

Remittances for Development

Utilise positive impact of Migration for pro-poor growth

Background

About Swisscontact

Swisscontact Germany (SC) is a non-profit organisation and a subsidiary of Swisscontact, a Swiss private sector organization engaged in development cooperation since its foundation in 1959. The objective of SC's activity is to promote sustainable development in selected countries of the South and East and thereby fight poverty effectively. Cooperation with local partners is a priority for SC, as the leading principle is "Helping Others to Help Themselves". SC has comprehensive specialist knowledge in the bank sector and many years of experience in developing and implementing SME's support concepts all over the world. Since 6 years it is operating a micro finance project with excellent project staff in Kenya and also similar projects in Tanzania and Uganda. The project management in Kenya is right now in the hands of Veronique Su, an experienced UBS director.

Our partner for the pilot

Equity Bank Ltd. is a fully-fledged commercial Microfinance Bank, listed at the Nairobi Stock Exchange. It is currently the biggest Microfinance Bank in Africa and the fastest growing and largest bank in Kenya in terms of customer base (1 mio customers that make up about 30% of the banked population).

The Bank received a lot of international recognition. EB's CEO James Mwangi for example was appointed in the UN Advisors Group on Inclusive Financial Sectors and he got an invitation to present at the UN year of micro credit 2005 due to the contribution of EB in poverty reduction and also at the G8 Business Action for Africa Summit in Gleneagles. This year he is invited as a key note speaker for the Ev. Kirchentag, the G8 Summit and the Vision Summit in Berlin, where he will receive an award together with Muhammad Yunus.

Finding new ways to fight poverty in Africa

"Africa will be the place to determine whether the world-wide battle against poverty will be successful and the Millennium Development Goals (MDGs) agreed upon by the international community achieved," (Heidmarie Wieczorek-Zeul, 2007).

There is a growing consensus that other sources than Official Development Assistance (ODA) have to be mobilized and new solutions have to be developed. Also the African Diaspora has the potential to contribute to the achievement of the MDGs, directly and indirectly - in our case for example by increasing the developmental impact of their remittance payments (Global Economic Prospects 2006, World Bank).

An initiative of the German Parliament ("Leverage potential of Migrants to contribute to the development of their home countries") also claims, amongst other things, the synchronization of business activities with development activities to actively identify win-win potential and to create new and innovative instruments (Deutscher Bundestag, Drucksache 16/4164).

SC agrees that ground-breaking, new approaches are necessary to fight poverty in Africa and that we need to work in partnership. Because of that SC is developing a concrete, very innovative project together with the Equity Bank.

The Diaspora itself and their remittances on the one hand and on the other hand the aspect of Microfinance, these two pillars combined can generate pro-poor growth.



Remittances hold an unused potential for development

There has been a remarkable expansion in the volume of remittances sent home by international migrants and there lies an enormous potential for development in remittances which hasn't been utilized so far. According to different studies the majority of the money sent (about 80%) is not used for investment.

Accurate figures are hard to obtain. The World Bank estimates the annual value of formally transferred remittances in 2006 at about \$221 billion and thus almost twice as much as the worldwide development aid payments.

Microfinance plays an important role in business development and poverty alleviation

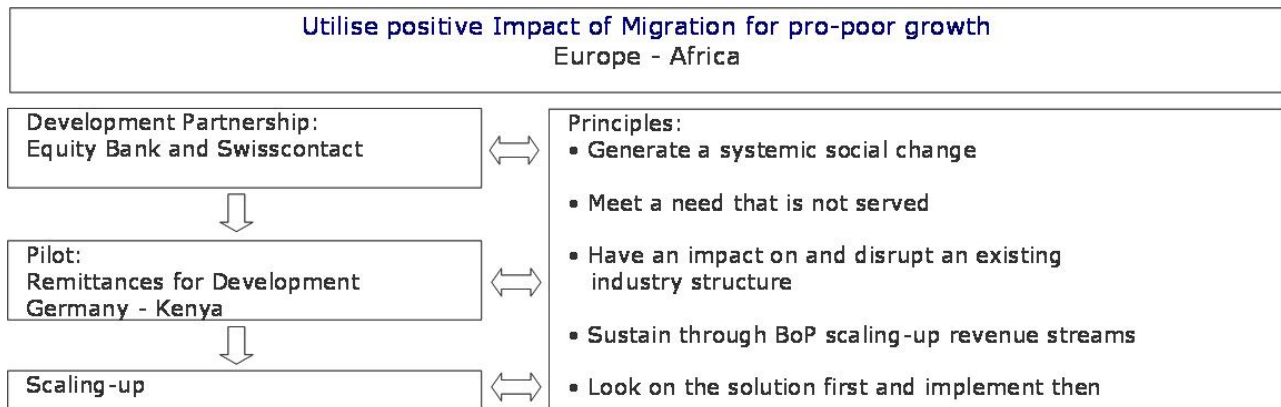
The Nobel Peace Prize 2006 was awarded to Muhammad Yunus and the Grameen Bank which drastically increased the interest in Microfinance and the role it can play in business development and poverty alleviation in less affluent countries.

Aside from ensuring low-cost and reliable transfer of money institutional links with Microfinance Institutions have other spill over benefits:

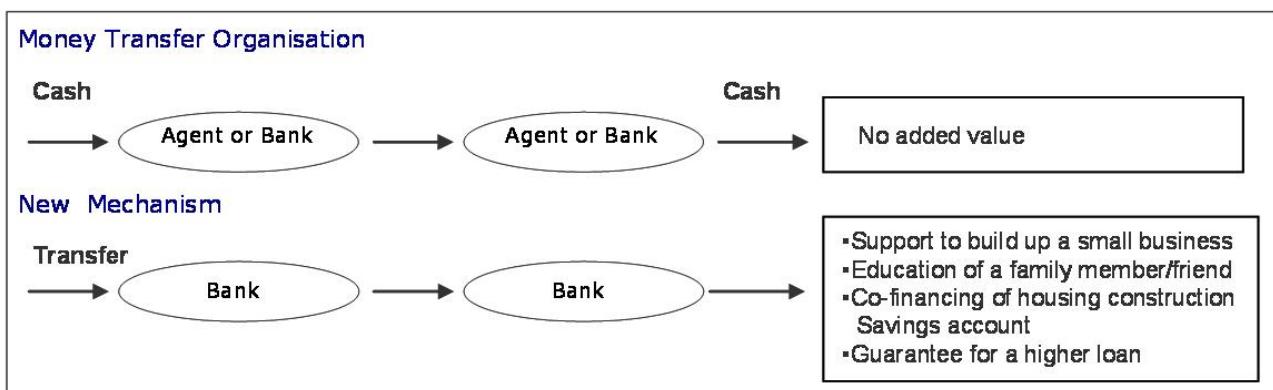
- Integrating migrants and remittance-receiving households into the modern financial and banking system.
- Encourage savings and enable a better match for savings and investment in the economy by channelling remittances through bank accounts.
- Securing remittance flows through organized financial institutions and thus facilitate capital-short developing countries' access to external finance at low cost and their integration into the world capital market.

Concept

Basic description of the concept developed by Swisscontact and Equity Bank



This concept aims to utilize the positive impact of migration for pro-poor growth in Africa. By having an impact on and disrupting an existing industry structure it will generate a systematic social change. Up to now there is no mechanism established that allows to increase the developmental impact of remittance payments or gives the opportunity to channel payments in a certain direction. Usually it is “Cash in – Cash out”.



Issues to be addressed

- Use of informal channels with increased risks
- Dependency of the receiver on remittances

- Large proportion of remittances going into consumption rather economic/productive activities
- Bridging function of migrants changes over the years

Key Problems

- Cost of remitting money
- Remitter has no control over use of remittances
- Remittance receiving households are not integrated into the modern financial and banking system

The pilot project will:

- drastically reduce the cost of remittances
- allow the remitter to select where his money will contribute to economic/social development
- use the existing micro-finance network to reach into remote areas and to offer financial services to everybody

Financial services in the receiving countries shall be enlarged and geographical coverage shall be increased. The final objective is that more financial resources are available and used for economic development in marginalised regions.

Intervention Strategy

- A new catalytic solution building on existing financial structures; based on demand; on competitiveness and innovative products and services (disruptive innovation for social change)
- A transfer that is secure, transparent, formal and generic
- A mechanism that creates opportunities for “Brain Gain”

Intervention Areas

1 Policy level	Remittance friendly macro system in the receiving and sending market.
2 Reduce remittance costs	Increase competition; include microfinance institutions.
3 Economic and social development	Increase economic and social impact of that capital stream; improve the distribution in the receiving markets (reach out to rural areas).
4 Diaspora	Interact with the Diaspora; win trust of senders; create awareness; market the idea; generate ideas, encourage to sustain flow of remittances.

Supported by

Deloitte For the pilot project we are friendly supported by Deloitte. They offer us their consulting services, regarding the business case of a contact point in Germany and also regarding the legal issues of the mechanism, free of charge.

Involved Parties

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