



# Remittances and Microfinance Networks



## Remittances and microfinance: Serving migrants' families while creating economic opportunities

Of the US\$450 billion that migrant workers send home to developing countries every year, between 30 and 40 per cent goes to rural areas. At the starting point of the migration chain, people leave rural areas to seek opportunities elsewhere due to a lack of opportunities closer to home. Microfinance institutions (MFIs) are uniquely capable of serving the needs of remittance recipients, while reinvesting surplus funds to improve opportunities for the local community.

The Financing Facility for Remittances (FFR) seeks ways to maximize the development impact of the US\$200 billion remitted to rural areas every year and to create jobs that will help reduce the need to migrate. Central to this goal is the reinvestment of remittances in rural areas.

MFIs have a tremendous advantage: they are familiar with their clients' needs, are trusted by their clients and can act as a conduit through which remittances can be saved and reinvested in rural communities. However, their potential is still to be unleashed: the majority of MFIs in high-migration regions do not provide remittance services. Moreover, an average of 30 to 40 per cent of MFI clients in these areas receive remittances from outside the MFI product envelope.

### KEY FACTS

#### ... What you might know

- Over 220 million migrants sending over US\$450 billion in remittances
- Remittances to developing countries total three times official development assistance (ODA)
- In most developing countries, remittances exceed foreign direct investment (FDI) inflows

#### ... What you might not know

- From 30 to 40 per cent of remittances go to rural areas
- Over the next five years, cumulative remittances to developing countries will surpass US\$2.5 trillion
- Over the last five years, the microfinance sector has grown at an average rate of 25 to 30 per cent
- In Africa, more than 20 per cent of the people within the reach of MFIs receive remittances; yet MFIs currently represent less than 3 per cent of remittance payers
- Most regulations in Africa and Asia permit only banks to pay remittances
- Mexico alone has almost as many payout locations as the entire African continent; simply bringing MFIs into the market would double the number of payout locations
- Remittances equal around 49 per cent of gross domestic product (GDP) of countries such as Tajikistan and around 25 per cent of GDP of countries such as Cape Verde, Eritrea, Kyrgyzstan, Liberia and Somalia



## FFR projects in the field

In Ethiopia, the FFR has funded an innovative initiative with Oxfam Novib. By working in close cooperation with Microfinance International Corporation (MFIC) and the Association of Ethiopian Microfinance Institutions (AEMFI), the FFR has supported integration of money transfer systems within the USA-Ethiopia corridor. Together, these agencies have introduced the use of ARIAS, an online, real-time remittance processing system, accessible through the Internet and standard personal computers, with no need to invest in additional hardware or software. ARIAS is enabling over 1,000 Ethiopian immigrants in the United States to receive consumer or business loans. Transnational loans provided through ARIAS specifically target home purchase/improvement and strengthen remittance recipients' economic capacity.

Along the same lines, the International Network of Alternative Financial Institutions (INAFI) is empowering remittance recipients in Senegal to set up a low-cost, user-owned remittance service, supported by local MFIs. The project established a Mutual Development Fund (MDF) named "the Senegalese Migrant Development Fund". The Fund has been agreed upon by the stakeholders as a not-for-profit entity and recently started to collect money which will be subsequently used by the community in Senegal to carry out development initiatives and invest in new economic opportunities.

The FFR supports and promotes the development of market niches for local MFIs, as in the case of the Cameroon Cooperative Credit Union League Limited (CamCCUL), an MFI constituting the apex body of the credit union movement in Cameroon. CamCCUL's affiliates operate throughout the country, with 70 per cent located in rural areas. The FFR has supported CamCCUL in massively promoting its electronic cash transfer system named "Telecash" through any existing formal and informal channels (e.g. radio programmes and advertisements in local dialects and sensitization meetings in credit unions, churches, village markets and other public places), and the production and

distribution of marketing materials, including flyers, hangers and posters. As a result, the cost of sending and receiving money in 24 rural localities served by CamCCUL has decreased by 17 per cent on average, with US\$1.8 million having been sent or received during the 18-month life of the project. Some 80 per cent of targeted localities had never been connected to a money transfer system before. As a direct consequence, the loan portfolio held by CamCCUL increased by about US\$120,000 during the project, and the increase is projected to reach more than US\$240,000 in the next five years.



## Financing Facility for Remittances

The Financing Facility for Remittances (FFR) is a US\$28 million, multi-donor facility, administered by the International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations dedicated to the eradication of rural poverty. The FFR has been working since 2006 with the goal of increasing the development impact of remittances and enabling poor rural households to advance on the road to financial independence. The FFR cofinances development projects in close collaboration with public, private and civil society partners. Furthermore, it acts as an information broker to facilitate the dissemination, replication and scaling up of remittance-related best practices.



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