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ADVISORY

Guidebook for mobilizing inclusive remittances for rural investment

Developed under the
Regional Programme on Remittances and Diaspora Investment for Rural Development 2015-2018

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MINISTERIO DE ASUNTOS EXTERIORES Y DE COOPERACIÓN

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List of acronyms

APR	Asia and the Pacific Division
FFR	Financing Facility for Remittances
FSP	Financial Service Provider
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
MSME	Micro, Small and Medium Enterprise
MTO	Money Transfer Operator
NATCCO	Philippines National Confederation of Cooperatives
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions
PPP	Public-Private Partnership
ReBuiLD MFS	Remittances Building Linkage for Development of Migrants and their Families through Micro-Finance Services
SME	Small and Medium Enterprise

DISCLAIMER

This Guidebook compiles the lessons learned from the implementation of the IFAD-funded Remittances and Diaspora Investment for Rural Development (2014-2018). The purpose of this Guidebook is to provide financial service providers, government agencies, and other stakeholders in migration and rural development with an in-depth understanding of the potential in inclusive remittances, the steps required to launch an inclusive remittances business line, the estimated costs, and the expected financial and social benefits of this emerging business opportunity. It also serves as a programme document, outlining the implementation process and the results achieved.

Executive summary

In 2016, over 200 million migrant workers sent US$445 billion to their families living in developing countries.[1] The development potential of this impressive, ever-increasing cross-border flow of money, equaling three times foreign direct investment and official development assistance combined, has been on the radar of national and international institutions for more than a decade.

In many countries of the Global South, migration has a strong rural inflection, as working-age men and women migrate in search of alternatives to subsistence farming. The remittances they send constitute a substantial portion of their home countries' GDP, reaching even the most remote rural areas where their families live.

Even though migrant workers and their families use remittance services, this does not necessarily make them financially included. They are seldom able to leverage their remittances through the financial and non-financial services they need, which hinders the potential economic impact these flows could have, both for their family and wider community.

"Inclusive remittances", in contrast, aim at a deeper level of financial inclusion, enabling migrant workers and their families to make the most of their migration experience, while simultaneously mobilizing a portion of income earned abroad for local economic development. **Developing scalable models for expanding financial inclusion to both migrant workers and their families, and mobilizing a portion of their remittances for local investment to stimulate rural economic activity was the primary rationale behind the IFAD-funded *Regional Programme on Remittances and Diaspora Investment for Rural Development*.**

Under the Regional Programme, inclusive remittances enabled remittance senders and receivers to access "wealth-building packages" that combined high-interest term deposits with other financial products to help them withstand the shocks that often force them to draw down savings. These packages included financial services such as flexible savings, insurance, low- (or zero) interest emergency loans, and affordable enterprise credit; and they also included non-financial services such as financial literacy training and business development support. The package approach was both cost-effective and tailored to the needs of migrant workers and their families.

Financial systems were created to allow migrant workers to remit directly into their personal or their family's accounts. Together, the financial service providers (FSPs) supported under the Regional Programme mobilized an equivalent US$27 million in savings and investment from 30,000 migrant workers from Nepal and the Philippines working in South Korea and Malaysia, as well as their family members in their countries of origin.

The Programme demonstrated that FSPs that invest in an inclusive remittance business can generate resources for on-lending and interest as well as fee income. Moreover, their clients can potentially increase their use of financial services if they are assisted to invest a portion of their remittances into income-generating activities. The absence of such guidance is perhaps the single most important gap that limits migrant workers and their families from achieving their migration goals. The desire is present, but their knowledge and skills

1 Pedro De Vasconcelos, Frédéric Ponsot, Donald F. Terry and Bibiana Vásquez. *Sending Money Home: Contributing to the SDGs, one family at a time*, International Fund for Agricultural Development, June 2017, Rome.

are lacking. For this reason, the wealth-building packages included access to business development services.

The inclusive remittance value chains built under the Regional Programme had three main components:

- Cross-border partnerships to originate remittances from a bank/money transfer operator (MTO) located in the destination country directly into migrant workers' accounts at local FSPs;
- Wealth-building financial packages that cover the range of migrant worker/family needs and are profitable for FSPs to deliver; and
- Iterative, multi-stakeholder delivery of financial literacy education, bundled with product marketing and promotion.

The up-front investments necessary to start an inclusive remittance business involve forming partnerships, designing products, and training staff to deliver them. The main running cost is primarily marketing: product promotion through financial education.

One of the key lessons learned from the Regional Programme is that offering packages alone is rarely sufficient; **dedicated promotion that includes some form of financial education is required** to ensure full uptake and continuing usage of those products.

The wealth-building packages sought to prevent newly-open accounts from becoming dormant by building incentives into the design (both financial and access to other products and services). Nevertheless, it was clear that encouraging regular and long-term savings required addressing mindset issues through financial education. In summary, the core training was based around the concept of "purposive savings": translating hopes and dreams into concrete financial goals and savings plans, and then addressing potential roadblocks in terms of skills, habits, and limiting beliefs.

The fastest and most cost-effective way for FSPs to scale their business is to focus on the remittance receivers *first*. Until migrant workers are able to remit into their own accounts, their family members have complete control over the funds received. Under the Regional Programme, family members were more frequently the users and beneficiaries of inclusive remittances.

Migrant workers represent a *potential* high-value business line for FSPs due to their savings capacity and the experience and skills acquired abroad. However, the cost of acquiring them as clients is extremely high for a single FSP unless it has a wide operating area that will enable it to serve a large percentage of the migrant population abroad. FSPs with limited operating areas will find it costly to identify migrant workers they can serve from the broader population of migrant workers.

However, many locally-based FSPs that are best positioned to serve migrant workers and their family members may not have the internal capacity to conduct these activities on their own. Although the business can be cash flow positive with as few as 500-600 clients, the investment and running costs are high relative to the uncertainty about the ability to scale the business. This uncertainty is driven in large part by lack of information: governments of most migrant-sending countries do not have an accurate mapping of migrant workers and their families, much less a deep understanding of their aspirations and actual achievements resulting from the migration experience.

Public-sector organizations can play an important role in promoting inclusive remittances. They can support FSPs to enter the inclusive remittance business by offsetting some of the investment costs, as was the case under the Regional Programme. They may also need to subsidize early efforts for promoting the products abroad to the migrant workers, at least until the FSP has established self-sustaining partnerships.

Similarly, public-sector entities can help offset the largest running costs, represented by training and product promotion overseas to migrant workers. Indeed, the public sector has a large role to play in enabling local FSPs to expand their overseas outreach.

Public-sector agencies can also contribute to the knowledge base that the private sector needs. There is still too little accurate information about the origin and destination locations of migrant workers, as well as their goals and financial behavior. Public-sector entities should focus on developing standardized technologies and disseminating them widely. Just as the modern microfinance technology emerged in the early 1990s and eventually became standardized enough to be replicated in almost any setting in the world, the knowledge on how to make inclusive remittances work is reaching critical mass. Standardizing this information for easy replication will expand the availability of inclusive remittances.

Technical implementation of the Regional Programme was led by ACCESS Advisory, a non-profit consultancy firm headquartered in Manila, in partnership with the Philippine National Confederation of Cooperatives (NATCCO) and the Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN). The partners coordinated with relevant ministries and government agencies in the origin countries, as well as with the Philippines and Nepal embassies and consultants overseas.

The products, delivery systems, and financial education training programme developed under the Regional Programme were based on the results of in-depth research. Surveys, interviews, and focus group discussions that incorporated behavioral economics and human-centric design techniques were conducted among migrant workers in South Korea and Malaysia and family members in Nepal and the Philippines.

The Regional Programme partnered with commercial banks in the origin countries that have branches or partners in the destination countries in order to build direct-to-deposit remittance channels. The funds were managed by locally-based, rural financial cooperatives and development and microfinance banks. These were chosen because of their willingness and ability to offer the combination of financial and non-financial services in the wealth-building packages in ways that migrant workers and their families both valued and could easily access.

Implemented as an action research, the Regional Programme was designed to add to this knowledge, of which this Guidebook is the main output. The appendices to this guidebook provide templates for product design, partnership protocols, and financial education training/product promotion that an FSP can use as a toolkit to launch an inclusive remittance business line.

1 Overview of the Guidebook

1.1 Purpose of the Guidebook

The International Fund for Agricultural Development (IFAD) estimated that approximately 200 million migrant workers from developing countries remitted US$445 billion to their families in 2016 – an average of US$2,225 per migrant (US$185 per month).[2] This cross-border flow of people and money – far exceeding foreign direct investment and official development assistance combined for many migrant-sending countries – has been considered a potential engine of development for more than a decade. To date, however, most attempts to harness remittances for local economic development have been limited to pilot projects or piecemeal attempts.

In April 2015, IFAD launched the first phase of its *Regional Programme on Remittances and Diaspora Investment for Rural Development*. The programme sought to scale-up the pilot project known as ReBuiLD MFS (*Remittances Building Linkage for Development of Migrants and their Families through Micro-Finance Services*). Implemented in 2010-2012, RebuiLD MFS sought to increase access by migrant workers and their families in rural areas in the Philippines to value-added financial and business development services by leveraging the flow of remittances between them. The project worked with rural banks and cooperatives to develop and deliver financial products and financial education training appropriate to the needs of migrant workers and their families, and it demonstrated that more money can be saved from the flow of remittances.

Building on this result, the Regional Programme worked with nearly 30 rural financial service providers (FSPs) in Nepal and the Philippines to launch "inclusive remittance" business lines.

Migrant workers and their families are technically considered financially included because they use remittance services, but that inclusion is tenuous. Rarely are migrant workers and their families able to leverage their remittances to access the value-adding financial and non-financial services they need. Inclusive remittances achieve this deeper level of financial inclusion while simultaneously enabling migrant workers and their families to make the most of the migration experience.

Under the Regional Programme, inclusive remittances enabled remittance senders and receivers to access "wealth-building packages." These packages combined high-interest term deposits with flexible savings, business credit, insurance, and non-financial services such as financial literacy training and business development support. Business processes were created for migrant workers to remit directly into their own or their family's accounts. Together, the FSPs supported under the Regional Programme mobilized US$27 million (equivalent) in savings and investment from 30,000 migrant workers in two destination countries (South Korea and Malaysia) as well as their family members in their countries of origin (Nepal and Philippines).

2 *ibid.*

The amount of money mobilized during the three-year Regional Programme hints at the enormous pool of resources that are potentially available to finance rural economic activity, an amount that has the added benefit of providing income to families who still live in underdeveloped areas.

This Guidebook compiles the lessons learned from the implementation of the Regional Programme. The purpose of this Guidebook is to provide FSPs, government agencies, and other stakeholders in migration and rural development with an in-depth understanding of the potential in inclusive remittances, the steps required to launch an inclusive remittances business line, the estimated costs, and the expected financial and social benefits of this emerging business opportunity.

1.2 Target audience

This Guidebook has been written as a public good to be disseminated to two main target audiences: FSPs and public sector organizations.

FSPs with rural footprint interested in developing an "inclusive remittance" business line that targets migrant workers and migrant family members will find in this Guidebook insights into the unmet needs of this target group, key success factors in developing appropriate financial products and designing and delivering financial education training, financial projections (costs and revenues), and recommendations on necessary partnerships.

Public sector organizations (government agencies and development finance institutions) and non-government organizations interested in leveraging the impact of remittances and diaspora investment in rural areas to achieve policy or program objectives will find in this Guidebook details on how public interventions can support the development of the inclusive remittance value chain as well as recommendations on how to develop public-private partnerships that can contribute to developing an effective ecosystem for inclusive remittances that can improve their impact.

1.3 Structure of the Guidebook

This Guidebook is structured as follows:

- **Section 1** provides an overview of the Guidebook
- **Section 2** provides an overview of the IFAD-funded Regional Programme on Remittances and Diaspora Investment for Rural Development
- **Section 3** assesses the demand for inclusive remittances among migrant workers and migrant family members
- **Section 4** discusses the value of inclusive remittances to FSPs and clients, the product and service delivery adaptations and innovations FSPs need to adopt to launch an inclusive remittance programme, estimated costs and revenues
- **Section 5** summarizes the inclusive remittance value chain, including the key actors, products, and services needed to create value for FSPs and clients, and it provides an overview of the public-private partnerships (PPPs) that can support the expansion and scaling up of inclusive remittances
- **Links to the full set of technical tools** used to implement the Regional Programme are provided on the back cover of this report

2 Introduction to the Regional Programme

2.1 Description of the Regional Programme on Remittances and Diaspora Investment for Rural Development

2.1.1 Rationale

Based on experience of extending financial inclusion to migrant families under the 2010-12 *Remittances Building Linkage for Development of Migrants and their Families through Micro-Finance Services (ReBuiLD MFS)*, the Regional Programme sought to implement scalable models for leveraging remittances in order to channel savings by migrant workers and their family members into rural financial institutions, thereby contributing simultaneously to increased rural economic activity and financial inclusion. The target countries for the programme were initially the Philippines and Nepal, with a plan to expand into Pakistan and Sri Lanka.

In both the Philippines and Nepal, as in many countries of the global south, migration has a strong rural inflection as working age men and women seek an alternative to subsistence farming, over-population, and poor education and health care services. These migrant workers send remittances back to the rural areas where their families often still live, and where chronic underinvestment and underdevelopment precipitate migration in the first place. The value of these remittances constitutes a substantial portion of GDP in both the Philippines and Nepal.

The rationale behind the Regional Programme was twofold: develop scalable models for 1) expanding financial inclusion to migrant workers and their families, and 2) mobilizing a portion of their remittances for local investment in order to stimulate rural economic activity. Relevant statistics for the programme's four target countries are provided in TABLE 1. It shows the importance of remittances to the target economies as well as the limits to inclusion in their financial systems.

TABLE 1 Migration and Financial Inclusion in Regional Programme Target Countries

	Migrant workers (2017)		Remittances received (2016)		Financial inclusion status (age 15+) (2017)	
	Migrant stock	Population (%)	Remittances US$	GDP (%)	Have an account (%)	Borrowed from FSP (%)
Philippines	5,680,000	5	31,141,973	10.2	34.5	9.7
Nepal	1,740,000	6	6,611,838	31.3	45.4	13.4
Pakistan	5,980,000	3	19,761,000	7.1	21.3	2.3
Sri Lanka	1,730,000	8	7,257,361	8.9	73.6	14.8

Sources: The World Bank; Pew Research Center.

It is considered axiomatic that underdevelopment of the rural economy in countries such as these is partly due to limited capital formation, which in turn is due in part to a lack of access to financial products and services that are appropriately designed for farmers and rural micro, small and medium enterprises (MSMEs). While commercial banks are present in provincial and district capitals, they often focus only on the largest businesses and commercial farmers. They rarely target rural small and medium enterprises (SMEs), much less micro-entrepreneurs or smallholder farmers.

Most migrant workers are also likely to come from households who earn their income outside the formal economy, such as farming or small business. Those who migrate through formal channels are usually required to have a bank account, which is most often at a large commercial bank. Family members may receive their remittance at a cash out window at one of the bank's branches. However, commercial banks rarely capitalize on this relationship, because they do not have products and services that are appropriate for low-income families.

To reach out and serve migrant workers, their families, and the rural economy more generally, the Regional Programme engaged locally-based FSPs that form the core of the vibrant microfinance industries in both countries of origin. A variety of local FSPs – microfinance/development banks and credit unions/cooperatives – as well as their federating organizations, were supported to develop and market "wealth-building packages" to migrant workers and their family members. By combining term deposits, flexible savings, credit, insurance, and non-financial services, these packages were designed to mobilize a pool of savings that the FSP could use to finance new or expanding enterprises by migrant family members and others in the community – including the migrant workers themselves once they returned.

Supplementing this main focus of mobilizing deposits at individual FSPs, the Regional Programme also tested various modalities for creating a "migrant investment fund" to mobilize remittances. Regulatory requirements in both countries prevented the Programme from establishing formal mutual funds or investment trusts that could be linked directly to rural development. Instead, alternative structures were developed that enabled money sent by migrant workers to be pooled at the national level with the intention that these funds would be invested in the rural economy.

2.1.2 Goals

The primary goal of the Programme was to develop scalable models for supporting investment by migrant workers and their families in poverty-reducing rural enterprises. Within this goal, the Programme's development objective was to develop and install inclusive gender-sensitive remittance-related financial products and services into local financial institutions in the Philippines and Nepal. The Programme also aimed to prepare the ground for replication of such models in Sri Lanka and Pakistan.

The Programme had three specific objectives:

1. Develop financial services for migrant workers and their remittance recipient families that enable them to save and invest safely with financial institutions that finance rural economic activities in countries of origin.
2. Enhance the capacity of migrant workers and their families to save and invest, and provide access to secured savings and investment products in countries of origin.
3. Disseminate successful models for channeling diaspora capital towards rural economic activities in target countries.

The expected outcomes of the Programme were:

1. Systems for targeting migrant workers and their families as well as delivering deposit and investment products combined with product promotion that is embedded in financial education training and integrated into the service delivery of participating financial institutions.
2. Enhanced savings capacity of migrant workers/migrant families; raised awareness of specialized savings and investment products; and increased usage of such products to build assets.
3. Awareness about approach, tools, methods and outcomes of the project as well as opportunities for expansion or replication is raised among stakeholders such as FSPs, regulators, migrants and migrant-support groups in all target countries.

The specific target for the Programme was to facilitate investment and savings of US$20 million in diaspora capital by at least 20,000 migrant workers and migrant family members/remittance receivers in the Philippines and Nepal, with at least 7,000 people per country completing gender-sensitive financial education training.

2.1.3 Components and activities

To achieve these objectives and outcomes, the Programme had three components:

Component 1: Design, testing and implementation of financial products that enable migrant workers and their family members to save and invest into local financial institutions that finance MSMEs, farms, and other rural income-generating activities

Support was provided to selected local FSPs to install institutional policies and processes for targeting migrant workers and their family members, as well as savings and investment products that are adapted to the needs of this market segment. The intervention was based on the results of a mapping of migrant workers and their families and an in-depth analysis of their unmet financial service needs. It was customized for each FSP based on the specific needs in their operating areas, their business strategy, and their operational capacity.

These savings and investment products were designed to channel migrant/migrant family assets to the FSP partners. As rural financial institutions, they were expected to then use these funds to expand their current business of extending loans or other financing to farmers and rural MSMEs and thereby contribute to increasing rural economic activity.

Component 2: Promoting savings and investment among migrant workers and their families through financial education programmes

A financial education programme was implemented to enhance the savings capacity of migrant workers/migrant families as well as to raise their awareness of the availability of safe financial products that promote economic opportunities in their home area. Training was integrated into the existing financial service delivery systems of the FSP, thus making it financially sustainable to deliver. To target the migrant workers overseas, the project supported both its partners and migrant leaders overseas to deliver financial education and promote the deposit and investment fund products in the migrant destination countries. FSP partners followed up to provide additional information and handled the process of opening accounts for interested migrant workers.

Component 3: Documentation and sharing of evidence-based models

The Programme established a knowledge management and knowledge sharing strategy, developed of knowledge products, and held a final conference that brought stakeholders from the Philippines and Nepal (as well as potential partners in Sri Lanka and Pakistan) and IFAD APR and FFR staff together to share information on project achievements, discuss good practices, and explore replication and up-scaling potential.

The documentation and sharing of the processes, tools, and lessons learned targeted two groups of users: 1) financial service providers and migrant workers' associations so that they can rely on reference material to enhance the sustainability of service provision beyond project completion; and 2) other stakeholders in the target home countries such as government departments, central bank, other financial institutions, chambers of commerce/ agriculture, donors, et cetera.

2.2 Results

The FSPs supported under the Regional Programme mobilized US$27 million (equivalent) in savings and investment from 30,000 migrant workers in two destination countries (South Korea and Malaysia) as well as their family members in their countries of origin (TABLE 2).

TABLE 2 Regional Programme results vs. targets (1)

Country	Number of new accounts opened		Amount of savings (US$)		Amount of share capital/ investment (US$)		Number of financial education trainees	
	Migrant workers	Family members	Migrant workers	Family members	Migrant workers	Family members	Migrant workers	Family members
Philippines	5,706	11,175	1,186,887	10,309,802	481,146	6,167,764	1,837	27,634
Nepal	876	12,561	781,499	7,604,978	90,465	400,262	422	18,000
TOTAL	**6,582**	**23,736**	**1,968,386**	**17,914,780**	**571,611**	**6,568,026**	**2,259**	**45,634**
GRAND TOTAL		**30,318**		**27,022,802**				**47,893**
Target		20,000		20,000,000				20,000

The average amount saved was US$891 versus the target of US$1000 (TABLE 3):

TABLE 3 Regional Programme results vs. targets (2)

Country	Average amount saved per account (US$)	
	Migrant workers	Family members
Philippines	292	1,475
Nepal	996	637
TOTAL	**386**	**1,031**
GRAND TOTAL		**891**
Target		1,000

2.3 Overview of key stakeholders and actors in the Regional Programme

2.3.1 IFAD

Both IFAD's Asia and the Pacific Division (APR) and the Financing Facility for Remittances (FFR) financed the Regional Programme. Staff from both groups as well as external consultants provided advice and guidance throughout the implementation period.

IFAD is an international financial institution and a specialized United Nations agency based in Rome – the UN's food and agriculture hub. IFAD's mission is to invest in rural people, empowering them to reduce poverty, increase food security, improve nutrition, and strengthen resilience. Since 1978, IFAD has provided US$18.5 billion in grants and low-interest loans to projects that have reached about 464 million people.

The US$35 million, multi-donor FFR is hosted by IFAD and financed mainly by the European Commission, the Government of Luxembourg, the Ministry of Foreign Affairs and Cooperation of Spain, and the United Nations Capital Development Fund. Strategic partners include the World Bank Group, the Consultative Group to Assist the Poor, and the Inter-American Development Bank. The FFR works to increase economic opportunities for poor rural people by supporting and developing innovative, scalable, cost-effective, and easily accessible remittance services that promote financial inclusion and productive investment in rural areas. Currently the Facility's portfolio includes over 60 projects in more than 40 countries across the developing world.

2.3.2 ACCESS Advisory

ACCESS Advisory was the lead implementing agency for the Regional Programme. Its six member team managed implementation and delivered training and technical support to the FSP partners.

ACCESS is a non-profit consultancy headquartered in Manila, with a Mekong regional office in Phnom Penh and a South Asia regional office in Kathmandu.

Technical assistance to expand financial access is at the heart of ACCESS's work. Rural financial service providers (i.e., credit and savings cooperatives, cooperative banks, microfinance banks, microfinance NGOs/FINGOs, etc.) work with ACCESS on organizational assessment and product development among others to help them reach out to smallholder farmers and rural MSMEs while strengthening risk management and client protection. Since 2009, ACCESS Advisory has supported financial inclusion and farm and enterprise development across Asia, as well as in the Pacific, Africa, and Europe.

In its rural financial inclusion work, ACCESS emphasizes not only how services are delivered but also how rural MSME clients – ACCESS's final target population – use financial and non-financial services to create opportunities to increase their income. To affect usage, and therefore outcomes, ACCESS works with smallholder farmers, agri-value chain actors, government agencies, funders, and NGOs on organizational development, staff capacity building, and programme evaluations.

ACCESS also provides advisory services to regulators, investors, and other stakeholders working to promote financial inclusion in rural areas.

2.3.3 Philippines National Confederation of Cooperatives (NATCCO)

NATCCO was the main implementing partner in the Philippines. Through its network of 612 member cooperatives FSPs were identified, assessed, and supported. NATCCO assigned one staff member to work full time on the Programme, and several of its senior and line managers provided support and guidance throughout the implementation period.

NATCCO is the largest federation of cooperatives in the Philippines in terms of geographical reach, membership, financial capacity, and scope of services. It federates 840 member-cooperatives with 1,653 branch offices in 77 provinces serving 3.66 million people. The 840 cooperatives have combined assets of more than 115 billion pesos (US$2.3 billion).

2.3.4 Nepal Federation of Savings and Credit Cooperative Unions (NEFSCUN)

NEFSCUN was the main implementing partner in Nepal. NEFSCUN assigned one staff member to work full time on the Programme, and several of its senior and line managers provided support and guidance throughout the implementation period.

NEFSCUN is a member-based national apex organization of Savings and Credit Cooperative Societies (SACCOS) and their District Unions (DUs). NEFSCUN is committed to the development, promotion, and strengthening of its member organizations through supporting SACCOS and DUs in their aim to contribute to the uplifting of financial, social, and cultural aspiration of their individual members of their respective communities by following the international credit union principles.

2.3.5 Financial institution partners

There are often conflicting views among commercial banks as to whether migrant workers are their target market segment. Many banks now see higher-income-earning migrant workers as prospective clients but, generally speaking, low-income migrant workers are not considered their primary target group, nor are their family members. Commercial FSPs are not often keen on designing products for these type of migrant workers nor serving them unless there is some externally-financed support for them to do so.

In contrast, microfinance institutions and financial cooperatives that operate at the local level consider migrant workers/migrant families to be a good business opportunity. The mindset of these institutions is more geared toward the needs of this market, even if their products and services are not. Many MFIs and financial cooperatives already count migrant workers/migrant families as their clients. However, they are often incidental clients, rather than having been specifically targeted.

The Regional Programme engaged both locally-based banks and cooperatives to deliver retail financial services to migrant workers/migrant families. There was no appreciable difference between banks and cooperatives in their ability to mobilize savings.

Likewise, there was no apparent preference by savers for one type of FSP over the other. This finding was surprising. Migrant workers place a high importance on the security of their money. In some cases, this lesson has been learned the hard way: many migrant workers have lost money after being enticed into real estate investments, multi-level marketing systems, and other get-rich-quick schemes.

Although few migrant workers/migrant families had previous experience with formal financial institutions other than money transfer services, most said they considered banks to be more secure than financial cooperatives. It is true that banks operate under a stronger regulatory framework, but the preference for banks was mostly due to name recognition: they had heard of the banks, but rarely the cooperatives.

There was, therefore, a considerable effort on the part of Regional Programme's implementing partners, as well as the cooperatives themselves, to raise awareness about the concept and principles of cooperativism as well as the individual institutions. The Regional Programme's selection criteria for cooperatives included indicators for size, history, and financial stability (balance sheet, net income, financial self-sufficiency ratio, portfolio quality, etc.), and migrant workers/migrant families were generally assured of their reliability.

In terms of the variety and pricing of products and services, the cooperatives outperformed. Many of the new clients came to recognize the unique benefits of cooperative membership. These included:

- Higher interest on savings
- Dividends earned on share capital
- Availability of more products for low-income households, such as micro-insurance
- Faster loan process
- Availability of non-financial services such as training, financial literacy, technical assistance
- Recognition that cooperatives are community-based and rooted in community services, which make them closer to family members

Through its work with NATCCO, 10 cooperatives in the Philippines were initially selected to participate in the Programme. These cooperatives have a combined membership of nearly 330,000, total assets of US$129mn, and 91 branches in 35 of the 81 provinces in the Philippines (TABLE 4).

TABLE 4 **Regional Programme FSP partners in the Philippines**

Name of Cooperative	Years in Operation	# Members	Asset Size as of Dec 2015 (US$ million)	# Branches	# Provinces
LUZON					
Buklod Unlad Multi-Purpose Cooperative (Batangas)	24	1,950	US$3	1	1
Ligas Kooperatiba ng Bayan sa Pagpapaunlad (Bulacan)	30	10,979	US$20	11	5
Sta Cruz Savings and Development Cooperative (SACDECO) (Ilocos Sur)	31	26,884	US$23	18	5
VISAYAS					
Abuyog St. Francis Xavier Credit Cooperative (AFCCO) (Leyte)	17	30,380	US$9	4	2
Barbaza Multi-Purpose Cooperative (Antique)	51	42,414	US$19	9	6
Fairchild Cebu Community Multi-Purpose Cooperative (Cebu)	35	4,000	US$13	1	1
MINDANAO					
BCS Credit Cooperative (Davao del Sur)	35	15,847	US$14	15	4
Micro-Entrepreneurs' Multi-Purpose Cooperative (MEMPCO) (Zamboanga City)	13	23,146	US$6	7	3
Tagum Cooperative Magugpo West, Tagum City, Davao del Norte	47	116,704	US$7	11	4
Paglaum Multi-Purpose Cooperative (MIsamis Occidental)	23	56,893	US$15	14	4
TOTAL	**31 (avg.)**	**329,197**	**US$129**	**91**	**35**

Mid-way through implementation, after the first 10 cooperatives were supported to develop inclusive remittance products, services, and delivery systems, the Regional Programme accepted 10 new cooperatives as "associate partners." These received basic but less intensive technical support from the implementation team to develop their own inclusive remittances.

In Nepal, implementation was initially intended to follow the model in the Philippines, partnering with rural financial cooperatives and delivering support through their apex federation. However, although Nepal has a vibrant sector, most of the 30,000 cooperatives are village-based – too small to deliver a scalable model.

Instead, the Programme used the migrant mapping exercise to determine areas of high emigration (the Eastern and Central Development Regions) and then invited the strongest rural financial institutions operating in those areas to participate. Five rural FSPs joined the programme with total outreach of 388,000 through 133 branches in the target areas (TABLE 5).

TABLE 5 **Regional Programme FSP partners in Nepal**

Name of FSP	Legal form	# Clients/ members	Financial status (US$ million)	Branches
Muktinath Bikas Bank Ltd.	Class 'B' Development Bank	86,000	Equity: US$6 Deposits: US$76 Assets: US$89	Kaski and Syangja: 24 Nawalparasi: 3
Forward Community MFI	Class 'D' Microfinance Development Bank	150,271	Equity: US$3.4 Deposits: US$14 Loans: US$30	Morang: 12 Sunsari: 5 Jhapa: 3 Nawalparasi: 2
VYCCU cooperative	Savings and Credit cooperative	25,000	Equity: US$0.6 Deposits: US$6 Assets: US$8	Nawalparasi: 6
Sahara	Savings and Credit coop	100,000	Equity: US$3.5 Deposits: US$3.2 Loans: US$18	64 in 6 districts
NMC	Multipurpose Cooperative	27,300	Equity: US$2.5 Deposits: US$26 Loans: US$34	Jhapa: 14
Citizen's Investment Trust	Financial institution established by special law (Citizen Investment Trust Act of 1990)	455,200	Equity: US$22 Deposits: US$630 Investments: US$560	Kathmandu Pokhra Biratnagar (4^{th} planned)

Unlike in the Philippines, the Nepal FSPs were of different institutional types, and they were not members of a common apex federation. NEFSCUN's membership is limited to savings and credit cooperatives, of which there were only two: VYCCU and Sahara. Lacking a common federating partner, the Regional Programme identified an alternative institution with whom it could partner to develop an investment fund prototype. Community Investment Trust (CIT) is a government-owned but autonomously managed financial organization. It was originally established (1992) to provide savings, pension plans, and casualty insurance to employees, especially civil servants. Its portfolio currently exceeds US$1 billion, and returns 6-7 per cent per annum to its account holders.

Around the time the Programme began, CIT was tasked by the Ministry of Finance (its supervisory agency) to find ways to mobilize migrant remittances for investment in government-sponsored rural development projects such as hydro-power.

The brand image of CIT, as a national-level, government-owned institution, is higher than that of development banks and rural coops. As such, it was perceived to be more secure.

An equally important reason for Nepalis to choose CIT over other FSPs is that CIT's product was branded as an "investment", not a deposit. Especially in Korea, where earnings are much higher than in Malaysia, the migrant workers wanted to "invest" rather than "save." This is one example of how "knowing your diaspora" was a key input for the proper promotion of savings and investments products among migrant workers.

3 Assessing the need to develop “inclusive remittances” for migrant workers and their families

3.1 Understanding migrant workers and their financial service needs

3.1.1 Motivations for migration

Higher income

What prompts a subsistence farmer who has never left his home province and is barely literate in his mother language to go work under harsh conditions on a construction site in a foreign country? What makes a school teacher leave her job to work overseas as a domestic helper? Why would a trained professional leave her home and family to work as a manager abroad?

Naturally, the potential to earn more money abroad than is possible at home is a significant motivating factor. Indeed, for some migrant workers – especially those with marketable skills – there is a much higher earning potential abroad than there is at home.

However, most migrant workers are unskilled. The premium they earn abroad is not as great as it may seem, and is often eaten up by the cost of migration:

- A Nepali guard earns US$300 per month in Malaysia versus NPR 25,000 (US$250) from the army back at home – if he can get a job
- A Filipina earns up to US$400 as a domestic helper in Malaysia versus PHP 18,000 (US$360) as a school teacher at home

Factory workers in South Korea can earn two or three times as much as the average migrant makes in Malaysia, but they are the lucky few. For most migrant workers, when the other costs of migration are factored in – the migration loan, harsh living conditions, mistreatment, and separation from family and friends for years or decades – the net increase in earning potential resulting from migration seems small indeed.

Steadier income

An equally important motivation for migrating is the steadiness and predictability of income earned abroad. Very often, the migration experience means shifting from informal or self-employed sources of income to formal employment and, with it, a regular salary. Indeed, in the research conducted during the Regional Programme, “availability of job opportunity” was the main reason migrant workers chose their destination country.

Even if the net increase in income is small, a secure and reliable source of income enables migrant workers and their families to meet basic needs and cover the costs of emergencies (such as illness, death, or natural disasters) without the usual pattern of borrowing or selling assets that often add to the precariousness and vulnerability of their economic lives.

Social mobility

In many ways, a larger or more predictable income is really the means to a greater end, which is social mobility. Many migrant workers come from places where poor education systems and an undeveloped economy create few avenues for advancement, or where social or political constraints limit opportunities for mobility. In societies where there are few chances to improve one's lot in life, migrating is one of the only pathways available.

The link between migration and social mobility is evident in the fact that migrant workers often have higher social status within their family and communities. It is also evident in the aspirations and goals that migrant workers express about their motivation for working abroad. These goals almost always include:

- Paying off existing debts (including the migration loan);
- Owning a modern house and lot, often in or near a town or city where education and health services are reliable and economic opportunities are greater;
- Paying children's school tuition; and
- Investing in or starting a business.

3.1.2 Challenges preventing migrant workers from achieving their migration goals

Lack of planning and preparation

Much of the money migrant workers send home to their families is spent on "consumption" – not only the house and lot but also the furniture, electronics, and vehicles that accompany it, as well as food, clothing, and gifts – with little left over for saving or investing. This spending behavior is often derided as short-term thinking or the inability to prioritize "needs" over "wants." While there is some truth to this criticism, it is important to remember that migration is driven in large part because income earned at home does not match the family's material aspirations. For unskilled workers, many of whom were born in rural areas, being free of debt, owning a modern home and furnishings, running a business, and being proud of their children's educational accomplishments are the very definition of social mobility.

Although migrant workers often begin their experience abroad with general dreams and aspirations, few have a well-thought out plan for achieving their goals. There is little preparation for migration, both because migration agents offer very limited information and guidance and because migrant workers/migrant families do not proactively seek to understand how to make the most of the migration experience.

Even migrant workers who have a plan often soon forget it in the daily grind of work, social pressure, and demands from family and friends. Migrant workers/migrant families may meet the family's needs, including health and education, and they may refurbish their home (or move to a more prosperous location), but few save enough to start a business or purchase productive assets, much less prepare for retirement. They achieve the outward material indicators of success but not the underlying foundation to sustain it.

Lack of control over funds sent home

Overwhelmingly, migrant workers claim that they are the ones who determine how much money they send to their families. Typically, a migrant sets aside a regular (monthly or quarterly) "allotment" to send home. Rarely, however, have they and their family members had a frank discussion about what the family needs versus what it wants, much less the division of responsibility and contribution to cover these expenses. The migrant has no way of monitoring how the money they send home is spent, and thus no way of being sure that the demands being placed on them are legitimate. Ideally, both the migrant and their family members should share responsibility for achieving the family's financial goals.

In addition to this regular allotment, migrant workers are also often called upon to send additional cash – gifts for weddings and birthdays, payment of doctor's bills, "loans" for a family member to start a business, and a myriad of other demands. Migrant workers often feel guilty about being overseas and separated from their family. Sending money is a way to compensate for absence, but this misplaced compassion is often the start of a dependency relationship that can make it nearly impossible for a migrant to stick to a financial plan.

3.1.3 Key financial needs of migrant workers

Sending money in small increments quickly, easily, and cheaply

In general terms, two types of financial service adaptations can help migrant workers deal with these challenges. First, instead of bulky allotments, sending money in small increments quickly, easily, and cheaply would enable migrant workers to better monitor how their family spends their money. Unfortunately, traveling to money transfer branch offices is time-consuming, and sending money is still too expensive to warrant this kind of sending pattern. Mobile banking applications offer one potential solution, with funds sent upon request from a bank account or mobile wallet.

Products that help migrant workers save at home

An even more important adaption is an individual bank account that allows migrant workers to completely control the money they save. The greatest financial service gap facing migrant workers is the lack of attractive savings accounts at financial institutions that are designed to serve them that can be remitted into from abroad.

The problem is not necessarily that migrant workers are unbanked. Often they receive their salary in their destination country via direct deposit in an account at a local bank designated by their employers. However, migrant workers rarely build up savings in their overseas bank accounts, either because the interest rate is too low, the fees are high, or they do not expect to need a large amount of money in their destination country. They prefer to save at home. And while most migrant workers are required to open an account at a bank in their home country before they leave, these accounts are often at commercial banks who charge high fees and whose products and services are not adapted to their needs.

In lieu of viable alternatives, migrant workers send most of their surplus cash home and ask their family to save some of it, with predictable results.

However, it is not the case that an accessible saving account is enough to enable migrant workers to achieve their dreams and aspirations. Generic savings can all too easily be tapped into to meet an immediate spending need; and saving for no particular purpose can easily lead a migrant worker to abandon their plan. Migrant workers need more than access to a deposit account. They need the knowledge, skills, and habits as well as the products that enable them to save to meet specific goals – what the Regional Programme calls "purposive savings."

Migrant workers also need other financial services that can help them cope with their status as their family’s main breadwinner. Many migrant workers retain some financial responsibility for the family farm or business, and of course they are called upon by their family members and friends for a variety of financial needs. Although they are residing abroad, financial services that leverage their remittances to address these needs can ease the burden on migrant workers and enable them to more rapidly achieve their savings goal.

3.1.4 Segmentation of migrant workers’ financial needs according to their migration and social status

Financial service needs among migrant workers vary, and there are a number of ways to segment the migrant population. One common way of segmenting migrant workers is by time spent abroad. New migrant workers tend to prioritize repaying their migration loan (and other outstanding family debts). Those who have been abroad longer are more likely to be focused on saving for a house and lot, their children’s education, and eventually starting a business.

Migrant workers’ financial service needs can also be segmented by status (temporary or permanent), age, or gender (see TABLE 6).

TABLE 6 **Segmentation of migrant workers financial needs according to their migration and social status**

Segmentation criteria	Segment 1	Segment 2
Time abroad	**Early-stage migrant workers** Primarily concerned with paying off the debt their family incurred to send them abroad. Savings, or planning for investment is not their priority.	**Experienced migrant workers** Having paid off family debts, their concern is now saving for the future, and investment (enterprise) opportunities they can have once they return back home.
Migration Status	**Temporary** Need to prepare for their eventual reintegration, which includes replacing income earned overseas with new income sources at home. As soon as their debts are repaid they need to focus on the need to start saving and investing in order to take advantage of the short-term nature of overseas employment; they also need to understand insurance.	**Permanent (spouses and permanent residents)** They still send money to relatives back home and often maintain an interest in supporting economic development in their communities of origin. They need flexible savings and investment options that will interest them (i.e., how to conveniently deposit and withdraw money, investments with better returns compared to local financial institutions abroad, retirement income on top of the government benefits).
Age	**Younger** Focused on saving for immediate needs like house and lot, car, consumer durables.	**Older** Focused on saving to acquire assets, retirement, insurance, and funeral plans.
Gender	**Male** Men tend to earn more than women but are often less disciplined savers, in part due to social pressure among other migrant workers to spend money on entertainment and other non-productive activities.	**Female** Female migrant workers tend to spend less on themselves compared to male migrant workers with similar income, and they have a higher tendency to send money home. This is due in part to the nature of their work (domestic workers have fewer opportunities to go out and spend money), and because traditional gender roles put more expectations on women to take care of their families.

3.1.5 Income level is the main driver of financial service needs

While these methods of segmenting migrant workers can be useful in understanding variations in behavior, the single most important determinant of their financial product needs is not time abroad, status, age, or gender but income. Income drives financial service needs because it determines how quickly a migrant can pay off household debts and the amount and purpose for which they save.

Income is driven mostly by the skill level of the migrant and their destination country. Migrant workers earn significantly more in Korea than in Malaysia for similar work; for example, the average monthly income of migrant worker in Malaysia is about US$300, whereas a migrant worker in Korea earns a monthly income of up to than US$1500. Time abroad often correlates with income, but this is not always true; in the case of Nepalis in Malaysia, for example, wages do not necessarily increase significantly over time.

Lower income migrant workers prefer deposits

For lower income migrant workers, after paying off debts and ensuring their children will have a good education, their focus is usually on saving enough for a house and lot and the capital to start a small business. They may also need more products that help them manage cash flow, such as flexible deposits and emergency loans.

Higher income migrant workers prefer investment products

In contrast, higher income migrant workers often already have some savings at home (either in their own accounts or in their family members' name), and they also maintain some liquidity in their destination countries. Well-paid factory workers in South Korea were just as likely as their compatriots who had started businesses abroad to think of themselves as "investors" rather than "savers." Their image of a savings deposit is that it is safe, low-risk, and low return. Investments are considered more sophisticated and yield higher returns.

Higher income migrant workers also often seek social recognition, another example of how migration and social mobility are intertwined. They often help fellow migrant workers abroad and contribute to charities at home. They have a strong sense of patriotism and want to contribute in their country's development. This sentiment, when combined with their desire to invest, can be harnessed to offer higher income migrant workers financial products that enable them to invest in local economic development, especially infrastructure-related projects.

Most migrant workers aspire to invest in a business, regardless of income level

Migrant workers' image of an investment does not necessarily mean a financial product. Other than a few too-good-to-be-true deals they may have seen or even put money into, they have rarely been offered a range of financial products designed to meet their needs from reputable financial institutions.

Regardless of their income, many migrant workers aspire to invest in assets – equipment or inventory if they have a farm or business, or a capital investment in someone else's business. In the research conducted during the Regional Programme, "invest in some form of business" was an aspiration of a large majority of migrant workers.

Migrant workers/migrant families often do make such investments. However, the business opportunities they have access to are usually run by friends or family members, which carry high risk and uncertain returns. Curiously, while migrant workers of all income groups invest in real estate for personal use, it is less common for them to invest in real estate as an income-generating asset (although some agricultural households may use money earned abroad to buy land to expand their farms or for resale).

3.1.6 Safety, speed, and cost are paramount

For those migrant workers willing and able to save, safety is more important than return. This lesson has been learned the hard way: stories of migrant workers losing money in real estate, multi-level marketing systems, or get-rich-quick schemes are common. Migrant workers who want to save and invest are very keen to learn about the pros and cons of different products and FSPs, as well as which sectors or types of businesses provide safety for their money and which ones are more risky.

With regard to the entire remittance chain, the key features migrant workers prioritize are:

- Safe and reliable deposit/investment accounts;
- Fast transactions with little delay between sending money and updating account balances; and
- Affordable money transfer and account fees.

Because this chain involves multiple unrelated FSPs, few of whom have dedicated resources to developing a migrant business line, Component 1 of the Regional Programme was dedicated to designing and implementing several models for inclusive remittances.

One of the greatest challenges encountered by the Regional Programme was that Nepali migrant workers in Korea mostly send money home using the informal *hundi* system. The perception of risk involved in *hundi* transaction is offset by its lower cost (not only in terms of fees for transmitting money, but also the foreign exchange rate). *Hundi* is also more convenient – agents collect money at the factory/dormitory, even on holidays, so migrant workers do not have to spend time and money to go to an urban center. During weekends the migrant workers in Korea go to Nepali restaurants, and many restaurant owners are *hundi* agents, making it convenient for the migrant workers. In some cases, *hundi* agents who know the migrant workers personally will send the money to Nepal as an advance (at no interest), and the migrant workers pay the agent when they receive their salary.

Hundi is illegal in Nepal, and the Nepal Rastra Bank strictly prohibits Nepali migrant workers from using it (though it lacks the ability to monitor and enforce this rule). To further combat *hundi*, the Government of Nepal has recently issued a policy for not allowing returnee migrant workers to reapply for Korean employment under the EPS system if they cannot show proof that they sent money through formal channels.

Even so, *hundi* remains the most common way to send money home, challenging the FSPs participating in the Regional Programme to find a way to attract migrant workers to its financial products, which required them to use formal remittance channels.

3.2 Understanding migrant family members and their financial service needs

3.2.1 The importance of working with families

Migration most often occurs because the income that can be earned at home is insufficient to support the desired lifestyle and material aspirations. Therefore, it should be expected that a large portion of the money sent home to family members is consumed rather than saved or invested. Although the migrant workers say they control how the money is spent, and the family members say they consult the migrant workers, in reality the money is held by the family members, and they are the ones with the greatest needs. As a result, **any work on remittances must focus primarily on the families**.

3.2.2 Understanding "dependency"

In the worst cases, the impact of migration can be pernicious, as when other family members reduce their work and perceive remittance to be a regular source of income. This situation is not common, but it was mentioned often enough during the Programme's research to suggest that the phenomenon is real. At least, a not insignificant proportion of migrant workers *perceive* their family to be over-dependent in their remittances.

BOX 1 Migrant household story

One family in Cebu testified that since they participated in a financial education seminar in the coop, they learned the value of budgeting/financial planning to help their father, who is working abroad, to plan for their future. At the same time, the credit and business development services embedded in wealth-building packages can contribute to higher income generation by family members and less dependence upon migrant workers.

At an FGD with migrant family members in Davao del Sur, Philippines, some of the responses were:

- "I learned to prepare a simple budget. I now know how much to spend for every item every month."
- "I started adding to the deposit started by my wife working in South Korea."
- "I am glad. I learned that I can save for my son's college education."
- "I just paid my insurance premium in my coop. That is my investment when an emergency comes."

At the same time, the credit and business development services embedded in wealth-building packages can contribute to higher income generation by family members and less dependence upon migrant workers:

- "We expanded our piggery. I did not ask for extra money from my mother who is working in Singapore. The coop helped me finance our expansion."
- "I inherited a hectare of land from my parents, I didn't know what to do. When I became a coop member, the coop helped me plant corn. Now, our family income has increased. I can now save more from the remittance that my husband is sending every month."

In some cases, dependency is unavoidable, such as when a mother is left home to care for her young children while her husband works abroad. In Nepal, international migration often precipitates internal migration as well, as rural families use the money earned abroad to move to urban areas in order to take advantage of health and education services. In doing so, however, they abandon their farm or livelihood, and thus have difficulty finding ways to earn an income in their new home. Even if the family does not move and remains engaged in their farm or livelihood, it is most often a subsistence rather than income-generating activity.

Remittance dependency does not necessarily mean that the entire family sits at home doing nothing but wait for money to arrive (although stories of wayward spouses – of both sexes – are not uncommon). Adult migrant family members do work. The underlying problem is that they, and often the migrant workers themselves, have been exposed to a limited number of ways to earn a living. If not engaged in agriculture, many migrant family members attempt to start a business, often financed by the migrant; but without adequate guidance and support services, failures are common. Formal employment is not always available for lower-skilled adults; and it rarely pays well.

3.2.3 The root cause of dependency: a lack of financial literacy

Even if few families are truly dependent on the migrant, the Programme's research showed that migrant family members almost always believe that the amount being received is insufficient. Although this behavior can be perceived as frivolous, the Programme's research found the root cause to be a lack of financial literacy.

Proper household budgeting and expense management is lacking in many migrant households. However, the main problem identified through the Programme's research and delivery of financial education training is not the lack of skills (budgeting, for example) but in mindsets. Differentiating between needs, which are limited, from wants, which are often unlimited, is not a skill but a mindset issue. This is particularly true for families who want to mark their social advancement by emulating the spending behaviors they see among the more successful families in their community or in the media.

A key insight gained during the Programme is that **to be effective, financial education should focus not only on the "how" (how to save, where to invest) but also on the underlying motivation for action (especially attitudes and limiting beliefs).**[3]

3.2.4 Segmentation of migrant families' financial needs

Financial service needs among family members are best segmented on the basis of the ratio of remittances received to total household income. This remittance "dependency ratio" can be seen as a proxy for income (see TABLE 7).

TABLE 7 Segmentation of migrant families' financial needs according to their remittance "dependency ratio"

Segment: Remittances as a per cent of total household income	Not dependent	Moderately dependent	Highly dependent
	< 30%	30-60%	> 60%
Characteristics	Highly economically active family. If entrepreneurial, they may be interested in leveraging remittances for loans to expand their business and BDS support. Families with formal sector workers need savings products for lifecycle events, including pensions. These households may also need mortgages and insurance.	Economically active family, but vulnerable without remittances. Flexible savings accounts and short-term loans can help them manage cash flow. Business credit and BDS can help increase income. Financial literacy can help them better manage expenses.	Remittances are a matter of survival either because few adults are working or they work but earn little. Support to start or expand an income-generating activity is most needed. Financial literacy can help them better manage expenses. Short-term loans can help them manage cash flow.

Family members of migrant workers earning higher income will demand a wider variety of products and services (e.g., insurance, investments) and have a higher propensity to save and borrow. On the credit side, however, differences in needs among family members are more likely to be related to their source of income (farm, business, or employment) than the amount they earn.

Many migrant family members need training and technical support on business development as well as credit. Small emergency loans may also be needed, although borrowing purely for consumption should be discouraged.

3.2.5 The importance of "purposive savings" products

Regardless of their income level, the primary financial goals of a migrant family mirror those of the migrant: pay down debt, ensure their children's education, improve housing, and (eventually) start or invest in a business.

3 See Section 4.2.2.

The results of the Regional Programme reveal that migrant families have a greater latent capacity to save than they believe. However, as with migrant workers, saving for general purposes is rarely effective. Remittance-receiving family members also need to be supported to save with a purpose. Savings associated with concrete financial goals are more likely to grow and remain untouched.

Many migrant families who opened accounts at FSPs under the Regional Programme built savings more quickly than the FSPs' other clients. The combination of appropriate product design and delivery (including marketing and financial education) contributed to this outcome.

3.3 Assessing the demand for inclusive remittances

There is vast unmet demand for financial services that link remittance senders and receivers to savings and other financial and non-financial services. The taxonomy used to describe different market segments and their needs was broadly valid for both Filipino and Nepali migrant workers in South Korea and Malaysia and their families back home; and it can serve as a starting point for an FSP interested in developing an inclusive remittance business line.

There is much about the details of migrant workers'/migrant families' behavior and needs that remain unknown. Research on a larger data set over a longer period of time is necessary to fill in the gaps in the data. FSPs – whether they offer inclusive remittances or not – can contribute to this effort. Many already have migrant workers/migrant families as clients. The problem is that they have not identified them as such, nor have they modified their systems to systematically track their behavior.

A more in-depth assessment of needs requires surveys or interviews. While FSPs can carry out surveys among migrant families and returnee migrant workers in their operating area, conducting research on the needs of migrant workers who are already abroad can be extremely costly. In addition to travel and related expenses, gathering migrant workers for a discussion or survey is also costly. Especially for rural FSPs, identifying migrant workers whose hometowns are within their limited operating areas can be a time-consuming exercise.

The Regional Programme built relationships with migrant workers abroad partly through local embassies and consulates, which often conduct migrant outreach activities. This was only possible, however, because the Regional Programme was a project funded by an agency of the United Nation's system. This option is not available to individual FSPs or federations, because government officials do not wish to be seen favoring any specific company or product.

Other ways to reach out to migrant workers abroad include:

- Contacting them through their family members;
- Contacting migrant leaders through social media; and
- Organizing a caravan with multiple FSPs to share the cost of overseas travel.

Although such an approach will yield valuable business information, an FSP does not have the capacity to conduct a more systematic time series analysis. Such research can be sponsored by public sector organizations as a public good that gives FSPs more information and more confidence to develop an inclusive remittance business line. A detailed discussion of the ways public sector organizations can promote inclusive remittances is provided in section 5.4 below.

4 The value proposition of inclusive remittances

4.1 Value to financial service providers

It has become common for rural FSPs to act as the agent of one or more money transfer organizations in order to serve the migrant families in their communities. Surprisingly, few FSPs have made an effort to find out what other products and services they may need, much less developed them. The underlying reason is that FSPs have not recognized the unique value of having migrant workers/migrant families as clients as opposed to non-migration clients.

Family members need to save; however, promoting deposit services is not always attractive to an FSP, especially term deposits that carry higher interest rates. The key to unlocking the value in this market segment is in understanding the flow of remittances – not their value so much as their impact. Remittances give the receiving households a measure of stability, predictability, and ability to weather shocks that non-migrant households do not enjoy. The steady stream of supplemental income sent from abroad expands possibilities, and those possibilities create the need for additional financial and non-financial services.

Based on this deeper understanding of the needs of migrant families, FSPs participating in the Regional Programme, were supported to develop "wealth-building packages" that combined high-interest term deposits with flexible savings, business credit, insurance, and non-financial services such as financial literacy training and business development support. To facilitate access and encourage usage, business processes were developed to enable migrant workers to remit directly into their own or their family's accounts.

The wealth-building packages enabled the Programme to achieve a deeper level of financial inclusion for migrant family members. By combining a variety of products and services, the package approach also enabled FSPs to offset costs in some areas with revenues in other areas.

There is also value in serving migrant workers over the long term. In the short term, migrant workers can be very costly to reach and serve, and while they are still abroad they will mostly want access to relatively high-cost time deposits. But they are also the ones in the community most likely to have ambition (after all, they went far from home and endured difficult conditions to earn money), and they come home with new experience and sometimes new perspectives. What they lack most is guidance on how to channel their ambition, experience, and perspectives into an economically viable and rewarding activity. If they succeed, however, they will need a variety of services from an FSP willing to serve them. Migrant workers may eventually become profitable customers, but FSPs will need to invest time and resources in them first.

As shown in the **inclusive remittance business model** (link provided on back cover), outreach to migrant families – including monthly financial education and bimonthly business development support events – becomes cash flow positive at around 400 clients, and it reaches cumulative break even with 500 clients. Outreach to migrant workers abroad requires at least 650 clients to become cash flow positive and more than 1600 clients to cover all investment and running costs.

4.1.1 Impact on client base

Given the investment and running costs of an inclusive remittance business line,[4] the key to success in inclusive remittance is scale. The fastest way to scale up is to focus first on migrant families. Rural FSPs from high migration areas will likely find many migrant families are already among its clients. This is the first place to start when building an inclusive remittance business.[5] FSPs in high migration countries are likely to find that there are many migrant families in their operating area who are not yet clients. The challenge in acquiring them is that they come from all walks of life; they do not necessarily share a profession or any social ties nor are they formally organized. Offering remittance services can help, but they usually have a variety of choices for receiving their remittances. Partnerships with government agencies, NGOs, and companies working with migrant families can help an FSP connect with some migrant families, but otherwise a **concerted effort at marketing is needed to encourage migrant family members to self-identify**.

The least costly way to acquire migrant workers as clients, is to recruit them through their family members (signing them up when they visit home) or by partnering with government and non-government organizations that support migrant workers before they leave. The downside of this approach is that it is slow to scale. There are many more migrant workers who are already abroad than those who leave every year.

Increasing the migrant client base quickly requires building networks in the destination countries; but doing so will incur costs for travel and organizing migrant workers. Outsourcing marketing and promotion to agents or hiring migrant leaders may be cheaper, but it is not an insignificant cost.

The cost/benefit for an FSP to consider whether to market overseas is proportional to the size of its operating area. Local FSPs with limited operating areas will find it very difficult to identify enough migrant workers who come from a place the FSP serves to make the effort worthwhile. Unless supported by public funds, overseas marketing only makes commercial sense for FSPs with a large footprint.

4.1.2 Impact on institutional funding strategy and the cost of funds

Because migrant workers usually receive a regular income, their savings potential (and that of their family members) is enormous – often greater than an FSP's traditional farmer or micro-entrepreneur clients. **FSPs that are allowed to accept deposits from members or the public can use the savings of migrant workers and their family members to supplement their other fundraising strategies**.

The cost of mobilizing these funds can be competitive with an FSP's other funding sources – as well as more stable and reliable. Because of their focus on long-term, purposive savings, the wealth-building packages are based around time deposits. These carry a higher interest rate than regular deposits.[6] For example, several FSPs supported under the project began to reduce their reliance on external funding as a result of their inclusive remittance programme. In the Philippines, Sta. Cruz Credit and Development Cooperative (SACDECO),

4 Discussed in detail in section 4.3.

5 See the discussion on "marketing inside" in section 4.2.1.4 below.

6 Nevertheless, in the Philippines the rate offered was similar to wholesale lending rates (Landbank offers wholesale loans at 4-6 per cent per annum). In Nepal, wholesale funds were traditionally subsidized, discouraging FSPs from mobilizing savings. During the implementation of the project, however, a liquidity crisis caused wholesale lending rates to spike to 10 per cent and access to dry up. For many FSPs, the deposits were both more affordable (5.5-9.0 per cent) and more reliable.

Ligas Kooperatiba ng Bayan sa Pagpapa-unlad (LKBP), Tagum Multi-Purpose Cooperative and BCS Credit Cooperative have slowly been reducing external borrowing because they have a larger member base that is generating more savings.

Financial cooperatives have the option of channeling some of the funds into share capital instead of deposits. Increasing share capital helps the cooperative by expanding its capital base, and it helps the members by increasing their creditworthiness (loan limits are often calculated as a multiple of the member's share capital). Furthermore, the yield on shares is not fixed as it is on deposits, although dividend rates can sometimes be higher than interest rates on time deposit.

To the extent that the cost of mobilizing long-term savings from migrant workers and migrant family members is higher than other funding sources, this cost is offset by the other products and services included in the wealth-building packages that generate income as well as creating a "stickier"[7] relationship that fosters customer loyalty.

4.1.3 Impact on loan portfolio and interest income

Between two-thirds and three-quarters of the Filipino and Nepali migrant workers surveyed under the Regional Programme came from households whose primary source of income is either farming or self-employment. Saving to expand their farm or business is not a common motivation for migrating – only 5-10 per cent of migrant workers say this is one of the factors that drove them to consider working abroad. Their higher priorities are to save for their children's education and home reform as well as to pay off existing debts – which includes existing farm/business debts as well as the migration loan.

Nevertheless, 10-25 per cent of migrant workers say they intend to invest in starting a new business when they return home. The ratio was higher for both Filipino and Nepali migrant workers in South Korea compared to Malaysia – more evidence that the higher salaries received in South Korea have raised expectations and ambitions. Although fewer migrant workers intend to invest in business as opposed to real estate (30-60 per cent), when it comes to their aspirations about making an investment to generate income, almost three-quarters of migrant workers say they hope to invest in a business. Depending on the amount they save and their ambitions, they could be creditworthy borrowers when they return home. The main constraint is a lack of guidance about what to do and how to do it. The desire is present, but their knowledge and skills are lacking. For this reason, the wealth-building packages included access to business development services.

Among the family members in both countries, 20-30 per cent claim to want to invest in a business, compared to 30-50 per cent who plan to invest in real estate. Business investment is often financed directly by the migrant workers, usually with little oversight or input from them.[8] Losses or outright failures are common. A local FSP can reduce the burden on migrant workers, not only by financing such businesses but also conducting thorough assessment and monitoring, with the loan backed by remittances. Encouraging savings by the family has the added benefit of demonstrating financial discipline and thus potential capacity to repay a productive loan.

Productive loans were included in the FSPs' wealth-building packages developed under the Regional Programme. Short-term emergency loans were also often included, but loans for consumption are discouraged.

Systematically reaching out to migrant workers/migrant families can be an important part of an FSP's strategy to identify new borrowers. By offering inclusive remittances that

7 Customers stay with the same FSP rather than switch.

8 Migrant workers provide the money but have no ability to oversee implementation of the business. This is one reason they often fail and lose their money.

combine remittances, savings, credit and other services, an FSP can monitor the flow of remittances and savings behavior, which reflect a client's financial discipline, and thereby enable an FSP to make a judgment about their potential borrowing capacity even if they are a new client.

It should be noted, however, that although many inclusive remittance clients are potential borrowers, in most cases **FSPs will find that they are able to mobilize more in savings from migrant workers/migrant families than they can lend to them. These surplus funds can be used to finance the expansion of the FSP's other business lines**.

4.1.4 Impact on fee income

The wealth-building packages that are at the core of an inclusive remittance programme combine remittances, savings, credit, and other services (depending on the needs of the clients and the ability of the FSP to deliver them). The additional services offer opportunities for the FSP to earn fee income.

For example, some FSPs became remittance service agents. The revenues generated by this service can cover the cost of new branch staff who can administer the wealth-building packages and related services.

Sales of insurance products or other non-financial services (business development or financial education training) can also deliver fee-based income.

4.2 Product and service delivery adaptations and innovation

4.2.1 Operational adaptations necessary for FSPs to launch an inclusive remittance business line

Strategies, plans, and policies

Perhaps one of the first activities an FSP needs to conduct once it has decided to launch an inclusive remittance business line is to officially update their corporate strategy and plans accordingly. Migrant workers/migrant families should be designated as a specific target group, and policies and procedures should be developed to identify and reach out to them. This update helps to ensure that resources will be allocated for product development, staff training, marketing, and client outreach.

FSPs should also consider that inclusive remittances are savings-led and plan accordingly. **To avoid over-liquidity, FSPs should ensure they have a well-considered expansion strategy, including new products, target markets, and branches, along with marketing strategies and enhanced portfolio management capacity**.

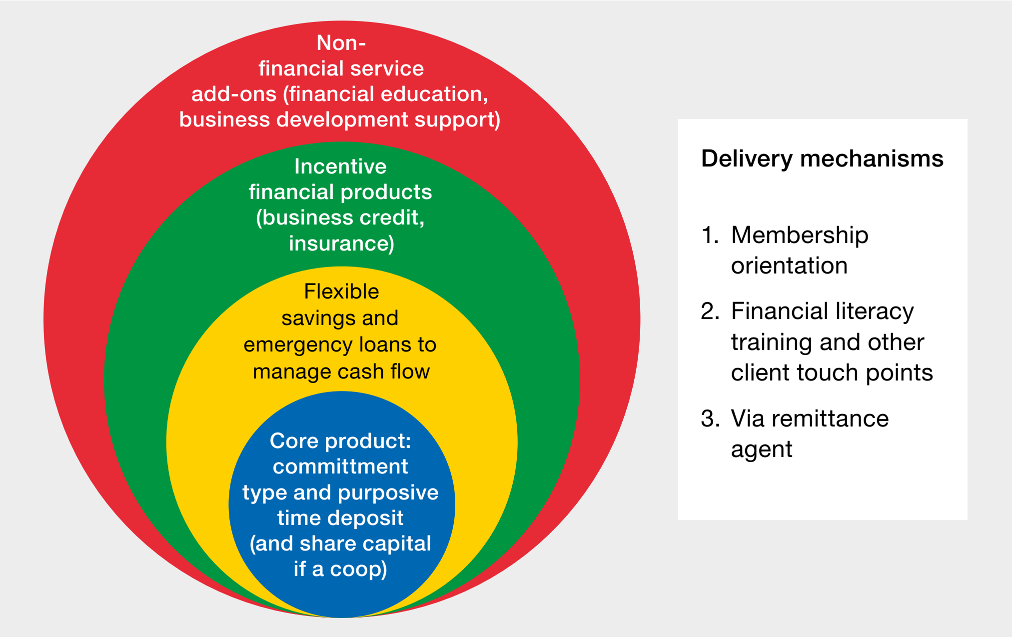
Updating strategies and plans requires the approval of the FSP's board of directors. If the FSP is in the middle of its current strategic plan and does not wish to revise it, it can incorporate inclusive remittances into its annual operational plans until it is time to develop a new strategy. Based on the operational plan, action planning should be conducted to set targets for branches and staff.

Product adaptations necessary to launch an inclusive remittance business line

Products designed under the Regional Programme are centered on wealth-building packages. This package approach was chosen to address two of the core reasons why most low-income households usually save for a short period of time and then draw down their balances: 1) they often face a mismatch between income and expenses that encourages them to consider using their savings, and 2) since they usually save for general rather than specific purposes, they do not have enough of a reason to stop themselves from doing so.

The holistic approach embodied in the wealth-building packages, combining a variety of financial and non-financial products and services, was selected based on the expectation that they would enable migrant workers and migrant family members to (a) manage day-to-day household finances; (b) minimize the impact of emergencies or other events that can lead a family to dip into their savings; (c) set and maintain a specific savings goal; and (d) supplement savings with credit for productive purposes (FIGURE 1).

FIGURE 1 **Wealth-building product design framework**



The core of the product was a deposit account (time deposit, commitment savings, etc.) with a built-in illiquidity component for 2 to 5 years. To further encourage savings, the wealth-building packages offered variable interest rates depending on the amount saved (higher rates for larger balances). Most importantly, from financial education training to the process of opening an account to the reminders to maintain the savings plan, depositors were repeatedly reminded about the purpose of their savings.

The wealth-building packages also offered savers who met minimum deposit thresholds access to other products and services. Incentive financial products included insurance (health, hospitalization, accident, and/or life) and loans (enterprise or emergency). In some cases, the insurance premiums and loan interest rates were offered at discounts.

Add-on non-financial services focused on training and capacity building:

- Financial literacy
- Livelihood and basic entrepreneurial skills
- Business management
- Business coaching

The specific mix of financial and non-financial services varied according to each FSP's capacity and business strategy. Financial cooperatives outperformed banks in the variety of service they were willing and able to offer. Due to the membership-based aspect of cooperatives, transacting through them also gave clients a greater sense of contributing to their local community than did banks. In fact, cooperatives give members a sense that they are investing in their community since the share capital requirement is an investment – one that is often lower than the minimum balance requirement for opening an account at a bank, and one that often pays a higher return as well.

Most FSPs limit their product development process to designing features, terms, and conditions. Very often, this is done by adapting an existing product offered by the FSP or one of its competitors. Rarely do features, terms, and conditions take into account operational logistics or human resource and information system requirements. To the extent that FSPs do consider these issues, they are usually more developed for credit than savings products.

Ensuring that a product is attractive to migrant workers and their families requires as much attention to delivery as to the product's features. Product development should also take into account human resource and information system requirements. This is particularly true if the goal is to encourage clients to be active savers. In the case of the wealth-building packages, some of the key procedures and work instructions that were developed during the product development process addressed:

- Quick and easy sign-up;
- Timely proof of account;
- Regular reminders;
- Flexibility with regard to the amounts and timing of deposits;
- Timely recording of deposits and updating of balances; and
- Online account maintenance.

One of the most important policy and procedural changes an FSP must consider is how to accept and sign up non-resident migrant workers (and in some cases non-citizens, if a migrant has left permanently) as clients or members. This can include adjustments such as:

- Accepting "natural-born" citizens (and not only residents) as clients/members;
- Accepting overseas residents as associate (not full) members or clients;
- Simplifying client or membership application forms and other documentary requirements;
- Reducing minimum balance and other financial requirements for becoming a client or member; and
- Replacing some aspects of face-to-face KYC with online forms and activities.

While the holistic approach offers savers the chance to build wealth over time, FSPs should recognize that not all new migrants/migrant family clients will immediately sign up for the wealth-building packages. Similarly, it was not always the case that an FSP could immediately shift its existing migrant/migrant family clients into the new packages. Some clients need time to save in order to meet the relatively high minimum savings balance requirement; and the fact that most of their savings will be tied up for years means that some households need time to save in liquid accounts first. In addition, the client may require financial education before they can achieve either prerequisite.

Many existing and new clients will therefore continue to use these products, and will shift only gradually to the new wealth-building packages. As such, FSPs interested in launching an inclusive remittance business line should not only focus on designing new products such as the wealth-building packages, but also review all of their existing savings-based products. Reviewing and comparing products provides a framework for an FSP to consider whether and how it is meeting the needs of its clients and what else it should offer. It also helps them test how potential depositors will look at each of the products on offer. Ensuring that there is a clear differentiation between products is also important in order to prevent wealth-building packages from cannibalizing other products.

Operations

Once the FSP has developed inclusive remittance products and services, the head office and branch staff need to be oriented on policies, business processes, and work instructions for delivering these products to the target market.

If migrant workers living abroad are willing to open an account, one of their most important expectations that must be met is rapid notification of account activation (e.g., proof of account). A system to generate an account number and issue (and update) a passbook gives migrant workers more confidence in the system, making them more willing to continue making deposits.

Another key operational challenge, especially for smaller FSPs who are not members of any of the international payments systems, is that a remittance sent via the FSP's depository (commercial) bank partner needs to be credited to the migrant's/migrant family's branch and account. FSPs with inadequate information systems will often find themselves having to update account records manually. As the number of inclusive remittance clients grows and the frequency of remittances received increases, FSPs will find that manual reconciliation of account crediting systems cannot keep up with demand. Roughly speaking, one full-time FSP staff member can manually process about 20-30 transactions a day. Assuming migrant workers send money once a month (and there are 20 business days in a month), automation becomes imperative as the number of clients reaches 400.

The business will suffer if depositors lose trust in the FSP due to slow or inaccurate reporting. FSPs should consider the cost of upgrading their MIS (at least in terms of having the correct number of fields, if not having a fully automated system).

Developing an e-wallet or partnering with an organization that has e-wallet capability can also address this bottleneck, although it is still likely to require adjustments to the FSP's MIS.

For more details on the process used to develop wealth-building packages under the Regional Programme, see:

- Migrant/migrant family member needs assessment toolkit
- Savings product development toolkit

Marketing and client acquisition

Generally speaking, the marketing and promotion programmes of locally-based FSPs are underdeveloped compared to the larger commercial banks. Marketing campaigns usually promote the organization as a whole rather than specific products. They use traditional collaterals such as brochures, posters, and occasionally, radio commercials. Few have attempted a social media campaign, which is crucial to building and maintaining relationships with migrant workers living overseas.

Migrant family members are not easily identified, and migrants whose home town is within the operating area of an FSP are often mixed with migrant workers from other parts of the country. Proactively recruiting such clients can be expensive and time-consuming, and it should only be attempted by FSPs with a clear strategy and knowledge of their potential client base.

Marketing campaigns ease this process by driving prospective clients to the FSP in search of a product or service they may need. Brochures and posters are useful but relatively passive ways to promote a product. A more proactive approach combines strategies aimed at the general public outside the branch with strategies inside the branch and at the existing client base.

If marketing is the process of identifying a client's needs and offering them an appropriate product, "Marketing Inside-Out" provides a series of touch-points from the time the client first becomes aware of the product until they are ready to consider signing up for an account. Most of this process takes place inside the branch and with existing clients, two aspects most FSPs ignore in their marketing plans.

- Marketing "outside"
  - Marketing efforts by account officers and collectors as part of their regular routine
  - Strategic partnerships with agencies and groups serving migrant workers or migrant families
  - Financial education/product promotion events for identified migrant workers/ migrant family members

- Marketing "inside"
  - Guards who open the door should ask each person who comes in if they have a relative abroad. If so, organize a meeting or at least offer a brochure.
  - Everyone in the branch must be trained to deliver financial literacy training and be well-versed in the wealth-building packages to be ready to orient potential depositors
  - The branches must be equipped with proper marketing collaterals (dream board, labelled passbooks) to be used to discuss the wealth-building package to clients
  - Financial education/product promotion events for existing clients

While all staff, including the guard, can contribute to promoting inclusive remittance products, at least one branch member should be fully trained to act as an account officer or promoter for the product. The practice of assigning promotion of a specific product to branch staff is rare in most locally-based FSPs, but the combination of products and services included in wealth-building packages require a more specialized approach to promotion.

When viewed through the lens of marketing, the key adaptations FSPs need to make are:

- Assigning one person in a branch to be in charge of the product;
- Ensuring that all staff who may potentially interact with clients can adequately explain the product and/or deliver financial education training;
- Organizing events or activities to bring clients together;
- Developing a social media presence to maintain communication and training; and
- Using the contents in the popular TV series or folk music programmes that can be streamed though YouTube in order to present information on financial literacy and product promotion to migrant workers. (Doing so would have cost implications in terms of production.)

Identifying, recruiting, and maintaining relationships with migrant workers is the most challenging aspect of any inclusive remittance programme. About 20 per cent of participants in the overseas promotion campaigns conducted under the Regional Programme eventually opened deposit or investment accounts on the spot. Although there were many prospective clients among the rest, FSPs needed to follow-up with additional information.

As a substitute for direct marketing overseas, an FSP can consider a number of operational adaptations:

- Forming a consortium of other interested FSPs to conduct marketing abroad under the auspices of the FSPs' federating body;
- Hiring agents (e.g., migrant leaders) or partnering with FSPs/MTOs in the destination country;

- Mobilizing migrant family members to reach out to migrant workers abroad;
- Uploading forms and some client orientation/membership development information to the FSP's website; and
- Developing a social media presence to market and communicate with migrant workers.

4.2.2 Transforming migrant workers/migrant families into active savers (insights from financial education training)

Before a migrant departs for the first time, they and their family members have a dream and a plan to fulfill it through income from foreign employment. Usually, that dream includes ensuring their children receive a good education and buying a house and lot. Because few migrant workers can expect to find stable formal employment when they return, establishing a business is often the third priority.

Unfortunately, these plans often fade away with the day-to-day struggle of work, constant nagging for money from home, and the migrant's inability to prioritize among saving, anticipating future needs, and giving in to family demands. Financial literacy training can reignite these dreams while also equipping migrant workers/migrant families with the knowledge and skills to better plan and manage their finances – including the ability to resist pressure to send money.

One of the key aspects of effective financial literacy training is linking hopes and dreams to financial goals. Equally important is the need to address beliefs that may inhibit good behavior (e.g., "I can't save because…"). Addressing these mindset issues is important because they provide the motivation for the trainee to engage in the habits and behaviors recommended in the rest of the training. Too often, financial literacy training focuses on the "how" without first addressing the "why." Changing mindset carries more weight in financial literacy than technical skills, because a person's attitude is the most important factor determining savings behavior.

After linking dreams with concrete financial goals, training must then relate the goals to specific techniques for achieving day-to-day financial discipline. Migrant workers are marketed to heavily while abroad, and their families often receive remittances at cash-out agents in commercial areas that encourage spending money. They often buy on credit as well.

These savers need more regular reminders of their goals; and they need to see their progress toward achieving them. "Pay yourself first" (Income – Savings = Expenses) is one of the main mantras of financial literacy training.

Training should emphasize the power of compound interest or the "rule of 72" (72 divided by the annual interest rate provides an estimate of how many years it will take for an investment to double in value; e.g., at 7 per cent interest, a deposit/investment will take about a decade – 72/7 – to double in value).

From these general concepts, the trainee can start considering specific strategies to achieve their goal. Since every migrant or migrant family member has their own set of unique problems and aspirations, financial literacy sessions should be delivered in a way that participants can relate to their daily routine. Emphasizing a client's unique "financial journey" can be addressed through four questions:

- **Q1: Where am I right now?** This question can be answered in 2 ways: (1) a person's current financial condition or net-worth; or (2) a person's current attitude towards increasing their income and decreasing expenses. As an example of the latter: if you buy something at a 70 per cent discount, did you actually save 70 per cent, or did you lose the 30 per cent?

- **Q2: Where do I want to go?** These are dreams and aspirations that are specific quantified/monetized and have timetable.
- **Q3: How do I get there**? "What must I do?" and "Who can help me reach my goals?" are follow through questions. Wealth-building packages are introduced at this point as the vehicle to reach their financial destination.
- **Q4: How do I know I'm getting there?** This is the most crucial lesson. Many migrant workers do not reach their dream, not because they have not worked hard but because they failed to assess their financial status on a regular basis. This inattention permitted them to leave saving for their dream sometime in the near future. The practice of conducting an annual personal or family net worth assessment helps focus attention on the distance to the dream.

Other important financial education training content includes:

- Cash flow management component
  - Increasing and diversifying income in four quadrants: employment, self-employment, going into business, investing.
  - Right formula for savings (income-savings = expenses)
  - Managing debt with emphasis on "When is the right time to borrow?" and "When is borrowing a bad decision?"
  - Controlling expenditures and budgeting: are your expenses going up when your income is not?
- Long-term financial planning
  - Investing: making your money work for you, and how to avoid scams
  - Preparing for retirement: emphasis on computing the cost of living after age 65 and the income needed after age 65
  - Protection (insurance)

Training also addresses the issue of giving money in addition to the regular allotment to family members and friends. Key topics discussed in this module are cash flow management and, more importantly, changing mindsets so that giving is the decision of the migrant rather than the family member who is asking.

The challenge is in delivering this training effectively. Migrant workers are especially difficult to work with; they usually have only one day a week off from work, during which time they must take care of personal business, socialize, and rest. They may be willing to spare a few hours for product promotion or financial education training, but there is no guarantee they will come to a follow-up session.

Migrant family members are also rarely able (or willing) to participate in lengthy training. Moreover, classroom-based training is often ineffective, because the format is passive (or "boring") and because there is only so much information a participant can absorb in a day or two.

A more effective approach is to deliver short training sessions incrementally over time, ideally relating the training lessons with current or prospective usage of actual products offered by the FSP. This format is also a less expensive than organizing classroom events.

Based on the experience of the Regional Programme, FSPs should consider two basic principles when designing a training programme:

- Training content should be broken down into small modules that can be delivered independently but that build on or reinforce each other. Structured learning exercises (SLEs) such as games, role plays, and Q&A can be delivered quickly in almost any setting.

- FSPs should increase the number of touch points with the client in order to create more opportunities to deliver the SLEs. Every time a client interacts with FSP staff is an opportunity to deliver a training session. The speed and ease of delivering an SLE means this approach is the least disruptive to operations; and because they can be delivered one-on-one, they have the added benefit of personalizing the training. This is particularly important when translating dreams into specific goals and savings plans, which is time-consuming to do in a group setting. For example: branch staff can conduct a dream board SLE or a short question-and-answer session when a client opens a savings account in order to encourage "purposive saving."

When working with migrant workers, the most cost-effective approach is to work through local agents (migrant leaders or MTO staff) who have been recruited, trained, and will be paid to deliver the training. FSPs can also expand the number of touch points by coordinating with other organizations, such as agencies in charge of training migrant workers before their departure, consulates overseas, and international agencies that also deliver financial education training (TABLE 8).

TABLE 8 **Financial education touch points**

Touch point	Migrant	Migrant family member
Pre-departure	Included in pre-departure training; possible for FSP to collaborate	N/A
Initial awareness raising about FSP and its products	1-3 hour group session delivered by FSP staff (if roadshow) or local agents	1-3 hour group session delivered by FSP staff
Account sign-up	Modified dream board exercise (purposive savings) as part of online orientation and sign-up	Dream board exercise (purposive savings) by account officer
Follow-up training	Online SLEs or one-on-one or group SLEs by agents Training offered by consulates Training offered by international organizations	One-on-one or group SLEs when client is in branch by account officer
Other	Regular reminders to save (text or social media)	Regular reminders to save (text or social media)

For more detail on the process used to develop and deliver financial education training under the Regional Programme, see the **Financial education toolkit (various modules)**.

Performance tracking/monitoring

Performance tracking is essential for any FSP to gauge the effectiveness and profitability of a product or business line. It is therefore surprising how little performance tracking FSPs engage in. Tracking is more common on the credit side, although loan portfolio performance is often limited to a few indicators, such as operating expense ratio and portfolio at risk (PAR).

Much less effort has traditionally been made to track the performance of savings-led products. For example, FSPs regularly track loans by purpose, but they rarely ask such information on deposit account application forms. Tracking deposit balances by purpose can help an FSP to understand demand trends and measure the effectiveness of its financial education training. Since different purposes have different savings tenors, tracking deposit balances by purpose helps FSPs conduct more effective asset and liability management. It also helps FSP staff improve their own mindset about savings, and thus their ability to introduce new schemes to help clients meet their goals.

FSPs also rarely measure the impact of cross-selling or bundling products and services. In the case of the wealth-building packages, it would be useful to track business development support services against enterprise savings balances and enterprise loans, or to track the linkage between balances in health savings accounts with purchases of health insurance or usage of health services.

Addressing regulatory requirements

There are three areas where regulations designed to protect consumers and the financial system can have an impact on an FSP's inclusive remittance business line:

- Regulators in destination countries may have restrictions on what financial products can be marketed to workers, and by whom. In some cases, regulators may require that the organization promoting financial products be legally incorporated and/or licensed in the destination country. FSPs expecting to grow their inclusive remittance business line in such countries will need to seek out local partners or incorporate a representative office in the destination country
- Regulators in home countries will want assurances that the money being mobilized conforms to Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) regulations. FSPs will need to adjust their KYC processes accordingly, keeping in mind that they may not have representatives on the ground to conduct KYC in person
- In some cases, regulators in home countries may put restrictions on the kinds of partnerships that be formed between banks and non-bank FSPs that can limit partnership opportunities

Other adaptations

In some cases, FSPs may be able to mobilize more in savings from migrant workers/migrant families than they can lend to them. To avoid over-liquidity, FSPs should ensure that these monies are matched with capable asset and liability management functions and portfolio management capacity.

4.3 Costs of inclusive remittance programmes

4.3.1 Investment costs

At launch, an FSP will incur costs in developing products, training staff to administer them, upgrading their MIS, and conducting a marketing campaign. Based on the experience of the Regional Programme, the cost of launching outreach to migrant families is roughly US$30,000 **if hiring an external technical service provider**. Outreach to migrant workers costs about the same (TABLE 9).

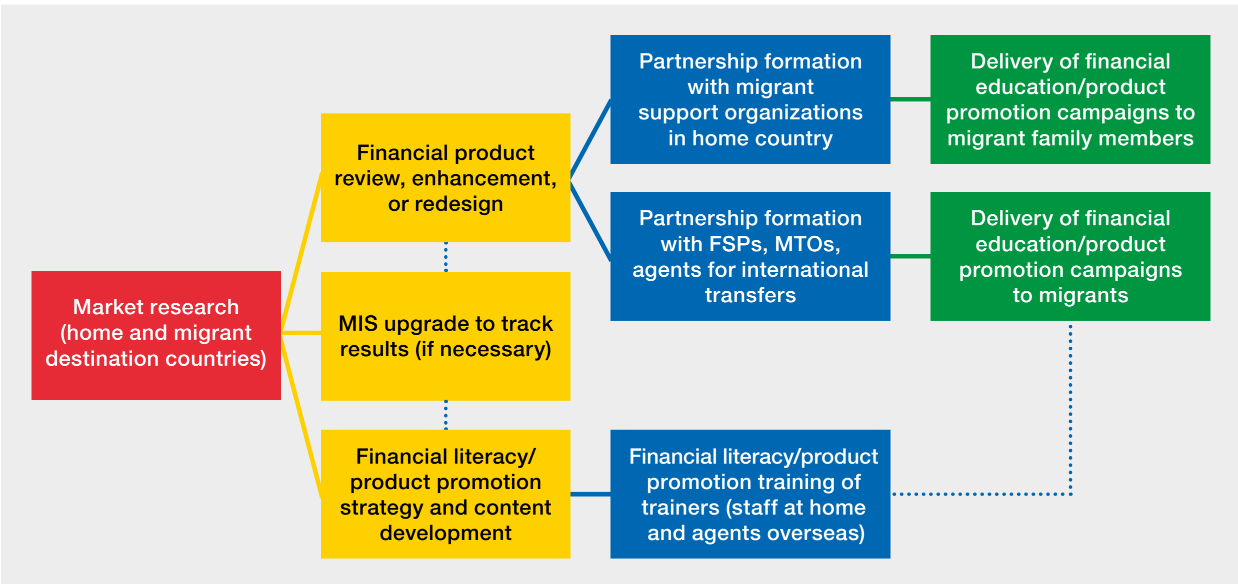
A detailed discussion of each expense follows. The interactive inclusive remittance business model provided on the back cover enables users to input variables to calculate the costs based on their own assumptions.

9 MTOs like Western Union require agents to post a "base reserve."

TABLE 9 **Investment costs for launching inclusive remittances**

	Technical activity	# days	Total cost (including professional fees, travel, and expenses) (US$)
Migrant family outreach (costs in home countries)	Market research	5	3,100
	Product development (including a review of existing products)	5	6,300
	Product administration training	3	3,300
	Partnership formation with MTOs	N/A	No out of pocket expenses (except security deposit)[9]
	Partnership formation with migrant support organizations at home	N/A	No out of pocket expenses
	Financial literacy/product promotion strategy and content development	5	1,500
	Financial literacy/product promotion training of trainers (staff)	5	5,100
	MIS upgrade	N/A	10,000 (estimated)
	Upgrade internal systems	10	4,100
Subtotal			33,400
Migrant outreach (costs in destination countries)	Market research	5	5,200
	Partnership formation with FSPs, MTOs, agents	2	3,700 (excluding security deposit)
	Financial literacy/product promotion strategy and content development	5	1,500
	Financial literacy/product promotion training of trainers (agents overseas)	15	21,000
Subtotal			31,400
GRAND TOTAL			**64,450**

FIGURE 2 **Steps required to launch an inclusive remittances business line**



Market research and product development

It is possible for an FSP to combine some of its existing products and services into a wealth-building package. This approach will incur minimal expenses and enable the FSP to enter the inclusive remittance business with quick wins by re-categorizing existing migrant worker/migrant family clients and cross-selling them other existing products and services.

Nevertheless, for deeper and longer-term business growth (and impact), existing savings and credit products may need to be revised (or new ones developed) in order to better meet the needs of this target market. The experience of the Regional Programme is that few FSPs have well-developed research and development (R&D) departments. Although some FSPs engage in a structured approach to developing new products, the vast majority do not have the ability to manage the entire process: in-depth market research, review of existing products, design of product features and procedures, financial projections, and sensitivity analysis. They focus mainly on developing the terms and conditions of the product, with much less attention paid toward developing policies, procedures, work instructions, a marketing plan, cost-benefit analysis, and risk analysis. Interest rates are not always set based on a product financial plan but instead match other products in the market.

The product development process employed under the Regional Programme begins with a market research programme. The results are analyzed as part of a five-day workshop followed by three days of on-site coaching to complete the product manual. Workshop participants include:

- CEO/General Manager;
- Managers in charge of Operations, Treasury, Research, Marketing, Human Resources, Accounting, Audit, and MIS; and
- Selected branch managers and senior account officers.

The total cost of conducting the research and the product development workshop vary depending on the cost of transportation, lodging, and venue. **Under the Regional Programme, this set of activities is estimated to have cost US$5,000-10,000 per FSP**.

Staff training on product administration and marketing/financial education

After the product manual is complete, staff need to be trained to administer the product. This includes training on marketing which, under the Regional Programme, was embedded in client financial literacy training.

The experience of the Regional Programme is that few FSPs conduct thorough product administration training. Most often, FSP head office managers provide the terms and conditions to selected branches without in-depth explanation. In most cases, the head office does not provide specific outreach targets (or other instructions) to a branch conducting a pilot test.

Furthermore, rarely do FSPs conduct a limited pilot test with a rigorous process of collecting feedback for refining the product, but instead merely conduct a soft roll-out. This limits the opportunity to refine the product and orient the staff on the challenges related to product delivery.

Relevant staff from marketing, sales, operations, and IT need to be trained on product administration and marketing as prescribed by the product manual. In some cases, the Board of Directors might need to be involved, especially with regard to risk analysis and management. Product administration training has the added benefit of helping an

FSP correct procedural weaknesses in the way products are currently delivered (e.g., by strengthening credit appraisal).

A proper product administration training, which includes branch planning for the pilot test and full roll-out, can be conducted in three days. The workshop should include the product development team as well as the managers, cashiers, and marketing staff of the relevant branches. **A 3-day product administration training is estimated to cost US$3,000-5,000 per FSP**.

The financial literacy/product promotion workshops conducted under the Regional Programme were delivered in two batches with a maximum of 30 participants per event:

- Level one: for all relevant branch managers and account officers (3-4 days)
- Level two: all remaining staff from the relevant branches (2 days)

The total cost of conducting the complete training on financial literacy for FSP staff varies depending on the cost of transportation, lodging, and venue. **Under the Regional Programme, this set of activities is estimated to have cost US$5,000 per FSP (plus US$1,000-2,000 for content development)**.

MIS upgrade

As with any product, an FSP needs to be able to monitor outreach and performance indicators. In the case of inclusive remittances, FSPs need to:

- Identify current or new clients as migrant workers or migrant family members
- Track their savings behavior (by type of account and amount)
- Track their use of other financial services included in the wealth-building packages
- Track their attendance at financial education and use of other non-financial services

FSPs that do not make the upgrades necessarily to track this information through their MIS are forced to conduct manual reporting, which is time-consuming, expensive, and prone to mistakes. The biggest challenge for the head office using a manual reporting system is that it must consolidate information from different branches that do not report the same information each time. This is particularly troublesome when a large volume of remittances need to be allocated to specific accounts quickly and accurately.

In some cases, proper monitoring will involve the addition of new fields to client files and/or adjustments to deposit interest rate calculations and payments in the MIS.

The cost and time required to upgrade the MIS depends on the ability of an FSP to make the changes itself or to outsource that work. Those who need to hire an external service provider will incur more cost and require a longer time to complete the upgrade. Those FSPs with larger branch networks will also incur more costs to ensure that each branch is able to access the MIS and properly fill in the new fields. **The inclusive remittance business model assumes an average cost of US$10,000 for an FSP to upgrade its MIS.**[10]

Upgrade of internal systems

In order to enable migrant workers to remit directly into their accounts and safely manage the increase in deposits, FSPs may need to upgrade some of their internal systems. This is particularly true for financial management, asset and liability management, accounting, risk management, and internal controls.

10 This cost was not budgeted in the project, and no expenses were made to upgrade the MIS of FSP partners during the Programme's implementation. The MIS of most rural FSPs is generally quite weak compared to regulated banks. Mainly they are designed to track the loan portfolio; much less effort is put into monitoring deposits. To do so requires changes to the MIS that the FSPs cannot do themselves. They have to ask the vendor to make the changes.

The needs of an FSP will depend on their own particular strengths and weaknesses. **The inclusive remittances business model assumes 10 days of technical support at a total cost of US$4,100**.

4.3.2 Operating (running) costs for inclusive remittances

Provided with the requisite training and marketing collaterals, staff involved in administering wealth-building packages should be able to integrate those activities within their regular routine. Their main task is to identify potential clients and promote the product using a financial education lesson. Those lessons, when designed as a series of 15-minute structured learning exercises, can be delivered effectively and inexpensively by any branch staff members.

Nevertheless, an inclusive remittances business line will incur running costs. The Regional Programme recommends that an FSP hire full-time staff to coordinate marketing, training, and communication (one for migrant workers and one for their family members if the business is large enough). **The inclusive remittance business model estimates that the annual cost of conducting these activities for migrant family members is just under US$20,000 per year, while doing the same for migrant workers will cost over US$20,000 a year per destination country** (TABLE 10).

TABLE 10 Annual running costs for launching inclusive remittances

	Technical activity	Details	Total cost (including professional fees, travel, and expenses) (US$)
Migrant family outreach	Monthly financial literacy/ product promotion events to family members	One one-day event per month	3,600
	Printed materials	N/A	2,000
	Delivery of business development or other non-financial services	One two-day event every two months	7,200
	Full time migrant family business line manager	One full-time staff at US$400/month	4,800
Subtotal			17,600
Migrant outreach	Monthly financial literacy/ product promotion events to family members	One one-day event per month	15,360
	Printed materials	N/A	2,000
	Full time migrant business line manager	One full-time staff at US$400/month	4,800
Subtotal			22,160
GRAND TOTAL			39,760

FSPs that intend to reach out to migrant workers will need a communication platform. After the initial point of contact (whether through an overseas road show, local agents, or social media), FSPs need to follow up in order to answer questions, provide sign-up forms, and conduct KYC and other procedures.

The most effective means of communicating with migrant workers is through social media (Messenger, WhatsApp, Viber, or a similar local app) or email. These can be used to promote products or send links to forms and other content on the FSPs website. YouTube videos can be helpful to raise awareness regarding the benefits of products/process of subscription. The current practice of Nepali commercial banks, for example, is to create a Facebook page and communicate with potential clients through posts regarding the details of the events they will be holding in particular cities.

Under the Regional Programme, participating FSPs developed a handbook with standard procedures for communicating with migrant workers about their accounts, including pre-written texts. The biggest challenge faced by FSPs was in maintaining a rapid response time to incoming messages as the client base grew.

Although maintaining communication via social media is not very costly, initiating contact often is. In any city with a large number of migrant workers, it is easy to find out where they gather. But bringing a group together requires organizing an event (including some food and refreshments), only to find that just a few attendees are interested, and even fewer come from the province or district where the FSP operates.

A more effective approach for an FSP working independently is to recruit migrant workers to promote the product abroad. These migrant workers should be vetted (particularly to ensure they do not have another business selling goods or services to migrant workers), trained to deliver product promotion through financial education, and provided with marketing collaterals, a plan, and financial incentives. **Based on the experience of the Regional Programme, a team of two local agents can deliver one financial education/product promotion event per month for about US$100 each per month. Including expenses, overseas promotion is estimated to cost about US$15,000 a year per destination country**.

5 Partnerships to Make Inclusive Remittances Work

5.1 Key actors, products, and services in the inclusive remittance value chain

The generic remittance value chain involves various actors working in an arm's-length manner. Fully developed inclusive remittances, in contrast, involve the coordinated delivery of financial and non-financial services by a variety of actors and institutions – the inclusive remittance value chain

At the core of the inclusive remittance value chain is an FSP in the migrant's home country that is willing and able to leverage the flow of remittances to expand financial inclusion of migrant workers/migrant families and mobilize resources from them to invest in local economic development.

Local FSPs with a rural footprint are usually better positioned than commercial banks to identify lower-income migrant families, gather them for financial education training/ product promotion, conduct KYC, offer wealth-building packages, and sign them up for membership and/or an account. However, due to limitations imposed by both regulation and their relatively small size, locally-based FSPs need partnerships to make inclusive remittances work. Regulations usually prevent such FSPs from being directly linked to the international payments system, which means they cannot receive remittances directly. An FSP could try to coordinate with independent MTOs operating in their area, but such an arm's length relationship will make it difficult to scale up the business.

At the very least, FSPs should form a business relationship with an MTO so they can receive remittances at their branches. MTOs impose some requirements on FSPs, the main one being a security deposit.

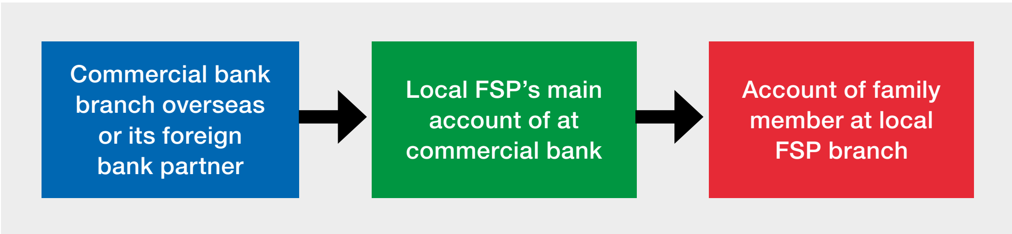
Ideally, an FSP should form as many partnerships with MTOs as possible. Migrant workers usually have a preferred channel – based on cost, convenience, or simply habit – and it is unrealistic to expect many of them to change quickly. A large number of partners gives more migrant workers more choice in how to send money home.

However, most money transfer services pay out remittances as an over-the-counter (OTC) cash transaction. While it is possible for FSP branch staff to encourage the remittance receiver to deposit some of the cash as soon as they receive it, the tendency to spend rather than save is ever-present. Moreover, cash payouts do not extend financial inclusion to migrant workers or give them control over any of the money they send home.

A more effective inclusive remittance programme includes systems to deposit remittances directly into the migrant's/migrant family's account. The configuration of direct deposit systems will vary depending on the FSP and its potential partners in the migrant destination country. Some non-bank MTOs can send money to an account, but most often a direct-to-account transaction involves a bank on the sending end of the value chain.

Although local FSPs do not have overseas branches and are usually not directly connected to any of the international payments systems, they will almost always have an account at one or more of their country's commercial banks. These commercial banks are not only part of the international payments system; they will have set up branches abroad or formed partnerships with banks in the destination countries. Many migrant workers already have an account at one of these commercial banks, which is a pre-departure requirement. Few lower-income migrant workers actively use these accounts because the banks' products and services do not match their needs. But these accounts can be mobilized to enable migrant workers to make a direct deposit into their own or their family member's account at a local FSP (FIGURE 2).

FIGURE 3 **Generic model of direct-to-account remittance**



Although money transfers through banks have traditionally been expensive, many now have online banking systems with competitive rates. Most of the major banks in the destination countries have an online banking system (and sometimes e-wallets) that enables migrant workers to send money to banks in the origin country.

Under the Regional Programme, partnerships were established so that migrant workers could use commercial banks to send money home (IME, Prabhu, and Sunrise branches in South Korea or Malaysia for Nepalis; BDO, BPI and MetroBank for Filipinos). Filipinos could also use LandBank, a government bank with branches in migrant destination countries

Direct-to-account systems require a deeper partnership than OTC transactions. Facilitating direct deposit into an account at a local FSP necessitates providing the correct transfer instructions to the migrant. A local FSP can try to communicate this information to the migrant directly (via email or social media) or through their family member, but given that the instructions are complicated, it is more effective if the migrant is guided by trained staff in the sending institution (or a trained migrant leader). Ideally, the local agent would also sign new clients up for an account on the local FSP's behalf. In other words, inclusive remittances require the local FSP's partner/agent abroad to be knowledgeable enough about the products to guide migrant workers who want to access them.

However, scaling the business requires more than forming partnerships that facilitate remittance transfers. It requires constant expansion in terms of both breadth (more clients) and depth (more savings per client). At home, an FSP can supplement its direct delivery of training and promotion with partnerships with organizations already delivering financial education or business development support. It can try to form partnerships with migrant recruitment agents or government agencies supporting migrant workers, although both are usually wary of forming direct partnerships with private companies.

Abroad, FSPs can supplement outreach and training via agents with partnerships with consulates and international organizations who deliver training and support to migrant workers.

A map of the actors and institutions in the inclusive remittance value chain is provided in TABLE 11).

TABLE 11 **The inclusive remittance value chain**

Business line	Action	Actor	Non-financial activities/ services	Financial services
Migrant business line	**Migrant customer awareness raising and acquisition**	• Local FSP staff (roadshow) • Partner MTO/bank staff • Migrant leader	• Identify & gather migrant workers • Product promotion/ financial education • KYC/sign-up	
	Ongoing promotion/ financial education and client acquisition	• Partner MTO/bank staff • Migrant leader	• Product promotion/ financial education • KYC/sign-up	
	Savings reminder	• Local FSP	• Regular communication with migrant clients	
	Send remittance	• MTO • Branch of bank from origin country • Foreign bank partner of origin country bank • E-remittance platform	• Guidance on inclusive remittance products offered by local FSP and how to access them	• Collect migrant deposits (OTC, direct deposit, e-wallet) • Send money
	Receive remittance	• Commercial bank partner of local FSP • MTO agent		• Credit accounts of migrant and migrant family member
	Account management	Local FSP	• Confirm funds are received/deposited • Balance inquiry service • Offer add-on services (financial education, BDS)	• Offer additional financial services (credit, insurance)
Migrant family business line	**Migrant family customer awareness raising and acquisition**	• Local FSP	• Identify and gather migrant family members • Product promotion/ financial education • KYC/sign-up	
	Ongoing promotion/ financial education and client acquisition	• Local FSP • Government agencies and NGOs	• Product promotion/ financial education • KYC/sign-up	
	Savings reminder	• Local FSP	• Regular communication with clients	
	Receive remittance	• Local FSP		• Deposit cash received OTC
	Account management	• Local FSP	• Balance inquiry service • Offer add-on services (financial education, BDS)	• Offer additional financial services (credit, insurance)
Enablers	**Apex federation and technical service providers: analyze demand, deliver financial education, promote inclusive remittances overseas, consolidate migrant deposits received overseas**			
	Government and non-government agencies: organizations providing assistance to migrant workers and their families			
	Financial sector regulators in the home and destination countries			

5.2 Sustainability challenges

The model provided on the back cover shows that an inclusive remittance business line can be cash flow positive by year two or three, depending on how quickly an FSP scales it up. Users can input their own assumptions for costs and outreach to make their own forecasts.

A number of factors can affect the financial sustainability of an inclusive remittance business line. The main running costs are in promoting the product through financial education. FSPs have multiple options for delivery which are not necessarily as costly as traditional classroom training, but nevertheless will still incur costs. In addition, the core of the wealth-building packages are time deposits that can be more costly than some of the FSP's other sources of finance.

These costs are offset by the revenue generated from the other products and services included in the wealth-building packages: remittances, credit, and insurance. However, in the beginning, FSPs are likely to find that migrant workers/migrant families save more than they avail themselves of other financial services as their pent-up demand for deposits are met. In other words, as the product initially scales up, profitability may go down as the interest paid on deposits exceeds the revenue generated from cross-selling other products.

This formula will reverse itself as the family's financial capability grows and especially after the migrant returns home and can also make use of the FSP's other products and services. In the short- to medium-term, however, the sustainability of inclusive remittances as a stand-alone business line is uncertain. Rather than looking at the profitability of the business line on its own, FSPs should see inclusive remittances as a resource-generation strategy and their contribution to broader development in their operating area.

5.3 Pathways for FSPs to reduce costs

As with any new venture, launching an inclusive remittance business line requires an FSP to make a set of investments in products, systems, and staff capacity. **The problem for many of the locally-based FSPs is that they may not have the internal resources to conduct these activities on their own**. The need to hire an external service provider increases the cost. Even though the business can be profitable if scaled, the up-front cost, when compared to the uncertainty of launching a new business, may make FSPs hesitate to take the risk.

Even if an FSP can afford to develop the products and systems, the largest investment cost is in setting up partnerships in the migrant destination country. This involves not only negotiations but also training and joint marketing plan development.

Similarly, the largest running cost is in delivering product promotion through financial education training to the migrant workers. The cost of paying trainers and gathering migrant workers is high, and migrant workers themselves only become highly profitable clients once they return home.

FSPs can form a consortium to share the costs of building and promoting their inclusive remittance business line abroad. Under the Regional Programme, overseas marketing was conducted under the auspices of the partners' federating bodies (NATCCO and NEFSCUN).

Even without the benefit of programme funding, interested FSPs have several options:

- Finance the promotion abroad through consortium of several FSPs (STAND ALONE approach);
- The FSPs' apex federations can partner with other migration-focused organizations/agencies who are willing to bring them along overseas with minimal (if not free) counterpart costs; and/or

- FSPs can develop marketing tools that can be distributed abroad by migration-focused organizations/agencies working.

FSPs can also manage their costs through their choice of whether and how they reach out to migrant workers, and their financial education/product promotion delivery modality.

Social media is a comparatively inexpensive and highly effective way of maintaining relationships with migrant workers abroad. However, reaching out to migrant workers through their family members is the most cost-effective way to build a business with migrant workers who are already abroad, and it is often more effective since the migrant workers' buy-in of the products depend on the influencing power of family members. The downside of this process is that it takes time to build a large portfolio of migrant clients.

Collaborating with MTOs and other FSPs that have already established operations in destination countries can expand an FSP's ability to reach out to and serve migrant workers abroad. With incentive schemes in place, these partners can promote the products among the potential clients on FSPs' behalf.

5.4 Costs that could be covered by public sector entities

The experience of the Regional Programme is that over a three to five-year period, an inclusive remittance business can both be profitable and help a local FSP expand its client base and generate more resources to finance further growth. Nevertheless, the reality is that the upfront investment and running costs are high. In addition, much information about migrant workers, their families, and their financial behavior remains unknown. In fact, the governments of most migrant sending countries do not even have an accurate mapping of migrant workers and their families, much less a deep understanding of their aspirations or actual achievements resulting from the migration experience.

The high costs and the lack of information make the ability of a locally-based FSP to scale up the business enough to recoup those costs too uncertain to encourage FSPs to enter the business. This should not be too surprising; after all, it took more than a decade of replications of microfinance programmes before the private sector was willing to start up MFIs without public sector assistance. The inclusive remittance business model is still quite new for such investments to take place organically. At this stage, public sector resources can be used to encourage market-driven, private sector-led investment in this area that ultimately contributes to pro-poor growth.

Public sector entities can promote FSPs to enter the inclusive remittance business by offsetting some of the investment costs, as was the case under the Regional Programme. They may also need to subsidize early efforts at promoting the products abroad to the migrant workers, at least until the FSP has established self-sustaining partnerships.

Similarly, public sector entities can help offset the largest running cost, which is training and product promotion overseas. Indeed, the public sector has a large role to play in enabling local FSPs to expand their outreach overseas. The sustainability of inclusive remittances can only be achieved if the partners in the inclusive remittance value chain share a common business objective to provide migrant workers with access to wider options of financial services. While this may seem self-evident, the fact remains that the business interests of different actors in the value chain are not always aligned, making it difficult to reduce costs, expand services, and create long-term working relationships. Public sector organizations (or agents hired by them) can help FSPs build such partnerships effectively.

Public sector agencies can also contribute to the knowledge base the private sector needs before making a decision to invest in inclusive remittances. More and better information about the origin and destination locations of migrant workers, as well as their goals and financial behavior, would greatly benefit the sector.

Public sector entities should focus equally on developing standardized technologies and disseminating them widely. Just as the modern microfinance technology emerged in the early 1990s and eventually became standardized enough to be replicated in almost any setting in the world, the knowledge about how to make inclusive remittances work is reaching critical mass. Standardizing this information for easy replication will contribute to expanding the availability of inclusive remittances.

In an ideal world, governments from both the migrant's home and destination countries, making a commitment to ensure that migrant workers are fully financially included and are able to make the most of their migration experience, would use laws, regulations, and incentives to encourage FSPs to form partnerships and make the investments needed to launch inclusive remittances business lines. This would, however, require an extraordinary level of coordination and cooperation on many different levels between governments that may not give the issue the same level of priority or agree on how to address it.

To move things forward, funders and advocates from the world of international development can continue to encourage investigations into how to make inclusive remittances work by defraying some of the investment costs incurred by FSPs, while also facilitating cross-border dialogues between regulators, FSPs, migrant advocacy groups, and other stakeholders.

ACCESS Programme Learning Tools

- Inclusive remittance model
- Excel tool for data input
- FGD guide questions for migrants
- Survey form for migrants
- TORs for migrant mapping exercise
- Product development workshop programme
- Product development workshop slides
- Call for programme partners
- FSP application form
- FSP scoring sheet
- Financial literacy training of trainers, part 1
- Financial literacy training of trainers, part 2
- Financial literacy for migrants
- Financial literacy training of trainers for Nepalese migrants
- Financial literacy training of trainers for Filipino migrants
- Investment fund feasibility study research plan
- Investment fund proposed plan of action
- Migrant investment fund feasibility study framework
- Outline of feasibility study report

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