

# MIGRANT Remittances

EDITORIAL

## Microfinance Providers in the Business of Money Transfers

Money transfer is one of the most basic financial services. Just about everyone needs to send money, whether for remittances or to make a payment. Many who send and receive money do not have bank accounts. Their choice of a licensed versus an unregulated or informal service is often a matter of ease of access, trust, or familiarity with a service.

Money transfer can be an attractive proposition for microfinance providers (MFPs) serving low-income clientele in typically unbanked areas—to offer their clients an essential service, attract new clients, and generate income from a fee-based product.

For this issue of *Migrant Remittances*, MFPs from around the globe report on their money transfer products and experience. Most of them are licensed as banks, some are credit unions (participating in the World Council of Credit Unions, Inc.'s International Remittance Network [IRnet], for instance, in Guatemala and Ecuador), and others operate as nongovernmental organizations or under a microfinance regulation (for example, Fonkoze in Haiti). Some offer only domestic transfer services (First MicroFinance Bank Ltd. [FMFB] in Pakistan), while others have also tapped into the regional and international market (ACLEDA in Cambodia and Kasabank in Kosovo). Some specifically target migrant remittance markets (BancoSol in Bolivia and El Comercio in Paraguay). A few rely on their own networks and proprietary systems (ProCredit Banks in Central and Eastern Europe or FMFB); others link into bank transfer networks or partnerships (ACLEDA, Fonkoze) or operate as agents to Western Union or other money transfer companies (BancoSol); and many combine a number of arrangements. Most provide an option for migrant remitters and their receiving families but also serve other individual and institutional clients for sending monies to make payments or cover operational costs.

These providers' cases illustrate that money transfer can be an excellent service to attract new clients or create loyalty among existing clients. Volumes can grow, and, given the right market and product, quite rapidly. Some have discovered that domestic transfer services are an important service with great potential (see FMFB and ACLEDA).

Yet, as both common sense and their experiences indicate, some MFPs are better positioned than others to introduce such a product

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## ACLEDA Bank – Growing Money Transfers In and Out of Cambodia

ACLEDA Bank Plc. was originally founded in January 1993 as a national nongovernmental organization (NGO)—Association of Cambodian Local Economic Development Agencies—for micro and small enterprise development and credit. In 2000, the National Bank of Cambodia issued a set of regulations that enabled NGOs to transform into licensed financial intermediaries. The new law incorporated a regulatory framework for microfinance, including a license allowing services such as deposits and transfers. ACLEDA Bank split from ACLEDA NGO, purchased its microfinance business, and became a registered company (Plc). In December 2003 ACLEDA Bank was upgraded to a full commercial banking license after its shareholders (ACLEDA NGO, ACLEDA Staff Association, International Finance Corporation, German Investment and Development Company, Netherlands Development Finance Company, Triodos-Doen Foundation, and Triodos Fair Share Fund) financed a capital increase from US\$4 million to \$13 million. As of June 2005, ACLEDA Bank has 136 branches and offices operating throughout Cambodia, including its head office, 19 provincial and Phnom Penh city branches, 47 district offices, and 69 service posts.

In early 2001, ACLEDA Bank Plc. began offering local money transfer services, and it enhanced its transfer services in April of that year by offering international funds transfer through a partnership with Western Union. In January 2003 the service was broadened

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and make it profitable. Factors to consider include, among others, markets and anticipated volumes, institutional capacity, and regulations. The capacity of management, staff, and systems to handle a money transfer product is quite different from the core service of lending that an MFP is set up for. Cash handling, liquidity management, licensing, and compliance with regulations such as those concerning anti-money laundering are but a few examples. Whether the MFP is well positioned in its own market to reach money transfer senders or recipients and how well it can be linked into transfer networks in originating and destination markets is another key aspect. One fundamental consideration is whether to target a service at the domestic or the international market and what model provides access to a network of sending and receiving clients—is one's own service network sufficient or should one seek an agency or other type of relationship with banks, money transfer platform providers, or dedicated money transfer services with branded products?

We hope you will find this issue of the newsletter again informative and useful and we look forward to your news and contributions for upcoming issues.

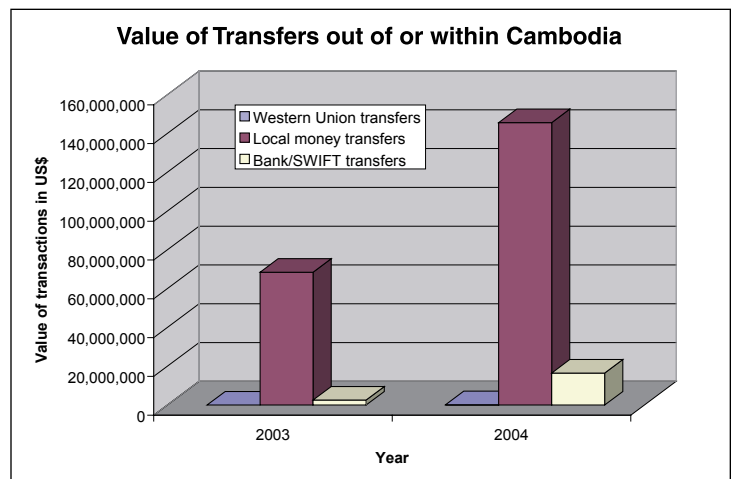
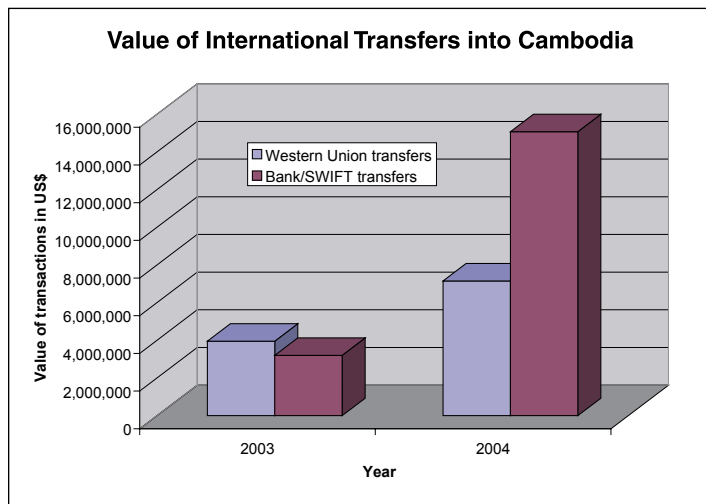
*Cerstin Sander*  
Editor

ACLEDA Bank continued from page 1

via local correspondent banks and finally, in January 2004, ACLEDA started offering direct international funds transfer via SWIFT.

Volumes in all products have grown strongly and steadily. In 2004, ACLEDA transacted just over \$22 million in remittances arriving via Western Union and bank transfers. In the first half of 2005, the bank has already transacted close to \$26 million in incoming remittances from abroad. Domestic transfers have grown from around \$145 million in 2004 to already close to \$120 million in the first half of 2005. (Source: ACLEDA Bank.)

ACLEDA Bank receives remittances predominantly from the United States, European countries, Hong Kong, South Korea, Taiwan, Australia, and Canada. Although no figures on market share are available



Source: Data provided by ACLEDA Bank.

in Cambodia, ACLEDA Bank faces competition from MoneyGram, commercial banks, and informal money transfer services.

About 80 percent of ACLEDA's clients use the money transfer services. They include private individuals, individual business owners, corporations, local NGOs, international NGOs, and projects. Most remittance receivers hold an account. Once they receive remittances, they transfer the funds to their accounts and withdraw it when needed. ACLEDA Bank also actively offers other financial services to remittance recipients.

ACLEDA reports some constraints in the service when transactions involve not only its correspondent but also other banks. This slows the speed of the transfer process and increases the fees for the customers.

## FMFB Pakistan – Serving the Domestic Money Transfer Market

First MicroFinanceBank Limited Pakistan (FMFB) started its operations as a microfinance institution in April 2002, licensed under Pakistan's Microfinance Institutions Ordinance 2001. It has since received a bank license and offers a wide range of savings and loan products, including group loan schemes in both rural and urban areas. The main shareholders are AKRSP, the Aga Khan Fund for Economic Development (AKFED), and the International Finance Corporation. At the end of 2004, FMFB had some 9,500 active borrowers and approximately 18,000 savers served through 13 branches and 8 loan units throughout Pakistan.

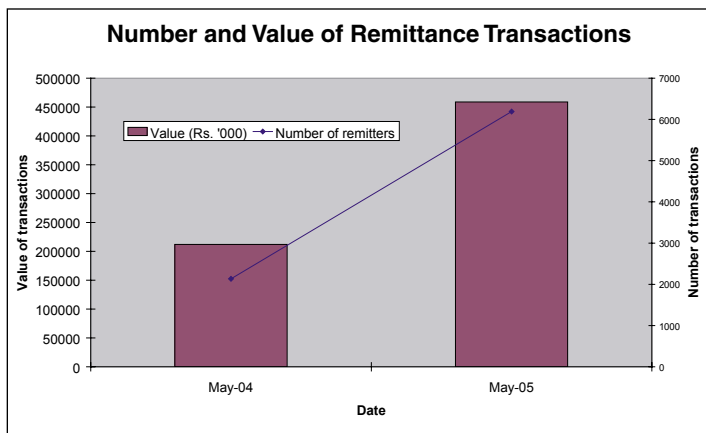
In 2003 FMFB launched a domestic electronic inter-branch transfer service. In the 12 months to May 2005, FMFB increased the monthly volume of transfers from 212 million Pakistan Rupees (Rs) to close to Rs 460 million.

FMFB's typical transfer customers are low-income small traders, but the bank also has a few walk-in customers. The sender is charged a fee of from 0.055 percent to 0.2 percent of the transfer value, depending on the amount remitted:

Remittance Amount (Pakistan Rupees)	Charges
Up to Rs 10,000	0.2% of the amount, min. Rs 20 + fax charges
Rs 10,001 to Rs 100,000	0.15% of the amount, min. Rs 30 + fax charges
Over Rs 100,000	0.055% of the amount, min. Rs 130 + fax charges

FMFB is currently negotiating with other banks to enhance the network for transfers. Traditional banks in Pakistan tend to offer money transfer services, but FMFB is currently the only microfinance provider (MFP) with this service, though the Microfinance Institutions Ordinance 2001 authorizes MFPs to provide remittance facilities among other financial services, excluding deposits.

*Useful link:* [www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1061&#](http://www.mixmarket.org/en/demand/demand.show.profile.asp?ett=1061&#)



Source: Data provided by FMFB

## ProPay – Money Transfer through ProCredit Banks in Central and Eastern Europe

ProCredit Bank Bulgaria is a full-scale commercial bank offering a wide range of banking products. It has a development-oriented service focus tailored to meet the needs of micro, small, and medium-sized enterprises and private customers with loan products, savings and deposit programs, domestic and international money transfers, documentary business, debit cards, and Internet banking. Founded in October 2001, ProCredit Bank has issued more than 51,500 loans totaling over €284 million. It has 53,100 clients, more than 26,500 borrowers, and 35 branches. The bank has been profitable for the last three consecutive years. Its main shareholders are ProCredit Holding, KfW Group, IFC, FMO, and the DOEN Foundation.

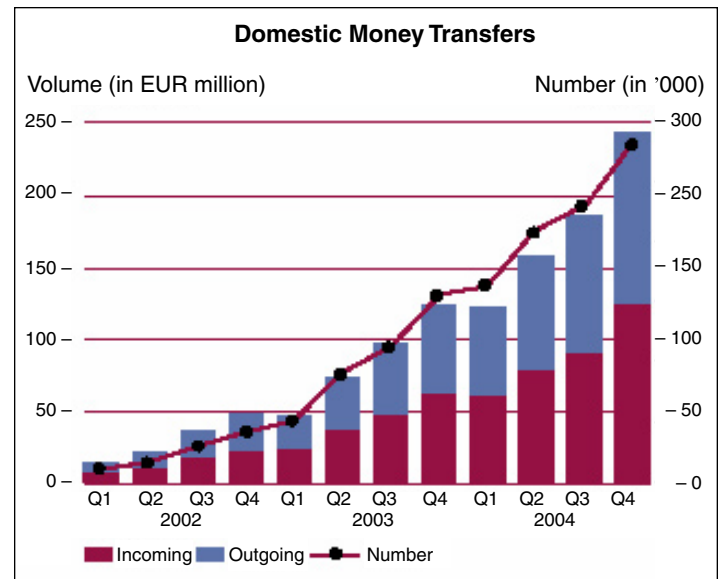
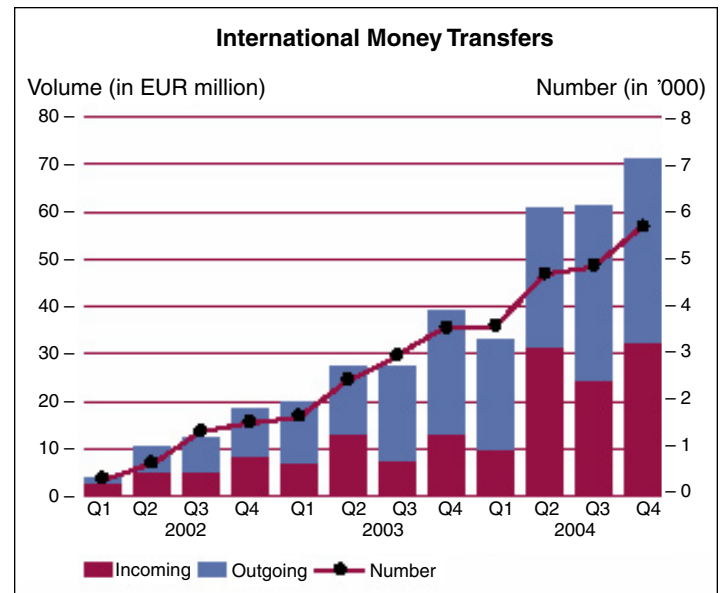
In April 2004 ProCredit Bank Bulgaria introduced ProPay, an international payment system designed primarily for customers who do business with customers of other ProCredit banks in Central Europe.

Transfers in euros can be made in three hours. The funds are credited to the beneficiary's account on the same day without a fee to the recipient. The sender pays a fee of 0.1 percent of the transfer value (with a minimum charge of €5 and a maximum of €100) plus an €8 SWIFT fee.

Both domestic transfers in Bulgaria and ProPay cross-border money transfers have grown considerably in volume and number between 2002 and 2004, as the graphs indicate. ProCredit Bank describes its ability to win the confidence of potential customers as one of its key challenges as well as a key factor in its success.

### Useful links:

- ProCredit Bank Bulgaria – [www.procreditbank.bg](http://www.procreditbank.bg)
- ProCredit Holding – [www.procredit-holding.com](http://www.procredit-holding.com)



Source: ProCredit Bank Bulgaria, Annual Report 2004.

## Kasabank – Kosovar Remittances and Migrant Pensions

Seven commercial banks have been operating in Kosovo following the international intervention in 1998. Kasabank sh.a., a commercial bank established in 2003, is the latest entrant and now holds third position in the market with more than 100,000 clients and over €100 million in assets. Clients include SMEs and microbusinesses as well as low-income earners such as pensioners.

Many Kosovar households depend on remittances from their relatives living and working abroad. Kasabank is trying to capture the substantial market of over €1 billion in annual inward remittances by offering free incoming transfer administration.

During the first half of 2005, the bank received an average of €24.6 million in incoming transfers per month. A large part of the euro value of international transfers moving in and out of Kosovo through Kasabank is for business purposes—some of the largest private enterprises in Kosovo are among its clients. However, because over 90 percent of its clients are private individuals, the bank estimates that 20–30 percent of the incoming transfers are private remittances. Although the average size is difficult to estimate, transfer values range between €100 and €1,000. These remittances originate mostly in Germany, Austria, and Switzerland.

Of the €24.6 million received each month, some €212,000 is received for 1,500 pensioners with pensions from Slovenia and Macedonia—two countries for which Kasabank has negotiated a framework agreement with the respective pension authorities. The bulk of the foreign pension transfer market, however, is taken by a competitor, ProCredit Bank, which, as a first mover in the market and a bank with German shareholders, has achieved a framework agreement with the German pension authorities. Though all pensioners can change the bank through which they receive payments, few want to go through the procedure of writing a letter to the authorities in a foreign language.

Kasabank is currently strongly promoting its free incoming transfer service and, for this purpose, has also started offering consumption and home improvement loans to pension receivers. The other business generated from these clients far outweighs the costs incurred by offering a free administration of transfers, according to bank management. Although the bank does not yet actively attempt to cross-sell other financial products, if clients apply for a home improvement or consumption loan, regular pensions or remittances received through Kasabank current accounts are recognized as regular income and considered during the loan analysis. A formal lien (the right to retain assets until a debtor has fulfilled his or her obligations on the debt) is not used on a customer's transfers. The general liability of the loan client, however, does allow the bank to appropriate the incoming transfers of an overdue client.

Because Kosovo is not an independent state, Kasabank does not have a SWIFT code and therefore uses its shareholder Factor Bank Slovenia as an intermediary for most of the payments. It also offers remittance senders the option to transfer money to Kasabank's account at Dresdner Bank in Germany, giving immediate access to the money in the recipient's account in Kosovo. With this method, there is no actual transfer of each individual transaction. This service is both fast and free of charge to the customer.

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## IRnet: Linking Credit Unions to the Money Transfer Market

The World Council of Credit Unions, Inc. (WOCCU) provides technical assistance and training to strengthen credit unions by increasing their outreach, improving their financial performance, and expanding the array of products and services they offer. Through its International Remittance Network (IRnet), WOCCU also offers credit unions both in the United States and abroad a vehicle by which to send and distribute remittances at low cost.

The transactions flow through the infrastructure of established money transfer operators with which WOCCU has partnered: VIGO Remittance Corp. on both the sending and distributing sides, Travelex on the sending side, and MoneyGram on the distributing side in Guatemala, Mexico, and Nicaragua.

Since 2001, 85 credit unions with 561 points of service in Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, and Nicaragua have joined IRnet. Together they paid out more than 1.6 million remittance transactions worth in excess of US\$707.5 million as of May 2005. On the sending side, approximately 200 credit unions with multiple branches offer remittance services.

IRnet's growth is due to the extensive presence that credit unions have in rural areas of receiving markets, many of which are characterized by significant migration to the United States. In addition, credit unions have traditionally provided financial services to the working poor, the population segment that is most likely to migrate.

Credit unions distribute remittances to both members and nonmembers, attracting nonmembers to join through cross-selling other financial products and marketing membership to them when they come to collect their monies. The percentage of member recipients varies by credit union—from as low as 21 percent to as high as 83 percent.

Two examples illustrate the experience of credit unions within IRnet: the case of Guatemala, involved since the launch of the program in 2001, and Ecuador, the most recent country to join.



## Guatemala: High Market Penetration

WOCCU provided technical assistance to improve financial discipline in the Guatemalan credit union system before launching the money transfer service in 2001. Although the credit union share of the remittance market in each country varies, the 25 Guatemalan credit unions with 125 service points have the greatest market penetration thus far. They captured 6.7 percent of the \$2.7 billion in remittances sent to Guatemala in 2004. In May 2005 alone, they distributed more than 42,000 remittances worth in excess of \$18.5 million.

In spring 2004, WOCCU carried out a household survey of 502 remittance recipients to better understand the role credit unions play in remittance distribution. The findings indicate that poor unbanked remittance recipients who receive their monies at *IRnet* credit unions tend to become members, deposit some savings, and participate in the financial sector (Mesbah-Khavari, et al., 2005). Thus, in addition to providing low-cost remittance services, credit unions are effectively reaching out to unbanked recipients with additional financial services.

## Ecuador: Credit Union Strengthening

Ecuador is the most recent addition to *IRnet*. The example of credit union strengthening in Ecuador illustrates the path to safety and soundness that institutions must travel in order to distribute remittances. WOCCU (with USAID funding) provided technical assistance to credit unions in Ecuador initially from 1995 to 2001. The 23 credit unions participating in the program (representing 85 percent of the assets of the credit union sector) survived the Ecuadorian banking crisis due largely to the institutional strengthening they had achieved, and they came under the supervision of the Ecuador Superintendency of Banks (ESB). During the current phase of technical assistance (2002–2006), WOCCU has created a “national shared branching network” for credit unions supervised by the ESB and is working with additional credit unions to increase their institutional capacity and performance so that they can come under the control of the ESB and join the network.

REDCOOP, the national shared branching network, links 12 credit unions with 77 points of service nationwide. Members of any credit union can transact business, such as withdrawing or depositing funds, making loan repayments, and making internal transfers, at any point of service in the network. Before REDCOOP went live in April 2005, the credit unions acquired the technology to become connected in real time and partnered with a second-tier entity to settle the payments. Building on this newly established platform, nine REDCOOP credit unions with 45 points of service began distributing remittances on May 31, 2005.

By early July, in just over five weeks, the credit unions had distributed 1,187 remittances worth more than \$370,000. Reflecting the pattern of Ecuadorian migration to the United States, one credit union located in Cuenca has distributed 44 percent of the remittances thus far. Quito has received the second highest volume of remittances. Only one in five remittance recipients to date has been a credit union member, so remittance distribution presents a great opportunity for the credit unions to market additional financial services to bank the nonmember recipients.

WOCCU is working with several *IRnet* credit union systems in Latin America to identify the senders and their locations in the United States. With this information, the credit unions can begin targeted marketing at the point of sale to encourage migrants to send remittances through credit unions and allow unbanked recipients to gain access to financial services.

*IRnet* is also growing beyond Latin America. It is currently in the start-up phase in the Philippines and Kenya.

For further information, please contact [acevans@woccu.org](mailto:acevans@woccu.org) and see also [www.woccu.org/prod\\_serv/irnet/index.php](http://www.woccu.org/prod_serv/irnet/index.php). A synopsis of the findings of the Guatemalan household surveys, *FOCUS Guatemala*, is available at [www.woccu.org/development/guide/WOCCU\\_FOCUS\\_Guatemala.pdf](http://www.woccu.org/development/guide/WOCCU_FOCUS_Guatemala.pdf)

The full report, funded by USAID’s Office of Microenterprise Development, is available at [www.microlinks.org](http://www.microlinks.org) (see also Mesbah-Khavari, et al., 2005).

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## Fonkoze, Haiti – Serving the Diaspora

Established in 1994, Fonkoze—Haiti’s Alternative Bank for the Organized Poor—is the island nation’s largest microfinance organization, with more than 70,000 depositors, more than 25,000 active borrowers, and 24 branch offices throughout the country. Fonkoze offers a wide range of products, including individual and group loans, savings, currency exchange, and money transfer services, as well as literacy and business skills training. Fonkoze uses money transfers as the entry point and encourages Haitians to become clients and use the range of other financial services it offers.

Remittances play an important role in the Haitian economy. In 1999, Haiti received US\$720 million (17 percent of gross domestic product [GDP]) and in 2003 \$1 billion (25 percent of GDP). Most of the remittances arrive from the United States, Canada, or the Caribbean.

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In 2004 Fonkoze transferred \$7.3 million in remittances through a partnership model with City National Bank of New Jersey (CNB). In February 2005 Fonkoze added a second system, a partnership among several remittance programs or agencies and Fonkoze.

## CNB Partnership

Fonkoze's partnership with CNB, an African American-owned commercial bank in the United States whose president and CEO was born in Haiti, began in 1998. As per the agreement, Fonkoze keeps the majority of its reserves with CNB, CNB drops all bank fees, including fees for the acceptance of wire transfers, and CNB notifies Fonkoze daily of all deposits into its account and all wire transfers received. An agent for Fonkoze, based in Haiti, is contactable by phone, toll free, from the United States or Canada or by email. The agent ensures receipt of the deposit by CNB, informs Fonkoze in Haiti, and confirms the transaction to the sender.

If the receiver in Haiti has an account with Fonkoze, the money can be deposited directly into that account. The remitter in the United States can mail a check, send a money order, or wire funds to Fonkoze's account at CNB. If the recipient in Haiti does not yet have an account at Fonkoze, the remitter can open one for him or her. The accounts can be opened in U.S. dollars or in gourdes with a minimum opening balance of 100 gourdes (about \$2.50) or \$4. Once an account has been set up, remittance funds are available in the relevant Fonkoze branch in Haiti within 24 hours if sent by wire or within two to three days if a money order or check was sent by mail.

Operating with only one bank makes the transaction costs for Fonkoze and the senders of remittances comparatively low. The sender incurs a transfer fee depending on the value of the transfer: between \$10 (to send up to \$1,000) and \$50 (to send more than \$5,000) ([www.fonkoze.org/sendmoney.htm](http://www.fonkoze.org/sendmoney.htm)). If either the sender or the receiver belongs to a church or other nonprofit organization, Fonkoze charges a flat fee of \$10, regardless of the amount transferred. Other costs for the sender include postage to send a money order or check (\$0.37). Money orders usually cost less than \$1. If the remittance is sent by wire transfer, the sender's bank will charge a fee—usually about \$10.

## Rapid Transfer Partnerships

Rapid Transfer is an agent in Haiti representing the following money transfer agencies (all licensed in the United States): MoneyGram, Vigo Remittance Corp, Uno Money Transfers, Roraima International Money Services (Haiti-Cash), Choice Money Transfer, and Dinero Online Money Transfer.

Rapid Transfer holds an account with Fonkoze. When Rapid Transfer receives electronic notification of a remittance, it emails Fonkoze

with the information. Fonkoze debits the relevant account and credits an account payable, informing the receiving branch. The branch contacts the client, who must present identification and sign for the money. The branch debits the account payable and completes the transaction.

The agent pays Fonkoze a share of the commission on a monthly basis. The fee to the client varies between 0.3 percent and 0.7 percent, depending on the amount transferred. Fonkoze also has the opportunity to 1) change the money into local currency earning a fee, 2) motivate the client to open an account, and 3) convince the client to use Fonkoze's service instead.

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- **The average incoming transfer using Fonkoze's CNB partnership service is US\$2,657, including individual and organizational transfers. Through Rapid Transfer the average is around \$207.**
  - **Approximately 1,000 customers use the money transfer service, among them a few hundred churches and parishes.**
  - **Remittance recipients are not typically borrowers with Fonkoze.**
  - **Remittances tend to be spent on schooling, food, healthcare, funerals, and weddings. Fonkoze does not track what proportion of the funds received is saved.**
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## Opportunities and Challenges

The money transfer service became profitable last year. Fonkoze anticipates growing profitability because of the new clients the money transfer service attracts and the currency exchange fees Fonkoze earns. The main opportunities for cross-selling lie in the exchange of U.S. dollars and the use of Fonkoze's savings services. Fonkoze's market share is still small and its major competitors include Western Union, Bobby Express, CAM, and Unitransfer.

Fonkoze's main challenge is to attract clients. Once customers try it, Fonkoze's money transfer service is well accepted, but it is difficult to encourage people to use the service for the first time. In 2000, Fonkoze started a public education campaign for Haitians in the diaspora in order to improve the remittances flow to Haiti. Through a 10-hour seminar, participants learned how to use banks in the United States, how to open savings and checking accounts, how to use credit and debit cards, and how to transfer money to Haiti. Subsequently, in 2004, Fonkoze invested in a marketing campaign to make its money transfer service more attractive to first-time users. During advertised "family days," Fonkoze offered both customers and noncustomers in Haiti a free five-minute phone call to the United States. Noncustomers were invited to open an account with Fonkoze using the amount of money they would have used for the phone call. In addition, with the agreement of its current customers, Fonkoze established a reverse directory and registered the dialed telephone numbers in order to contact the relatives abroad and send them a video or DVD and brochure about Fonkoze's money transfer services.

Other key constraints Fonkoze has faced include the time and resources spent in seeking out other agents with which to set up partnerships; the poor connectivity in Haiti (today, 15 of Fonkoze's 24 branches have an email connection, and a grant will soon fund the connection of the remaining branches); and the burden of compliance with regulations that have developed since 9/11.

*Useful link:* [www.fonkoze.org](http://www.fonkoze.org)

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## Money Transfer Partnerships – Examples from Latin America

Access to payment networks is essential for a successful money transfer service. This article considers the opportunities and challenges of different types of partnerships that microfinance providers (MFPs) in Latin America have established to offer remittances services and links with microfinance products.

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### BancoSol (Bolivia), with Money Transfer Companies and Savings Banks

**Model:** Partnership with several money transfer companies and savings banks—Dolex, Quisqueyana, Microfinance International, NSA, Exact Transfer, MACCORP SA, La Caixa, La CECA.

**Type of money transfer service offered:** Cash-to-cash and cash-to-bank account.

**Remittance corridors:** Spain and the United States.

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**The partnership:** BancoSol initially offered remittances as a sub-agent of Western Union. It ended this service in 2003 to work directly with small and medium-sized money transfer companies and with savings banks in Spain, such as La Caixa and La CECA, which have a strong presence in key markets.

BancoSol receives a commission for each transaction paid out. Because most transactions are received in U.S. dollars, there is no revenue received from foreign exchange. The cost of the service varies depending on the money transfer company the sender uses, but because these are small and medium-sized companies, the prices tend to be lower than those the largest transfer companies charge. As a customer service, BancoSol has set up a call center for recipients of transfers.

**Advantages:** The main advantage of this model is that, because of the direct relationships involved, BancoSol receives the full commission as the paying agent. This model has been more profitable than being a sub-agent of Western Union. It has also helped BancoSol establish a strong network of partners in key markets, especially in

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## REMITTANCES AND MFIs – ISSUES AND LESSONS FROM LATIN AMERICA

The proximity of microfinance institutions (MFIs) to low-income, remittance-receiving communities and the ability to offer ancillary financial services to these traditionally hard-to-reach customers suggest that MFIs are well placed to offer money transfer and complementary financial services. This was the starting point for a recent study by Manuel Orozco and Eve Hamilton. Their research probed these assumptions by asking 27 MFIs and credit unions in Latin America and the Caribbean about the money transfer services they offer, their geographic presence and market position, their cross-selling of additional financial products, and their technology and management information systems.

Their findings indicate that two-thirds started offering the money transfer service after the year 2000, seven of them only since 2004. Although they have fewer branches than there are Western Union agents operating in their markets, with a network of one-third the size of such a large competitor they are relatively competitive. Moreover, almost two-thirds of the MFIs charge transfer fees that are lower than the market average, and only one-third offer ancillary financial services such as savings to their customers.

The overall conclusion of the report is that these MFIs “are in the process of achieving substantial success at offering remittance transfers” but more research is needed to identify what challenges MFIs face in cross-selling financial services and what allows them to offer lower transfer rates. Other issues the authors identified include the financial needs and preferences of senders and receivers and the legal and regulatory environments in developing countries.

Source: Orozco, Manuel, and Eve Hamilton, 2005.

strategic cities where it wants to operate. Moreover, due to its strong market position in Bolivia, the bank has been able to avoid exclusivity agreements and thus has multiple partners and more flexibility.

Another benefit has been a dramatic increase in business (see table). In 2005, the expected rate of growth is around 100 percent.

Year	Number of transfers	Percentage Growth	Cumulative Volume (in US\$ millions)
2003	25,212		\$8.1
2004	44,316	76%	\$17.3
January-May 2005	58,437	32%	\$35.9

**Challenges:** The multi-partnership model typically requires the MFP to have a strong negotiating position with its potential partners as well as capacity in management and systems. To work with multiple money transfer companies, BancoSol had to develop a proprietary database system that enables the bank to receive and integrate transaction information from different companies in a standard format. It also requires the MFP to concurrently manage several business relationships, which can be time consuming when dealing with problem transactions.

**Opportunities:** This partnership model, with BancoSol's proprietary data platform and call center infrastructure, enables the bank to cross-sell financial products to recipient clients. Smaller remittance companies' systems can more readily be adapted to link with an MFP's existing financial products, and their networks in sending countries can be used as points of presence for MFPs to provide information on the financial services they offer.

These remittance companies also face pressures to gain market share in an increasingly competitive market. The MFPs' offer of complementary services to recipients is a point of differentiation and one way to create customer loyalty.

## El Comercio (Paraguay), with Western Union

**Model:** Partnership with a large money transfer company—Western Union

**Type of money transfer service offered:** Cash-to-cash

**Remittance corridors:** Mostly Spain, the United States, and Argentina.

**The partnership:** Financiera El Comercio has operated as an agent of Western Union in Paraguay since 2004, paying out transfers

through its 11 branches. El Comercio will also set up a network of sub-agents throughout the country, including retail stores. Western Union also works with DHL in Paraguay.

El Comercio accesses transaction information through Western Union's proprietary closed platform system. The system is online permanently. Western Union provides customer service through a call center in Paraguay.

El Comercio receives as a commission a fixed percentage of the transfer fee. The transfer fee varies according to the amount and origin of the funds sent. When the transfer is paid out in a different currency than specified by the sender, El Comercio can receive additional revenue from the foreign exchange differential.

**Advantages:** As a Western Union agent, El Comercio receives a high volume of transfers from the key markets in which it wants to operate and earns significant revenues from the commissions through its direct agency relationship.

Western Union's strong presence in key destination countries for Paraguayan emigrants will provide El Comercio with the opportunity of growing transfers from these markets. By May 2005, El Comercio increased its volume of transfers by 141 percent; it expects to manage 32 percent of the remittance market in Paraguay this year.

Year	Number of transfers	Percentage Growth	Cumulative Volume (in US\$ millions)
2004	3,038		\$0.8
January-May 2005	7,334	141%	\$1.7

**Challenges:** The high fee charges are the main challenge, although Western Union continues to enjoy a good market share even in countries where competition in remittance services has increased. Another key challenge is that El Comercio is not currently able to download transaction information to its own system to link transfers to client account information or other financial products.

**Opportunities:** Because of the high volumes Western Union manages, El Comercio sees a high potential for banking the recipients of transfers through its cross-selling efforts. El Comercio plans to implement strategies that will enable it to cross-sell to clients who use sub-agents rather than coming to its own offices.

In addition, in the coming months Western Union will implement a new service whereby the recipient of funds can request the remittance to be deposited in a savings account with El Comercio. Because the deposit requires a separate manual transaction, however, client uptake of this option may be limited.



# Initiatives

## Consultative Group to Assist the Poor (CGAP)

CGAP has published the paper “Crafting a Money Transfers Strategy: Guidance for Pro-Poor Financial Service Providers,” available online at [www.cgap.org/docs/OccasionalPaper\\_10.pdf](http://www.cgap.org/docs/OccasionalPaper_10.pdf) Highlights from the paper, including useful links and publications, are available on the Microfinance Gateway at [www.microfinancegateway.org/content/article/detail/26403?PHPSESSID=59136e11ab67e24dceb6d680649fc092](http://www.microfinancegateway.org/content/article/detail/26403?PHPSESSID=59136e11ab67e24dceb6d680649fc092)

The paper is the first publication of CGAP’s Money Transfer Initiative, designed to increase market transparency and improve the supply of money transfer services for low-income clients. The paper reviews the size and structure of the global money transfer market, illustrates how pro-poor financial service providers (FSPs) are combining the building blocks that make up a money transfer system into successful service models, and discusses how client preferences, regulation, competition, and other factors determine the strategic choices of FSPs entering this market.

To build on this paper, CGAP is planning an operational guide for FSPs for linking with money transfer companies and launching independent services. For comments or questions please contact Jennifer Isern at [jisern@worldbank.org](mailto:jisern@worldbank.org)

## U.K. Department for International Development (DFID)

**Remittance country partnerships.** A Remittance Partnership Programme (RPP) has been agreed upon by DFID Bangladesh and Bangladesh Bank, to run alongside the World Bank-initiated Central Bank Strengthening Programme. The RPP will seek to create an enabling environment for the growth of remittances and other payment services, to establish challenge funds for private-sector innovation, to introduce transparency at the consumer end by improving information for migrants and beneficiaries of remittances about products and prices, and to undertake research. DFID is also following up on its scoping missions to Nigeria and Ghana.

**Remittance household surveys.** DFID has completed household surveys in 500 Bangladeshi households in the United Kingdom. Other household surveys are planned through Finscope initiatives in various African countries and, potentially, Afghanistan and Pakistan.

**[www.sendmoneyhome.org](http://www.sendmoneyhome.org).** The DFID-supported website on money transfer products from the United Kingdom has been improved and enhanced to include exchange rate information and interactive tables of prices, speed of transfer, and other important product de-

tails. The website currently covers Bangladesh, China, Ghana, India, Kenya, and Nigeria, but up to 16 more countries will be added in the coming months.

**U.K. Remittances Working Group report.** The U.K. Remittances Working Group, formed by DFID in partnership with the private sector in 2004, has drafted a report that is scheduled to be finalized in August and published in October. The report contains recommendations—focused around research, discussion, and information sharing—that contribute to the Working Group’s overall objectives of stimulating private-sector activity in remittance services to developing and emerging markets, increasing the value and frequency of remittances to the developing world, and encouraging these flows to reach wider groups of senders and receivers.

## Inter-American Development Bank (IDB)

IDB has set up a website titled Migrant Remittances as a Development Tool at [www.iadb.org/mif/remittances/](http://www.iadb.org/mif/remittances/) The website examines the Multilateral Investment Fund’s work and strategy and the remittance market to Latin America and the Caribbean; it also rounds up publications, news, and events and reports on the progress of various working groups. (See Information.)

## International Fund for Agricultural Development (IFAD)

IFAD is in the concept stage of Promoting Innovative Migrant Remittances, an initiative that focuses on the problems of inadequate financial infrastructure and poor access to finance, which affect both the flow of remittances and the options for use and investment of the funds.

Given IFAD’s mandate, the initiative aims to develop innovative, cost-effective, and accessible pilot projects that have a sustainable development and poverty alleviation impact on rural communities and that widen the economic opportunities of the rural poor. It also seeks to make financial institutions aware of the market opportunities that remittances provide.

This will be achieved through a financing facility based on a demand-driven, competitive process to select the most appropriate project proposals. The facility aims to stimulate partnerships between credit unions, postal networks, banks, international money transfer, and local FSPs.

Discussions on European Union cofinancing are ongoing, and IFAD is seeking partnerships with CGAP, DFID, the Italian and French governments, and other interested donors.

*Continued on page 10*

## Newsquare Networks – Microfinance Coalition for Remittances

Newsquare Networks is developing a financial remittance platform targeted at nongovernmental organizations (NGOs) and micro-finance providers (MFPs) ([www.newsquarenetworks.com](http://www.newsquarenetworks.com)). The intention is to create a coalition of like-minded microfinance NGOs and MFPs with access to a technology platform linking them with key banks, nonbank financial institutions, and existing small-scale money transfer partners to enable cross-border remittance for millions of migrant workers worldwide. Newsquare Networks will manage the interchange of transfers and the cross-commission processes between agents. It will also be responsible for ensuring that all reporting and compliance issues are enforced. Partners include the Encircle Foundation, Call4Care in Holland, Amnesty International, and the Dutch Heart Foundation.

## U.S. Agency for International Development (USAID)

Two reports on remittances have recently been prepared for USAID. The Pan-American Development Foundation produced a report in June 2005 regarding community remittances for education in El Salvador ([www.panamericancommunities.org](http://www.panamericancommunities.org)), and Dina Mesbah-Khavari, Anna Cora Evans, and Janette Klaehn (July 2005) prepared a report on the provision of remittance services by credit unions in Guatemala, participating in the World Council of Credit Union's *IRnet* (see Publications and *IRnet* article).

## U.S. Department of the Treasury

In June 2005, Guatemalan Vice-President Eduardo Stein and U.S. Ambassador John R. Hamilton, representing the U.S. Department of the Treasury, announced a partnership between the two countries to reach the Summit of the Americas remittance commitment. The specific goal from the Special Summit of January 2004 is to take concrete actions to create the conditions that will shrink the cost of sending remittances by 50 percent by 2008. The initiative will focus on fostering competition, efficiency, and accessibility in the remittance market. Financial literacy programs, payment system modernization, and appropriate modifications to the regulatory environment are expected to be important elements of the bilateral work.

# Information

## Surfing the Web

- [www.irinnews.org](http://www.irinnews.org)  
Eight articles on remittances (global, Comoros, Kyrgyzstan, Nepal, Pakistan, Somalia, Tajikistan, and Zimbabwe) from the UN Office for the Coordination of Humanitarian Affairs. (Search for “remittances” from May 18–19, 2005.)
- [www.nytimes.com/2005/07/07/business/worldbusiness/07peso.html](http://www.nytimes.com/2005/07/07/business/worldbusiness/07peso.html)  
“Study Challenges Assumptions about Money Being Remitted to Mexico,” by Elisabeth Malkin, July 7, 2005.
- [www.workpermit.com/news/2005\\_07\\_29/us/banks\\_migrants.htm](http://www.workpermit.com/news/2005_07_29/us/banks_migrants.htm)  
“US Banks, Financial Companies, Take Interest in Immigrants,” July 29, 2005.
- [www.iadb.org/idbamerica/index.cfm?thisid=2677](http://www.iadb.org/idbamerica/index.cfm?thisid=2677)  
“First, Do No Harm: Stakeholders Suggest Ways to Multiply the Benefits of Remittances Without Creating Burdensome Regulations,” outline of core principles from the IDB/MIF.
- [www.iadb.org/news/docs/MIFRemittancesJapanLAC.pdf](http://www.iadb.org/news/docs/MIFRemittancesJapanLAC.pdf)  
“Remittances to Latin America from Japan,” from an IDB/MIF conference in Okinawa, Japan, April 2005.
- [www.focal.ca/projects/privatesector/mifconf\\_e.asp](http://www.focal.ca/projects/privatesector/mifconf_e.asp)  
Presentations from an IDB/MIF and Canadian Foundation for the Americas conference series in May 2005, *Caribbean Diasporas, Remittances and Development*.
- [www.iadb.org/mif/v2/remit\\_forum\\_1y2.html](http://www.iadb.org/mif/v2/remit_forum_1y2.html)  
Online agenda and presentations from the June 2005 *International Forum on Remittances*, sponsored by IDB/MIF. Session VIII-A focused on the Impact of Remittances on Microfinance.
- [www.business-standard.com/common/storypage.php?chklogin=N&auto no=189015&clselect=1&leftnm=Imnu9&leftindx=9](http://www.business-standard.com/common/storypage.php?chklogin=N&auto no=189015&clselect=1&leftnm=Imnu9&leftindx=9)  
“Microfinance Bodies May Boost Rural Credit Flow,” May 17, 2005, Mumbai, India; states that MFPs will be permitted to provide remittance services under correspondent banking arrangements.
- [www.gdrc.org/icm/remittance/more-remittance.html](http://www.gdrc.org/icm/remittance/more-remittance.html)  
The Global Development Research Center has put together a bibliography on microfinance and migrant remittances.
- [www.forumsec.org.fj/docs/FEMM/2005/OOS%20Remittances%20outcome.pdf](http://www.forumsec.org.fj/docs/FEMM/2005/OOS%20Remittances%20outcome.pdf)  
Pacific Islands Forum Secretariat. *Remittances Roundtable Summary Record*, March 2005.

## Events

- September 12–13, 2005 – *Remittances and Poverty Reduction: Learning From Regional Experiences and Perspectives*, Manila, Philippines. Organized by the Asian Development Bank, the IDB/MIF, and the United Nations Development Programme (UNDP). The conference will cover such topics as measurement techniques and surveys, anti-money laundering aspects, microfinance and remittances, financial literacy, technology, and security. For additional information and to register, contact Alicia de Sagun (alicia@eon.com.ph).
- September 14, 2005 – *Unbanked Financial Services Innovation 2005*, San Francisco. Organized by Financial DNA, LLC. The program includes sessions on remittance pricing and delivery trends, remittance processing, and prepaid card services. [www.financialdna.com/fdna/site/fdna\\_conference\\_2.php](http://www.financialdna.com/fdna/site/fdna_conference_2.php)
- September 22–23, 2005 – *1st International Seminar about the Impact of Remittances in Latin America*, Zacatecas, Mexico. Sponsored by the Latin American Fund of Development (FOLADE), the International Network of Alternative Financial Institutions in Latin America, and Novib. The event aims to explore alternative channels of remittances, incorporating MFPs and microsavings. [www.folade.org/zacatecal/](http://www.folade.org/zacatecal/)
- September 23, 2005 – *Las remesas de los emigrantes en Iberoamérica*, Madrid, Spain. Organized by [remesas.org](http://remesas.org) and Casa de América and supported by the Asociación Nacional de Agencias de Envío de Dinero. [www.remesas.org/seminario.html](http://www.remesas.org/seminario.html)
- October 4–5, 2005 – *Conference on the Somali Remittance Sector*, Washington, D.C. Planned by UNDP and the World Bank. Topics include the development impact of remittances on Somalia as a conflict-affected country; the financial laws and regulations of the U.S. states in which money transfer companies operate and Financial Action Task Force (FATF) regulations; and the launch of the North American branch of the Somali Financial Services Association (SFSA). For information, email [mcholmondeley@worldbank.org](mailto:mcholmondeley@worldbank.org)
- October 5, 2005 – *Remittances and Microfinance*, Santa Cruz de la Sierra, Bolivia. Organized by the Inter-American Development Bank's Multilateral Investment Fund. [www.migranremittances.org](http://www.migranremittances.org)
- October 7, 2005 – *Remittances as a Development Tool*, Lima, Peru. Organized by the Inter-American Development Bank's Multilateral Investment Fund. [www.migranremittances.org](http://www.migranremittances.org)

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## MIGRANT REMITTANCES

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