microfinance opportunities

Remittances: Make the Most of Them

Migrant worker remittances represent important international financial flows for the receiving household.[1] Financial institutions are striving to enter the growing remittances market by capturing the transfer of remittances and the deposits they can generate. Market research, conducted in Ecuador and Mexico by the Global Financial Education Program (GFEP) and its partners[2], identifies the barriers remittance receivers face in effectively managing remittance income, and in using formal financial institutions to facilitate both the safe transfer of funds and their investment.

Although the sending and receiving of remittances is a two-sided coin, the receiver is frequently assumed to play a minor role in the management of remittances. However, the research findings identify the benefit of empowering recipients to play a more active role in this process. The research examines the current practices of remittance receivers, determines their financial needs, and identifies the gaps in their knowledge about financial institutions. These are the central themes of the new financial education module developed by the GFEP, entitled *Remittances: Make the Most of Them*.

Remittance Management

Clients of the banks Banco Solidario (Ecuador) and Bansefi (Mexico) confirmed that the use of remittances is strongly influenced by where the migrant's family finds itself in a migration process that can be divided into three different phases[3]. These phases, described as follows, reflect the financial goals of both the sender and receiver:

Short-term: The migrant sends money home to pay off loans taken to finance his or her trip abroad. Typically, at this stage, debt payments consume most of the remittance.

Medium-term: With the loans repaid, the family at home can use the remittance income to pay for basic household expenses and home improvements.

Long-term: The migrant stays abroad to earn money that can fund long-term goals such as building a house, starting a business or planning for retirement.

While repaying debt dominates the short-term phase, critical financial management decisions for receivers loom in the medium and long-term phases, choices that the receivers do not fully grasp.

[1] Remittance flows are second in size to foreign direct investment and larger than official development assistance. Ratha, Dilip, et al. "Remittance Trends 2007." Migration and Development Brief 3. World Bank. November 29, 2007

[2] The Global Financial Education Program was the first large-scale program targeted at those just above and below the poverty line in developing countries. It was a collaborative effort of Microfinance Opportunities and Freedom from Hunger with the help of Citi Foundation. Partners in this particular research are ACCION International and its Ecuadorian partner Banco Solidario, and Bansefi of Mexico.

[3] The market research was conducted in three states in Mexico: Mexico D.F, Oaxaca and Michoacán (February 2007) and three cities in Ecuador: Quito, Cuenca and Guayaquil (August 2006). The findings from Ecuador are drawn from 6 focus group discussions (FGDs), 61 in-depth interviews with remittance receivers, 11 interviews with staff of Banco Solidario and 5 interviews with remittance service providers. The findings from Mexico are drawn from 14 FGDs, 145 in-depth interviews, and 14 interviews with staff from financial institutions.

Market research indicates that remittance volume declines over time. Nevertheless, receivers often do not recognize the temporary nature of remittances and instead, rely on them as a permanent source of income. Receivers report commingling these funds with other sources of income to pay for basic household expenses. When immediate needs take precedence over longer term financial goals, the receiving household is often unprepared to make ends meet once the remittance income flow stops.

Although financial institutions offer products and services that can help manage the competing short-term goals of receivers and long-term goals of senders, lack of trust in banks and limited financial literacy serve as barriers to the use of financial institutions. Receivers can quickly become disillusioned with financial institutions when the designated service provider makes mistakes in the transmission of the remittance, or imposes stringent regulations requiring the name of the receiver to match an ID card. If these situations occur, the receiver will communicate the problem to the sender, often prompting the sender to change the service provider.

Indeed, because receivers do not view themselves as active clients of these financial institutions, they are missing important financial opportunities. The research findings suggest that receivers' relationship to the financial service providers tends to be limited to the fund transfer function. Receivers tend to use their savings accounts at financial institutions as transactional accounts to receive remittances, rather than as places to safely store money. This precludes them from leveraging the remittance to access bank loans, savings products and insurance. As a result, the majority of receivers are more likely not to save a portion of their remittance income to safeguard against an emergency or to reach their personal financial goals.

Financial Education for Remittance Receivers

Financial education can enable remittance receivers in developing countries to become more informed consumers of financial services. The financial education module Remittances: Make the Most of Them seeks to empower the receiver with the knowledge and skills to engage in a dialogue with the sender about the channels for sending remittances and the ways in which remittances can be used to meet the financial goals of both the sender and receiver.

Remittances: Make the Most of Them also helps receivers recognize and plan for the likelihood that their remittance income will cease in the future. Using the three phases of the migration process as a pillar, this curriculum guides receivers to evaluate their financial options and select the financial products most appropriate to their own situation relative to that process. It highlights the benefits of receiving remittances through a formal financial institution and teaches recipients how to leverage their remittances to gain access to a range of products, including insurance, loans for home improvement/construction, business loans, or long-term savings products. Financial education paves the way for remittance receivers to make the most of this cash inflow while they have it, plan for the future, and improve their financial well-being.

The Global Financial Education Program

The Global Financial Education Program, led by Microfinance Opportunities and Freedom from Hunger with the help of the Citi Foundation, used market research to inform the design of its financial education package, consisting of five core modules, the Core Curriculum, and four specialized modules, including *Remittances: Make the Most of Them*. For more information about these specialized modules and the Core Curriculum, please contact Microfinance Opportunities at **info@mfopps.org**, or visit the website at **www.microfinanceopportunities.org**.

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