

# LOOKING FORWARD AND INCLUDING MIGRATION IN DEVELOPMENT: REMITTANCE LEVERAGING OPPORTUNITIES FOR MOLDOVA

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# INTRODUCTION

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This report provides an analysis of the impact of remittances in Moldova, particularly paying attention to the trends among remittance recipients, and the challenges to improved leveraging of their income. Drawing from lessons and experiences in other countries about the ways in which remittance transfers are leveraged, this study provides recommendations to the Moldovan government and private sector. The study is based on field work interviews with banking institutions, government agencies, international organizations, and other non-governmental institutions. Moreover, statistical analysis was used to analyze household survey data commissioned in 2006 by the International Organization for Migration's mission in Moldova (hereinafter referred to as IOM Migration and Remittances Study 2006),<sup>1</sup> the survey data on remittance recipient households retrieving their money at banks,<sup>2</sup> and the survey of members of Savings and Credit Associations.<sup>3</sup>

Labour mobility to Russia, Italy, and other countries by Moldovan workers has significantly helped sustain economic stability during the period they send money back to their families. In fact, IOM Migration and Remittances Study 2006 finds that 40 percent of Moldovans live in households receiving remittances. Recipients are older people in their late forties who receive an annual average of US\$1400 in remittances, which represents over 50 percent of their total earnings and are three times greater than per capita GDP. Half of recipients withdraw their money from banks and nearly 30 percent use informal methods, while the rest brings the money upon return to Moldova. Moreover, nearly 30 percent save over US\$500 and the more frequently they receive money in a year and the longer over time, the higher the amount of remittances they save. Finally, after spending on basic food and utilities, investing in health and education is an important expenditure for recipients.

These findings identify some challenges that provide the basis for the identification of best practices as solutions to the realities and needs to leverage remittances for development. Among the challenges are that despite the fact that these families receive remittances, only a small percentage (12%) have bank accounts, and informal saving prevails among nearly half (43%) of recipients. There is thus a lack of correspondence between bank account ownership and savings. Moreover, given the relative importance that remittance transfers represent for banking institutions, greater attention must be placed on the supply of financial services.

Thus, this report offers an approach to leverage these flows that combines the lessons learned in other experiences and the needs and challenges in Moldova. The lessons include the experiences in El Salvador with financial literacy of recipients, the

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<sup>1</sup> Lücke, Matthias, Toman Omar Mahmoud, and Pia Finger, Patterns and Trends of Migration and Remittances in Moldova, Chisinau: International Organization for Migration, 2007.

<sup>2</sup> Orozco, Manuel, TNS – Fincom Bank Survey, 2007 (survey at banks carried out by the author and administered by Marketing Media Index in May 2007 to 350 Moldovan remittance recipients).

<sup>3</sup> The survey on Savings and Credit Associations (SCAs) was commissioned by IOM and ILO (International Labour Organisation). It was conducted by Moldova Microfinance Alliance within the framework of the project “Beyond Poverty Alleviation: Developing a Legal, Regulatory and Institutional Framework for Leveraging Migrant Remittances for Entrepreneurial Growth in Moldova.”

intermediation of microfinance institutions to provide financial services to recipients, and the Mexican government's migrant outreach model and matching grant with grassroots migrant associations. The approach is a four-prong strategy that aims in the short term to focus on financial access, regulatory constraints, migrant outreach and social issues.

# REMITTANCES TO MOLDOVA: A VIEW ON RECIPIENTS, THE ECONOMY AND CHALLENGES

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The mobility of migrants and the transfers of money to their relatives represent a significant portion of the country's income. Here we provide a review and analysis of the trends identified and challenges encountered in these transfers. The section is based on data analysis from three separate surveys carried out in Moldova about remittance transfers as well as financial asset issues.<sup>4</sup>

Remittances are transfers of earnings from abroad and represent an important share of personal income; they serve as a basis for asset accumulation in the household. Thus, the analysis also looks at the intersection between remittances and finances and the extent to which these flows can further provide opportunities to create wealth in the households and in turn raise productivity in the country.

## REMITTANCE RECIPIENTS

According to IOM Migration and Remittances Study 2006,<sup>5</sup> 26 percent of all households receive monetary remittances from abroad and 15 percent claim to receive in-kind remittances.<sup>6</sup> These transfers are predominantly to immediate relatives caring for the household.

### Demographics

Households in Moldova are relatively smaller than in other societies--they have three members on average, with one-third containing less than two members. Remittance recipient households, however, are larger, with four members and only 17 percent with one or two members. Two-thirds of recipients are women. Three-quarters of respondents (recipients or non-recipients) indicated that the head of the household is the main earner. Among female household heads, more remittance receivers are married, single, separated or divorced, or cohabiting than non-receivers, though a smaller number are widowed.

The average age of the head of household is 52 and 48 according to recipients. Female household heads are slightly older than males and 60 percent of female household heads are widowed. Female heads of households have a predominantly lower level of education and male heads have a higher level of education.

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<sup>4</sup> This section uses the data analysis from the following researches: Lücke, Matthias, et al., Patterns and Trends of Migration and Remittances in Moldova, Chisinau: International Organization Migration, 2007; Orozco, Manuel, TNS – Fincom Bank Survey, Chisinau, 2007; Bendixen et al., Survey of Moldovan Remittance Recipients, European Bank for Reconstruction and Development, 2007.

<sup>5</sup> Lücke, et al., Patterns and Trends of Migration and Remittances in Moldova, Chisinau: International Organization Migration, 2007.

<sup>6</sup> A similar household survey conducted by the European Bank for Reconstruction and Development (EBRD) showed a relatively similar figure, 21 percent.



Twenty-eight percent of receiving households, compared to 16 percent of total households, mentioned that former household members had migrated abroad to work and were no longer part of the household. Relatedly, 81 percent of households that receive monetary remittances know other people from the Republic of Moldova who had migrated compared to 66 percent of all households, that is, almost everyone knows someone who has migrated, especially among recipients.

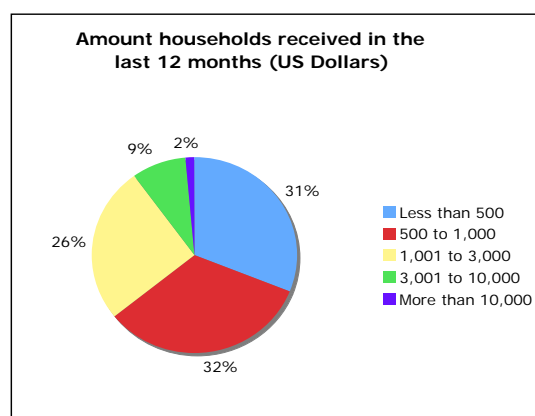
## Remittances

The origin of these flows comes predominantly from Russia and Italy, reflecting the existing labour mobility into those countries. According to IOM Migration and Remittances Study 2006, 59 percent of Moldovans were in Russia and 17 percent in Italy.

These persons working abroad have sent an average of US\$1,400 to Moldova and US\$5,259 since their departure. The average amount sent per transaction is US\$439. Over 60 percent of households indicated that they received US\$1,000 or less in the last 12 months, and another 25 percent received US\$1,000 to US\$3,000. Only 1.5 percent of households said they received more than US\$10,000 in the 12 month time period.

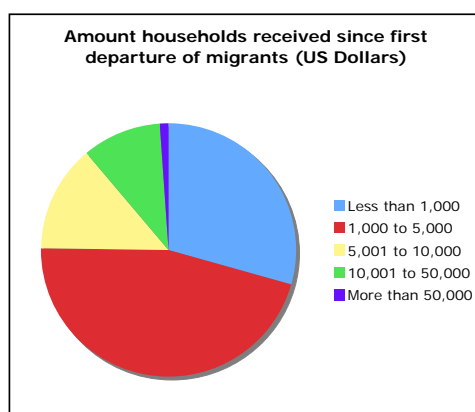
In measuring the total amount of remittances received since the migrant's departure from the household, 29.4 percent of households said they have received less than US\$1,000 and three quarters have received less than US\$5,000. Eleven percent of households have received more than US\$10,000 total since the departure of migrants from the Republic of Moldova. Over half of the households indicated that the average sum sent in each transfer has been US\$200 or less. Nearly 9 percent said that the average sum has been more than US\$1,000.

FIGURE 1: AMOUNT RECEIVED IN THE LAST YEAR



Source: IOM Migration And Remittances Study 2006.

FIGURE 2: AMOUNT SINCE FIRST DEPARTURE



Source: IOM Migration and Remittances Study 2006.

Of households with members who have migrated, 62 percent indicated that their income has increased since receiving money. The top five most important uses of money received are for daily needs such as food, clothes and rent; repairs for an apartment or house; health care; education and consumer durables such as a television, a computer, or refrigerator. The decision on how to spend remittances is primarily made by the household head, though 39 percent of households indicated that a spouse, who is usually a female, typically makes these types of decisions.

One-third of households indicated that remittances contribute to 25-50 percent of the household's budget while one-quarter indicated it contributed to more than 75 percent. Only 17 percent said that remittances contribute to less than 25 percent of the household's budget. For households who indicated that the money transfers contribute to more than 75 percent of their budget, the average amount received in the last 12 months was US\$1,964, and for those who indicated a contribution of 25 to 50 percent the average was US\$163.

TABLE 1: CONTRIBUTION OF REMITTANCES TO HOUSEHOLD INCOME

Contribution	%
Less than 25%	17.4
25-50%	30.9
51-75%	27.4
More than 75%	24.3

Source: IOM Migration and Remittances Study 2006.

## Transfer Methods and Finances

Two-thirds of recipients live in rural areas, and the majority uses money transfer operators as a liaison with banks or the post office. However, there is also another set that uses informal methods or the migrant brings the money with him.<sup>7</sup> There are no significant indicators that show whether informality is higher in rural areas--only five percent more of transfers are done by conductors (train or bus) in rural areas.

<sup>7</sup> As the table shows, thirty percent say they received the money through a bank transfer; however, we believe the response indicated that they pick the remittance at a bank because only 12 percent have bank accounts.

TABLE 2: METHODS TO TRANSFER REMITTANCES

Category	%
Bank transfer	30
Money transfer offices	25
Post offices	5
Train conductor	2
Maxi-taxi/bus conductor	19
Migrant brings it on a visit	28
Someone else brings it on a visit home	9
By mail	2
Other	0.4

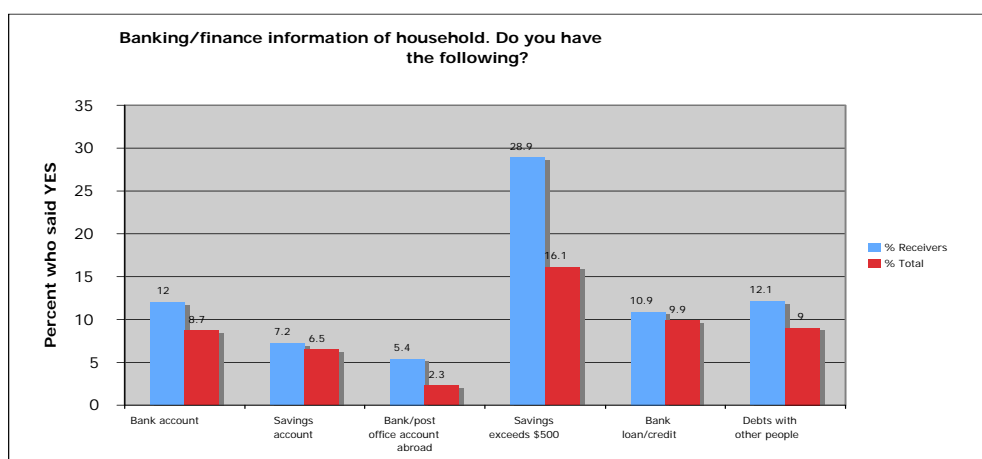
Source: IOM Migration and Remittances Study 2006.

When inquiring about transaction costs, recipients said that using a courier or the post office is the cheapest method to send remittances to the Republic of Moldova. Of households that receive monetary remittances in a foreign currency, 64 percent responded that they usually exchange money into Moldovan Lei in a bank, 32 percent in a currency exchange office and 2 percent with individuals offering currency exchange services.

Households that receive monetary remittances indicated a higher incidence of engaging in all forms of financial activities than all households combined. Bank account ownership is very low, twelve percent among recipients, though it is a higher incidence than among non-recipients. The biggest difference between recipient households and the total surveyed was in having savings that exceed US\$500 and in having a bank or post office account abroad. Additionally notable among households who receive remittances is a higher tendency to have a bank account and be in debt. There was little difference between the two groups in savings account ownership, which perhaps indicates that those who are saving money from remittances are not doing so by using a savings account.

Among households whose savings exceed US\$500, 52 percent receive monetary remittances. Findings show that the household head's education level has some affect on the propensity to save. Specifically, the proportion of household heads who had completed university studies was much higher among those whose savings exceed US\$500 (31%) than among those whose savings did not exceed US\$500 (14.5%).

FIGURE 3: BANKING/FINANCE INFORMATION OF HOUSEHOLD



Source: IOM Migration and Remittances Study 2006.

A survey<sup>8</sup> of only recipients conducted at a banking institution further showed that recipients withdrawing money at banks have important financial characteristics. First, the percentage bank account owners is higher (20%) compared to those picking up the money elsewhere. Second, the large majority (72%) of those picking up the money at banks are saving. Third, the amount of money saved increased incrementally with the frequency of remittances. As the table below shows, the more often people received remittances, the higher amount of money they saved.

TABLE 3: AVERAGE AMOUNT OF MONEY SAVED AND FREQUENCY OF REMITTANCES

Frequency of remittances	US\$
Once a year	166.67
2-3 times a year	996.29
4-5 times a year	598.46
5-10 times a year	2793.75
11-12 times a year	1833.33
More than 12 times a year	9400.00
Total	2135.25

Source: TNS – Fincom Bank Survey, 2007.

Another important finding from this survey is that bank account ownership among remittance recipients is associated with saving and investing. Fifty-eight percent of those who save have bank accounts. Similarly, 31 percent of those who invest in a business also have bank accounts. On the other hand, forty-three percent of people who save by putting the money aside do not have bank accounts (see table below).

<sup>8</sup> Orozco, Manuel, *TNS – Fincom Bank Survey*, Chisinau, 2007.

TABLE 4: SAVINGS IN RELATION TO INVESTMENT AND BANK ACCOUNT OWNERSHIP

Forms of saving money	Whether the person saves or invest (%)	Bank account ownership (%)	
	Yes	No	Yes
<b>Bank savings account</b>	<b>29.50</b>	<b>1.90</b>	<b>57.70</b>
Invest in a business	20.00	9.40	30.80
Work extra hours to earn more money	25.70	24.50	26.90
If I have leftover money, I put it aside	34.30	43.40	25.00
Take advantage of sales	19.00	20.80	17.30
Retirement	9.50	11.30	7.70
I buy durable goods, such as cars, homes, or other items	16.20	26.40	5.80
Put aside bonuses or gifts	1.90		3.80
Construction	2.90	1.90	3.80
N/A	12.40	20.8	3.80

Source: TNS – Fincom Bank Survey, 2007. Note: figures do not add to 100% due to multiple responses.

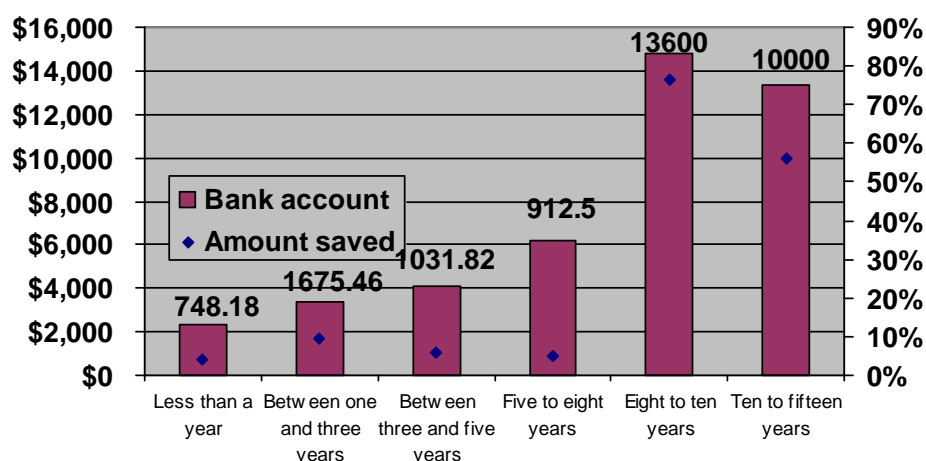
The survey showed that women save more than men and that both the frequency and the amount received is associated with increases in savings. In the first case, the data indicates that women save nearly US\$2,400 as opposed to US\$1,800 saved by men. This is particularly important because two-thirds of recipients are female. However, only 15 percent of women have bank accounts against 30 percent among male remittance recipients. Second, those who have been receiving money over time are saving significantly larger amounts. This latter finding indicates that people do save over larger periods of time.

TABLE 5: AMOUNT SAVED IN A YEAR AND GENDER

Sex	Average saved (US\$)	Bank Account (%)
Male	1,820	31
Female	2,381	15
Total	2,110	21

Source: TNS – Fincom Bank Survey, 2007.

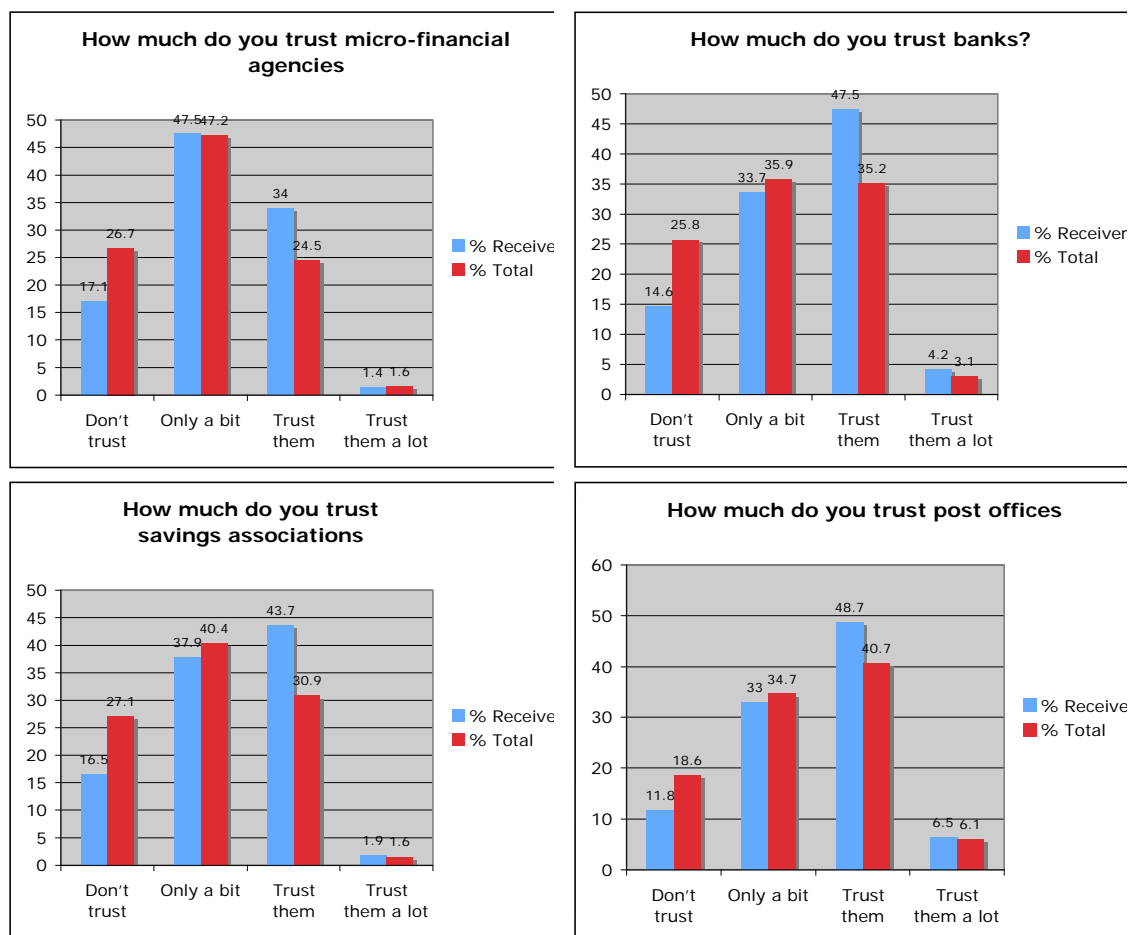
FIGURE 4: BANK ACCOUNT STATUS AND SAVINGS IN RELATION TO THE LENGTH OF TIME OF RECEIVING REMITTANCES (US\$)



Source: TNS – Fincom Bank Survey, 2007.

Households who receive remittances indicated that they trust banks, micro financial agencies, savings associations, and post offices more than all households generally; however, in case of post offices, the difference between remittance receiving households and all households was less significant. All in all, the most trusted financial institution for remittance receivers in the Republic of Moldova is the post office, 6.5 percent indicating that they trust them a lot.

FIGURE 5: TRUST IN FINANCIAL INSTITUTIONS



Source: IOM Migration and Remittances Study 2006.

## Planning to Migrate

One important issue in remittances relates to the likelihood of migration by other household members or future generations. Migration by other household members or future generations ensures continuity of monetary flows over time. IOM Migration and Remittances Study 2006 revealed that in ten percent of households, someone in the household planned to migrate in the future. In nine percent of households, household members were already abroad.

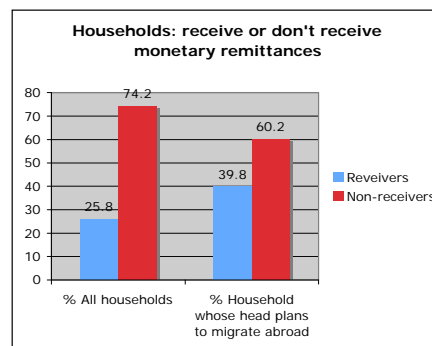
TABLE 6: PROSPECTS TO MIGRATE

Plan to go abroad	%
Yes	9.8
No	81.3
Already abroad	8.5

Source: IOM Migration and Remittances Study 2006.

For both sexes, those who plan to migrate were significantly younger (45 for females and 41 for males) than those who do not (60 for females and 53 for males). The education level of a head of household had some relationship to whether or not that individual plans to migrate abroad. Those with no formal schooling or who had completed only primary school represented a higher percentage of those who do not plan to migrate than of those who planned to migrate or had already migrated.

FIGURE 6: RECEIPT OF REMITTANCES AND PROSPECTS OF MIGRATION



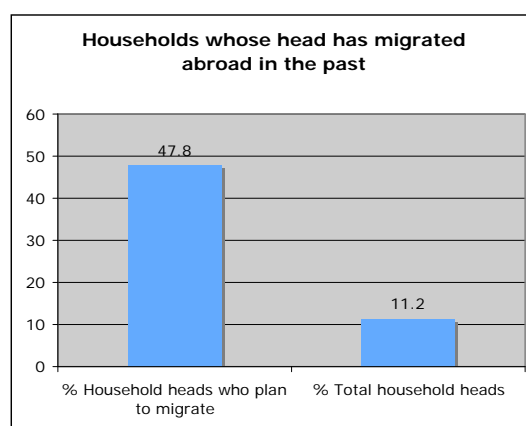
Source: IOM Migration and Remittances Study 2006.

Forty percent of households planning to migrate indicated receiving remittances, though 60 percent of those planning to migrate were not receiving remittances. This suggests that households who receive remittances have a lower likelihood of someone migrating. One explanation is that one-quarter of the household members has already migrated.

The most common reason given by the household head as to why they do not plan to migrate was that there was no reason to migrate. The second most common reason was that they do not want to leave their friends and family. Nine percent indicated that migration was too expensive and only six percent indicated that the remaining members were needed for farm work.

The likelihood of migrating is highly dependent on whether or not the individual had migrated before. Forty-eight percent of household heads who planned to migrate had lived abroad, and of the total heads of households surveyed, only 11 percent indicated that they had lived abroad for three or more months at one time since 1991.

FIGURE 7: HOUSEHOLDS WHOSE HEAD HAS MIGRATED ABROAD IN THE PAST



Source: IOM Migration and Remittances Study 2006.

Of those household heads planning to migrate, over half indicated that they plan to go for less than a year. Of those who had migrated before, 27.6 percent indicated that the year of their last departure was 2006 and 39 percent indicated that it was in 2003, 2004, or 2005. Also, over half indicated that their first departure was in 2000 or after. Only 1.5 percent had migrated in the 1980s and one-third had migrated for the first time in the 1990s.

### Impact on Households

The effect that these transfers have on households is significant at various levels. As noted earlier, a significant percent of their income comes from remittances. This situation allows them to afford more goods and services for daily activities as well as to save or invest. In general, remittance recipient households spend 15 percent more than non-recipients, in turn, this means higher tax revenue and a better quality of life for remittance beneficiaries. As the table below shows, monthly expenditures for education or savings are also higher than for non-recipients.

TABLE 7: MONTHLY AMOUNT SPENT ON DAILY GOODS (US\$)

	Recipients	Non Recipients	Total
Food (total expenditures)	385	346	356
Clothes/Shoes	180	143	152
Health	132	130	131
Paying the phone bills	124	70	84
Electricity	92	79	83
Dwelling (rent, maintenance)	85	90	89
Education	85	67	72
Entertainment	65	53	56
Savings	34	24	27
Repayment of loans	21	15	16
Average monthly remittance	120	N/A	

Source: IOM Migration and Remittances Study 2006.

This condition allows beneficiaries to stay out of poverty and provide the means for building assets, in particular, financial assets. Asset building is the key development strategy to reduce poverty. To that effect, policy intervention is required for

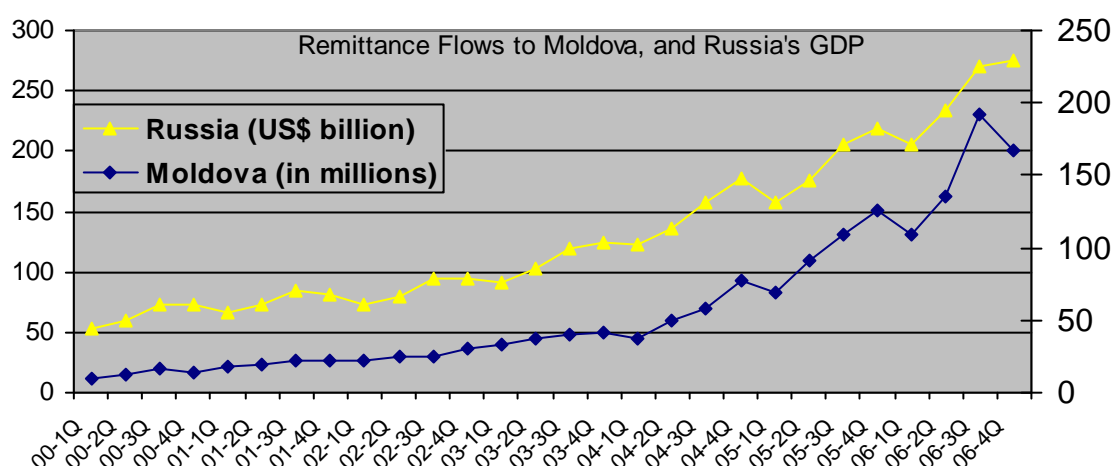


transforming the focus of the economy on assets and wealth generating tools that are attractive to both migrants and recipients.

## THE MACROECONOMIC CONTEXT

The relevance of these flows, which occur in amounts of hundreds of dollars per transfer, is also reflected by the National Bank of Moldova (NBM) statistics on quarterly and annual flows of remittances. According to the Bank, by 2006 remittances to the country were just over US\$900 million. These figures predominantly reflect an upward trend resulting from the dynamic labour mobility, especially to Russia and Italy. The amount reported by the Central Bank predominantly comes from data reported by banks and money transfer agencies and less from informal networks. Revealing an interesting tendency, the figure below shows that remittances to Moldova have followed a similar path as GDP in Russia.

FIGURE 8: REMITTANCE FLOWS TO MOLDOVA, AND RUSSIA'S GDP



Source: National Bank of Moldova, 2007; IMF Statistics.

Using the data from IOM Migration and Remittances Study 2006 reflecting the frequency, method, and the average amounts received by remittance-receiving households, an estimated amount of US\$892 million was obtained (see Tables 9 and 10). Fifty-three percent of this is identified by the money transfer companies. Although the discrepancy between the data from the National Bank of Moldova and IOM Migration and Remittances Study 2006 is significant, it is important to bear in mind that households do not always report approximate amounts and Money Transfer Operator transfers are not exclusively, though predominately, family-to-family transfers. For example, banks argue that the average transaction is between US\$400 and US\$500, against an average transaction of US\$360 reported in IOM Migration and Remittances Study 2006. Thus, it is possible that some transfers are for non-personal purposes and that full reporting is not entirely reliable. The NBM data constitutes a very important baseline because the figures encapsulate a large volume of transactions and also reflect seasonal patterns in remitting. The table below offers an illustration of remittances' relevance to the Moldovan economy. When looking at the share of remittances to GDP and all sources of foreign revenue, the need to consider policies for leveraging remittances becomes a priority.

TABLE 8: REMITTANCES AND OTHER FOREIGN EARNINGS (%)

Remittances as percent of . . .					
	<b>Reserves</b>	<b>Tourism</b>	<b>Exports</b>	<b>Foreign Income</b>	<b>GDP</b>
<b>1995</b>	0.40	1	0.12	0.10	0
<b>1996</b>	0.99	6	0.33	7.72	5
<b>1997</b>	0.36	2	0.12	8.20	6
<b>1998</b>	0.81	2	0.15	11.29	8
<b>1999</b>	0.33	1	0.10	12.23	10
<b>2000</b>	23.63	92	8.20	15.88	14
<b>2001</b>	35.10	138	10.90	20.03	16
<b>2002</b>	37.79	141	11.59	21.63	19
<b>2003</b>	50.29	183	14.36	26.75	25
<b>2004</b>	47.07	165	16.42	29.46	27
<b>2005</b>	66.13	242	25.85	30.65	32
<b>2006</b>	91.73	336	35.86	33.87	39

Source: National Bank of Moldova and World Bank.

We calculate foreign income as earnings from international tourism, exports of goods and services, foreign direct investment and foreign aid.

TABLE 9: ESTIMATING THE FLOWS OF REMITTANCES: FREQUENCY OF AMOUNT RECEIVED AND METHOD RECEIVED (%)

	Percent frequency (%)								Average sent per frequency (\$)					
	Several times per month	Once a month	Once in two months	Once in three months	Once in six months	Once in a year	Other	Total	1	2	3	4	5	6
Migrant brings it	0	1	2	8	5	7	1	24	116	445	161	319	586	855
Bank transfer	1	5	4	6	3	3	1	24	142	301	245	347	512	406
By credit card		0			0			0		390			2500	
By mail		1	0	0	0	0		1		186	99	63	115	130
Maxi-taxi/bus conductor	1	3	3	4	3	1		14	180	187	178	337	199	113
Money transfer offices	1	6	3	5	2	1	1	19	822	217	199	253	558	589
Other								3	130					
Post offices		1	1	1		0		4	100	157	129	1221	85	94
Someone else brings it on a visit home	0	0	1	3	2	1	0	7	100	297	558	133	266	149
Train conductor	0	0	0	1	0	0		1	300	100	150	290	100	850

Source: IOM Migration and Remittances Study 2006.

TABLE 10: FREQUENCY OF AMOUNT RECEIVED AND METHOD RECEIVED (US\$)

Method	Several times per month	Once a month	Once in two months	Once in three months	Once in six months	Once in a year	Other	Grand Total
Bank transfer	7,758,511	107,574,945	36,667,634	48,152,664	18,705,617	12,352,766	3,985,136	235,197,272
By credit card		2,847,830			3,042,553			5,890,383
By mail		6,790,979	361,455	306,689	278,698	79,106		7,816,928
Maxi-taxi/bus conductor	11,491,723	43,601,004	16,937,285	30,337,906	5,821,013	550,702		108,739,634
Migrant brings it	4,235,234	35,751,217	8,806,366	60,537,072	32,814,545	33,304,396	1,666,711	177,115,540
MTO	90,044,362	83,879,540	21,774,945	27,112,800	12,912,596	3,944,366	5,945,757	245,614,366
Other	2,373,191						9,463,556	11,836,747
Post offices	912,766	13,735,302	2,829,574	38,630,689	206,894	343,809	182,553	56,841,587
Someone else brings it	912,766	6,498,894	10,182,817	7,146,349	5,180,860	1,356,370	728,387	32,006,443
Train conductor	2,738,298	1,453,123	1,095,319	3,526,928	121,702	1,551,702		10,487,072
Grand Total	120,466,851	302,132,834	98,655,396	215,751,098	79,084,477	53,483,217	21,972,101	891,545,973

Estimating formula: [percent of method &amp; frequency \* average amount per method &amp; freq.] \* [572,000 households].

Source: Author's estimate of remittances using data from IOM Migration and Remittances Study 2006.

## **The Financial Sector and Remittances**

Individual transfers not hand-carried and withdrawn through financial institutions constitute the largest volume of transfers and are an important source of income for banks. The regulatory environment for foreign currency payments allows only banks to perform these fund transfers; therefore, they enjoy a major competitive advantage as the sole entity performing these activities.

These institutions are consolidating their financial position after a rocky period in which they faced severe crisis. Today, the revenue from remittance transfers contributes to maintaining stability of these banks and concentrating on their capitalization. Interviews with banks suggest that income earned from transfers is more than 10 percent of all net income.

Some of these institutions have sought to provide financial services to recipients; however, they do not have a marketing strategy in place, except for money transfer payments. Banking institutions recognize the importance of providing financial services to recipients, and they argue that one of the major challenges is financial illiteracy of recipients. Both supply and demand sides of financial intermediation show non-negligible issues that merit further attention from policy makers.

### **KEY CHALLENGES**

Despite the significance of these flows, particularly with regard to their effect on individual recipients as well as on the wealth of the country and the financial system, there are challenges that merit attention and solutions in the short term. Some of these challenges include the following:

1. Prevalence of informal fund transfers;
2. Lack of access to financial institutions and restrictions on foreign currency payments;
3. Gender differences in financial access; and
4. Technology gaps in money transfer mechanisms.

### **Continued informality**

Thirty percent of transfers are carried out informally, predominantly by drivers or other individuals. The reason why almost one-third of persons choose to use these means is their uncertainty or lack of knowledge about formal methods. This may reflect lack of financial access to transfer services in the host country, financial illiteracy, or lack of payment coverage in the receiving country. Nevertheless, the consequences are significant. First, according to recipients, informal transfers are as expensive as or more expensive than formal systems. Second, the amounts received are generally smaller than through licensed mechanisms. Third, savings and bank ownership is greater among those who use formal systems than among those who use informal transfers. The table below shows that informal mechanisms offer less comparative advantages than formal systems. This situation highlights the need to increase financial intermediation by expanding banking services and by allowing other savings and credit institutions, particularly in rural areas, to participate in the remittance payment market.

TABLE 11: METHOD OF RECEIVING MONEY AND FINANCIAL MATTERS

Method of receiving money	Cost*	Average received (US\$)	Percent of recipients who have ....			
			Current account	Savings acc.	Savings over \$500	Loan
By credit card		1325	1	2	0	
Money transfer offices	8.16	1265	21	31	24	29
Maxi-taxi/bus conductor	8.97	1111	9	11	17	9
Bank transfer	6.78	1072	43	24	25	34
Migrant brings it on a visit home	N/A	921	17	24	22	18
Someone else brings it on a visit home	2.85	652	4	2	5	6
Post offices	6.04	609	1	2	1	1
By mail	7.71	488	2		0	2
Train conductor	7.78	400			2	

Source: IOM Migration and Remittances Study 2006.

\*Cost reflects the amount recipients remittances say their relatives paid per transaction. Amount reported in US dollars.

### Incommensurability between Financial Resources and Intermediation

Financial access and intermediation pose an additional problem. Financial access is a condition by which individuals are able to enjoy services without substantial restrictions. Moreover, greater financial access increases and strengthens the health of the financial system and the economy generally as it makes the system more competitive and capital more accessible for investment.

The World Banking Institute measures access in four ways, namely usability, openness, formality, and functional capacity:

- *Usability*: capable of opening accounts affordably and with small balances
- *Openness*: capable of reaching everyone without hurting any social sector
- *Formality*: capable of enforcing regulations without compromising use and openness
- *Functional capacity*: capable to serve the four core financial product needs: payments, savings, credit and risk mitigation

Within this context, financial access among remittance recipients is an activity that in addition to payments includes the cross-selling of other financial products, such as a variety of savings, loans and insurance.<sup>9</sup>

TABLE 12: FINANCIAL ACCESS POSSIBILITIES

	Remittances	Savings	Credit	Risk mitigation
Usability	Transfers are competitive	Most recipients saving at FIs	Low use of loans, but not different from other LAC countries	Insurance on remittances
Openness	Transfers are accessible	Lower income recipients save; rural recipients save	Younger cohorts use student loans; elderly people can borrow	Women and the elderly can buy insurance
Formality	Transfers are carried out by a wide range of FIs	Commercial banks as well as savings and credit institutions are primary providers		
Functionality	Not all institutions offer all services			

Source: Chart prepared by the author

<sup>9</sup> The World Banking Institute, "Access to Finance: What Does It Mean and How Do Savings Banks Foster Access." *Perspectives* Jan. 2006: 49.

In looking at recipients in Moldova, the survey<sup>10</sup> results show that there is a strong statistical relationship between savings, bank account ownership and remittance transfers. The results from a logistic regression on these variables indicate that increases in money received facilitate the likelihood of savings above US\$500. As the frequency and ratio of remittances to income becomes greater, savings increase 27 percent and 4 percent respectively. In addition, owning a bank account, current or saving, is associated with an increase in savings. Picking up transfers at a bank agency is not statistically related to an increase in savings, meaning that people are saving money particularly when they receive money more frequently and own bank accounts, regardless of the method utilized.

Despite the evidence that recipients save, the percent of people with bank accounts is significantly small (12%). Even among migrants picking up the remittance at banks, the percent is still low (25%) and not much different than among those who bring the money themselves. Interviews with banking institutions were conducted in order to inquire as to whether they provide financial services to remittance recipients or migrants. In general, the institutions stress that they do offer universal bank services to anyone inquiring. In some cases there is a proactive effort, as in the case of FinComBank, to reach out to this market. However, all in all, the banks do not know the financial profile of those receiving remittances, their preferences, or basic information about their livelihood that could be used to market and tailor financial products for them.

The consensus among banking institutions is that bank account ownership rates are low among this population for reasons associated to a lack of trust in banks, low income among receiving households, lack of financial literacy, and poor government incentives to provide financial intermediation. However, the data shows that trust is not a problem, nor is the income given the number of people with savings available. The issue is the decision to keep savings at home rather than in the bank. Some banks also point to an opinion prevailing among many Moldovans that the currency is stronger in hand than at a bank and thus the interest rates are less attractive. However, there is no data corroborating these arguments.

The lack of correspondence between bank account ownership and savings by recipients may be related to an absence of initiatives and motivations from financial institutions. Also, government intervention to motivate banks in participating in financial outreach is another factor. For example, there are over 400 Savings and Credit Associations (SCAs) in Moldova serving more than 200,000 clients by providing different kinds of savings products. They are present in mostly rural areas. Fifty of these SCAs are relatively strong institutions with a capacity to offer remittance transfers, or to provide tailored financial services to recipients. The stronger institutions each serve on average more than five hundred members. They could be allowed to provide money transfers or at the very least participate in a financial leveraging program to expand access to the population. This is particularly important because the regulations only allow banks to pay transfers, but some of these institutions could operate as agents and could also advertise financial products.

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<sup>10</sup> Orozco, Manuel, *TNS – Fincom Bank Survey*, Chisinau, 2007.

TABLE 13: SAVINGS AND CREDIT ASSOCIATIONS

SCAs	Deposits (US\$)	Assets (US\$)	Members
Larger	48,187	317,639	565
Other	12,661	60,811	190

Source: Federation of Savings and Credit Associations

### Gender Differences in Financial Access

Uneven financial access poses a significant barrier to using remittances and receiving households. Although a large percent of recipients are women (65%), their access to bank accounts is much lower than that of men. Women, as caretakers of households, face more responsibilities and need to have greater financial literacy to improve their budgeting. Therefore, an approach that focuses on women merits attention.

### Alternative Payments and Technology Gaps in Money Transfers

Technology plays an important role in transfers. The mechanism for transferring remittances is predominantly cash-to-cash through banks or informal systems. However, remittance recipients do have an interest in using alternative mechanisms for money transfers. The survey of recipients performed at a banking institution showed that 46 percent were interested in using a more efficient way to receive their money. Twenty percent suggested the use of debit cards while 19 percent pointed to account deposit, and 12 percent expressed interest in mobile transfers. Most banks interviewed are interested and willing to offer these kinds of services. Therefore, cooperation between banks and governments on the implementation of alternative financial technologies is necessary as it will ensure greater financial access for recipients and the population at large.

TABLE 14: INTEREST TO USE A MORE EFFICIENT WAY TO RECEIVE REMITTANCES (%)

<i>Remittance card</i>	20
<i>Direct deposit on a bank account</i>	19
<i>Mobile phone based transfers</i>	12
Internet	5
Other	1
I won't switch to another method	54

Source: TNS – Fincom Bank Survey, 2007.

Foreign cooperation can result from forward looking initiatives that can establish mechanisms for providing advanced payment mechanisms and in turn, promote formal savings.

# LESSONS LEARNED IN LEVERAGING REMITTANCES

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This section highlights lessons learned and best practices in leveraging remittances for development as solutions to challenges such as those faced by Moldova. In fact, the challenges described above are not exclusive to Moldova. Most remittance receiving countries have experienced similar problems, particularly with informality and low financial access. Solutions to these challenges depend on the unit of analysis as well as on the issue at hand.

## SOLUTIONS TO ENHANCE THE DEVELOPMENT IMPACT OF REMITTANCES

Creating a policy focusing on remittances entails a host of problems associated with the presence of informal transfers, the cost of remitting, the lack of access to financial institutions, incomplete knowledge about the total volumes received in some countries, lack of enabling environments that can further capitalize on these flows, or mitigating economic policies that can cause these flows to have adverse effects on local currencies. Solutions to these problems vary and depend on the conditions in each sending and receiving area. However, two common strategies for these solutions include a rural and gender based approach to leveraging remittances.

Here, we identify initiatives where policy can be critically important to promoting the leveraging of remittances through funds and migrant capital management. While not exhaustive, these initiatives reflect public policy debate over the issues associated with remittances.

### **Reducing Informality, Improving Competition, and Reducing Costs**

First, policy must address the money transfer market by reducing informality, improving competition, and reducing costs as well as offering incentives to improve money transfer technology. The existence of informal networks often results from the absence of a significant number of competitors that can pay transfers in the most remote areas. Because governments stipulate that only banks are allowed to pay remittances, many rural areas are neglected, and their residents turn to small informal entrepreneurs for money transfer services.

Cost reduction in recent years has stemmed largely from increased competition among money transfer operators. In the Russia and Central Asia region, costs are relatively low and below international prices; however, costs can be reduced further. Further efforts to decrease costs involve greater transparency, improving the environment for MTO competition -- including monitoring businesses on full pricing and service level disclosure --, supporting small money transfer businesses to participate in the market, and introducing alternative means for money transfers, such as prepaid cards or mobile phone technology. New technologies can allow for cheaper account-to-account transactions, but all players in the market must learn how to best use these technologies. With regards to recipients, this initiative requires increased financial education, in addition to changes in money collection practices.



Moreover, banks' small business clients also benefit from making remittance payouts through increased access to both credit and remittance receiving customers. Rates of saving can increase considerably, not only through direct deposits to savings accounts, but also by reducing the amount of cash in circulation and through the increased use of electronic transactions. Access to technology can be expensive for financial institutions or vendors, therefore, policy solutions such as tax breaks or incentives encouraging improved technology should be implemented.

### **Accelerating Financial Intermediation Projects with Credit Unions and MFIs**

Projects with microfinance institutions (MFIs), credit unions, and small banks can also offer solutions for accelerating financial access. These alternative financial institutions have played a key role in banking the traditionally unbanked and in transforming remittance clients into clients of other financial services. Support for these financial institutions by governments and donor countries has been low despite MFI efforts to reach out to remittance recipients. The financial assistance that has been granted has typically targeted financial product design, marketing, and technology. In Moldova, for example, the majority of flows go to families in rural areas where bank presence is more restricted but Savings and Credit Associations have a deeper reach. However, SCAs are not allowed to offer remittance services and are not supported to reach out to recipients and migrants. Increasing the support and participation of these small financial institutions is of crucial importance to increasing access to financial services, improving financial literacy, and increasing assets. Types of assistance include financial product design and marketing, IT development, market research, and regulatory compliance. Another area of assistance is in supporting savings banks, MFIs and credit unions to build networks that can allow positive negotiations with remittance transfer companies. In this light, linking banks in the originating countries to microfinance institutions in the destination country is also a winning proposition.

### **Engaging Banking Institutions to Provide Broad Financial Services**

In addition to incentivizing non-banking financial institutions to reach out to remittance clients, larger banks that offer remittance services should be targets for engagement. Access to banking services remains low despite the very high percentage of payments made by banks and the revenues resulting from their services--remittance transfer earnings represent 20 percent or more of their total net income. Efforts should be made to increase opportunities for reinvestment in the community. Because of banks' role in distributing remittances, it is particularly important that they move beyond simple remittance payments and offer financial literacy programs aimed at remittance recipients, financial product design or marketing, and modernization of payment systems.

### **Supporting Projects to Improve Investment Opportunities at Home and Among the Diaspora**

Policy initiatives should also focus on improving opportunities for small investment into new businesses, thereby responding to the interests of migrants and their families in investing. This means, for example, linking investment opportunities for remittance recipients to transform subsistence agriculture into commercial farming and encouraging an environment favourable for migrants to invest. In turn, these enterprises will provide further opportunities by promoting migrant investment in tourism and

nostalgic trade. Seasonal migrants visit their countries once a year and many buy goods produced in their home country, which contribute to the growth of small businesses. Governments in the host and home countries, development agencies, and the private sector could benefit by offering products or services from the country of origin in these businesses abroad. In reaching out to the Diaspora, governments target a unique and important source of funds. The achievement of these goals is contingent on governments' and the private sector's continuation of their work in creating appropriate conditions for a positive investment climate in the country of origin. No effort to promote investment will succeed if the business climate is not investor-friendly.

### **Design Products That Include Education and Health Services**

Education and health expenses are typical investments in remittance-recipient families. Nonetheless, adequate education and health services are often not well publicized or not available. One way to provide these services is through partnerships between banks, MFIs and health and education providers that offer financing. For education, this refers to education funds (savings and loans), tutoring, extracurricular activities, and internet lessons. These types of investments on the part of recipient families will lead to higher educational achievement and continued investment from the person sending money from abroad.

### **Provide Technical Assistance on Financial and Remittance Literacy**

The National Bank of Moldova lacks the resources and capacity to provide basic financial literacy to its populations. However, educating people about finances is a critical step toward development and is important among remittance recipients. Financial and remittance literacy as well as specialized training can be established in cooperation with financial institutions to reach to remittance recipients. This technical assistance should consider information about the financial value of the transfers as a mechanism for building credit and assets and the use of alternative payments through electronic instruments such as debit and credit cards.

### **Engaging Governments and the Private Sector as Environment-Enablers**

One of the general policy recommendations, perhaps one which should have major priority and that can be gleaned from the majority of these issues, is that governments need to understand their role as environment-enablers. In general, such a role entails promoting policies that lead to increased access to the financial system and financial intermediation for remittance recipients.

Moreover, an outreach policy towards the community residing abroad is key to any migrant-sending country's economic strategy. Currently no such policy is in place in most countries, and governments could gain significantly from such an approach, while empowering and legitimating the migrant's reality and hardship.

A first step in this direction is the creation of National Commissions on Remittances and Development composed of civil society organizations, migrant-based groups, MTOs, financial institutions, government officials, and donors. The experience of these types of exercises has been successful in the United States–Latin American and Caribbean context.

## Macroeconomic Policy<sup>11</sup>

Policy tools can play a preventative role to mitigate adverse effects of remittances, particularly when these flows affect the productive base of the local economy through an unnecessary or undesired appreciation of the local currency.

### A MATRIX OF BEST PRACTICES AND LESSONS LEARNED TO LEVERAGE REMITTANCES

The policy and business options for solutions to the barriers encountered in leveraging remittances have been experienced in many societies and in relationship to a range of migrants' and their families' economic activities in the home country. An immigrant's economic linkage with the home country extends to at least four practices that involve spending or investment: family remittance transfers; demand of services such as telecommunication, consumer goods or travel; capital investment; and charitable donations to philanthropic organizations raising funds for the migrant's home community. Remittances are the first and most important economic activity.

These economic practices have motivated governments, the private sector and development players to consider the potential role of migrants and remittances in the development of their countries. Moreover, in some cases other development players and diasporas have realized that they are indeed in a position to become partners, though little analysis exists regarding the link between diasporas and development.<sup>12</sup> Here it is important to argue that this link lies at a point where the economic activities of migrants intersect in a way that transforms the material base of *migrants, their relatives and their societies*. This transformation takes place along various dimensional spaces.

We use Jenny Robinson's (2002) approach, who speaks of the relationship between diasporas and development as being three-pronged: a) development *in* the Diaspora, b) development *through* the Diaspora, and c) development *by* the Diaspora. The first refers to the use of networks in the host country, which includes the formation of ethnic businesses, cultural ties, and social mobilization. Development *through* the Diaspora refers instead to "how diasporic [sic] communities utilize their diffuse global connections beyond the locality to facilitate economic and social well being".<sup>13</sup> The third applies to the ramifications of "the flows of ideas, money, and political support to the migrant's home country".<sup>14</sup>

Looking at the intersection between economic practices and development with diasporas, a series of activities and solutions can be identified. The table below offers a matrix of migrant economic activities and their three dimensions. In a previous study we noted that these activities associated with development in the Diaspora produce different dynamics. For example, "in the context of remittances, development in the Diaspora means to leverage the funds as a mechanism to provide financial access to

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<sup>11</sup> Although important, this issue will not be addressed in this report.

<sup>12</sup> Most studies assume there is a relationship but do not specify it conceptually or methodologically. Some efforts to do so are Sørensen, N. N. The Development Dimension of Migrant Remittances. Danish Institute for Development Studies: Copenhagen, 2004; Gundel, J. "The migration-development nexus: Somalia case-study." International Migration 2002, 40(5): 255-279; Munzele Maimbo S. and D. Ratha, eds. Remittances: Development Impact and Future Prospects. Washington, D.C.: World Bank. 347-377.

<sup>13</sup> Robinson, Jenny. Development and Displacement. Oxford: Oxford University Press, 2002. 113.

<sup>14</sup> *Ibid.*, 123.

migrants, whereas through the Diaspora remittances play an instrumental role in providing financial access to remittance recipients. Finally, the relationship between remittances and development by the Diaspora is associated with the role of ethnic minorities in providing resources and services on remittances, such as establishing money transfer operations.”<sup>15</sup>

TABLE 15: THREE DIMENSIONS OF DIASPORAS' LINKS TO DEVELOPMENT

Development Activities	In the Diaspora	Through the Diaspora	By the Diaspora
Family remittances	Banking the unbanked	Financial intermediation; MFI	MTO
Consumption of goods and services	Access to a demand of products	Supply of home country commodities	Small business development
Investment of capital		Technical training in remittance receiving areas	Manufactured goods; nostalgic trade; tourism
Cash and in kind donations	Capacity building	Project identification; networking	Social philanthropy

Source: Orozco, Manuel. *Diasporas and development: Issues and Impediments*. (Forthcoming).

The table structures the relationship between development activities and diasporas. The policy and business options vary depending on the realities of each society as well as on the players involved. In thinking about remittances, the policy options and experiences in this regard have been associated to strategies that link people into the financial system. Another area of importance is community donations. What follows is a review of more than twenty cases and experiences of successful approaches to leverage remittances through development. The appendix provides independent profiles of each case. The section also looks at the factors that triggered success, the challenges and future expectations. The cases are organized according to the activity and Diaspora relationship as illustrated in the matrix and focus predominantly on remittance-related issues.

TABLE 16: CASES OF DIASPORAS AND DEVELOPMENT ACTIVITIES

Development Activities	In the Diaspora	Through the Diaspora	By the Diaspora
Family remittances	G-Xchange (Philippines); Wells Fargo (US); Directo a México (US/MX)	Atikha Foundation; (Phi); BANSEFI (MEX); Salcajá (GUA); Financiera El Comercio (PAR); AMUCCS (MEX); ADOPEM (DR); Banco Solidario (EC); Banco Salvadoreño (SAL); Fedecaces (SAL)	Thamel (US-NEP), MFIC (LAC); JNBS (JAM)
Consumption of goods and services			
Investment of capital		IntEnt; Construmex ;ERCOF	Por <i>Mi Jalisco</i>
Cash and in kind donations	DIR Foundation; HIRDA; Sankofa; IME; SEDESOL	Oxfam Novib	South African Reconstruction & Development Bond; New Horizon Investment Club

<sup>15</sup> Orozco, Manuel. *Diasporas and development: Issues and Impediments*. (Forthcoming).

## Remittances and the Diaspora

When thinking about the challenges faced in Moldova and the experiences in other countries, there are lessons learned and best practices in the area of remittances and financial access that could offer replicable practices. Some of these practices relate to financial literacy, technology, alternative financial institutions, or product offering by different entities. This report identifies a few cases, but a full profile can be found in the appendix of the study.

### *In the Diaspora*

As mentioned above, development in the Diaspora refers to a condition where migrant transfers are the source of development. Particularly, the objective aims at providing cost-effective financial access to migrants. Three cases are described that refer to countries where migration between two corridors is strong and opportunities to introduce alternative payments for money transfers and financial access are important. Specifically, the solutions for migrants sending remittances have consisted of providing financial literacy, banking services, modern and lower cost payment mechanisms and investment opportunities. Here we analyze the case of G-Xchange as a provider of mobile technology, Wells Fargo as a bank engaged with remittances and banking services for migrants, the program Directo a Mexico, and the private sector company Construmex.

#### *G-Xchange, Inc., Philippines-Japan*

Mobile transfers have become an attractive and feasible payment alternative in developing countries where mobile infrastructure and regulations are open to incorporate financial transactions through phone companies and/or telecommunication providers.<sup>16</sup> Some of the experiences in mobile transfers include those in Kenya, South Africa, and the Philippines in particular. But international transactions via cell phones are a recent phenomenon, and G-Xchange, Inc. (GXI) a wholly-owned subsidiary of Globe Telecom, has pioneered the effort to introduce global remittance services through GCash, their electronic payment system, with a significant presence in the Philippines. Migrants in Japan and other South East Asian countries use GCash as a means for sending money to their relatives in the Philippines.

GCash enables any Globe Telecom subscriber to send and receive money and make payments through text messages. GCash is most commonly used for sending and receiving money locally or internationally since it is a faster, cheaper, and more secure alternative to traditional money transfer services. The prepaid reloading feature offers the convenience of a possibility to load money anytime and anywhere. The system currently carries out remittance transactions totalling US\$100 million a month, in correspondence with over 400 commercial subscribers. Recently, rural banks in the Philippines have introduced mobile banking technology and adopted the GCash platform to provide payroll deposits and international transfers.

The triggers of success for GCash are described as consisting of six factors: strong relationships with regulators, strategic partnerships, understanding of the target market, channel flexibility, involvement in developing the entire value chain, and grassroots education. One of these successes, understanding of the target market, has been important in prompting consumers to use the technology and the device. The company developed technology to credit remittances to mobile phones and ensure that these are

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<sup>16</sup> Orozco, Manuel. West Africa Report. Casanova, Ann. Migrant Remittance Newsletter. July 2007.

incorporated into the formal financial system, while simultaneously performing payments in addition to withdrawals. A no minimum balance requirement is one of many characteristics designed specifically for the target market.

Migrants in Italy and Russia could be a target group for a mobile transfer project in Moldova. Moldova has a significant percent of persons who own mobile phones. Mobile phone ownership is higher among remittance recipients, and the recipient population has expressed an interest in using mobile technology for money transfers. Hence, the opportunity to explore a pilot mobile transfer and banking project would be an important step forward. Some banking institutions currently offer basic mobile banking features and are interested in exploring money transfers.

#### *Wells Fargo, United States-Mexico/Philippines*

Wells Fargo is one of the largest banks involved in the U.S. outbound money transfer market. The company has two basic remittance products along with options to bundle these products with additional financial services, such as checking accounts and insurance: 1) "Sweep accounts" which transfer funds overnight and 2) International ATM-remittance accounts currently offered only for transfers to the Philippines. The Wells Fargo account holder is issued an ATM card that they send to their authorized beneficiary in the Philippines. An individual sends remittances by depositing money into their Wells Fargo International Remittance Account and the next day, their beneficiary can withdraw the funds from any of 4,000 Expressnet or MegaLink ATMs in the Philippines.

Wells Fargo currently performs more than 25,000 transactions a month to Mexico and other parts of the world by providing money transfers and other banking services. Wells Fargo's remittance services can be distilled into seven contributing factors: a holistic, people-centered approach emphasizing relationship building, demand-led product design, cultural specialization, investment in education—for both the target market and the Wells Fargo staff, grassroots participation, and full support of company leadership.

The flexibility of their product allows consumers to evolve into the use of additional financial services. Wells Fargo's bundled service option, Gold Pack, intended as a relationship-building product, includes a remittance account, a checking account, discounted money orders, check-cashing and insurance services. In fact, their remittance customers use more products than non-remitters: a non-remitting Wells Fargo customer uses an average of 5 Wells Fargo products compared to a typical remittance customer who uses 7 products.

Product design was also preceded by market research about the financial needs and preferences of migrants. One important strategy that catered to Mexican migrants was the acceptance of the migrant's consular identification card as a valid proof of identification to send money and open bank accounts. As a result, more than half million migrants have opened accounts at Wells Fargo.

Another key success of the bank has been financial literacy campaigns. Wells Fargo learned that the financial literacy programs help mitigate the distrust of banks. Their approach is to offer information without simultaneously marketing their products. Work is done with nonprofit organizations that publish materials about consumer education. For example, Wells Fargo contributed a remittances section to a financial literacy guide that explains topics like checks and ATMs. Wells Fargo buys volumes of these guides and gives them to consulates, so they can be picked up for free with the

consular identification card. The bank also provides a free, multi-generational financial literacy program accessible online at [www.handsonbanking.org](http://www.handsonbanking.org).

Wells Fargo's experience is instrumental to private sector institutions to identify partners in countries where Moldovans are working in order to support greater financial access in places where they reside, while sending money at lower costs. Banks in Europe could partner with Moldovan banks to perform money transfers and other banking services.

#### *Directo a Mexico*

Directo a Mexico is a joint financial access effort between the U.S. Federal Reserve Banks and the Banco de Mexico, the central banks of the United States and Mexico respectively. The program is designed to help U.S. financial institutions increase their share of the rapidly growing U.S. to Mexico remittance market by encouraging and assisting their customers in using the Federal Reserve Banks' FedACH International Mexico Service<sup>17</sup> to transfer funds to individuals in Mexico. The Directo a México program is being implemented with the support of a number of other organizations including the Federal Deposit Insurance Corporation (FDIC) and the Mexican Consulates in the United States as well as BANSEFI<sup>18</sup> and IME.<sup>19</sup>

This program aims to increase financial access for migrants and their families. It is noteworthy that Directo a Mexico is endorsed by current Mexican President Felipe Calderón Hinojosa as the solution to help reduce the cost of transfers to Mexico. The program processes an average of 28,000 payments per month through more than 220 banks that offer its services. By spot trading the peso rather than hedging their exchange rate payout, Directo a Mexico consistently offers a higher foreign exchange rate than competitors, resulting in a savings of more than US\$5 per transfer in what they refer to as a "banked bonus."

Directo a Mexico continues to position itself on the low-cost component of its transfer system and its ability to promote financial inclusion. Its account-to-account service also exhibits a greater degree of transparency for regulatory concerns. With respect to areas of weak financial systems, the program stresses the need to create incentives for banks to update their capabilities as well as the government's responsibility to provide low-cost entry for such banks to facilitate their transition into a more developed and inter-linked system. An important consideration for success is the design and implementation of a proactive plan that, in essence, asks both consumers as well as corporate players to change their banking behaviour to include account-to-account transfers and enhance financial system literacy and usage.

The experience between the United States and Mexico using the ACH systems is an example of possible partnerships that governments can explore with the National Bank of Moldova about the feasibility of implementing such a mechanism.

#### *Construmex, Mexico*

Construmex, a subsidiary company of CEMEX, provides financing to any Mexican citizen living in the United States who wishes to buy a new home or construction materials to remodel or construct their own home in Mexico. Construmex is supported by Mexican consulates throughout the United States as well as the over 900 agencies of

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<sup>17</sup> Automated Clearinghouse

<sup>18</sup> Banco de Servicios Financieros (see description below in this report and appendix).

<sup>19</sup> Instituto de Mexicanos en el Exterior (see description below in this report and appendix).

DolEx Dollar Express (a money transfer operator), where clients can conveniently pay their monthly loan installments.

Over the last 6 years, Construmex has successfully financed the acquisition of construction materials and home purchases, serving over 60,000 Mexicans in the United States and over 8,000 Mexican families. At the end of 2006, sales for construction materials increased by 30 percent compared to the previous year.

Construmex offers two programs: credit for new homes or credit for construction materials. Credit for a new home is provided for up to US\$20,000 and credit for the purchase of construction materials is offered for up to US\$8,000.

The company has also been working in close cooperation with Mexican embassies throughout the United States to raise awareness of their products in migrant Mexican communities. However, establishing an image of trustworthiness and reliability remains a challenge in attracting more customers. Despite their ability to build homes or deliver construction materials to over 200 cities and towns throughout Mexico, Construmex and its partners' have limited access to some remote rural areas. As a result, Construmex is reaching out to more construction companies in Mexico in order to expand its coverage and provide customers with more options for building homes.

Construmex's partnership with the money transfer operator, DolEx, has recently been renewed with expanded services. Under the new alliance, Construmex has further focused on efficiency and access to remittances given DolEx's expansive network of over 922 branches in the U.S. and 10,000 distribution points in Mexico. In turn, DolEx offers its clients financing for the purchase of building materials or a new home where regular monthly housing credit payments can be made at all DolEx locations.

### ***Through the Diaspora***

Leveraging remittances for development through the Diaspora essentially means to support financial access in the home country for migrants and their families, as well as to identify non-financial projects and products such as in health and education that can enhance the condition of transnational families. Here we present some projects of relevance to Moldova, particularly financial literacy by the Atikha Foundation, money transfers and banking services by Bansefi in Mexico, money transfers and financial services to women by ADOPEM in Dominican Republic, and financial services by Banco Salvadoreño.

#### ***Atikha Foundation and Balikabayani International, Philippines***

Atikha is a non-government organization (NGO) providing economic and social services to overseas Filipinos and their families in the Philippines. The organization aims to help address the social cost of migration and to tap the development potential of migration. Atikha reaches approximately 5000 individuals.

Some of Atikha's initiatives include family counselling to families of migrants, financial literacy, business training and facilitating financial services through a credit cooperative among others:

- Psychosocial services, such as Family and Peer Counselling - helps families understand the realities of migration, the social costs, and what is needed to achieve their goals.



- Batang Atikha Savers Club for the children of the overseas Filipinos and other members of the community.
- Social Enterprise development – the Coco Natur Overseas Filipinos Cooperative
  - 1) Investment opportunity for overseas Filipinos offering a strong return on investment (ROI).
  - 2) Provide an earned income stream for Atikha to help them reach sustainable goals - Earnings on the equity of Atikha will be spent on psychosocial services the NGO offers to children and other members of migrant worker families.
  - 3) Expected to generate around 50 jobs in 5 Farm Production Units and in the central plant. The coconut fibre geonet production in turn, will generate about 200 jobs.
  - 4) Planting of thousands of coconut trees will be paid out of the generated profits.
- Koop Balikabayani International, a credit cooperative organized by overseas Filipinos, returnees and their families. With the cooperative, the members are able to save and access credit at a low interest. Debt is one of the reasons why most OFWs are not able to save and to return home permanently.
- Enterprise Development and Management Assistance - Atikha helps develop and manage micro and small enterprises, assists in environmental scanning and feasibility studies, provides seed funding for viable enterprises, mobilizes overseas Filipinos' investment, and assists in the management of enterprises it helps to establish.
- Research - Atikha conducts research on migration issues such as the feminization of migration, social cost of migration, and reintegration. It conducts regular community surveys on families of overseas Filipinos and its current research is on Diaspora philanthropy and its impact on community development.

All Atikha programs embrace the concept of sustainable development. They look for “Triple Bottom line” initiatives: profit, social impact and environmental protection. Atikha’s executive director, Mai Anonuevo contends, “Without a focus on sustainability, the cycle of migration will continue and the impact of those migrating will not lead to real development.”

Anonuevo believes that partnerships forged with national entities are driving success. Government, private sector, NGOs, and Diaspora organizations have all been important players. Atikha recently formed a technical working group on enterprise development that includes a chamber of commerce, which is working at the local level and achieving success.

The organization is an important example of NGO activism with families of migrants applying a holistic approach to migration and development. Their support to families in all aspects, financial and social, is a much needed effort that few institutions offer. In fact, despite the presence of significant migration in many developing countries only a handful of NGOs exist to assist transnational families. Given Moldova’s size, NGOs could establish different service centres for migrants and their families in cooperation with the IOM.

#### *BANSEFI's Red de la Gente, Mexico*

The Banco de Servicios Financieros (BANSEFI) is a program of the Mexican government with the mandate to increase the financial products and services available to the Mexican population, particularly Mexicans with low incomes. BANSEFI created a pool of popular banks, microfinance institutions and credit unions to act as remittance distributors. It established arrangements with several MTOs including GiroMex, DolEx Vigo, MoneyGram and U.S. banks.

Saving and Credit Institution's (SCIs) are beginning to play an active role in this market. Together with BANSEFI, 69 SCIs have created a commercial alliance called L@Red de la Gente. This alliance has enabled SCIs to participate in the distribution network of remittances through contracts negotiated by BANSEFI. Under this scheme, members of L@Red de la Gente can offer financial services in their communities, mostly low income urban and rural areas where the formal financial system has no coverage and also where many migrants originate. Once the remittance is paid, member institutions of L@Red de la Gente have the incentive to open savings accounts to the migrant and their family, knowing they have an income source.

As exemplified above, BANSEFI's extensive distribution network is well positioned to serve Mexicans in areas where commercial banks have no presence or knowledge of the local market. L@Red de La Gente has grown to a network of 1,385 branches throughout Mexico, which services over 700 municipalities. Only 2 banks, Bancomer and Banamex, boast more coverage. Despite its relatively recent upstart, L@Red de La Gente has managed to capture 2 percent of the U.S.-Mexico market, processing 120,000 transfers with 28 percent transaction growth.

BANSEFI has close relationships with over 50 credit unions and micro-banks in Mexico and has already established ties with 22 remittance payment companies and two commercial banks in the United States. It has been actively promoting Directo a México as a faster and cheaper method of sending remittances through significantly low transfer fees and next business day account-to-account deposits. BANSEFI is currently in the process of expanding its reach by connecting a greater number of its banks to the system as well as attempting to expand the number of participating banks in the U.S.

As a method for "banking on both sides of the border," BANSEFI has recently introduced the Beneficiary Account Registration System (BAR). This innovative tool allows U.S. financial institutions to pre-open an account at any BANSEFI or participating L@Red de la Gente credit union branch for a third-party beneficiary in Mexico, who then has 10 days to go to the selected branch, formalize the account, and receive his/her money.

By increasing financial access in Mexico and promoting bank usage, BANSEFI has removed the obstacle to account-to-account remittances from the U.S. to Mexico. Banking individuals on both sides of the border will be an effective solution in reducing the cost of remittances. In turn, migrants will have access to needed financial products, so their income and remitted funds can be used to improve their standard of living through access to savings accounts, health and life insurance, pension funds, as well as investment opportunities to build or improve housing through access to credit.

BANSEFI sees the account-to-account transfers as the most valuable product to remittances recipients. While reduction of costs and fees associated with remittance transfers is a major goal of BANSEFI, it also emphasizes the importance of customer service. Most bank officials are from the local community and seek to treat their clientele with understanding and respect for the vital role they play in México's development. In addition to promoting the benefits of account-to-account services, BANSEFI seeks to expand its product line to include stored-value cards--as it has embarked on a pilot program in Orlando, Florida.

The program's activities can be replicated in Moldova by reviewing the capacity of SCAs and other rural banks in the country to operate as payers and financial intermediaries of receiving families. This exercise can be accomplished in partnership with international money transfer operators offering their originating payment networks to Moldova, and thus further connecting the country into the global economy.

#### *Adopem, Dominican Republic*

ADOPEM (The Dominican Association for the Development of Women, Inc.) is a Dominican Republic-based microfinance bank committed to empowering women and helping them become economic actors. In 2006, ADOPEM Savings and Credit Bank, with financial support from the Inter-American Development Bank/Multilateral Investment Fund (IDB/MIF) and International Fund for Agricultural Development (IFAD,) launched a remittance program specifically designed to deepen the financial system with emphasis on low income sectors.

ADOPEM acts as both a remittance receiver and payer and has developed 5 products that are financed by programmed savings of "banked" remittance recipients. These products include: credit for business start-up; credit for purchase or construction of a new home, or remodelling of an existing home; credit for schooling or vacation; life insurance and micro-pensions. With the addition of these financial products, ADOPEM was able to enhance its product line and diversify its credit portfolio. Furthermore, ADOPEM clients receive technical assistance, training, and community development workshops designed to enhance their understanding of business administration, creation of new businesses, and vocational training. That will enable young men and women to enter the formal labour market.

Banco Adopem reached an alliance with La Quisqueyana, Inc.--an MTO based in New York, where 60 percent of Dominicans abroad live, and Banco Hipotecario Dominicano, the second largest bank in the country. The major challenge that ADOPEM faces is to make both remittance recipients and senders aware of the long-term growth potential and benefits of having Banco ADOPEM receive, distribute, and pay their remittances as opposed to the traditional system of merely receiving cash payouts from money transfer operators. ADOPEM's experience in managing microcredit for low-income customers has shown that greater success is achieved by simplifying tax requirements for those targeted by this project. Finally, ADOPEM credits its success to its close ties and visibility amongst its predominantly female customer base, to which they convey the essential role the customers play in the institution's functioning.

The experience of Banco Adopem offers important practical applications for rural development banking in Moldova, particularly for existing SCAs, as well as any commercial bank focusing on the remittance market with a gender approach committed to produce and market small investment plans for women who receive remittances. The large percentage of women receiving remittances in Moldova presents a formidable opportunity for addressing their interests and needs in considering small business loans.

#### *Banco Salvadoreño, El Salvador*

Banco Salvadoreño, the second largest commercial bank in El Salvador (with a migrant population in the United States in similar proportions to Moldova's migrants abroad), is an important example of the link between alliances with money transfer companies and banks and financial intermediation in El Salvador. Banco Salvadoreño has a presence in most U.S. states through its MTO, BancoSal, and strategic alliances with some of the

biggest MTOs, including Western Union and Bancomer Transfer Services. In 2005, Banco Salvadoreño made over 1 million remittance payments, totalling US\$256 million. Of these payments, US\$90 million were transfers from its own BancoSal, and 63 percent of BancoSal transfers were deposited directly into the accounts of at least 13,000 remittance recipients at Banco Salvadoreño. The bank offers remittance recipients the opportunity to borrow up to 80 percent of their last six months' remittance flows. It has also opened more than 29,000 savings accounts for recipients and distributed nearly 9, 000 "Salvadoreño Emprendedor" debit cards to small business owners and more than US\$10 million in loans to Salvadorans living abroad. In addition, Banco Salvadoreño is the only bank in El Salvador that has an internet-based remittance service that enables clients to use the bank's website to send money from any account in the United States. The bank also offers personalized services to its customers through welcoming staff (Señoras de Bienvenida) who provide financial education on the spot to persons retrieving remittance and encourage them to open bank accounts.

Banco Salvadoreño is an example of a successful endeavour in banking remittance recipient families while offering a range of financial services. The experience of this bank is an example that can be replicated by Moldovan banks.

#### *Jamaica National Building Society (JNBS), Jamaica*

An important lesson from the Jamaican experience is that the "bancarization" of small businesses, such as convenience stores that install ATMs or accept debit cards, is not only feasible but also promotes economic development. In Jamaica, remittance transfers have been accompanied by the distribution of debit cards by banks and some MFIs. Meanwhile, banks and MFIs have also offered ATMs and electronic points of sale at a low cost to their small business clients, many of whom offer goods and services demanded by typical remittance recipients.

The Jamaica National Building Society, through its subsidiary JN Money Services Ltd., serves Jamaicans living abroad by offering remittance services in Canada, the United States, and the United Kingdom. In partnership with the U.S. Agency for International Development, JNBS has automated the process of sending and receiving money transfers through swipe card technology. As a result, JNBS now has over 70,000 money transfer card users. JNBS's Computers in Schools project applied one-third of the cost savings accrued from the money transfer card to education, donating approximately 250 computers to schools across the island. In turn, 50 percent of remittance recipients in Jamaica have been brought into the formal banking system, with 25 percent of those receiving remittances through a card product that can be used for purchases at small businesses that accept debit cards. These small businesses, clients of JNBS, are benefiting from their relationship with remittance-receiving customers. Savings ratios have increased considerably, not only through direct deposits to savings accounts, but also through a reduction in the amount of cash in circulation and the increased use of electronic transactions.

The JNBS experience with 'bankarizing' both recipients and merchant provides an adequate example that could be envisioned in a practical model among Moldova's banks. Donor cooperation can target the distribution of POSTs among several participating merchants, clients of banks paying remittances, and market debit cards among recipients of remittances. What makes this approach a success is the distribution of these devices to merchants who regularly cater to recipients. Therefore, an effective market research on these retailers is required as a starting point, followed by the process of integrating them into an electronic payment network.

## ***By the Diaspora***

Remittance transfer initiatives have also emerged from entrepreneurial Diasporas seeking to strengthen their links with the home country. Two successful examples are Thamel International and MFIC.

### *Thamel International, Nepal*

Thamel International is a global company set up by the Nepalese Diaspora in the United States. The company offers a unique business model that combines money transfers with services that allow migrants to convert cash remittances into products and services. This practice is what Thamel calls “productizing” of remittances. It is defined as the “*Diaspora for development*” (*d4d*) approach. Thamel International has five mutually reinforcing business divisions:

- 1) Gift Shoppe, an online portal which sells gifts to the Nepalese Diaspora that can be delivered locally to family and friends still living in Nepal. Besides offering a variety of products, this website sells domestic animals.
- 2) The IT Chemist division helps local Nepalese entrepreneurs start their own e-commerce sites.
- 3) The Export Division helps Nepalese entrepreneurs sell items overseas.
- 4) Thamel Remit provides remittance, insurance and other financial services
- 5) Thamel International is poised to replicate the company's successes globally. This division is still being developed and has yet to replicate the model beyond the United States.

Clients include: Financial institutions that attract remittances and capital; multinational businesses engaging in emerging markets and Diaspora purchasing power; development organizations that catalyze economic development and building capacity; government agencies supporting Diaspora interests and; and educational institutions that nurture sustainable development.

The success of the Thamel.com model can be distilled into five contributing factors: a focus on trust and relationship building, cultural specialization, innovative use of technology, a strong customer service orientation, and strategic partnerships. Thamel started offering “nostalgia” items that the Diaspora was familiar with and interested in purchasing. Bob Granger, Thamel International partner, believes that entering the market with this “soft sell” approach was crucial in building trust between the company and the Diaspora.

Thamel focuses on meeting the specific cultural interests of the market, rather than trying to create demand, as evidenced by nostalgia items offered to migrants, while goats are available to purchase for sacrifice. The company further continues to build on its cultural understanding; for example, Thamel identified that they were primarily offering services to four major Aryan castes that make up the local population, but they were unwittingly excluding the Mongolian population and other non-caste populations of Nepal. It continues to work on developing product lines to address such issues. For example, they are working with monasteries to provide these services to Diaspora communities abroad that wish to participate in a local death ceremony, like Buddhists who send flowers and prayer flags to a monastery and offer prayers during such ceremonies.

Thamel has developed ways to use IT to bring together transnational communities in a manner that reduces costs and increases safety, choice, and convenience. For example, the company recently established a partnership that allows money transfers from bank accounts abroad to an account at a partner bank in Nepal--this system has reduced remittance transfers costs by eighty percent. Thamel also takes advantage of an intermediary service, Times of Money in India, which manages compliance requirements of transfers.

Partnerships with banks have been important in reducing costs and offering channel flexibility and relationships with local businesses form the basis of the gift shop division. Additional alliances with entities, such as schools and airlines, are allowing Thamel to offer valuable options for utilizing remittances at a discounted price.

The challenge of replicating the Thamel model is finding the right people--with resources--to put it into practice. This requires awareness, creation, networking and collaboration. In the context of Moldova, this business model would result in the resilient Russian and Italian migrant markets whereby it could capitalize in the marketing of nostalgia products. In turn, this would encourage Moldovan domestic entrepreneurs (and Moldovan expatriates) to produce and market commodities of attraction to the Diaspora. Moreover, the business could offer a variety of businesses to migrants interested in 'productizing' remittances, that is, sending specific products and services to their families, in addition to or instead of cash, according to the preferences and needs of the migrant and its families.

#### *Microfinance International Corporation (MFIC)*

Microfinance International Corporation is one of the few business models worldwide operating with microfinance institutions both in receiving and sending countries. The company is set up to expand affordable and professional financial services to markets where such services have previously been unavailable, or are overpriced and disconnected from mainstream banking. The company believes that a combination of microfinance methodology and a commercial banking approach in a for-profit model enables it to make financial services available in a socially responsible manner and ensure scalability. Three main components make up MFIC's business model: Alante Financial, Arias Remittance Settlement Platform and its MFI financing facility.

Alante Financial is a network of wholly owned and operated microfinance service centres in the U.S. that offers affordable and professional financial services in communities, to which banks typically do not reach. It provides services and financial support ranging from basic transactions such as money transfer and check cashing, to microfinance loans and mortgages. In turn, Alante Financial outlets help clients to establish a credit history, become responsible borrowers, and support their families back home.

ARIAS is a turn-key remittance platform solution that allows financial institutions, such as banks, credit unions and money transmitters, to offer a fast, reliable, and compliant money transfer service under their own brand with complete control over prices and customers.

MFIC offers credit facilities to MFIs on attractive commercial terms to support their lending and remittance programs. Representative institutions include NGOs, cooperatives, regulated financial institutions, and target-group oriented banks. MFIC sends money to more than 80 countries through 15 MFIs through various programs and

offers lower than average remittance costs. More than 60,000 migrants receive different services, such as small loans. Credit history was established for 1,500 immigrants. MFIC has a solid understanding of both the microfinance industry and the banking industry and has experience serving immigrants. The company has expertise in the value chain of banking from international settlement with banks to check cashing services. This understanding allows MFIC to be more creative, efficient, offer lower costs, and engage in better product development.

One of the potential implications of introducing this business model is integrating microfinance institutions into a single payment platform that could connect them to the global economy, while allowing them to engage recipients' financial needs. A type of Arias Remittance Settlement Platform for Moldova's small financial institutions would provide important development benefits in rural areas, incentivizing them to be more proactive in financial service provision.

### Investments and the Diaspora

Migrant capital investments are not the major economic activity that Moldovans abroad practice. Generally ten percent of migrants engage in some small business venture, though the experiences typically are not documented unless they occur as a result of collective investments for a community. The survey<sup>20</sup> of recipients only at bank branches showed that 20 percent save their money by investing in a business, and 9 percent said that they use their savings to invest in a small business. This number is particularly important because it shows the propensity to invest in the household (home improvement) or in a business.

TABLE 17: USE OF SAVINGS (%)

For home improvement	42
Celebrate a special occasion (birthday, wedding, etc.)	36
In case of illness	35
For my children's education	33
To buy electric appliances or furniture	27
In case of death in the family	21
Religious celebration	21
For outings or trips	15
For car	9
<i>To invest in a small business</i>	9
For my retirement	7
Other	9
N/A	24

Source: TNS – Fincom Bank Survey, 2007.

### Through the Diaspora

In this section, two experiences with investment and microenterprise activities are profiled. IntEnt, a Dutch organization based in The Hague but with operations in Africa and other countries, has developed a mechanism for training migrants interested in participating in entrepreneurial activities. ERCOF is a Filipino organization operating in the Philippines that provides technical assistance and training on business setup and management.

<sup>20</sup> Orozco, Manuel. *TNS – Fincom Bank Survey*, Chisinau, 2007.

### *IntEnt, the Netherlands*

IntEnt provides entrepreneurial and business development training to migrants interested in starting companies in their home countries. It operates in seven developing countries working with migrants living in the Netherlands. Eligibility is determined by a rigorous review process that evaluates the likelihood of success as an entrepreneur. IntEnt then provides qualifying individuals with entrepreneurial development and consultative services for concept development, market research, business plan development, financing, and more for up to a year and a half after start-up, operating as a commercial endeavour rather than a charity. These programs are only created in response to demand and through market analysis.

IntEnt is guided by the principles of private sector development and treating migrant entrepreneurs as equal to any other entrepreneur. Presently, 85 percent of IntEnt's client businesses are still operational three years after start-up. They have succeeded in gaining acknowledgement as a business organization and continue to expand. In an effort to maintain good relations with local business owners in the targeted countries, IntEnt started business clubs that encourage the transfer of knowledge among all members in the business community. They receive inquiries from people interested in establishing IntEnt programs in other countries.

The keys to IntEnt's success have been in its empowerment of migrants, long-term support for its clients, commercial approach and commitment to innovation. IntEnt teaches self-determination and self-empowerment through a "do-it-yourself" approach and is committed to maintaining an atmosphere of professionalism within the organization. IntEnt is hoping to accelerate its pace of innovation as it continues to expand and diversify.

### *ERCOF – Economic Resource Centre for Overseas Filipinos, Philippines*

ERCOF is an organization focused on economic development with an emphasis on utilizing the migrant population from the Philippines to help develop their home country. They also provide support to Filipino migrants by promoting responsible management of financial and economic resources. ERCOF encourages a culture of saving and the organized use of remittances, resources, and human capital for more productive undertakings, employment generation, and responsible citizenship. They are guided by two main principles: the trickle-up effect and the multiple bottom-lines.

ERCOF works with the Philippines Central Bank on a financial literacy campaign in which they travel to cities and lead half-day financial planning forums with migrant families and return migrants. The organization also facilitates relations between Filipino migrants and MFIs and rural Filipino banks. Their product provides a safe investment opportunity for migrants and increases the assets of the banks, which allows them to provide more loans to small borrowers. The first deposits were made two years ago by Filipino migrants in Luxembourg and the Netherlands.

This organization has also been successful with its dairy cow investment scheme. The program provides more revenue for dairy farmers and is also a safe and profitable investment for migrants. A contract exists between the migrant investor, farmers, the processing plant, and ERCOF, which outlines responsibilities, ownership and profit-sharing. ERCOF advertises the opportunity to the Filipino Diaspora facilitates the process and develops the local sales. The initial investment can be recouped in three years, with an ROI of 170 percent for the next two years, rising to 250-300 percent thereafter. There are currently about 50 migrants waiting to invest in one or two cows.



The key to ERCOF's success includes its migrant leaders, who are aware of migrant issues, the network of partners that ERCOF bridges together across sectors and the market research it performs in order to understand which products and services are needed. They are working now to get feedback from their beneficiaries and to partner on site with NGOs, the goals of which overlap with ERCOF. This will require raising awareness of migrant issues.

The replication of the ERCOF scheme for the Moldovan Diaspora may be possible by establishing (or the initiative of an already existing) an NGO that will link itself with the migrant community and their families in order to position itself as an mediator or facilitator of investment services and a financial literacy trainer. This can be done in partnership with banks, money transfer companies, the government of Moldova (Ministry of economy) and the donor community. Institutions like Microfinance Alliance, for example, could participate in the intermediation of financial services to migrants with a desire to explore small investment schemes.

### ***By the Diaspora***

#### *New Horizon Investment Club (NHIC), Honduras*

New Horizon Investment Club was founded in 2000 by 10 Hondurans with the objective of pooling their financial resources to learn how to invest in the stock market. Since then, they have become active participants in the economic development of the Honduran community living in New York City. At monthly group meetings members deposit their investments (US\$25-100 each), review studies of stocks, and select which stocks they want to invest in. They now have 100 members. In 2002 they decided to diversify their portfolio by investing in real estate. Subsequently, they purchased an apartment building in the Bronx in 2004.

NHIC's newest endeavour is to become involved in the nostalgic trade and they are negotiating with several Honduran producers to serve as their importer and distributor in the U.S. NHIC has also expanded its objectives to include strengthening pilot mechanisms in Honduras' North Coast for channelling remittances to productive use. This project included working with the local government and local private Hondurans abroad.

NHIC is relatively unique in the originality of its approach to work back home and its replicability to Moldova depends on the organic creation of such initiative among Moldovans in the Diaspora. Two important steps to foster or nurture such type of groupings consist of a simultaneous process of knowledge dissemination of lessons and experiences learned of this kind of initiative and mapping of the migrant community's needs and wants vis-à-vis Moldova.

### **Donations and the Diaspora**

Another important experience is community investment for social or economic activities. Migrants in different countries worldwide have engaged as community leaders to support community development back home. In some countries these groups are known as hometown associations.<sup>21</sup> These are small associations that rise up to US\$10,000 a year to help their hometown improve their public infrastructure and social condition through construction of parks, school maintenance and health clinics.

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<sup>21</sup> Orozco, Manuel. Several works on this topic. See appendix for the list of publications.

## ***In the Diaspora***

### ***DIR Foundation, Netherlands***

The DIR Foundation was formed in 2000 by a group of Ethiopian friends living in Holland. Its objectives are to assist Ethiopian migrants with integrating into Holland, develop Ethiopia, and encourage an Ethiopia-Holland cultural exchange. They focus specifically on the most vulnerable groups such as the disabled and marginalized. DIR Foundation is guided by the following principles: human rights, sustainability, social enterprise and cultural awareness. They believe that those in disadvantaged circumstances can be part of economic growth and social change. The organization focuses on self-empowerment and poverty reduction through programs designed to be self-supporting and sustainable such as employment, training, entrepreneurship and social enterprise. Additionally, DIR emphasizes cultural exchange through awareness, networks, the transfer of knowledge and tolerance. The organization opened an Ethiopian branch in 2005.

DIR has been successful in many of its programs. These include an employment and housing project for prostitutes in Addis Ababa, which changed the lives of former prostitutes by offering new employment. The Bunet Bet coffee shop was DIR's first social enterprise in Holland and is now profitable and soon to be completely unsubsidized. The project for disabled people was expanded and has been met with positive feedback from those involved. In general, the organization is expanding its offerings and is enhancing its structure and operations. DIR will likely achieve its goal of self-sustainability in the short or medium term.

The keys to DIR's success have been thinking big, strong leadership, a strong understanding of Holland and Ethiopia and the target communities within them, and strategic partnerships with commercial and development organizations. In order to transition to a sustainable commercial organization, DIR is securing partners and advisers with commercial experience and focusing on competitive improvements and strategic planning. The organization is also developing earned income initiatives. DIR is willing to take risks and makes an effort to diversify its programs and its revenue base.

### ***Instituto de los Mexicanos en el Exterior (IME), Mexico***

IME is an organization within the Mexican government with the main objectives to promote public policies in the Mexican government that attend to the needs of Mexican communities abroad, link those communities with their counterparts in Mexico, and support for the formation of leadership in migrant communities. IME functions as a consultative entity between the Mexican Diaspora and the state. It also arranges educational conferences, the aim of which is to inform about the programs and services the Mexican government provides to improve the living standards of Mexicans living and working abroad and to develop their home communities in Mexico.

IME has held conferences to discuss the improvement of financial literacy in migrant communities and to facilitate development by channelling remittances to more productive ends. The organization is also working to encourage migrants to sign up for the Directo a Mexico transfer payment system discussed above in order to enter the formal financial system. IME hopes to have success stories from this experience in order to further promote financial literacy and disseminate best practices for sending remittances with major money transfer operators.

IME also wants to enhance the visibility of Directo a Mexico to encourage more banks to offer the system to migrant communities. They hope to convince the migrant communities of the benefits of entering the financial system. IME is the successor of the office of outreach created in the late eighties, which participated as an enabler and facilitator of creating migrant hometown associations. As the HTAs and other migrant grassroots developed in the U.S., the outreach office based at the foreign affairs ministry matured into a more consolidated unit, and became IME.

The significance of IME's institutional makeup is important to Moldova in that its design can be partly replicated as a way to engage migrants working abroad that can serve as a confidence-building mechanism and forum to them to express their needs and wants. The predecessor of IME, the outreach office of Hispanic affairs in the consular offices, could be a type of institution set up in Moldova.

### ***Through the Diaspora***

#### *Secretaria de Desarrollo Social (SEDESOL), the 3 x 1 Program, Mexico*

The SEDESOL is the entity that established an official partnership with Mexican hometown associations with the purpose of providing a matching fund for projects identified by hometown associations and the local beneficiary community.

The 3x1 program matches each dollar contributed by a hometown association with one from each of the local, state, and federal governments. It has increased the contact between hometown associations and local government officials and aims to strengthen the ties between the municipal, state, and federal levels of government. When an association participates in the 3x1 program, a committee is established to oversee the disbursement of funds and project implementation. 3x1 also seeks to establish better communication between local communities and their corresponding migrant communities in the U.S. and Canada.

In 2006 the federal government invested US\$20 million to match the nearly US\$60 million contributed by local and state governments. The number of hometown associations participating in 3x1 has grown from 20 in 2002 to 715 in 2006. There are now 26 Mexican states participating and 1, 226 projects in the works. SEDESOL continues to emphasize the development and promotion of projects that are productive investments to serve the community better by improving the local economy and creating jobs.

3x1 and the Inter-American Development Bank (IDB) are developing a pilot program that will involve vocational training and expansion of technological platforms. The government will establish educational programs to improve the capabilities of small businessmen to run profitable enterprises that will create jobs. The program wants to identify best practices and replicate the successful aspects of the program throughout Mexico.

### ***By the Diaspora***

The work of hometown associations is illustrated in the appendix.

#### *What makes success a success?*

The review of best practices in leveraging remittances is the result of interviews with more than thirty institutions out of a selection of forty known experiences. The cases

presented here were those that fitted better within Moldova's context. Four main issues were also used to analyze their progress: 1) how they measured success, 2) what factors triggered success, 3) what challenges they encountered, and 4) what solutions they found to mitigate the challenges.

# TOWARD A WORKING STRATEGY THAT LINKS MIGRATION, REMITTANCES, AND DEVELOPMENT

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The experience of migration and remittances in Moldova can offer greater opportunities to promote development in the country beyond the already significant impact on households receiving money. Specifically, a migration and development model is recommended with the aim of achieving modest goals in the short term. This recommendation results from the reality of Moldova and the experiences identified elsewhere. The model seeks to focus on financial access, regulatory challenges, migrant outreach and social trends.

This approach should consider a three year effort whereby the government of Moldova will work with the international development organizations, the IOM, the private sector and civil society to implement activities relating to the issues mentioned above. In particular, the objective of this model will consist of raising financial access by providing financial literacy to a target 10 percent of recipients at banking institutions, raising account ownership to 20 percent in three years by bringing recipient clients into financial depository institutions, that is, nearly doubling bank account ownership among the recipients, help transfer savings from families into these financial institutions, and design investment portfolios that yield financial benefits. This approach is achieved by forging partnerships between governments, financial institutions, and the donor community.

The model also aims to set goals and standards on the financial inclusion of Moldovans, with special emphasis on remittance receiving households, and support credit and savings associations as well as rural finance corporations in increasing financial services for recipients. Moreover, the government of Moldova is encouraged to establish a migrant outreach program whereby migrants can maintain a contact with the state through educational activities. The model also provides ideas for the implementation of education and health services for remittance recipients.

A caveat that merits attention is that when thinking about the intersection between development and migrants' foreign savings, it is important to understand that the social and productive base of an economy significantly defines the ways in which remittances will effectively function in that economy. In other words, the fertility of the local economy will determine the leveraging impact of remittances. Remittances need to be understood exactly as what they are: foreign savings. As with any other source of foreign savings, like aid, trade or investment, remittances interact with the structure of the local economy.

The extent to which such structures absorb foreign savings is the first question for development practitioners. This means that it is important to analyze the productive forces in an economy, the efficiency levels, how modern it is, what level of diversification/concentration of production exists within the various sectors, how entrepreneurship operates and is enabled, what technology tools exist or are missing, and the extent to which governments provide an enabling environment to motivate an interaction between investment and production.

## FINANCIAL INTERMEDIATION

A partial solution to the lack of correspondence between saving of recipients and bank account ownership is to increase financial literacy, motivate banks to tailor and offer financial products to recipients, expand financial intermediation of recipients through small savings and credit associations, and explore the possibility of introducing card and mobile transfer technology.

### **Financial Literacy: Public-Private Partnership**

A collaborative effort between the IOM, ILO, and banking financial institutions in Moldova can be established to form a financial literacy project aimed at remittance recipients' financial education and financial access. The purpose of the project should entail introducing financial literacy educators at selected bank branches across the country in cooperation with banking financial institutions and Savings and Credit Associations.

The pilot project will achieve three goals. First, educators will greet the remittance recipient clients at the depository location and conduct a thirty minutes session informing the customer on basic and practical concepts and skills on financial management. Second, this person will indicate to the client about the various financial products the local bank offers to consumers like her/him, and refer them to a liaison in the bank to discuss their specific financial needs and demands. Third, the educator will invite him/her to establish a financial relationship with this bank or any other institution (to open a bank account, obtain a credit, set up a direct remittance deposit, request for a debit card or establish other financial service available).

The period of each pilot project is six months and is expected to reach out to eighteen thousand remittance recipients, some of which will be return customers.<sup>22</sup> The project will monitor financial education and access by adopting an intake and evaluation form which will contain information about the profile of the client, the level of understanding and knowledge acquisition of financial literacy skills, and the level (and reasons) of interest and willingness to establish a financial relationship with the institution.

At the end of the pilot, an evaluation report will be presented to identify the lessons learned, success achieved and future steps. We hope to demonstrate through this project that financial outreach efforts, as experienced in other countries, have positive results in Moldova and can then be adapted and adopted internally by financial institutions.

### **Banks and SCA Intermediation**

International development organizations and the government can work together to establish incentives for banks to reach out to consumers. In particular, donors can participate in and provide funding for these initiatives for banks and savings and credit associations to accelerate financial access. Alternative financial institutions have demonstrated a key role in banking the traditionally unbanked and in transforming

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<sup>22</sup> We expect to establish 20 educators at 10 bank branches across the country, interacting with a minimum of 10 remittance recipient clients a day during a period of 120 days. The number of recipients retrieving remittances on a monthly basis is around 300,000; therefore, total outreach would identify nearly ten percent of all recipients.

remittance clients into clients of other financial services.<sup>23</sup> Support for these financial institutions has been low despite their efforts to reach out to remittance recipients. Moreover, banking institutions can benefit from grants that strengthen their capacity to reach those who demand financial services, such as remittance recipients and senders.

Specifically, donors can provide financial assistance targeted at financial product design, marketing, and technology. Increasing the support and participation of these small financial institutions is of crucial importance to increasing access to financial services and improving financial literacy and assets. In that line, the government of Moldova can reach out to EBRD, USAID, and other institutions to participate in a 'bankarization' partnership. Donors can establish joint schemes similar to those implemented by IFAD and the European Union.

The *IFAD-EU-MIF* grant facility is an example of a model for banking remittance recipients and migrants. The International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations, in partnership with the European Commission (EC), the Inter-American Development Bank, the Consultative Group to Assist the Poor (CGAP), the Government of Luxembourg, and the United Nations Capital Development Fund (UNCDF), launched a US\$10 million Financing Facility for Remittances (FFR) to reduce rural poverty and promote development. The Facility aimed to increase economic opportunities for the rural poor through the support and development of innovative, cost-effectively and easily accessible international or domestic remittance services within African, Asian, European, Middle Eastern, and Latin American countries. Its objectives are to improve access to remittance transfer services in rural areas, link remittances with additional financial services and products, and develop innovative and productive rural investment channels for migrants and community-based organizations.

Through a competitive process, the facility is awarding eligible institutions a maximum contribution per project of EUR 200,000 (or approximately US\$260,000 for projects within the EU-LAC corridor) to implement individual projects. As research and practice have demonstrated, it does not cost more than a quarter million U.S. dollars to banks and MFIs with an average of twenty branches to actualize projects for leveraging remittances for a greater financial access through financial institutions. Through other experiences (see the case of El Comercio and Fedecaces), we have learned that banking institutions can transform, on average, 5,000 remittance clients into bank clients within two years. Moreover, such efforts would set an example for other financial institutions and encourage competition that will lead to an expanded array of financial services in this sector.

Working in partnership with financial institutions, the government of Moldova can motivate them to increase their financial outreach by enabling the banks and SCAs to design financial products through tax exemptions and other incentives in order to help open bank and savings accounts for at least 30,000 remittance recipients in two years.

## **Mobile Transfer Technology**

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<sup>23</sup> Orozco, Manuel, and Eve Hamilton.. "Remittances and MFI Intermediation: Issues and Lessons." *Remittances, Microfinance and Development: Building the Links* 1 (2005) . Ed. Judith Shaw, Foundation for Development Cooperation, Brisbane, Australia, 2005.

Mobile transfer technology has emerged as an alternative to cash-to-cash international transactions, and it can provide secure, immediate, and value added transfers. Consumers can receive transactions that are loaded into their devices, cash the remittance, or perform transactions with vendors accepting the mobile device operation. Ideally, adopting mobile transfers would require enabling point of sale terminals (POSTs) at merchant locations visited by Moldovan recipients. The government of Moldova can support this initiative by providing tax exemptions on the imported POSTs and by introducing regulations that would permit international foreign currency transfers in a mobile device account associated with a bank. The international donor community has expressed an interest in working on modernizing payment systems and adopting new technologies. The mobile transfer device is an efficient mechanism, more practical than mobile banking, but its success depends on the adequacy and responsiveness of telecommunication guidelines in foreign and domestic currency payments, and on merchants' willingness to introduce POSTs accepting card or mobile transfers.

For example, the experience of G-Xchange can be implemented in Moldova. The implementation process can occur both at the origination and destination place of the remittance transfer or in the destination country (Moldova) only. The strategy can include several stages, and it would begin with a feasibility assessment of the technological capacity and regulatory environment for mobile transfers. The second stage requires the involvement of donors, government, and banks to explore the implementation costs of the mobile interface and estimation of investments in hardware and technical installation. The third stage includes the consideration of partnerships with mobile transfer companies along strategic corridors (Russia, Ukraine, and Italy), including promotion of a technology fair.

## **MIGRANT OUTREACH**

Although Moldova is not a labour exporting country by design, mobility in the past ten years has been significant enough to suggest that there is an estimate of 400,000 workers in the market for foreign labour. One important step by the government of Moldova would be to establish a closer relationship with the migrant community, including those migrants who are seasonal workers, in order to build partnerships, mutual confidence, and trust in the country's future. Confidence-building is a necessary step for validating the reality of migration. However, it would require improving contacts and relationships with the Diaspora and establishing a minimal outreach program promoting participation of the migrant community.

### **Confidence-Building**

In order to develop successful partnerships, the government needs to develop confidence-building tools and initiatives that make migrants recognize that the government is serious and committed to working with them. Confidence-building incentives should stress at least four components: dialogue with leaders, institutional resource investment for the policy outreach, institutional communication mechanisms that ensure a systematic and legitimate contact with Diasporas, and the joint creation of a policy initiatives agenda affecting governments and migrants.



## **Contact and Identification**

Establishing contacts with migrant communities is a first order mandate in states that have large migrant populations. Whether migrants are seasonal, short term, or planning to return, governments need to identify their existing and nascent communities as they represent social capital of migration. One important tendency of migrants is their reliance on their social capital and networks to find jobs, homes, and help when they plan to migrate and at the destination. The other tendency is identified by IOM Migration and Remittances Study 2006 that some of the migrants contribute to charitable activities back home. These practices are important markers of cultural and social identification with Moldova, in the homeland and within the Diaspora. Therefore, the government would be well advised to build confidence by forging connections with Moldovan communities abroad.

One important strategy that is likely to succeed is the cooperation with the money transfer operators in the countries of destination. MTOs know the migrant communities very well as they constitute their customer base. They understand migrants' financial and social preferences, their habitat, and needs. The government of Moldova can partner with sixteen MTOs in each key destination country in order to identify migrant communities, establish communication with their leaders, and prepare a minimum database of Diaspora members, even if the Diaspora is peripatetic or transient. The database can contain information about migrants' habitat, their sources of cultural replenishment, and their cultural, social, and other needs. This exercise will help identify philanthropic associations located outside of Moldova.

## **Outreach Program**

We propose an outreach program that would build upon the previous recommendation. This program would entail the replication of the Mexican IME and 3x1 SEDESOL experience and is a feasible approach. It will include learning about the logistical implementation of IME and 3x1 program, cooperation with Mexico for learning about the establishment of the program, and making the private sector participate, especially the MTOs, banks, and other entities that have worked with migrant communities. This project should not precisely replicate this Mexican experience; instead, it should aspire to identify tools for building partnerships with associations of Moldovans abroad. One by-product of 3x1 in Mexico is Western Union's involvement in a 4x1 scheme, whereby they participate in the matching funds. Introducing private sector partners in a similar endeavour in Moldova should be an additional feature that is likely to bring positive results.

## **REGULATORY ISSUES**

### **Standards in Financial Access**

Players in the financial intermediation field should consider assisting banks in expanding outreach to immigrants and their families and establishing standards for financial inclusion. These standards should include an annual target number of immigrants and families to be recruited as bank or SCA clients; target numbers for banking women recipients; types of differentiated financial products to be offered; and types of partnerships with financial institutions in Russia, Italy, and other countries.

Policy makers and advocacy groups must also play a role in improving financial conditions of migrants and their families.

Moreover, methodologies for enhancing financial intermediation for the benefit of immigrants are also critical to success. Financial institutions need to work with the government and non-profit organizations in order to identify immigrants' financial and economic preferences and design and market financial products that meet immigrants' needs. Banking institutions must also foster good relations with the financial institutions abroad in order to ensure an effective distribution network.

### **Easing of Rules for SCAs**

Banking institutions are playing an important role in money transfers. However, as a way for enhancing competition and financial access, other non-banking financial institutions such as SCAs should participate in the market, granted of course, that they meet basic criteria to pay transfers. Currently SCAs are not paying remittances because the regulatory environment does not allow them to perform international currency transactions. However, they are located strategically in those places, where many remittance recipients are located. Remittance recipients would benefit from receiving remittances in local SCAs, because they would not need to travel to banks located at greater distances. The survey on Savings and Credit Associations (SCAs) shows that half of SCA members are remittance recipients, and they expressed interest in receiving transfers through SCAs.<sup>24</sup>

The government could encourage SCA involvement in two areas. First, the government could allow SCAs to pay remittances, provided that they meet certain guidelines or criteria required for paying the transfers. Second, by reaching out to the donor community, the government could support efforts to modernize these institutions, so that they can offer financial products to recipients.

In order to guarantee an effective payment of remittances, a financial institution needs to meet at least five of the following conditions: a) comply with international regulatory norms on money transfers (anti-money laundering laws, Know Your Customer practices, and others), b) maintain a minimum cash flow equivalent to four daily remittance payments, c) have trained staff able to perform retail payments in foreign currency; d) have the technological systems and hardware to adopt or adapt the payment platform, e) be located in (rural) areas where remittances are sent to; and f) offer low cost and efficient transfers. One of the most critical issues is the cash flow component and the other is compliance with regulatory norms on anti-money laundering (AML). MFIs and other non-banking financial institutions, such as SCA, would be required to have a near similar capacity. This means that MFIs should have the ability to pay four transfers a day, or handle a minimum of US\$2,000 daily. With adequate training and support, SCAs could be able to comply with AML regulations.

Increasing competition reduces informality and increases financial access. The experiences of countries in other regions, such as Latin America, the Caribbean, and other parts of the world, show that informality declines as the new competitors penetrate the market and increases when there are few competitors. In fact, the exponential growth registered in many countries worldwide has been a reflection of the increase in

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<sup>24</sup> This survey was commissioned by IOM and ILO. It was conducted by Moldova Microfinance Alliance within the framework of the project "Beyond Poverty Alleviation: Developing a Legal, Regulatory and Institutional Framework for Leveraging Migrant Remittances for Entrepreneurial Growth in Moldova."

competition and the penetration of a larger market base, both on the sending and receiving sides. Competition in the money transfer business would entail identification of different MTOs prepared to partner in the remittance sending and receiving countries. When only banks operate in the receiving countries, access to financial intermediation is lower. Moldova presents a case in point: with few competitors, banks have little incentive to provide additional services to remittance recipients or migrants.

Many MTOs often choose to work in certain regions of a country's corridor as a way to exhibit their comparative advantage. Customers respond to that incentive by switching from a previously used method to the new and more convenient one.

## ECONOMIC AND SOCIAL ISSUES

The fourth component in this model includes attention to economic and social issues. In the first place, it is important to introduce investment incentives and schemes for migrants and their families. Moreover, investment in social assets, such as health and education, can be introduced in packages as part of the migration process. Finally, the government of Moldova must explore the macroeconomic impact of remittances in the long term and identify measures to introduce economic policies corresponding to the realities of great inflows of foreign savings into the economy.

### **Investment: Business Investment Plans and Partnerships**

Moldovan migrant capital investment is non-negligible, 20 percent save to invest and half of them actually invest those savings. Given the amount of money they save (US\$1500), even investing one-third in a small business represents US\$20 million on the aggregate. Although not everyone has entrepreneurial interests, spirit and skills, a partnership between the private sector, the government, and the international community can be formed to offer investment incentives. These incentives should be provided through various business plans envisioning creation of small businesses and involving migrants as shareholders or proprietors. The critical issue in promoting investment partnerships lies in marketing attractive business opportunities for migrants that would entail risk-sharing by local partners, affordable investment plans, and feasible projections for the short and long term.

Investment opportunities should be identified by exploring the country's comparative advantages. In addition, businesses catering specifically to migrants would be a critically important starting point. A closer identification of these business opportunities would require finding market niches in the processing and production chain of goods and services, such as telecommunications, tourism, transportation, [nostalgic] trade, and money and capital transfers (remittances, housing, and small business).

The first step for the government of Moldova is to identify twenty competitive investment opportunities that are marketable to the Diaspora and obtain cooperation from the international community to design marketing schemes. Consequently, these marketing schemes can be launched in cooperation with travel agencies, MTO agents, and community associations in Russia and Italy. Taking on the lessons of IntEnt in the Netherlands, such projects could be replicated in Italy in cooperation with the Italian government, the European Union, or in Moldova by setting up a base.

## **Construction**

Because of demographic characteristics among recipients and given that more than one in four people receive remittances; the need to strengthen the quality of life of migrant families has direct effects on the whole country. Focusing projects on health and education associated with migrant earnings is critically important. Among the opportunities that the government of Moldova can encourage the private sector to work on are Families of migrants are investing in their homes, repairing, rebuilding or buying new states. According to a survey, 42 and 29 percent of remittance recipients, withdrawing remittances at banks and SCAs respectively, said they use their savings for home improvement. The proportion of those who use savings for home improvement is not negligible and shows a demand for these services. For policy makers and the private sector, the Construmex model could provide an example of a mechanism that could stimulate investment by the average remittance recipient families. The model can be replicated in the following manner. First, construction companies and banking institutions could conduct a marketing campaign that will advertise options for financing home building and improvement. Second, these actors could partner with MTOs in order to establish debt repayment mechanisms through these companies.

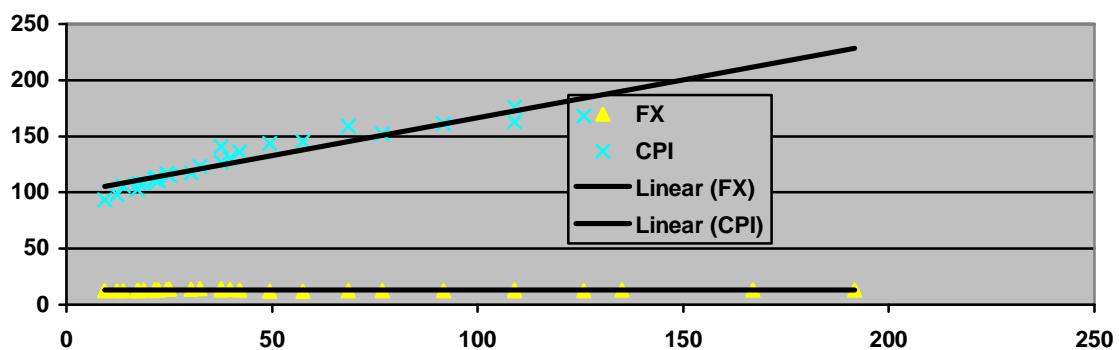
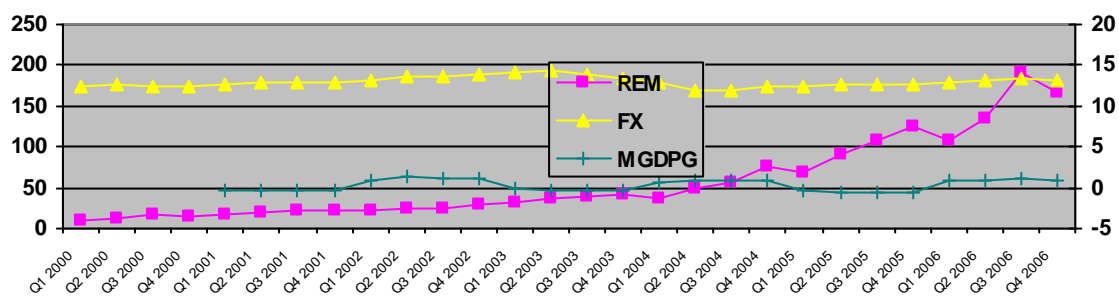
## **Education and Health Service Provision**

Given the demographic characteristics among recipients and the fact that more than one in four people receive remittances, a better quality of life of migrant families will have direct effects on the entire country. Focusing projects on health and education associated with migrant earnings is critically important. The government of Moldova could encourage the private sector to introduce education funds, tutoring classes, extracurricular activities, and online education to households with children. Moreover, health insurance and specialized medicine funds are among other products that could be offered in order to raise income of medical providers while improving healthcare options for families.

## **Research on Macroeconomic Issues**

Understanding the macroeconomic effects of remittances is critically important. In countries, where one source of revenue and income is more than 15 percent of national income, there should be economic policies to promote economic growth or mitigate any adverse effects on the economy. Some argue that remittances tend to appreciate the local currency as well as promote inflation. However, besides anecdotal references, there is no systematic analysis or study for local currency appreciation. The fact that remittances present more than one-third of all sources of foreign revenue raises questions about relevance of these flows for the macroeconomic policy. A preliminary review of remittances from 2000 to 2006 as they relate to the exchange rate does not suggest that they appreciate the currency. Transaction patterns to Moldova follow certain cyclical movements different to the circulation of cash, local or foreign. Other factors and variables impact the effect of remittances on the local economy. These factors can mitigate the weakness of the productive base of the country or hinder it. Therefore, a research approach aimed at identifying solutions and leveraging tools for development is essential.

FIGURES 9 AND 10: REMITTANCES AND THE MACROECONOMY



\* REM=remittances, FX=foreign exchange rate, MGDGP=GDP growth, CPI=consumer price index.  
Source: National Bank of Moldova, IMF statistics.

## IMPLEMENTING THE RECOMMENDATIONS

The implementation of this strategy should consist of working in three stages: preparation, partnering, and going operational. In the first stage, the government of Moldova would seek to bridge consensus over the issues analyzed and identified as priorities, in addition to evaluating the feasibility of their implementation at the operational level. This stage is achieved by establishing a commission on remittances and development adjunct to a steering committee within the government that will serve as a liaison between the commission and the technical advisors. The commission should discuss the policy issues concerning leveraging remittances by using the recommendations and the implementation feasibility evaluation as a baseline for analysis and discussion.

The second stage consists of identifying partners in civil society, the private sector and the donor community to obtain support and cooperation in the design and implementation of the recommendations. The donor community is interested and perhaps committed to collaboration in development projects involving remittances. Donors could also contribute to evaluating and assessing the feasibility of implementing the recommendations. At this stage concrete objectives and expected results can be decided according to a timeline and a realistic assessment of the feasibility and resources available.

The third stage is the implementation of the recommended areas of work that includes a logistical layout of the timeline for the operations with the disbursement of resources obtained with the help of donors and private sector institutions. An action plan has been

proposed as a guide to actualization and implementation of the recommendations. However, such action plan is only a guide that can help frame and formalize strategy reach consensually by all stakeholders, including migrants.