micro-enterprise development in Bangladesh
    - Migration and development in the Philippines
    - Remittances from Canada to Central America and the Caribbean
    - Remittances in LAC and credit unions
    - Remittances and pyramid investment schemes in Albania
    - Informal funds transfer systems
    - The Somali remittance sector
    - A proposed framework to analyze informal fund transfer systems

Mansoor, Ali. 2007. "Migration and remittances: Eastern Europe and the former Soviet Union." Event Report S01/07. http://www.caritas-europa.org/module/FileLib/070116EPC-Migrationandremittances.pdf

Mansoor, Ali and Bryce Quillin. 2007. *Migration and Remittances- Eastern Europe and the former Soviet Union*. Chapter 2: Migrants' remittances. Washington DC: World Bank. http://go.worldbank.org/E3DJ4L4R00

- Overview of importance of and role of remittances in FSU
- According to the traditional macroeconomic model, the effect of remittances is greatest if they can be invested

- Study claims that (unspecified) surveys indicate that in Europe and Central Asia, majority of remittances spent on food and clothing
- Richer households receive more remittances than poor, perhaps partly due to better information access
- Remittances are more important for poor
- In a macroeconomic international dynamic panel estimation, WB rejects existence of negative relation between remittances receipt and growth

Martínez, José De Luna, Isaku Endo and Corrado Barberis. 2006. "The Germany-Serbia Remittance Corridor: Challenges of Establishing a Formal Money Transfer System." World Bank Working Paper 80.
http://siteresources.worldbank.org/EXTAML/Resources/Germany-SerbiaRemittanceCorridor.pdf

- As of April 2005, Western Union only non-bank financial service available for transmitting remittances from Serbia to Germany
- Serbian banks closed German branches because of UN sanctions, did not reopen
- All documented workers in Germany have bank accounts, but most do not use it for remittance transfers
- WU much faster than German banks (few minutes versus 2 to 4 days)
- Survey includes breakdown of (generally high) transmission fees; compare Croatian bank in Germany which offers no-cost transfers (except for exchange rate spread)
- German-Serbian transfer network for payment of pensions is more robust
- Only government approved financial institutions can transmit money from Germany to Serbia because of concerns about money laundering; Germany has prosecuted many firms and individuals for illegally dealing in remittances
- 50% remittances flow through informal channels like bus drivers, which are fast, cheap, and proven (during UN embargo)
- Study cites several programs which might be applicable to Germany-Serbia:
    - SMART phones in Philippines
    - Programs allowing Peruvian and Mexican migrants to finance homes in Mexico
    - El Salvadoran retail stores which allow senders to purchase goods online to be sent to recipients in country
    - Securitization of remittances in Brazil, El Salvador, Mexico, and Turkey
    - Invest in Mexico program which assists migrants and their families to start enterprises
- Recommendations:
    - Increasing bank penetration in Serbia, including ATM network
    - Banks voluntarily accept EU regulation limiting transfer fee for remittances
    - Multi-currency ATMs
    - Multi-national debit cards for remittance transfer
    - Increased public awareness of benefits of formal transfer mechanisms

All Migrant Remittances issues contain short blurbs about recent studies or projects involving remittances http://www.sendmoneyhome.org/resources/Press/:
Migrant Remittances. 2008. Volume 5, No. 1

- Moldova and Tajikistan rank highest worldwide in remittances as share of GDP
  - Moldova: $850 million, first 9 months 2007
  - 300,000-500,000 Moldovans remit, primarily from Russia and Italy
- Armenia remittances sustain export trade
  - Armenian banks processed $1.35 billion in remittances in 2007
  - Inflows allow Armenia to finance large trade deficit

Migrant Remittances. 2007. Volume 4, No. 5

- Remittances outbound from Russia $18.8 billion in 2006
- Remittances inbound to Russia $7.5 billion in 2006
- >40% Moldovan households receive remittances

Migrant Remittances. 2007. Volume 4, No. 1

- Remittances in Kosovo are declining
  - In the past, remittances plugged balance of payments gap and alleviated poverty of poor
  - European Stability Institute study shows that, since many refugees have had to return, remittances are declining
  - Suggests that it is contradictory to invest money in stabilizing Kosovo while restricting emigration

Migrant Remittances. 2006. Volume 3, No. 3

Nicholson, Beryl. 2001. "From migrant to micro-entrepreneur: do-it-yourself development in Albania." *Southeast Europe Review* 3*:* 39-41.
http://www.boeckler.de/pdf/South-East_Europe_Review-2001-03-p039.pdf

- Essay-type article providing an overview of remittances and entrepreneurial investment in Albania

Nicholson, Beryl. 2004. "Migrants as Agents of Development: Albanian return migrants and micro-enterprise." in *D. Pop, Ed. New Patterns of Labour Migration in Central and Eastern Europe.* 94-110. Cluj Napoca: AMM Editura.
http://www.cenpo.ro/files/07%20Migration.pdf

- Mid-90s survey evidence shows that more than half migrants' earnings remitted
- 1/3 of those who saved intend to use savings to buy house
- Many invest savings in micro-enterprises
- Those returning to Albania are more skilled and with more contacts than when they left
- 2001: Remittances ($542.6 million) = 23.4% GDP
- Theory: remittances and remittance-funded micro-enterprises are more reliable than direct foreign aide:
  - Players highly motivated not to fail
  - Albanian economy better able to absorb small investments than fewer large investments
  - No aid dependency or phasing out problems

    - Small family businesses protect themselves against corruption more effectively than foreign investors and big international organizations

Orozco, Manuel. "Remittances, the Rural Sector, and Policy options in Latin America." Case study partially supported by USAID. http://www.basis.wisc.edu/live/rfc/cs_15a.pdf

- Provides overview of remittance flows to Latin America and very general overview of policy options in the area

Orozco, Manuel. 2004a. The Remittance Marketplace: Prices, Policy, and Financial Institutions. The Pew Hispanic Center. http://pewhispanic.org/files/reports/28.pdf

- Overview of flows and transmission methods for LAC

Orozco, Manuel. 2004b. International Financial Flows and Worker Remittances: A best practices report commissioned by the Population and Mortality division of the UN.

- Remittance flows often far exceed FDI or official development assistance
- Remittances are counter-cyclical
- All income cohorts receive remittances
- Regression results indicate that only in Latin America is there a statistical relationship between inequality and remittances
- Albania migration and remittances
    - Greece and Italy most common destination; 90% migrants go to Greece
    - Out of population of 3.2 million people, estimated that 1 million Albanians have migrated to Greece and Italy
    - $700 million in remittances to Albania annually
    - Important source of foreign exchange to stabilize economy in mid-1990s
    - Remitters generally send small amounts via couriers
    - Greek banks have begun operations in Albania, facilitating remittance flow
- Report contains LAC facts and figures on remittance amounts remittance expenditure, and HTAs
- Government best practices in remittance transfers:
    - BANSEFI, Mexico
    - Banques Populaires, Morocco
    - State Bank of India, India
        - Offers ways to send remittances through demand drafts, telegraphic/wire transfers, personal checks and travelers' checks
        - Indian gov't in partnership with SBI allows foreign banks to sell Resurgent India Bonds to Non-Resident Indians
        - Allows Indian gov't to better tap into diaspora funds
        - SBI branches in US offer SBI credit cards to diaspora, and offer incentives to stay in Indian banking system
    - FDIC and Consulate General of Mexico New Alliance Task Force program
- Private sector best practices
    - Banco Industrial, Guatemala

        - Partners with King Express, a US based courier and money order company
        - Allows for immediate transfer of remittances via money orders
        - Markets other services to remittance users; 30-40% remittance senders have bank account
    - Banco Salvadoreño, El Salvador
        - Offers account-to-account remittance services and money order remittance transfer services through King Express (see above)
        - Markets products with radio, print, television (in near future) and personalized instruction in US partner branches
    - Banco Solidario, Ecuador
    - WOCCU's IRnet system
- Donor Best Practices in remittance transfers
    - Multilateral Investment Fund of the Inter-American Development Bank
        - Table of projects funded by MIF and their cost
    - USAID Mexico
        - 2002 - $500,000 grant to WOCCU to amend an ongoing project with Caja Popular Mexican to help latter connect to WOCCU's remittance services and marked related services; program processed $9 million in transactions from its launch August to December 2003
        - 20002 –$166,000 to Acción International for research examining links between microfinance and remittances to gauge MFI interest
        - Funded Inter-American Dialogue to conduct study on HTAs and Mexican gov't's 3-1 matching program for community projects
        - Funded $300,000 pilot activity headed by the Pan American Development foundation to develop productive activities in Mexico, El Salvador, and Haiti
        - Will provide $900,000 annually 2004-2008 to improve financial services to low income remittance senders and receivers
    - USAID Jamaica
        - Entered into partnership with the Jamaica National Building Society to introduce smart car technology to reduce costs and increase fund accessibility
            - JNBS will pay for costs in Jamaica of setting up computer connections and possible technology training ($100,000)
            - USAID provides $276,000
        - USAID will initiate program with Western Union's Caribbean partner Grace Kennedy to put aside a component of remittance program to fund a school book program
    - USAID Global Development Alliance
        - Allied with Foundation for International Community and Hewlett Packard to develop new technology (e.g. debit cards) to lower remittance transaction costs

        - Announced $600,000 grant to expand pilot public-private alliance with VISA and FINCA towards electronic microfinance, beginning in Central America
        - Provided $1 million in funds over past year (2004) to develop market driven alternatives to wire transfer companies, strengthen capacity of HTAs and broker groups, and develop alternate technologies
    - Ford Foundation
        - Several grants supporting research on remittances
        - $60,000 grant to Alianza para el Desarrollo de Microempresas, which works on remittance transfers
        - $10,000 grand for a fund facilitating remittance flow from Costa Rica to Nicaragua
    - Report contains summaries of programs by several other donor agencies
- HTA best practices:
    - El Salvadorian government's Social Investment and Local Development Fund (to support HTAs)
        - HTAs abroad compete for matching funds from the national government to complete development projects
        - HTAs submit applications describing the project and funds required; FISDL reviews it for feasibility and responsiveness to community needs
        - Requirements for participation:
            - Project conforms to municipal gov't's plan on civic participation
            - HTA must match at least 10% project costs
            - Municipal gov't must be solvent
            - Must be social infrastructure project
            - Projects must cost at least $30,000
        - So far, 45 projects to which HTAs have contributed $2.1 million
        - Average cost of project $278,689
        - 17 projects deal with infrastructure, 14 recreation, 6 health
    - Mexican gov't 3x1 program: *Iniciativa Ciudadana*
        - Government provides triple matching funding to projects of participating HTAs
        - 50% Mexican HTAs participate in this program
        - Infrastructure projects in particular create jobs
        - Funds often provide continuity funds to initial projects
        - Program has strong relationship with municipal authorities
        - Mexican gov't invested $15 million in 2002

Orozco, Manuel. 2007. "Looking Forward and Including Migration in Development: Remittance Leveraging Opportunities for Moldova." The International Organization for Migration. http://www.thedialogue.org/PublicationFiles/IOM-Moldova%20Report_Morozco.pdf

- Analysis of impact of remittances on Moldova based on interviews and survey data
- Among remittance recipients, only 12% have bank accounts while 43% use informal savings
- Strong statistical relationship between savings, bank account ownership, and remittance transfers
- 20% migrants save to invest; 10% actually invest savings
- Remittance recipients spend 15% more than non-recipients, also save 42% more
- Amount of remittances received strongly linked to Russia's GDP
- Typical remittance transfer is $360-$500
- 59% Moldovan migrants in Russia; 17% in Italy
- 83% recipients say remittances contribute >=25% household budget
- Income from transfers >10% bank income
- While some banks have sought to provide financial services to recipients,
    - they do not have a marketing strategy except for money transfer payments
    - financial illiteracy of recipients is major challenge
    - banks do not know financial profile of recipients or basic information that could be used to market and tailor financial products to them
- According to recipients, informal transfer mechanisms are at least as expensive as formal transfer mechanisms
- Amounts sent informally generally smaller than amounts sent formally
- Bank monopoly on remittances excludes, e.g., >400 Savings and Credit Associations (SCAs) serving > 200,000 clients with different savings products
    - Present mostly in rural areas
    - 50 SCAs are strong institutions with a capacity to offer remittance transfers or provide tailored financial services to recipients
    - Under current regulations SCAs could act as agents and advertise financial products
- Survey indicates remittance receivers interested in using new methods
- Most banks interviewed interested and willing to offer these services
- While transfer costs using formal mechanisms are low, they can be reduced more:
    - Greater transparency, improving environment for competition
    - Supporting small money transfer businesses to participate in market
    - Introducing alternative means for money transfers, e.g. phone transfers
- Remittance-leveraging activities: "Development *of* the Diaspora"
    - Mobile phone transfers: G-Xchange, Inc., Philippines-Japan
        - Moldovan migrants in Italy and Russia could be target group for this program
        - High percentage of cell phone ownership in Moldova
        - Some banks already offer basic mobile banking features
    - Wells-Fargo ATM plan
        - 2 types of accounts:
            - Sweep accounts which transfer funds overnight

            - ATM-remittance accounts offered for US-Philippines transfers; individual deposits remittances; beneficiary can withdraw amount from ATM next day
        - Offers remittances as part of packets intended to build banking relationship
        - W-F offers financial literacy campaigns
            - Works with nonprofits that publish consumer education materials
    - Directo a Mexico
        - Based on Federal Reserve Banks' FedACH International Mexico Service
        - Cooperative program between US Federal Reserve and Mexican counterpart
        - Uses spot trading rather than foreign exchange hedging for higher exchange rate with remittance transfers
    - Construmex home finance
        - Works with migrants to help them buy homes in Mexico
        - 2 programs: credit for new homes, credit for construction materials
        - Works with Mexican embassies to raise awareness of products,
- Remittance-leveraging activities: "Development *through* the Diaspora"
    - Atikha Foundation and Balikabayani International, Philippines
        - Provides psychosocial services to help families understand the realities of migration, social costs, and how to achieve goals
        - Provides investment opportunities for senders
        - Assists families to develop and manage planned enterprises
    - Adopem, Dominican Republic
        - Microfinance bank which acts as remittance receiver and payer
        - Offers products financed by programmed savings of banked remittance recipients
        - ADOPEM clients receive technical assistance, training, and community development workshops
    - Banco Salvadoreno remittance programs, El Salvador
    - Jamaica National Building Society, Jamaica
        - Automated process of sending and receiving money transfers through swipe card technology
        - Now has >70,000 money transfer card users
        - Has brought 50% Jamaican remittance receivers into formal banking system
        - 25% receive remittances through card product that can be used at small businesses that accept debit cards
        - Savings rates have increased considerably
        - In Moldova, would necessitate development of points of sale among participating merchants
- Remittance-leveraging activities: "Development *by* the Diaspora"
    - Thamel International, Nepal
        - See Paul, 2005, below for information on Thamel

    - Microfinance International Corporation (MFIC)
        - Has microfinance centers in US which target communities banks do not typically reach
        - Offers turn-key remittance platform solution allowing financial institutions to offer money transfer service under own brand
        - Offers credit facilities to MFIs to support lending and remittance programs
- Study specifically suggests for Moldova:
    - Financial literacy public-private partnership program
    - Banks and SCA Intermediation
    - Mobile transfer technology program (like G-Xchange)
    - Migrant outreach programs
    - SCA reform:
        - Allow SCAs to pay remittances
        - Gov't supported efforts to modernize SCAs so that they can offer financial products to recipients
    - Program like Construmex to finance housing in Moldova
        - 29% (Savings and Credit Association users) and 42% (bank users) of remittance recipients use savings for home improvement

PA Consulting Group. 2006. "Remittances to Armenia—Final Report." A report prepared for USAID/Armenia.

- Survey of remitters for study of formal and informal remittances to Armenia from Los Angeles Metropolitan Area
- Remittance flows
    - 64% respondents sent money to Armenia in 2005
    - >85% send money regularly; 50% have been sending money for >= 6 years
    - 72% remitters sent >=$1000
    - Remitters generally sent >= amount in 2005 than in 2004
- Remittance recipients
    - >3/4 remitters send money to 1 or 2 households only
    - Family members most common recipients
    - Most remitters say remittances assist recipients with current expenses
- Transmission methods
    - Informal brokerage offices (74%) and physical cash delivery (45%) most common transmission mechanism
    - >80% never use formal banking for remittances
- Pricing, fees, and other conditions for remittances for Banks (based on interviews of bank representatives)
    - 4/5 banks require an account to remit to Armenia
    - Recipients could pick up money physically or have it deposited in their bank account
    - Transfer time 13 hours - >2 days
    - Fixed fee ranges from $20 to $45

- Pricing, fees, and other conditions for remittances for Money Transfer Systems (based on interviews of MTS representatives)
  - Require passport number or other identification from remitter
  - Require physical pickup of money
  - Transfer time <= 13 hours
  - Fee dependent on amount sent
- Pricing, fees, and other conditions for remittances for Informal Money Transfer Services (based on interviews of IMT representatives)
  - One institution required only name and address from remitter; other required nothing
  - Require passport number or other ID from receiver
  - Money could be delivered to recipients' homes held for pick up
  - Transfer time 13-24 hours
  - Fee to Yerevan, 1-3%; other Armenian locale, fee 5%

Paul, John. 2005. "What Works: Thamel.com – Diaspora Enabled Development. The World Resources Institute. Funding for study provided by USAID. http://www.nextbillion.net/files/Thamel%20-%20Final.pdf

- Thamel.com is a marketing and development company focused on transactions.
- Privately held firm based in Kathmandu and also registered in State of Oregon
- Key business components:
  - Thamel gift Shoppe, which sells gifts to Nepali diaspora to be procured and delivered locally in Nepal
    - Company expands vendors' markets with information and communication technologies
    - For every delivery, company takes digital picture of recipient with gift and sends it to purchaser
    - Keeps communications cost low using Vonage, Skype, and Net2phone
    - Online sales account for 5-10% total revenue for participating merchants
  - IT Chemist which helps Nepali entrepreneurs start e-commerce sites
    - Offers website design, content management, hosting, marketing, 'Google ad' placements, and other IT services
    - Software developed in-house to take account of limited infrastructure in Nepal
  - Thamel Remit providing remittance and insurance services
    - Partners with Kumari Bank Limited, Nepal
    - Kumari bank counts past remittances as credit history and future remittances as collateral
    - In partnership with Himalayan General Insurance Company, Thamel also offers insurance (fire, household, vehicle, and personal) in Nepal
  - Export Division helping Nepali entrepreneurs export products, particularly nostalgia items to the Nepali diaspora

    - Thamel International replicating Thamel's success globally (beyond the US)
        - Contains consulting wing providing expertise to development agencies, private sector, and NGOs
            - Using remittance channels to make products and services available to developing nations
            - Using remittances to finance expensive items over time
        - Works with USAID to create a methodology for identifying diaspora-related development opportunities
- Article contains further description of regulations, challenges, and impacts, but does not focusing specifically on remittance program

Pinger, Pia R. 2007. "Come Back or Stay? Spend Here or There? Temporary versus Permanent Migration and Remittance Patterns in the Republic of Moldova." Working Paper 438, Kiel Institute for the World Economy Advanced Studies Program in International Economic Policy. http://ideas.repec.org/p/kie/kieasw/438.html

- Study of migrants' remittance sending decisions
- Concludes that temporary migrants send 30% more remittances than permanent migrants; remittances are a form of saving
- Policy recommendation: Moldova should encourage migrants to (plan to) return

Poprzenovic, A. 2007. "Remittances and Income Inequality in Croatia." MA thesis, School of Economics and Management, Lund University. http://biblioteket.ehl.lu.se/olle/papers/0002354.pdf

- Analysis of impact of remittances based on balance of payments data and national household surveys; methodology for how results were determined is often unclear
- Results: remittances have contributed to greater income equality in Croatia
- Has had significant effect on depth and severity of poverty
- Main use of remittances is investment in real estate and human capital

Quillin, Bryce, Carlo Segni, Sophie Sirtaine, and Ilias Skamnelos. 2007. "Remittances in the CIS Countries: A Study of Selected Corridors." http://siteresources.worldbank.org/ECAEXT/Resources/publications/454763-1190042265575/FINAL_RemittancesStudy_July23_1.pdf

- Analysis of remittance flows from Russia to Armenia, the Kyrgyz Republic, Moldova, and Tajikistan (and remittances in several other Eastern European countries for comparison)
- 2004: Official remittances to Eastern Europe and Central Asia (ECA) >$15 billion and are growing
- Balance of payment statistics may underestimate remittances by as much as 50%
- Wealthier households receive larger remittances
- Savings levels are low
- Infrastructure to support lending and crediting is generally satisfactory
- 39% remitters remit once monthly; 37% remit twice a month

- 59% use official channels to send remittances; preferred transfer mechanism depends on nationality of remitter
- Key factors in choice of channel are convenience and reliability, followed by cost (which is generally low)
- In Moldova, six largest banks have 80% of system deposit base and transact more than 90% bank remittances and money transfers
- Very few banks have developed cross-selling products targeting migrants and remitters
    - Exception: Mobiasbanca in Moldova, which offers special deposit accounts (with special rates of interest) for those who use bank money transfer system
        - Express – Partial deposit and withdrawal, with interest of 7% for 6 months
        - Advance – Advance payment of interest; interest of 7% for 12 months
        - Bonus – 6 months with interest of 7% of 12 months with interest of 8%
- Managing a correspondent account is costly for banks
    - Central Banks charge 1-3% fee for foreign currencies
    - Spread for clients is 1-5% for foreign currencies
- Account to account transactions generally require more documentation (and hence are more difficult) than cash-to-account transfers
- A conclusion of study: Remittances channeled through formal institutions have a positive impact on financial intermediation and on financial penetration (including previously un-banked clients) and vice versa; it is of paramount importance for policymakers, operators, and the donor community to encourage the formalization of remittance transfers

Ratha. 2005. "Leveraging Remittances for International Capital Market Access." World Bank. http://siteresources.worldbank.org/INTMIGDEV/Resources/2838212-1160686302996/leveraging_remittances.pdf

- Remittances can significantly improve a country's creditworthiness.
- Country credit ratings by major international rating agencies often fail to account for remittances
    - Example: Serbia and Montenegro excluding remittances (B+), with remittances (BB-), causing a spread saving of 150 basis points
- Remittance securitization method
    - Borrowing entity (e.g., bank) pledges future remittance receivables to offshore SPV
    - SPV issues debt
    - Designated correspondent banks are directed to channel remittance flows of borrowing bank through offshore collection account
    - Collection agent makes principal and interest payments to investors, and sends excess collections to borrowing bank
    - Structure mitigates sovereign transfer and convertibility risks, since remittances do not enter issuer's home country

    - This allows securities to be rated better than sovereign credit rating
- Mexico, Turkey, and El Salvador raised about $2.3 billion during 1994-2000
- Brazil, Turkey, El Salvador, Kazakhstan, Mexico, and Peru raised $10.4 billion through securitization of direct payment rights 2000-2004
- Hurdles to securitization:
    - High fixed costs of legal, investment banking, and credit rating services and long lead times
        - Possible solution: master trust arrangement
        - Possible solution: pooling receivables of several branches or several borrowers
    - Absence of appropriate legal structure
        - Possible solution: changes in bankruptcy law to ensure that pledged assets remain pledged in the event of default
    - Conflict of remittance securitization with negative pledge provision in multilateral agencies' loan and guarantee agreements
- Banco de Brasil example:
    - Amount leveraged: $250 million
    - Transaction rating: BBB+ (cf. BdB and Brazil's local currency rating BB+/Stable and foreign currency rating BB-/Stable)
    - New York City-based SPV

Ratha, Dilip. 2003. *Workers' Remittances: An Important and Stable Source of External Development Finance*. http://siteresources.worldbank.org/INTRGDF/Resources/GDF2003-Chapter7.pdf

- Remittances more stable than private capital flows and may be counter-cyclical
- Remittances expected to rise in long-term
- Remittances often used for investment
- Countries could increase remittance flows and bring more into foreign channels by strengthening financial sector infrastructure and facilitating international travel and labor flows
- Study breaks down remittance flows by countries of origin and destination
- In 2001, banks collected $12 billion from intermediating remittance flows
- Remittances track (to a lesser degree) many of the same factors as investment: low corruption, trade openness, financial development; however, remittances are higher in high-risk countries
- Remittances correlated to economic cycle of host country
- Remittances improve growth
    - According to one study, for every dollar remittances Mexico received GDP increased by $2.69 to $3.17
    - Net fiscal loss associated with Indian emigration to US estimated at .24 to .58 % India's GDP, but remittances account for 2.1% of GDP

Roberts, Bryan W. and King Banaian. 2004. "Remittance, in Armenia: Size, Impacts, and Measures to Enhance their Contribution to Development." A report prepared for USAID. http://pdf.usaid.gov/pdf_docs/PNADB948.pdf

- Definition of remittance income:

    - Non-emigrant transfers often not included, since they are not transfers between long-term separated entities
    - Non-emigrant and emigrant transfers are analyzed in this study
    - Armenian official figures do not include non-emigrant transfers
    - Study argues that non-emigrant transfers should be included
- Table 2.4: average household remittances returned by labor sector, length of stay, where worked (p. 10)
- Study uses survey to estimate that in 2002, 18% of Armenian household received remittances
    - Average transfer $200/month
    - Total remittances $324 million, significantly more than official estimate
- Many more people sending remittances from Russia use official channels than from Western Europe, particularly banks
    - Banks that focus on providing remittance transfers at low costs have entered CIS market
    - In Western Europe, transfers is an ancillary service rather than market focus
- Armenia banks:
    - Armenia has 19 banks, most of which provide money transfer services
    - Most banks use Western Union, MoneyGram, Anelik, or Unistream for money transfer
    - Money transfer generally low cost; most heavily used channels are about 1-1.5%
    - Banks in Armenia earn about 17.9% of their income from remittance fees
- Problems with transferring funds informally
    - Reduces probability of availability for intermediation via multiple direct deposit expansion
    - Money laundering, in cases of Hawala-type transfers (not problem in Armenia)
    - Inhibits ability of Central Bank to measure foreign exchange in system, complicating monetary and stabilization policies; remittance flows are often unsteady and are difficult to predict w/out data
- Anecdotal evidence that people do not use banks more often because they do not trust them
    - Fear banks will be insolvent or illiquid
    - Fear improper information disclosure, to avoid taxes and for privacy
- Remittance flows to Armenia (based on survey)
    - Russia accounts for 68% of transfers
    - USA/Canada accounts for 17% of transfers
    - Average value from USA/Canada 150% average value from Russia
    - Income transfers often move lowest-decile income households to highest-decile; external transfers reduce inequality
- Suggested remittance projects:
    - Reduce fees for remittances from Western countries, which are rather high
    - Extending financial services to poor and rural – more data needed on if this is necessary

- Bring remittances into financial sectors
    - Fin institutions have much broader knowledge of investment opportunities than families
    - Higher returns likely
    - Higher returns mean higher investment overall
    - Under MEDI program, USAID is working to make MFIs formal financial institutions so they can accept deposits (remittances)
    - Other suggestions: bank supervision projects, microfinance and SME lending, capital market, HTAs, National Community Funds program
    - Facilitate, monitor, and regulate temporary and long-term migration, and increase access of population groups to international labor markets
    - Securitization

Schrooten, Mechthild. 2005. "Bringing Home the Money - What Determines Worker's Remittances to Transition Countries?" Hitotsubashi University Institute of Economic Research. Discussion Papers Series A 466. http://www.ier.hit-u.ac.jp/Common/publication/DP/DP466.pdf

- Macroeconomic study of remittances sent to Eastern European countries
- Remittances positively related to domestic unemployment rate and negatively related to GDP per capita and international integration of receiving countries' real sector
- Remittances act as a substitute for receiving country's banking sector: less developed banking sector implies higher remittances
- Remittances in general are stable over time

SECO. 2007 *Development Financing and the Remittance Market in Serbia and Switzerland*. Geneva: State Secretariat for Economic Affairs (SECO). http://www.seco-cooperation.admin.ch/shop/00008/02002/index.html?lang=en

- Study of remittances to Serbia from Switzerland
- Serbian remittance senders have a poor understanding and are distrustful of banks; most use informal channels (primarily bus drivers)
- Bank transfers are costly and subject to 2 to 5 day time delays, and WU unpopular due to high cost
- Survey indicates that many remittance senders use remittances for housing investments
- Remittances not used as leverage for longer term investment
- Some regulations may favor informal over formal channels:
    - Money transfer mechanisms must, under Foreign Exchange Law, be through costlier Serbian banks
    - Bank info is accessible by gov't agencies
    - Fiscal regime unclear (e.g. if remittances are taxable income)
    - Commercial banks tend not to consider remittances when extending credit
- Study suggests and briefly analyzes many remittance-based products or reforms. Examples:

- Savings accounts targeted to remittance receivers
- Linking remittances with credit to start enterprises (targeted at youth)
- Supply innovations in mortgage market (mortgage insurance, gov't subsidies) matched with large number of remittance receivers who currently finance housing investments in cash
- Connecting remittances with credit cards or secured consumer loans, allowing institutions to more effectively share information about creditworthiness
- Remittances with automatic bill payment
- Automatic use of remittances for medical care or insurance for the elderly
- Philanthropic programs (like HTAs)
- Address labor market discrimination to better integrate migrant workers in host countries, increasing their wages

Spangler, Michael. 2007. "Does Unearned Income Impact Labor Market Activity? Analyzing the Effect of Remittances and Social Transfers on Employment Decisions in Bulgaria." MA Thesis, Georgetown University. http://hdl.handle.net/1961/4166

- Uses household survey data to examine how remittances affect employment rates in recipient households
- Concludes that remittances create disincentive for recipient to work

Spatafora, Nikola. 2005. "Two Current Issues Facing Developing Countries." In *World Economic Outlook*, Chapter 2. IMF.
http://www.imf.org/external/pubs/ft/weo/2005/01/pdf/chapter2.pdf

- Total remittance inflows grew fivefold between 1980 and 2003 to $91 billion (official balance of payment statistics)
- Remittances/GDP ratio particularly high for low-income, island, enclave, or small economies
- In 24 countries, remittances 1990-2003 are >5% GDP
- Main sources of remittances are US, Saudi Arabia, Switzerland, Germany, France
- Study contains original econometric analyses of panel data:
    - Effects of remittances conclusions (101 countries 1980-2003):
        - No relationship between real per capita output growth and remittances
        - Remittances decrease poverty
        - Remittances reduce volatility of aggregate output, consumption, and investment
    - Causes of remittances conclusions (87 countries 1980-2003):
        - World output significantly, positively impacts remittances
        - Stronger economic activity in migrants' host country strongly, positively impacts remittances
        - Home country output strongly, *negatively* impacts remittances (remittances are counter-cyclical and reduce volatility)
        - Multiple exchange rates significantly, negatively impacts remittances

        - Full removal of all exchange rate distortions and remittances is associated with an increase of remittances by 1-2% of GDP
        - Financial measurement, political risk, "law and order", relative investment opportunities did not impact remittances
- Regulating Remittances: Recommendations and Conclusions
    - Regulatory framework must be compliant with Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) requirements
    - Informal remittance transfer mechanisms provide opportunities for money laundering
    - Financial Action Task Force advises that countries should license or register money- or value-transfer providers
    - Registration versus licensing: Registration:
        - Raises few barriers to participation in financial system
        - Requires resources for ex post monitoring to ensure compliance with supervisory and AML/CFT requirements
    - Registration versus licensing: Licensing
        - Filter participation at application stage, reducing compliance oversight afterwards
        - Initial requirements can result in fewer providers signing up
    - Registration/licensing recommendations:
        - Application procedures should be clear-cut and simple, particularly since most remittance service providers are small businesses
        - Background check
        - Onsite inspections and offsite monitoring to ensure compliance
        - Consider that remittance service providers may use formal and informal arrangements to settle balances
        - If warranted by risk analysis, remittance service providers should put in place AML/CFT compliance program
    - AML/CFT requirements:
        - Customer identification
        - Record keeping
        - Reporting of suspicious transactions

Willms, William. 2004. "ADB's role in Encouraging and Facilitating the Securitization of Worker Remittances." PowerPoint presentation.

- Worker remittances often among few steady sources of foreign exchange for countries with balance of payments difficulties
- Bonds collateralized by future flow of remittances
- Future flow transaction is securitization of a company's future and existing payment right receivables that are due from offshore obligators, which is a well established asset class in emerging markets
- Often receive higher rating than sovereign rating
- Advantages of remittance securitization:
    - Proceeds used to extend loans by local banks for productive purposes
    - Banks could pass on interest savings from remittance securitization to its customers and offer longer term loans or new products

    - Banks' remittance transfer fees become more competitive
    - Access to international capital markets for non-investment grade countries
    - Improves asset/liability management of local banks through access to longer term/ lower rate funding
    - Banks can replace short-term borrowings in hard currencies with longer term loan with securitization
- Ownership of remittances
    - Remittance payments related to electronic payment orders are owned by local bank and not the named beneficiary
    - When bank receives the remittance funds from another bank or money transfer agent, it receives cash (asset) and has corresponding obligation to pay beneficiary (liability)
    - Steady flow of cash assets is what is being securitized
    - Bank is obligated to pay recipient an equivalent amount of money to that received, but *not* obligated to pay the exact same funds
    - Bank has legal right to assign overseas worker flow to special purpose vehicle
- Securitization does not change likelihood of remittances reaching recipient
- Bond issuance actually increases liquidity of bank, so leverage of bank not significantly changed
- ADB's involvement
    - Advising policy and framework dialogue, coordination, and relationship management with government
    - Guarantees debt at early, riskier stage

World Bank. 2006. *Global Economic Prospects 2006: Economic Impacts of Remittances and Migration*.
http://econ.worldbank.org/external/default/main?pagePK=64165259&theSitePK=469372&piPK=64165421&menuPK=64166322&entityID=000112742_20051114174928
Chapter 4: Trends, Determinants, and Macroeconomic Effects of Remittances

- Recorded workers' remittances, compensation of employees, and migrant transfers totaled $167 billion for 2005 (up 73% from 2001); true figure may be 50% higher or more
- Contains list of top remittance receivers and senders
- WB estimates that nearly 30% of remittance flows to developing countries originate in other developing countries
- Heightened security may have increased remittance flows, as undocumented migrants remitted larger share of savings or income to mitigate risk of deportation, etc.
- Marginal propensity to remit decreases with longer time spent in host country
- Box on Hometown Associations
    - Success of HTAs mixed
    - HTAs very common in Latin America
    - Remittances via HTAs amount to 1% of remittances to Central America; this figure expected to rise to 3- 5%
    - Most HTAs invest in projects of <=$10,000

    - Mexico's 3-for-1 program: for every $1 contributed by HTA, local, state, and federal gov'ts each contribute $1
    - By 2002, 3-for-1 had established projects totaling $43.5 million, 2/3 of which benefited labor-intensive agricultural economies in 4 high emigration states
- Box on forced remittances (programs where the host country government obliges workers to remit a certain amount of income)
- Article contains short summaries of recipient and donor country host policy issues
- Theoretical macroeconomic effects of remittances
    - Remittances stable and possibly countercyclical
    - Remittances improve country's creditworthiness
    - Remittance securitization can help countries raise extra financing (useful chart of process, p. 102)
    - Change rate appreciation and lowered export effectiveness
    - Effects on long-term growth inconclusive
- Remittances, unlike natural resource revenue, are unlikely to weaken institutional capacity
    - Remittances are widely dispersed, allocated in small amounts, and avoid government middleman
    - Do not allow authorities to pursue arbitrary, costly, and inefficient policies as a sudden influx of gov't revenue would
- Informal flows for remittances estimated using regression analysis of countries with little informal flow
- Article contains discussion of World Bank remittance data and problems therein (primarily resulting from unmeasured informal remittances and inconsistencies in reporting data)

Chapter 5: Remittances, Households, and Poverty

- Analysis of effects of remittances based on a poverty simulation model, a cross-country regression analysis, and household survey data from selected countries
- Results of analysis and literature search:
    - Remittances reduce poverty
    - Effect on inequality unclear
    - May provide a sort of insurance against shocks such as natural disasters
    - Remittances may reduce supply of labor provided by remaining household members
    - Remittances provide capital to households without credit market access
    - Remittances may have multiplier effects
- Investment or savings from remittances will be high when:
    - Remittance flows are viewed by household as transitory rather than permanent
    - Sender conditions remittance on being spent for particular purposes, which are likely to involve remittances
    - Remittances tagged to family members more likely to invest than others
    - Households inherently use remittances differently than other income, disproportionately saving and investing remittances
- Investment or savings from remittances will be low when:

  - Receiving household is struggling to meet subsistence needs
  - Household is experiencing adverse consumption shocks

Chapter 6: Reducing Remittance Fees

- Costs of remittance transfer to financial institution generally far less than price
- Cost of remittances in U.S.-Mexico corridor due to greater competition decreased sharply since 1999; amount of remittances rose sharply in same period
- Profitability of money transfer organizations as percentage of revenue is quite high: First Data, Western Union (32%); MoneyGram (15%); Global Payments (20%)
- Studies show that migrants remit more when transfer costs decrease, even, perhaps, to charitable institutions (which has implications for HTAs)
- Report encourages formal operators to imitate best practices of informal operators (such as Hawalas) – low cost, speed, reach, flexible hours and language
- FedACH – joint US-Mexico program to reduce remittance costs
  - Cooperative effort to link automated clearinghouse systems
  - Today, 23,000 payments sent from US to Mexico each month
  - Cost of transaction $.67
  - Exchange rate spread .21 percent
  - Funds available 1st business day after payment originated
  - However, fund not completely popular with banking community
    - Suffered from some technical weaknesses, such as coding inflexibility
    - Large international banks that earn significant remittance fees from their own proprietary payment system and from foreign exchange commissions have been slow to join
    - Other cross-border ACHs between US and Canada and US and Europe have had similar difficulty in attracting bank participation
- Box on Philippines phone-based remittance system
- WOCCU's IRnet cited as best practice
- Annex contains licensing and registration requirements for remittance service providers in US (by state), Canada, France, Germany, Italy, UK
- Annex contains history of remittance service providers

World Bank. 2008a. "Migration and Remittances Factbook 2008." http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21352016~isCURL:Y~menuPK:3145470~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html

- Contains data for remittance flows worldwide, broken up by region and by country
  - Contains links to detailed raw World Bank time series data on remittance flows by country, and remittances as % of GDP

World Bank. 2008b. "World Development Indicators." http://ppc.usaid.gov/esds/sources.html#WB

- Data on many diverse indicators, including remittances