IFAD
Investing in rural people

Financing Facility for Remittances

www.ifad.org/remittances
www.RemittancesGateway.org

Remittances and Financial Literacy

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
- On average, a migrant sends remittances 10 times a year
- In Africa, remittance recipients accumulate savings of US$220 a year on average, more than twice those of non-recipients
- Over one billion people lack access to basic financial services
- 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

Remittances and financial literacy: Empowering families to reach financial independence

In line with its mandate to expand the reach of financial services into rural areas, the Financing Facility for Remittances (FFR) is leading the way in testing models that bring migrants' funds to recipient families quickly, safely, conveniently and at the lowest possible cost. However, the key to ensuring that remittances help families achieve financial independence lies in financial literacy.

The choice to migrate is often driven by the need to provide food, shelter and clothing, given the lack of economic opportunities close to home. In most countries, the purchase of such basic necessities accounts for some 80 per cent of remittances. The remaining 20 per cent can be invested in education, health care, housing, small business ventures or simply saved for unexpected emergencies or for retirement. By formulating long-term goals, mapping out a path to achieving them and understanding the broad array of financial services available, financial literacy empowers migrant workers and their families to build a better future.

With the greater opportunities many see in working abroad come difficult choices and potential risks. The cost of living abroad can be high, as can be the cost of visiting family and friends back home, while risks such as job loss, sickness or the death of a migrant worker can be devastating to a family both emotionally and financially. At the same time, sickness of family members back home or the cost of a marriage or funeral can place extra strain on migrants abroad. Prudent financial planning can help mitigate these risks and ensure that migrants achieve the financial goals for which they have sacrificed so much.

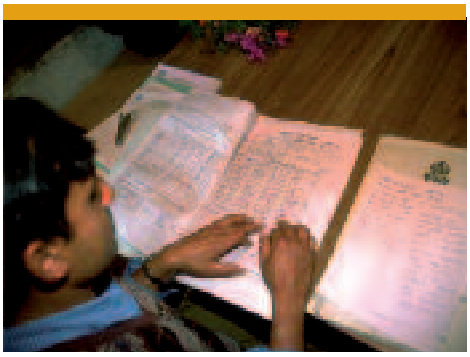
More importantly, an understanding of the financial options and services (savings, credit and loans linked to remittances) available to migrants and their families can be a stepping stone towards financial democracy, and a step closer to achieving their initial objective – a better life for themselves and their loved ones. However, the majority of migrants and their family members who that have access to these services often do not take advantage of these financial opportunities. Research carried out among the migrant population indicates that the most commonly cited reasons for both not saving formally and not budgeting are a lack of knowledge of the concepts.

It is for this reason that the FFR finances a wide range of projects beyond simply addressing the technical issues involved in money transfers, in order to empower migrants and their families to maximize the benefits of their funds.

FFR projects in the field

In Nepal, the FFR has been working with the Centre for Micro Finance (CMF) to improve the technical capacity of 10 selected microfinance institutions (MFIs). MFIs are learning how to diversify their products, including remittance-related services, according to the needs of their 11,000 clients from seven districts. An unemployment insurance product is being designed and pilot-tested with 200 young candidates. MFIs are also improving their capacity to liaise and collaborate with locally-owned savings-and-credit cooperatives, and to facilitate their linkages with migrants' families, the local market and commercial banks. In parallel, some 1,000 migrants' families are receiving training in financial and business literacy and enterprise development. Overall, the project aims to improve the quality of MFI services offered to the rural people of Nepal, foster a more productive use of remittances and benefit unemployed youth with its new insurance product.

In Sri Lanka the remittance-receiving process is a major obstacle for migrant workers' families living in rural areas. An FFR-funded project, in collaboration with the Lanka Orix Finance Company, conducted more than 400 financial education workshops in the country, training around 10,000 persons. The baseline study and the financial literacy training programs were held in training centres all over the country and potential migrant workers learned how to set attainable financial goals according to earnings, were educated on strict financial discipline, were provided with financial literacy training and guidance on proper financial management.



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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