Report on the Remittance Agenda of the G20

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Report on the Remittance Agenda of the G20

Prepared by the World Bank for the G20 Australian Presidency

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Introduction

The purpose of this report is to summarize what has happened in the remittance markets of the G20 countries as a result of their commitment to the international targets in this area. The report analyzes those actions and achievements useful to measure the success of the G20 intervention in the effort to make remittance transfers more efficient, safer and, ultimately, cheaper. At the same time, the report reviews the options available to enhance the impact of remittances on poverty reduction through financial inclusion. Based on this analysis, the report suggests a list of possible actions that the G20 countries could adopt in the short, medium, and long term. The report focuses on actions that are specific, clear, and underpinned by a results framework, so as to enable the G20 to demonstrate success.

Involvement of the international community and the G20 in the area of remittances

The topic of remittances has received increasing attention at the international level since the G8 Sea Island Summit in 2004. In the context of the G8, remittances have continued to attract interest and, following a series of negotiations during the G8 L'Aquila Summit in 2009, the member countries committed to reducing the cost of remittances from 10 percent to 5 percent in five years, which became known as the "5x5 Objective".[1]

In parallel, the international community invited "the World Bank to [proceed with the creation of a Global Remittances Working Group], facilitate the work of the group and provide for coordination".[2] This global forum, led by the World Bank and independent from the G8, would be capable of sharing its expertise and functioning as an advisory body to international entities such as the G8, G20, and others. Following up on this invitation, the Global Remittances Working Group (GRWG) was created in February 2009 as a multi-year platform to provide guidance and policy options to the global community and, thereby, increase the efficiency of the remittances market and facilitate the flow of remittances.

The G20 officially endorsed the GRWG and the international efforts to reduce the cost of remittances during its 2010 Summit in Seoul, where the member countries agreed on the "Seoul Development Consensus for Shared Growth" to add value to and complement existing development commitments characterized by six G20 development principles. G20 leaders also adopted the nine "pillars" of the Seoul Multi-Year Action Plan to sustain inclusive and sustainable economic growth across the globe. These areas were: 1) infrastructure, 2) private investment and job creation, 3) human resource development, 4) trade, 5) financial inclusion, 6) growth with resilience, 7) food security, 8) domestic resource mobilization, and 9) knowledge sharing.

The Annex II to the communiqué of the G20 Seoul Summit defined a multi-year, medium-term plan to develop a set of practical actions and results for each of the nine areas identified. Under the "Growth and Resilience" pillar, the G20 included a specific mention to remittances, recognizing that they "*play an important role in providing income security for poor communities in developing countries, and in particular Lowest Income Countries, providing buffers to those communities from the impact of external shocks and contributing to the maintenance and enhancement of aggregate demand*". In this context, the G20 also recognized that "*measures can also be taken to facilitate*

[1] In the *"G8 Leaders Declaration: Responsible Leadership for a Sustainable Future"*, during the L´Aquila Summit, in July 2009, the G8 Heads of State made a pledge "to make financial services more accessible to migrants and to those who receive remittances in the developing world" and "to achieve in particular the objective of a reduction of the global average costs of transferring remittances from the present 10% to 5% in 5 years through enhanced information, transparency, competition and cooperation with partners, generating a significant net increase in income for migrants and their families in the developing world".

[2] See paragraph 44 of G8 Tokyo Summit Document *"Development and Africa"*, July 8, 2008.

and increase the efficiency of international remittances, building on existing work in this area." As a concrete action to facilitate the flows of international remittances, the G20 members included this specific text: "*We recognize the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction. We ask the World Bank, Regional Development Banks and other relevant organizations, including the Global Remittances Working Group, to work with individual G20 members and non-G20 members in order to progress further the implementation of the General Principles for International Remittance Services and related international initiatives aimed at a quantified reduction of the global average cost of transferring remittances.*"

In 2011, the G20 further defined their commitment in the area of the reduction of the cost of remittances by formally including the "5x5 Objective" in the Cannes Summit Final Declaration "*Building Our Common Future: Renewed Collective Action for the Benefit of All*". In the 2011 Report of the Development Working Group (DWG), the G20 member countries formally confirmed: "*We therefore recommend to the leaders the adoption of a quantified target with the aim of bringing down the global average cost of remittances to 5% by 2014. This being a collective effort, we encourage others to join us. To this end, we have developed a toolkit of measures that have proven to be effective in reducing remittances costs*".[3] The G20 continued to support the agenda of remittances and confirmed the commitment to the achievement of the "5x5 Objective", during both the Mexican and the Russian Presidency.[4]

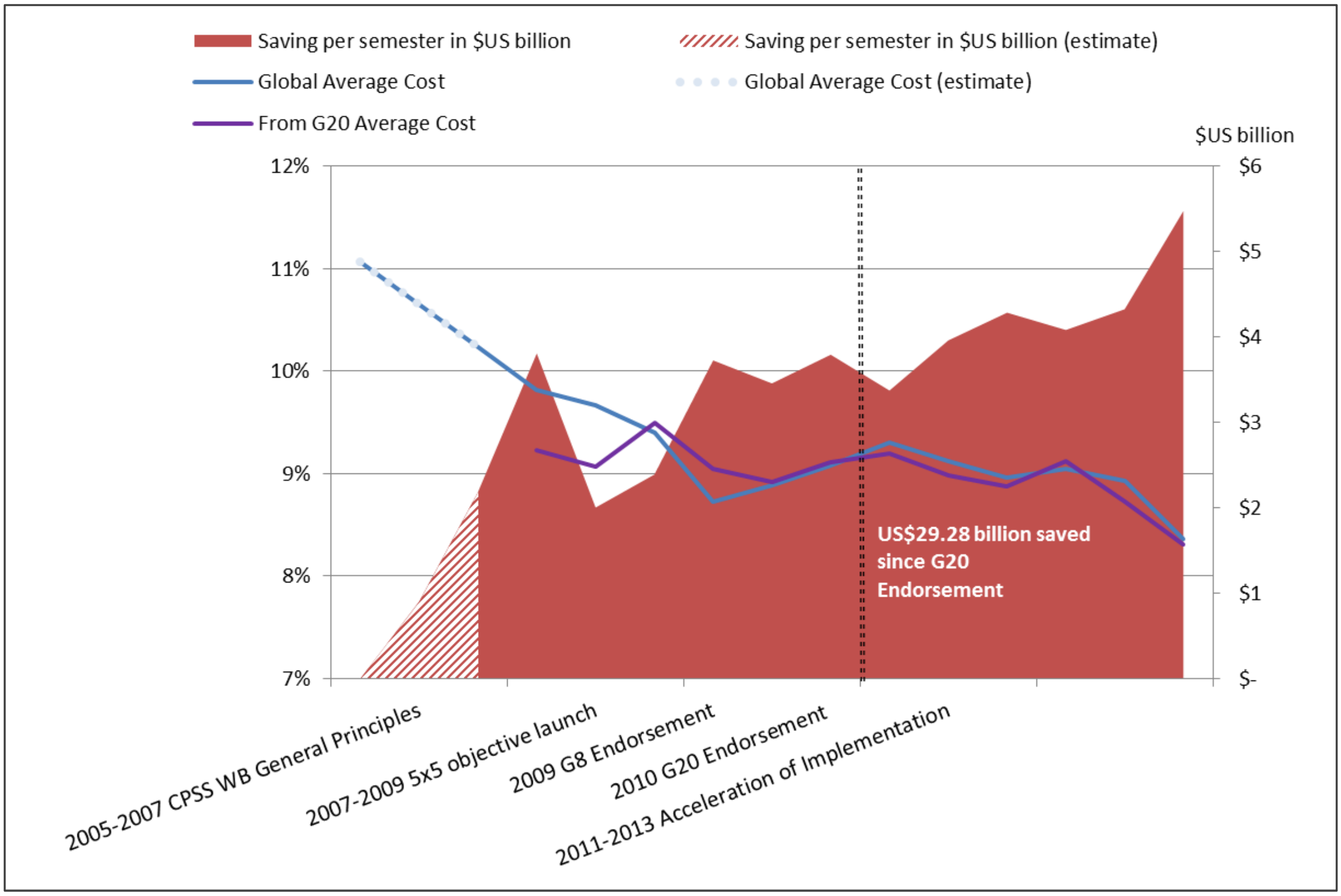
[3] For the "*G20 Remittances Toolkit Policy Tools for the Implementation of the General Principles for International Remittances*", please see Annex I.

[4] The commitment is renewed in the "*Los Cabos 2012 Progress Report of the DWG*" and in the "*St Petersburg Accountability Report on G20 Development Commitments*". Additionally, specific mention to the cost reduction target was included in the "*St. Petersburg G20 Leaders' Declaration*".

The actions adopted by the G20 in the area of remittances

Also as a result of the efforts made by G20 countries since the endorsement of the cost reduction objective in 2010, the cost of sending remittances from G20 countries has declined from 9.11 percent in Q1 2011 to 8.31 percent in Q1 2014. Similarly, the cost of sending remittances to G20 countries has declined from 9.80 percent in Q1 2011 to 8.25 percent in Q1 2014. These efforts, coupled with those already underway since the international community set the goal of reducing the cost of remittances in 2009, have led to a decline in the global average cost of sending remittances from 9.67 percent in Q1 2009 to 8.36 percent in Q1 2014.

Figure 1: US$ 29.28 billion saved since G20 Endorsement



The World Bank estimates that, since the topic of international remittances began to be addressed globally in 2006, total savings of approximately USD 48 billion have been generated for migrants sending money to developing countries. Of this total, nearly USD 30 billion has been saved since the formal commitment of the G20 to the cost reduction (see figure 1 below).[5]

The most relevant G20 collective action towards the achievement of the "5x5 Objective" was the endorsement of the Remittances Toolkit, a set of policy options aimed at reducing the global average cost of remittances and increasing their development benefits. In addition to this, under the umbrella of the G20, the Canadian and Australian governments co-funded a feasibility study on the potential for innovative financing mechanisms to reduce the cost of sending remittances to developing countries, which proposes specific mechanisms for the consideration of G20 member countries and the international community.

At the individual level, in response to the commitments reiterated during the years, the G20 countries have adopted several actions to reduce the cost of remittances and increase their impact on financial inclusion of the recipients in recent years.[6] The actions adopted by the member states cover an array of different categories, generally following the approach of the WB-CPSS General Principles for International Remittances Service (General Principles) and the Remittances Toolkit, and introducing reforms in the area of competition, transparency, consumer protection, legal and regulatory framework, efficiency of the national payment systems infrastructure and financial literacy.

In addition, Australia, France, and the USA have undertaken further efforts to improve the remittances markets worldwide and have established and contributed to special-purpose trust funds. Such trust funds have been activated through the World Bank and the African Development Bank and currently sustain work in several important areas, including the improvement of the payment systems infrastructure, the modernization of legislation, the improvement of competition and transparency, the creation of new financial products, and the increase of local investments for migrants.

Among the different activities implemented by the trust funds, one can mention a series of reforms in Bangladesh, Belize, Jamaica, Guyana, India and Sierra Leone. These activities cover areas such as: a) development of national payment systems and remittances strategies, b) reforms of the legal and regulatory framework aimed at facilitating the disbursement of remittances and market oversight, and c) reforms of the national retail payment systems landscape. Additionally, the funds have allowed the production of several reports and studies, the creation of funding mechanisms for the development of new financial products and the promotion of productive investments in Africa.

[5] Savings estimates were calculated as the difference between the fees paid on remittance flows to developing countries (WB estimates) using the global total average cost in each quarter, according to RPW, compared to the total fees that would have been paid if fees had remained at the levels seen in 2005, before the development of the General Principles.

[6] For additional details on the single actions from the different G20 members, please see Annex II.

While it is difficult to identify which of these actions was adopted as direct response to the G20 debate and which was the result of other policy pressures, it is beyond doubt that the G20 remains the most relevant international forum where the cost reduction topic has received constant attention. As a result, it is likely that the majority of the country-level actions were triggered by the increased attention to the remittances agenda generated thanks to the G20 commitment. The continuous focus maintained by the G20 in pursuit of the "5x5 Objective", and the vigilance with which the WB monitors progress through the GRWG, have kept the debate on the most urgent issues to be solved very much alive.

G20 Achievements and Lessons learned

The main indicator used by the G20 to measure the progress in the remittances area is the global average cost of remittance transfers. This indicator was selected, initially by the G8 and subsequently by the G20, because it summarizes the effects of the positive outcomes of reforms adopted in any of the most relevant areas of this market. Reforms of the legal and regulatory framework governing remittances, improvements of the payment systems infrastructure, or an increase in the level of competition in the market for remittances increase the efficiency of the market and are reflected in the cost of the transaction. Tracking the cost of remittances was therefore identified as the most reliable way to measure the impact of global actions put in place to improve the efficiency of the remittances market.

Table 1: RPW Coverage of G20 Countries in 1Q 2009 and Q1 2014

	Q1 2009	Q1 2014	Changes
Sending Countries (Total)	14	32	
G20 Sending Countries	10	13	Addition of Australia, Brazil, and Republic Korea in 3Q 2009.
Receiving Countries (Total)	72	89	
G20 Receiving Countries	7	7	Receiving countries have remained constant.
Corridors (Total)	134	226	
Corridors from a G20 Country	109	155	
Corridors to a G20 Country	29	40	

The global average cost of sending remittances is tracked by the World Bank Remittances Price Worldwide (RPW) database,[7] which covers 32 remittance sending countries and 89 receiving countries, for a total of 226 corridors. The G20 is well-represented in RPW, where G20 sending countries account for 77.5 percent of the remittance flows covered by the database.[8]

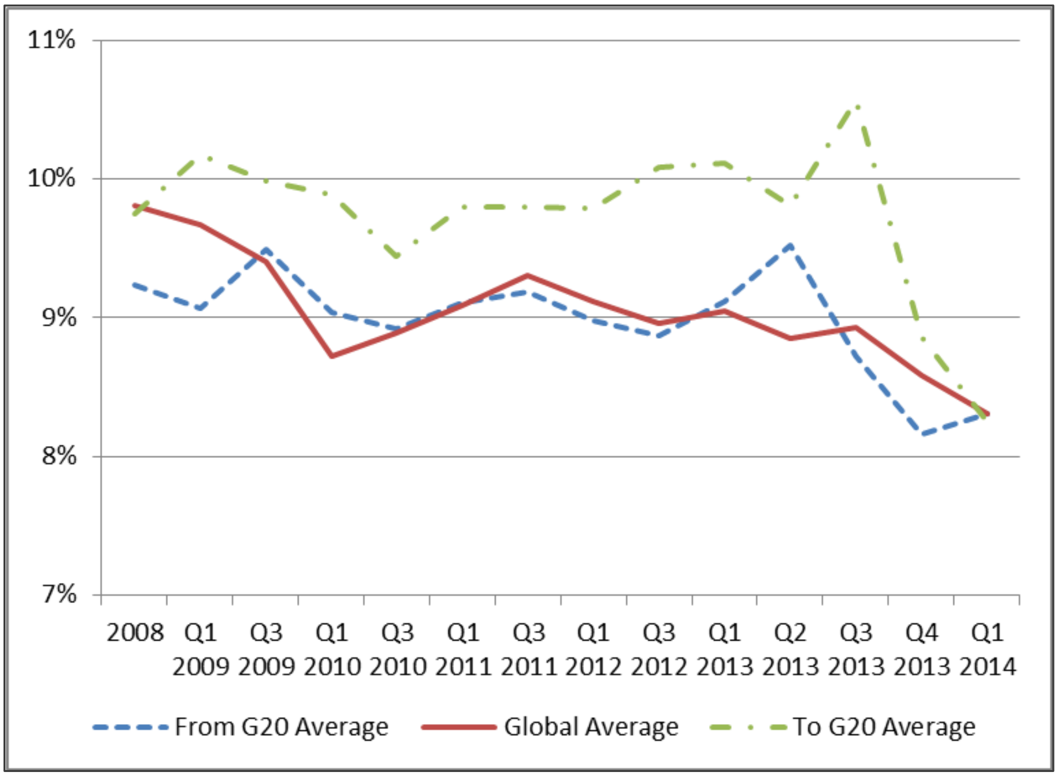
The G20 adoption of a target created the need for an index that specifically monitors the price of remittances in the G20 member

[7] The detailed methodology of RPW is available at the website. It is recognized that data on prices, as well as the data on remittance flows, have their own statistical limitations. However, they are the best available data and are collected following a rigorous and independent approach.

[8] As of Q1 2014, RPW includes 18 G20 member countries, of which 13 are included as sending countries (Australia, Brazil, Canada, France, Germany, Italy, Japan, Republic of Korea, Russia, Saudi Arabia, South Africa, the United Kingdom, and the United States) and other 7 as receiving countries (Brazil, China, India, Indonesia, Mexico, South Africa and Turkey). Brazil and South Africa are included as both sending and receiving countries. Argentina is not included in RPW and The European Union (EU) does not appear as such in RPW, although most EU member countries are included in the database.

countries. As some G20 countries are included in RPW as remittance senders, and others are listed as receivers, two different indexes have been developed; the "From G20 index" tracks the average cost of sending remittances from the G20 member countries and the "To G20 index" tracks the average cost of sending remittances to the G20 member countries (see figure 2 below).

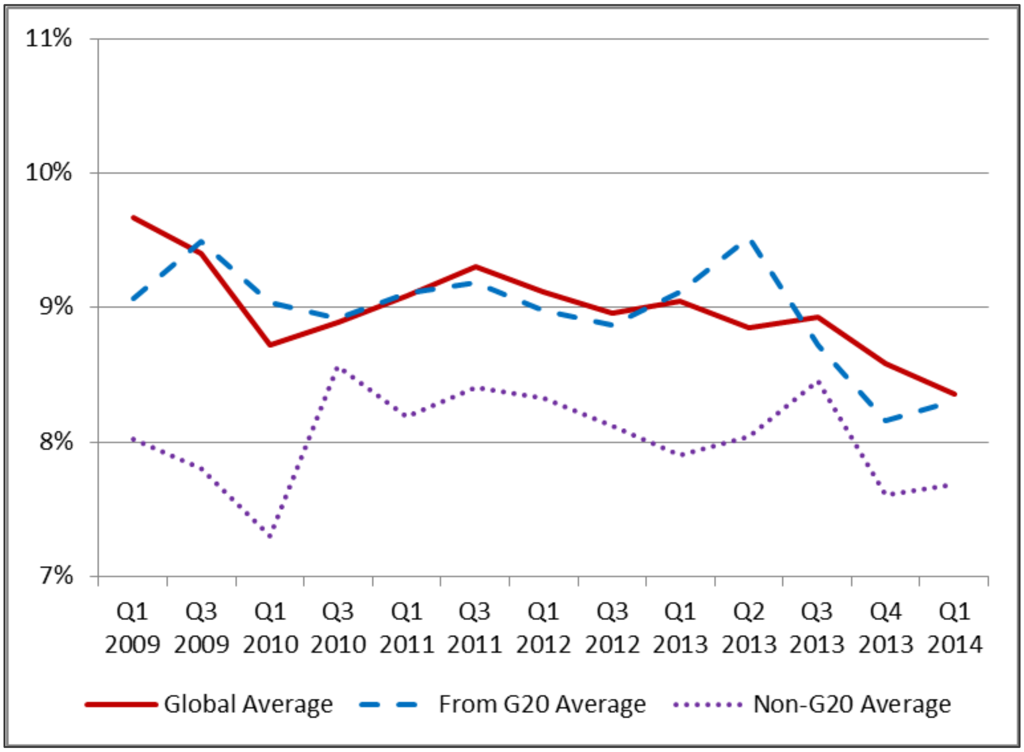
Figure 2: From G20, To G20 and Global Averages (2008 –Q1 2014)



Despite some minor fluctuations, both indicators have decreased significantly over time, showing the effects of the increased attention to this topic and the result of the several actions undertaken by the G20 members in this area.

A similar conclusion can be drawn from figure 3 below, which illustrates the global average, the G20 average and the non-G20 average from Q1 2009 to Q1 2014. The non-G20 countries show a lower average cost than G20 countries, but G20 countries have achieved a decrease that is more than twice as large as that achieved by Non-G20 countries: the cost of sending remittances from G20 countries declined by over three quarters of a percentage point in 5 years, while the cost of sending remittances from non-G20 countries declined by just over a quarter of a percentage point.

Figure 3: G20 Progress vs. Global and non-G20 Countries

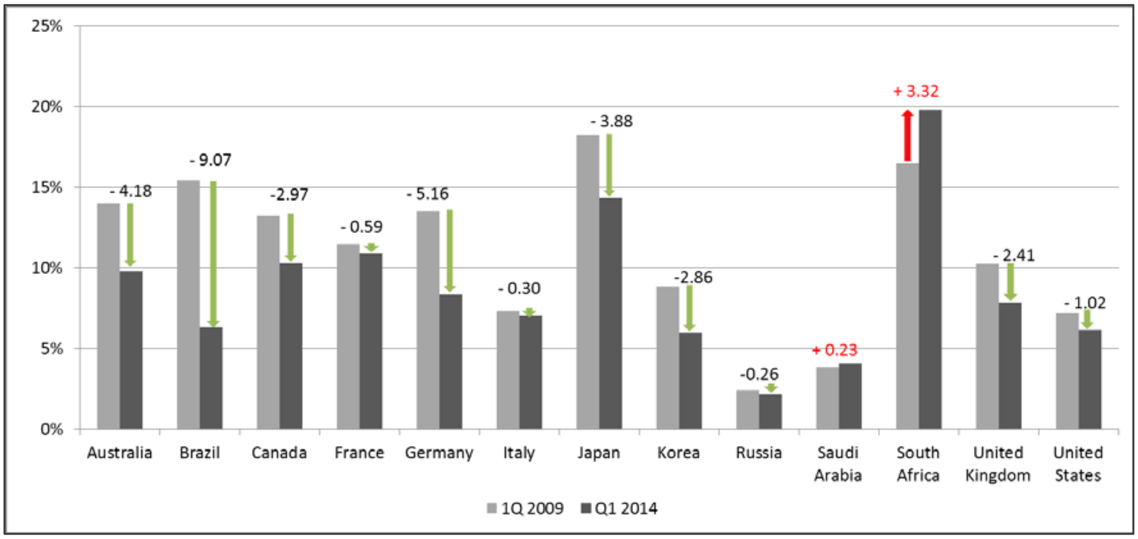


Non-G20 countries for Q1 2014 included Austria, Belgium, Chile, Costa Rica, Czech Republic, Dominican Republic, Ghana, Kenya, Netherlands, New Zealand, Norway, Qatar, Senegal, Singapore, Spain, Switzerland, Tanzania, and UAE.

The analysis of the individual member countries (figures 4 and 5 below) further highlights the progress towards the achievement of the 5x5 Objective. Among the G20 sending countries, since 2009, the cost increased significantly only in South Africa, while all the other countries registered a reduction, which was quite significant in some cases, particularly where the initial cost was substantially higher than elsewhere.[9]

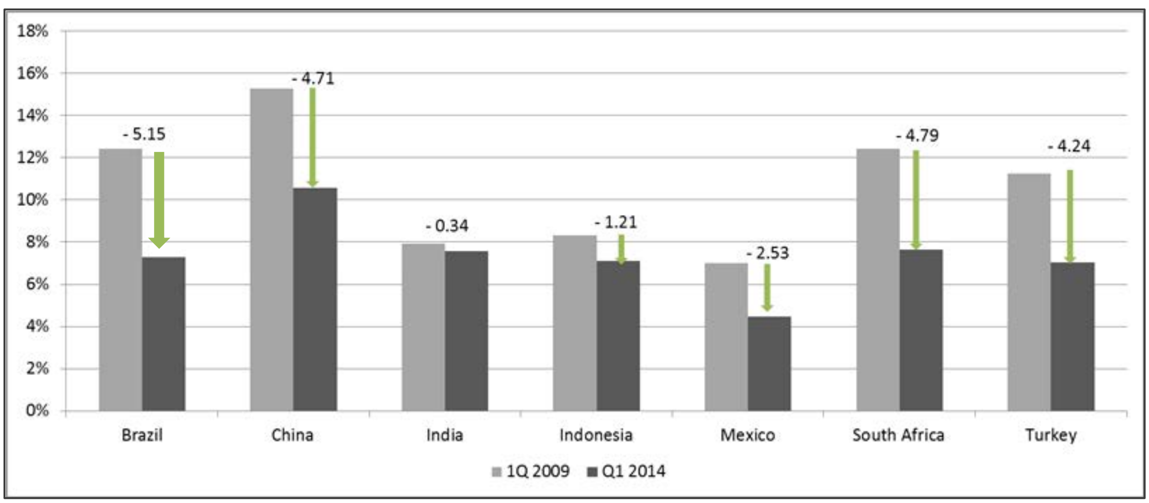
[9] The very small increase in the cost of sending money from Saudi Arabia must be considered in the context that Saudi Arabia already has an average cost that is considerably below the global average and among the lowest in the world. The small increase can be considered as a normal fluctuation of the price around an established average.

Figure 4: Change in Average Cost of Sending Remittances from G20 Countries



Similar considerations are applicable to the G20 receiving countries, where the remittance costs have shown a decline, particularly in those markets where there was more room for improvement.

Figure 5: Change in Average Cost of Sending Remittances to G20 Countries



The analysis of the distribution of the average total cost in brackets of price ranges (see figures 6 and 7) allows highlighting some interesting points:

- The percentage of corridors with an average cost above 20 percent is considerably smaller today than it was four years ago: 4.6 percent of corridors in Q1 2009 compared to just 2.6 percent of corridors in Q1 2014.

- The proportion of corridors with an average cost in the 15-20 percent range has also decreased from 10.1 percent to 7.3 percent in Q1 2009 to 3.9 percent Q1 2014.

- The percentage of corridors with a cost below 5 percent remains stable (19.3 percent in Q1 2009, compared to 23.2 percent in Q1 2014), despite a significant increase in the number of corridors originating in G20 countries (from 109 to 155) during the last five years.

- There was also an increase of the corridors in the 5-10 percent range, from 30.3 percent to 43.9 percent, while the proportion in the 10-15 percent range remained substantially stable at 26.5 percent.

Figure 6: Distribution of Average Total Cost of Sending from G20 Countries (Q1 2009)

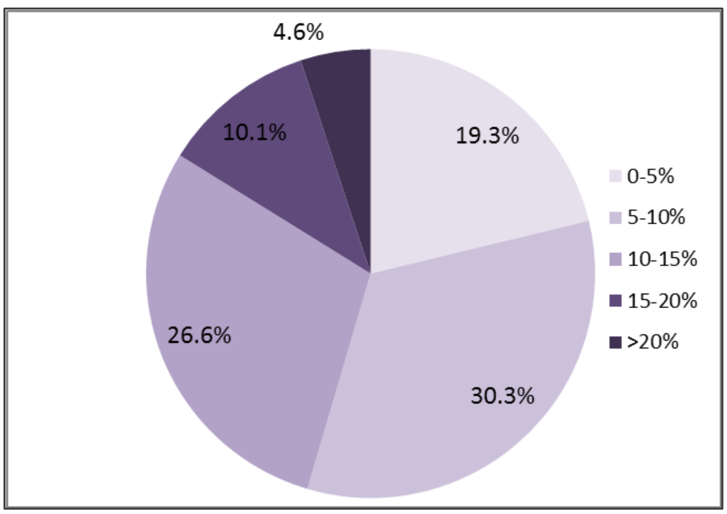
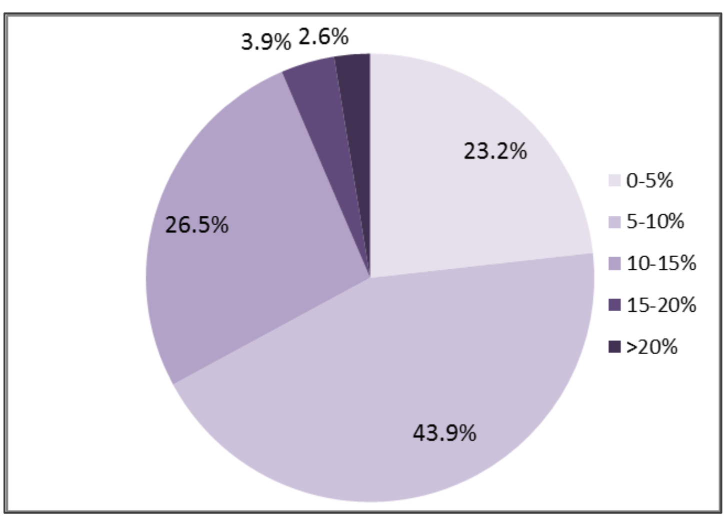


Figure 7: Distribution of Average Total Cost of Sending from G20 Countries (Q1 2014)



To account for the impact of a changing sample of sending and receiving countries, figure 8 compares the trend in the global average and global weighted average, to that of the simple average of the corridors that have been surveyed in RPW since Q1 2009. All three indicators show a progressive decline over the years. In the most recent iteration, the Q1 2009 corridors average continued to diverge from the global average, suggesting that the inclusion of new corridors in the RPW database did not affect the overall picture, but rather, has improved the precision of the indicator by providing a more extensive sample.

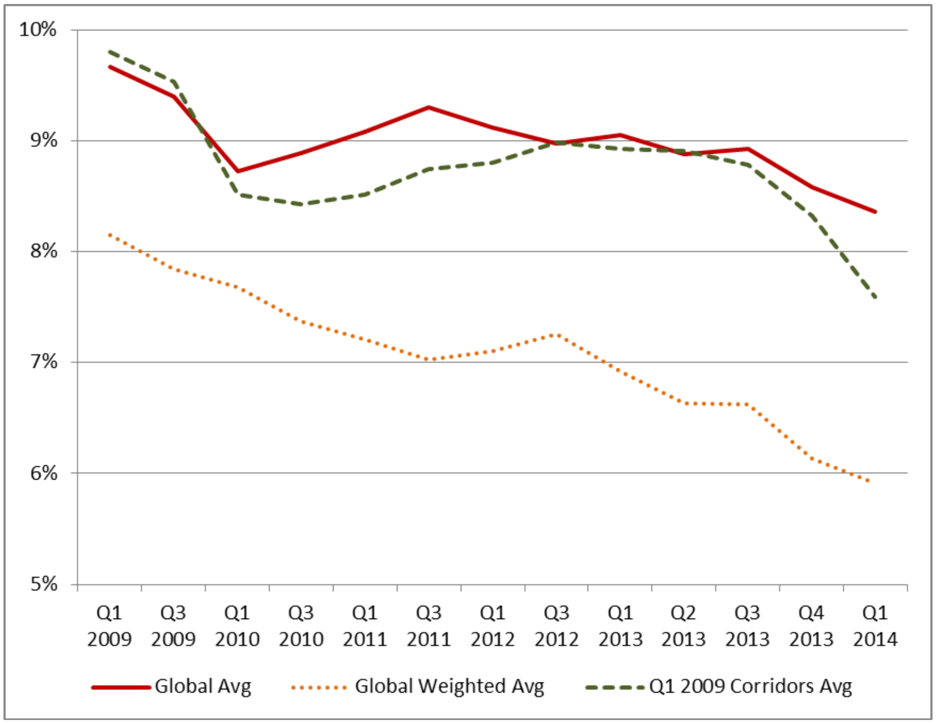
Additional attention should be paid to the global weighted average, which accounts for the relative size of the flows in each remittance corridor.[10]

The global weighted average has fallen below 6 percent for the first time in the history of the indicator, declining from 6.13 percent in Q4 2013 to 5.91 percent in Q1 2014, suggesting that costs continue to decrease where larger volumes are transferred.[11] As figure 8 illustrates, the global weighted average continues to diverge from the global average. In Q1 2014, the global weighted average was 2.45 percentage points below the simple average (double what it was in 2008, when the difference between the two indices was only 1.23 percentage points). This indicates that substantial reductions in cost were achieved in those corridors channelling the biggest volumes of remittances.

[10] It is important to note that, while official data on remittance flows by bilateral corridors are currently not available, estimates have been used in this calculation. These estimates are based on the Balance Of Payments (BOP) and factor in migrant stocks, destination country incomes, and source country incomes. The methodology for these estimates still represents the only available comprehensive dataset on bilateral remittance flows. It also seems likely that overall the dataset is sufficiently accurate to reflect at least the proportion between the different corridors, hence offering a good approximation to weight the relevance of each corridor in terms of flow size.

[11] The global weighted average total cost of sending remittances has, at times, shown a different pattern from the simple average. After declining for the first six consecutive iterations, from 2008 to Q3 2011, the global weighted average increased for the first time in Q1 2012 to 7.10 percent, up from 7.02 percent in the previous iteration. The upward trend continued in Q3 2012, when the global weighted average increased to 7.26 percent, but was reversed in the following quarter. In 2Q 2013, the weighted average decreased to 6.63 percent, down from 6.92 in the previous quarter, and remained substantially stable in Q3 2013, when it was recorded at 6.62 percent. In Q4 2013, however, the global weighted average declined almost half a percentage point to 6.43 percent, and declined even further in Q1 2014.

Figure 8: Global Average, Global Weighted Average and Q1 2009 corridors Average



Looking beyond the simple average cost indicator, it is possible to extract other elements from RPW that provide indications about the global progress in the area of remittances. Figure 9 compares the simple average (mean) of costs of services originating in each G20 sending country to the median and mode values for the same country. In the majority of cases, the middle cost (median) and the most common cost (mode) values are lower than the mean but the range between the values varies significantly by from one country to another. South Africa and Japan are the G20 sending countries with a mode that is significantly higher than its mean, while France and Germany have a median value that is higher than its mean. The highest variance between the mean and the other values is seen in the case of Australia, where the mode is 5.80 percentage points lower than the mean and the median is 1.94 percentage points below the mean.

Figure 9: Average Total Cost of Sending from G20 Countries vs. Median and Mode Values

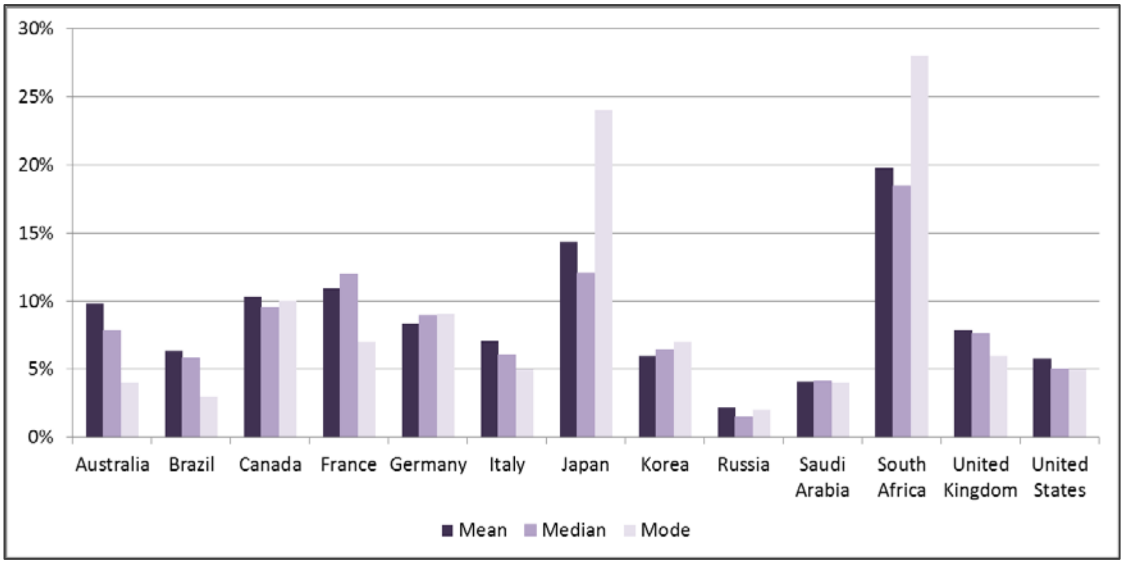
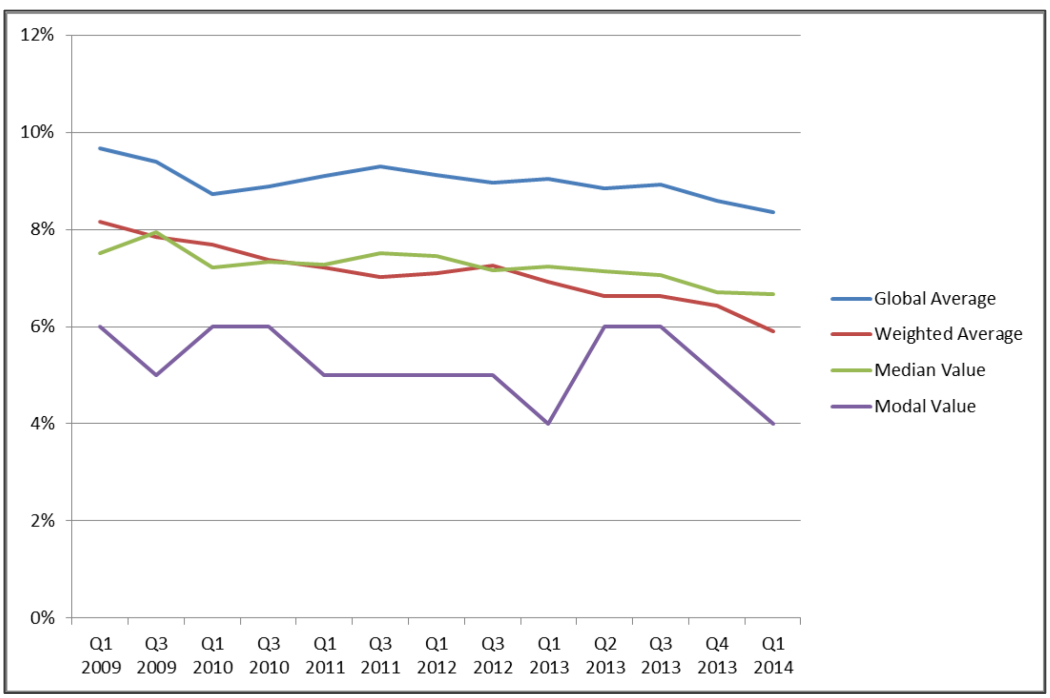


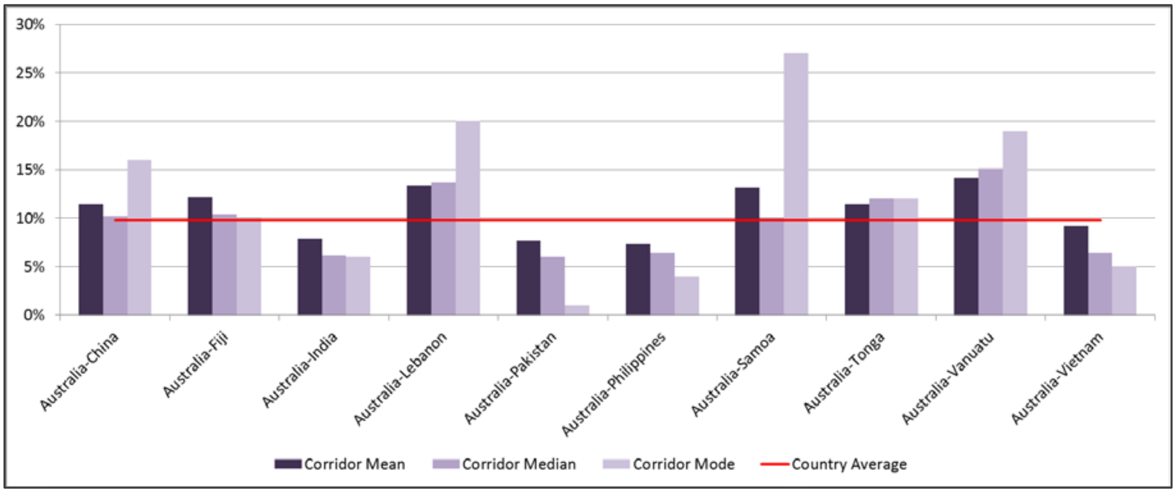
Figure 10 presents the same analysis on a global level and illustrates that both the mode and median values have consistently been below the global average since the inception of RPW in 2008. This suggests that while the enduring presence of high cost remittance services keeps achievement of the "5x5 Objective" at bay, the most common cost of services (mode) is currently below 5 percent.

Figure 10: Global Average vs. Global Median and Global Mode (2008 – Q1 2014)



The following chart illustrates the differences between the average cost (mean), middle cost (median) and most common cost (mode) of sending money home along corridors originating in Australia. These differences better illustrate the true cost of sending money along these corridors. For example, the average cost of sending money from Australia to Vietnam is just above 9 percent, but the most common cost of such services is only 5 percent, suggesting that while there are some expensive services, this corridor is well-covered by competitive, low-cost services.

Figure 11: Mean, Median and Mode for Corridors Originating in Australia (Q1 2014)



These findings suggest that in many countries it is possible to offer remittance services at a low price, and some providers are indeed already doing so. On the other hand, more expensive services still prevail due to factors that vary from one country to another. For example, in some cases, the lack of transparency in the market may be preventing consumers from making fully informed choices. In other cases, the presence of dominant players may be preventing cheaper services from emerging or gaining significant market share. Finally, in some instances the obstacles may be found in the receiving markets, where the providers offering more competitive prices may not be in the position to fully expand their network. This is generally either an effect of exclusivity agreements imposed by dominant players to restrict agents from offering the services or their competitors or the effect of restrictive regulations on the type of agents allowed to provide remittances services.

An analysis of the status of the progress towards the G20 remittances target would not be complete without acknowledging that the "5x5 Objective" will most likely not be achieved by its deadline, at the end of 2014. The objective has proved to be more difficult to achieve than was initially forecasted and its achievement requires additional efforts and time. Considering the progress made by some countries, it is likely that the "5x5 Objective" could reasonably be accomplished by the G20 countries in the medium term, probably by the end of

2017. This goal will certainly require additional efforts, both at collective and individual country level, in order to remove those obstacles that are still present in some markets and prevent other problems from hampering the obtained results.

Increasing the development impact of those remittances received by households is as important as the objective of reducing their cost. In light of this, the links between remittances and the broader financial inclusion agenda will allow to leverage the work in both the areas and integrate them in a more coherent way. Similarly, the increased role of the private sector in the innovation of the payment systems market can represent an opportunity for the G20 members to confirm the cost reduction achievements. Both these elements of discussion are analysed in the following section of the report.

Future G20 actions on remittances

Despite the challenges and setbacks, the progress indicated by the RPW data analysis, in particular the cumulative estimate of USD 48 billion saved by migrants and their families (see figure 1 above), points to the effectiveness of combining high-level political commitment and concrete actions.

As efforts and commitments on remittances continue within the G20 and the focus is broadened toward other areas of intervention, it is still important to maintain the current level of attention to the issue of cost reduction. **Without continued attention, further improvements would not be possible and the achievements of the last few years could be lost, with the potential risk of reversing to higher cost levels.**

The G20 can identify and promote additional actions to strengthen the link between remittances and financial inclusion, and stimulate the private sector to develop more innovative products, including through the use of technology. In particular, G20 initiatives can leverage on the continuous development of electronic retail payment systems, the increasing availability of accounts designed to be accessible to low-income customers (such as 'basic' bank accounts), and improvements in credit assessment techniques to incorporate data beyond repayment on loans (such as data on remittance receipts).

In addition, the G20 should focus on taking action in the following key areas:

The global problem of access to bank accounts for Remittance Service Providers. It would be highly opportune that the G20 countries collectively commit to removing any hindrances preventing non-bank remittance service providers (RSPs) such as money transfer operators, microfinance institutions, cooperatives and other potential networks from having access to the domestic payment system infrastructure, even indirectly.

The G20 has the opportunity to act in this area via the endorsement of high-level principles, combined with the joint collaboration with relevant standard setting bodies, including the Financial Action Task Force (FATF) and the Committee on Payment and Settlement Systems (CPSS), and promote a more intense dialogue with the private sector and an increased collaboration among the national regulatory authorities (i.e. central banks and financial investigation bodies).

In several sending countries around the world, banks are refusing to provide banking services to non-bank RSPs, thereby preventing them from accessing the payment systems infrastructure.

Additionally, the banks that do provide banking services to RSPs have recently started significantly increasing the cost of such services.[12] This situation presents the

[12] For additional elements on this topic, please see the WB GRWG special purpose note "Barriers to Access to Payment Systems in Sending Countries and Proposed Solutions", available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1359488786791/barriers_web.pdf

tangible risk of rapidly decreasing the level of competition in the affected markets and considerably increasing the cost of remittances worldwide.[13]

Considering that the majority of the remittance flows to developing countries (77.5 percent) comes from G20 sending countries[14], the G20 has a legitimate interest in guaranteeing that service providers are able to access bank account facilities, provided they meet appropriate standards in terms of financial probity and are compliant with regulations, including anti–money laundering and combating financing of terrorism (AML/CFT) legislation.

Remittances and financial inclusion agenda

Reducing the cost of remittances results in an increase in net remittance receipts, and can contribute to growth and poverty reduction in recipient countries. The impact of remittances on development can also be enhanced through measures to improve consumer protection, raise levels of financial awareness of senders and recipients, make use of remittance flow data in lending decisions, and improve the ability of remittance senders and recipients to access broader financial services. The link between remittances and access to a regulated deposit account is particularly relevant, as use of savings has been demonstrated to have important poverty reduction impacts.[15] For example, two separate studies found that increases in savings deposits, in particular of 'commitment savings', led to increased investment and higher household expenditures (Ashraf, Karlan, and Yin, 2006; Brune et al., 2011). In this regard, initiatives could be put in place to foster savings behaviour of remittance recipients by, for example, creating incentives for them to hold part of their funds in savings accounts (see below).

Improved access to accounts that offer both payment and deposit services

Regulated deposit accounts can be made available to lower income, unbanked and rural remittance recipients, through a range of mechanisms. World Bank research (Demirguc-Kunt, Klapper, 2012) has illustrated that the cost of opening and maintaining an account directly affects the level of financial inclusion.[16] Bank branches, regulated non-banks such as cooperatives, and post offices can all provide a more

[13] It is estimated that before Barclays' decision to reduce its involvement in the remittances business in the UK there were around 160 Authorised Payment Institutions (API) that were money remittance companies (about half of the total APIs). Over 80% of them had a bank account with Barclays and today only between 10 and 15 operators are still operating through Barclays. Those that have had their accounts closed had to find a series of alternative solutions among which: a) finding another bank account, b) becoming an agent of another operator, c) using cash collection companies that manage the collection and distribution of cash on behalf of the RSP, d) hand-carrying payout amounts to the destination country, and e) closing down or suspending their activities. All the above measures either have increased RSPs' operating costs or have caused a reduction in the level of the competition.

[14] World Bank (2012) Bilateral Remittance Matrix, updated October 2013.

[15] As noted in the 2014 Global Financial Development Report, a range of randomized controlled experiments find that providing individuals with access to savings accounts or simple informal savings technologies increases savings (Aportela 1999; Ashraf, Karlan, and Yin 2006), (Ashraf, Karlan, and Yin 2010), productive investment (Dupas and Robinson 2011, 2013), consumption, investment in preventive health, productivity, and income (Ashraf, Karlan, and Yin 2010; Dupas and Robinson 2013).

[16] Using data from 123 countries, Demirguc-Kunt and Klapper (2012) found that the likelihood of owning an account would be, on average, 11 percentage points higher if the costs of opening and using a bank account were perceived as low to negligible instead of as medium to high.

traditional customer service. Access points which can be viable even in smaller communities, such as ATMs, agents, and points of sale, are rapidly increasing in coverage. Payment cards and mobile phones can also provide access to certain financial services linked to accounts.

Many countries are introducing "basic bank accounts", which are designed to be accessible to low income customers while offering entry-level financial services including savings and payments. The EU has referred to 'payments accounts (see box 1) as enabling the recommended 'guaranteed access to a range of basic payment services'. Ensuring that basic bank accounts are sufficiently flexible, in terms of design and fees, to be sufficiently attractive to both providers and low-income customers is critical, as illustrated by the experience of the South African "Mzansi" account.[17] While regulating fee levels for such accounts can be counterproductive (if banks try to avoid offering the accounts as a result), low income consumers need a degree of protection from high fees and non-transparent practices. Some countries have also allowed a limited degree of deposit-taking by payments service providers, with restrictions on how those funds can be used and implemented complementary consumer protection and financial awareness measures.

[17] See also, South Africa Economic Update: Focus on Financial Inclusion, World Bank, 2013. (http://www.worldbank.org/content/dam/Worldbank/document/Africa/South%20Africa/Report/south-africa-economic-update-2013.05.pdf) and Bankable Frontier Associates. 2009, "The Mzansi Bank account initiative in South Africa" Report commissioned by FinMark Trust.

Box 1: Relevant EU recommendations or directives concerning access to accounts

- Consumers who are legally resident in the Union should not be discriminated against by reason of their nationality or place of residence, or on any other ground referred to in Article 21 of the Charter of Fundamental rights of the European Union when applying for, or accessing, a payment account within the Union. Furthermore, access to payment accounts with basic features should be ensured by Member States irrespective of the consumer's financial circumstances, such as their employment status, level of income, credit history or personal bankruptcy.

- Member States should ensure that payment accounts with basic features as referred to in this Directive are offered to consumers by all payment service providers that operate in general retail payment services and offer payment accounts as an integral part of their regular business. Access should not be overly difficult and should not entail excessive costs for consumers. The right to access a payment account with basic features in any Member State should be granted in accordance with Directive 2005/60/EC of the European Parliament and of the Council, in particular with regard to customer due diligence procedures.

- Consumers should be guaranteed access to a range of basic payment services. Member States should ensure that, provided that a payment account with basic features is operated by the consumer for personal use, there are no limits to the number of operations which will be provided to the consumer under the specific pricing rules laid down in this Directive.

<u>The following objectives could be considered by the G20 as potential areas of commitment:</u>

Promoting engagement with migrant communities and financial literacy among senders and recipients

G20 countries could start promoting projects to increase the awareness of the topic of remittances both within migrant communities and the public administrations that most frequently interact with them. The creation of knowledge and competencies in areas densely populated by migrants can generate interaction and efficiency gains for both the authorities and the migrants, as proved by the initial positive results of the WB project "Greenback 2.0 – Remittances Champion Cities", currently being implemented in Italy and France, and to be soon launched in Germany and the UK. Many of the policy efforts so far have concentrated on providing financial literacy training to either migrants (remittance senders) and their families in the country of origin (remittance recipients). While migrants were mainly targeted through seminars delivered prior to their departure or while they are abroad, financial literacy programs were often extended to recipients upon the collection of their remittances. Recent research shows that targeting not only remittances senders but also their families is expected to deliver more promising results. Providing financial literacy to migrant workers and their families at a teachable moment, when they are more likely to be receptive to new information as they can relate it directly to their own lives can have huge value too. Pre-departure programs could reach intended migrants prior to leaving their country of origin and provide an opportunity to make migrants and their families aware of the different methods of sending and receiving remittances. At that time they will not yet have formed any habits on how to effectively manage their new and relatively higher earnings and could, thus, be more receptive. Simple actions such as providing guidance on budgeting, record-keeping, and financial planning can help migrant workers -and their families- gain control over their financial lives and make realistic plans for the future. Actions on financial literacy would leverage existing work streams, also within the G20 space.

Facilitating remittances to rural areas

It is estimated that up to 40 percent of international flows of remittances are sent to rural areas. While this represents a considerable amount of flows, there are still a host of major challenges in transferring remittances to rural recipients, together with high associated costs. Addressing these challenges is essential in order to increase the potential impact remittances can have in these areas. While financial service providers naturally focus on urban areas, there are great opportunities in rural areas for institutions willing to adopt a tailored approach. The range of payments to rural areas includes domestic and international remittances, government pensions, and investments in MSMEs, among others. Both the improvement of the payments infrastructure of the receiving countries and the expansion of the payout locations would certainly facilitate easier access to remittances flowing to these areas. Therefore, it is necessary to leverage the presence in rural areas of financial institutions and other networks that have the potential to serve remote and isolated areas, such as postal operators, micro-finance institutions and others. The expansion of the disbursing networks is particularly relevant for South-to-South corridors.

Promoting access to credit or savings for migrants and recipients

Some migrants and remittance recipients have the intention of investing in businesses in their home countries but lack financing, or need access to working capital for existing microenterprise or SME activities. If financial institutions considered remittances as a relevant source of income/a reliable repayment source and used remittances as a relevant factor in their evaluation of credit worthiness (borrower due diligence), this could contribute to increased access to credit for remittance senders and recipients. Low income senders and receivers are often not considered creditworthy by banks in the sending and receiving countries respectively. In this regard, it would be worth exploring the possibility of developing new modalities to foster the inclusion of remittances in the evaluation of creditworthiness and link remittance recipients to accounts, thereby opening up access to credit and other financial services specifically targeted for remittances receivers and aimed at providing tailored support to their needs.

In parallel, the support to financial institutions willing to invest in the remittance business should be fostered, in order to offer affordable credit to migrants and their families. This will allow microenterprise investments, with potential multiplier effects of increased revenue and job creation in the local communities.

Enhancing women's ability to manage remittances and use them as a gateway to financial inclusion

Women account for a significant and growing number of migrants, making it vital to understand the gender impacts of migration. The dynamics of how women and men send money home are significantly different; women tend to remit less[18] because of their lower income position and occupations - such as domestic work. Therefore, the frequency and the amounts women send are less stable and subject to higher levels of fees. Additionally, in order to guarantee that remittances play a role in supporting the enhancement of the woman as a reliable source of income and as a trustworthy manager of the flows, it is important to ensure that both sending and receiving women can be empowered through their remittances and have the possibility to choose how to send and manage those flows. This challenge is a broad one, as there are a wide range of constraints facing women in benefitting from financial services, linked to ownership of assets, borrower information, financial capability, and use of bank accounts. Global Findex data shows significant differences in levels of account ownership for women in some regions and countries, which can inhibit women's ability to benefit from remittance-linked financial products. In developing economies, women are 20 percent less likely to have an account than men (Demirguc-Kunt & Klapper, 2012).

Providing financial access through financial education and financial services can help women reach greater levels of independence. An increased financial access would find fertile ground because women are more willing to obtain financial access and are better financial managers. For example:

1) Although female remittance recipients in rural Mexico earn and save 70% of what men earn and save respectively, when provided with financial access (savings or loans), as many women as men take advantage of the services offered.[19]

2) An EBRD funded project on financial education showed that although 44% of women owned a financial product against 50% of men, 74% and 50% of women saved and budgeted respectively, against 70% and 38% among men.

3) An assessment of a World Bank project with primarily female migrant workers from Indonesia found that financial literacy training for both the migrant

[18] Agarwal, R. and A.W. Horowitz. 2002. "Are International Remittances Altruism or Insurance? Evidence From Guyana Using Multiple-Migrant Households." *World Development*. Basem, Lawrence and Douglas Massey. 1992. "Determinants of Saving, Remittances and Spending among U.S. Migrants in Four Mexican Communities." *Sociological Inquiry*, Volume 62. Hoddinott, J. 1994. "A Model of Migration and Remittances Applied to Western Kenya." *Oxford Economic Paper.* Orozco, Manuel, B. Lindsay Lowell, and Johanna Schneider. 2006b. "Gender-Specific determinants of remittances," Institute for the Study of International Migration, Georgetown University. Semyonoy , Moehe and Anastasia Gorodzeisky. 2005. "Labor Migration, Remittances and Household Income: A Comparison between Filipino and Filipina Overseas Workers Migrant remittances in Thailand: economic necessity or social norm?" *The International Migration Review* 39(1): 45-68. Vanwey, Leah. 2004. "Altruistic And Contractual Remittances Between Male And Female Migrants And Households In Rural Thailand." *Demography*, 41(4): 739–756.

[19] Financial advising experience among the Mexican association of rural banks November 2013.

worker and the family member entrusted with receiving remittances, resulted in increased financial capability, higher levels of savings, and improved financial management (Doi, McKenzie, Zia, 2012).

Remittances and retail payments innovation

Over the last few years remittance service providers (RSPs) have innovatively used new technologies to overcome the limits and the inefficiencies of the payment systems infrastructure in some developing countries. Many retail payment systems exist today that have the ability to process remittances efficiently, but they are often proprietary, stand-alone solutions, not interconnected or otherwise with limited scalability. This often means, for example, that banks and other payout networks in the receiving countries need to operate multiple systems for the various RSPs they do business with - and develop the required expertise to do so - or need to connect their internal systems to a large number of different RSP systems, which is generally costly and time consuming. Innovative remittance and retail payment systems are, nevertheless, desirable features in the marketplace.

Examples in a number of countries have shown that sharing infrastructure (e.g. through increased interoperability of payment systems) can enable RSPs to establish remittance services to new destinations quicker, at lower cost and with significant benefits to all parties involved. The emergence of specialized service providers to connect sending and receiving RSPs can produce significant efficiencies and cost savings by facilitating standardization, spreading costs over many parties and reaching economies of scale quicker.

New technologies, including mobile telecommunication, are increasingly used to overcome infrastructure limitations and have demonstrated potential to expand the reach of existing payment systems, or even to function as the backbone of new payment systems. Electronic payments offer lower operating costs for RSPs and lower prices and increased convenience for consumers. While the majority of remittances are still sent from and received in physical locations using cash, new online and mobile phone services[20] have grown fast in some markets and demonstrated their potential to reduce costs. Developments in competitive remittance markets have shown that increased cooperation of RSPs by combining distribution networks and the creation of open remittance networks that can be used by a number of market participants can greatly enhance efficiency and reduce costs.

In this space, it is paramount the role of the private sector as main driver for innovation and provision of technological solution to the lowest income part of the population. A continuous engagement of the private

[20] There are several examples worldwide of internet and mobile based RSPs. Among them, it is certainly interesting the case of Times of Money/Remit2India, an internet funds transfer platform able to offer a flexible and efficient platform used by financial service providers in India to develop branded remittance products. In terms of mobile based products, the most renowned is Smart and GCash Mobile Remittances in the Philippines, where the sender pays cash to one of the partner RSPs, in return for which the RSP sends a secure text message to the mobile phone of the receiver in the Philippines. The effect of this text message is to load e-money onto that phone, which the receiver can then either transfer by a further text message to the phone of another person or to an agent of the telecom company.

sector in the international debate on remittances and financial inclusion is an important factor to foster additional investments and innovation in this space. At the country level, creative and effective public-private sector partnerships could be designed and activated to increase the dialogue among the different stakeholders in this area and find solutions that can balance public policy objectives and private sector goals. In this context, “Greenback 2.0 – Remittances Champion Cities” might be used as a “Lab” to test innovative approaches.

Conclusions

The G20 has the chance to introduce or catalyze a set of measures to expand the work undertaken in the reform of the global market for remittances, and to strengthen links to financial inclusion.

Further options for G20 measures include the following:

1. Making calls to action, inviting the member countries to adopt concrete reforms to obtain policy goals and quantified targets, like the "5x5 Objective" or others;

2. Convening power around a specific topic, increasing the focus of the international community and influencing the outcomes by fostering dialogue and collaboration (for example, to solve the pressing problem of access to bank accounts for non-bank RSPs);

3. Endorsing high-level principles for specific areas or topics, similar to what was done for the GPs and the Remittances Toolkit and in line with the existing international standards, interacting with the industry and establishing guidelines for national bodies on how to reform the remittances market;

4. Strengthening and broadening the current dialogue with global regulatory bodies, allowing the fine-tuning of targets such as transparency, integrity, stability, inclusion and efficiency and the identification of operational mechanisms compatible with the international standards and best practices; and

5. Funding projects/pilots via the existing national, regional and global implementing agencies, paying particular attention to those activities that can foster consumer friendly innovation and obtain measurable results, without altering the level of competition in the market. In this sense, the proposals stemming from the feasibility study on innovative financing mechanisms to reduce the cost of sending remittances to developing countries, co-funded by the Canadian and Australian governments, should be further discussed within the G20 Global Partnership for Financial Inclusion. This should include an active involvement of the private sector.

6. Sharing lessons learned from prior actions to reduce the price of remittances, countries' progress in achieving the goals of the 'General Principles,'" and/or progress in linking remittances to financial inclusion goals.

7. Focusing future efforts on South-to-South corridors, aiming at reducing the cost of transferring remittances in those corridors where the average cost is higher and where the reduction would have a higher impact. In South-to-South corridors migrants tend to remit lower amounts and the current high costs impact migrants proportionally more than elsewhere.

In sight of the deadline for the achievement of the "5x5 Objective", the G20 has the opportunity to renew its collective commitment to the cost reduction objective and, in parallel, introduce a new indicator to measure the advancements in the area of remittances and financial inclusion.

The G20 Financial Inclusion Indicators can be used to monitor the impact of G20 measures in this area, complemented by the cost savings indicators monitored by the World Bank. For example, the number of accounts used within the population of each country to receive or send payments (including remittances) could serve as a relevant indicator of how combined actions in the area of remittances and financial inclusion could achieve relevant results in both increasing the efficiency of the remittances market and in fostering access to basic financial tools among the population. An additional indicator could be identified in the percentage of remittance senders/recipients with an account at a formal financial institution.

In terms of policy guidance, the G20 Remittances Toolkit remains a reference point for all the countries to continue working on the achievement of more competitive, safer and more efficient markets, in strict compliance with the GPs and the Guidance Report for their implementation.[21]

In this area, the intervention of the G20, as representative body of all the member countries, has the added value of convening attention towards a topic like remittances, where a global and coordinated approach has a transformational potential much higher than that of actions by individual members. As proved by the experience of the "5x5 Objective", the global attention to the topic of remittances has reached out to all the stakeholders in the market and beyond, becoming a pressing element of attention for regulators and industry worldwide, and triggered a set of reforms that would not have been achieved otherwise.

The increased attention of the G20 to the topic of retail payments development could certainly foster the achievement of innovative solutions by the industry. The complexity of constructing a payments channel that complies with the requirements in two or more jurisdictions may require the extensive involvement of central banks, other regulators, payment system operators, banks and bankers' associations and other industry representatives from both jurisdictions.

The G20 has the potential to provide policy guidance and use its convening power around the objective of innovation, to increase the dialogue with the private sector and further encourage those initiatives that have the potential to increase efficiency in the market.

With the intent of opening the discussion on the future work of the G20 in this field, the recommended list of actions for the G20 in this area could be summarized as follows:

a) Short term:
    i) Commit to addressing the problem of access to bank accounts for operators in the remittances market, in compliance with international standards, in dialogue with national regulators and industry and in collaboration with

[21] Available at http://siteresources.worldbank.org/FINANCIALSECTOR/Resources/282044-1360600536890/WB2012_CPSS.pdf

the relevant standard setting bodies (i.e. FATF),

ii) Maintain a high level of attention to cost reduction, with confirmed G20 and national commitments to targets in line with the “5x5 Objective”,

iii) Take into account the linkages between remittances and financial inclusion in the workplan of the new GPFI sub-group on Market and Payment Systems proposed by Australia, and

iv) Evaluate the possibility to coordinate the work of the newly formed sub-group to the work of others, in particular the Financial Literacy and Education subgroup and its activities with vulnerable groups, including women, migrants and youth. This action could potentially convey through the medium-term.

b) Medium Term:

i) Identify and support measures to expand the coverage of remittances access points in developing countries, and increase the level of interoperability among networks and open access for all the participants in the market, avoiding exclusivity conditions;

ii) Increase the linkage with financial inclusion objectives, in particular through a focus on improving access to deposit accounts for remittance senders/recipients, and raising levels of engagement with migrant communities and financial literacy of migrants,

iii) Provide models (country examples) and funding for lower income countries to introduce reforms and initiatives to enable remittance recipients to access and make use of deposit accounts, through the Financial Inclusion Support Framework or other country support mechanisms, for example; and

iv) Commission research and analysis from the World Bank Group and others to increase understanding of barriers facing women in benefitting from remittances, and identify measures to address those barriers.

c) Long Term:

i) Identify and support measures to enhance the efficiency of the retail payment infrastructures in developing countries, allow the provision of new technological solutions and increase coverage and efficiency of the market.

Results Framework:

Some of the proposed objectives can be measured against precise indicators, in order to measure success of G20 interventions:

- For the activities related to addressing the problem of access to bank accounts, the percentage of non-bank RSPs that in each country, or in a given selection of countries, are denied a bank account for the purposes of their business (the fewer the better), or that have access to at least one bank account for the purposes of their businesses (the more the better). Responsibility to monitor this indicator relies on the national payment system overseer or other competent authorities.

- For the activities related to the global cost reduction, the current mechanisms and indicators provided by the WB RPW database.

- For the expansion of the pay-out networks in developing countries, the number of disbursing locations in a given receiving country, weighted with the average number of services available in each location, to measure the level of competition in the market.
- For linking remittances with accounts and other financial services, the Global Findex data can be used to monitor access to regulated deposit accounts for remittance senders and recipients, through some ad hoc assumptions based on available data by Findex or on new researches and investigations.

- A Financial Knowledge score (which can be generated from World Bank and OECD Financial Literacy surveys) could potentially be measured for migrants, to monitor improvements in financial awareness and capability over time.

ANNEX I

G20 Remittances Toolkit Policy Tools for the Implementation of the General Principles for International Remittances

At the G20 Seoul Summit in November 2010, G20 leaders reiterated the importance of facilitating international remittance flows and enhancing their efficiency to increase their contribution to growth with resilience and poverty reduction. The G20 also committed to reduce the global average cost of remittances: "*The G20 remittances toolkit provides countries with a selection of policy options aimed at reducing the global average cost of remittances and increasing their development benefits. G20 countries can select specific and concrete actions relevant to their specific remittance market. The toolkit provides country specific examples, however these should be adapted to meet different country contexts. The toolkit builds upon previous work, including the 2009 Rome Road Map for Remittances, the* CPSS - World Bank General Principles for International Remittance Services[22] and the *World Bank's report and Guidance Note on the implementation of the General Principles".*[23]

MEASURES TO INCREASE COMPETITION

1. Establish a remittance price comparison website (Principle 1: Transparency and Consumer Protection): The General Principle for International Remittance Services 1 addresses the need to ensure that remittance service providers (RSPs) disclose all fees and the foreign exchange rate that apply to their service, that RSPs can be trusted, and that consumers have recourse in case of problems RSPs.

Some countries have established public websites that list available RSPs and the terms of their services including fees, foreign exchange rates applied (where necessary) and delivery times. The objectives of the price comparison websites are: a) to increase transparency; b) to promote lower cost options; and c) to foster competition between RSPs in order to drive down prices.

G20 countries that do not have a remittances price comparison website may want to put one in place or consider sponsoring national or regional initiatives to establish one.

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[22] General Principles for International Remittance Services, Bank for International Settlements, Basel, Switzerland, Committee on Payment and Settlement System and World Bank, January, 2007.

[23] Since remittance transfers are also a form of retail payment, the CPSS reports on "Policy Issues for Central Banks in Retail Payments" may be helpful in addition to the General Principles, and also the report on "General Guidance for National Payment System Development". Bank for International Settlements, Basel, Switzerland, Committee on Payment and Settlement System, March, 2003.

Guidance
Price comparison websites require the regular survey of RSPs and the costs of their remittance services and to make this information available on a public website. To ensure that the price comparison website is effective, it should be promoted through media and services targeting. The World Bank offers technical assistance for establishing price comparison websites and can certify the compliance of national and regional websites to its compliance and methodological standards (see www.remittanceprices.worldbank.org).

2. Improve market access (Principle 4: Market Structure and Competition)

The General Principle for International Remittance Services 4 states that competitive market conditions should be fostered in the remittance industry**.** In certain countries the network for the collection and/or disbursement of remittances can be limited, and in some cases restricted to only a few entities, such as banks. In addition, dominant money transfer operators (MTOs) in some cases use their market position to prevent other competitors from entering the market. Traditional legal requirements, which are targeted at financial institutions, often impose an excessive and discouraging burden for remittances operators. Adapting regulations to include prudential requirements proportionate to the operational and financial risks faced by remittance payments providers in the course of their business, can reduce costs and encourage new operators to enter the market.

G20 countries should discourage, limit or ban exclusivity contracts between RSPs and important distribution networks. This allows new competitors to enter the market, offer lower cost or more convenient services, and free the available distribution channels to work with a number of providers or select one based on the merit of their service and cost.

Guidance
Governments can introduce specific regulations for the payment service providers. The requirements for the payment institutions should reflect the fact that payment institutions engage in more specialised and limited activities, thus generating risks that are narrower and easier to monitor than those that arise in other financial institutions. Payment institutions should also be subject to effective anti-money laundering and anti-terrorist financing requirements.

3 Support innovation in the payment processes through the use of technology (Principle 2: Payment Systems Infrastructure)

General Principle for International Remittance Services 2 states that improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Migrants and their families in many countries lack access to financial services and therefore efficient electronic means for payment. As a result, remittances are still sent and received mostly through branch, agents and in cash. Therefore, the costs to process remittance transactions are significantly higher than comparable electronic payments.

New financial services and payment technologies such as payment cards, mobile and online payments can help banks to serve migrants, provide migrants access to low cost electronic payment means and thereby eliminate or reduce the need for cash and branches. This leads to a reduction of transaction processing costs and in return to a reduction of the fees charged to consumers. G20 members could encourage non-bank entities to provide remittance services, thereby increasing competition among service providers.

G20 members should consider supporting a holistic approach towards the reform of the retail payment systems infrastructure and the introduction of new technologies that reduce transaction costs and promote financial inclusion.

Guidance

Options to support the growth of new technologies include: a) ensuring that an appropriate legal and regulatory framework that balances the objectives of financial inclusion with the need for consumer protection and market integrity is in place; b) ensuring interconnectivity of payment systems in sending and receiving countries; and c) supporting projects that introduce innovative new technology.

MEASURES TO IMPROVE THE LEGAL AND REGULATORY ENVIRONMENT FOR REMITTANCES

1. Assess and reform national remittance markets and payment systems consistent with the General Principles.

The General Principles establish best practices for the policy framework of remittance markets to ensure effective competition, financial inclusion, appropriate prices and other policy objectives. Various countries have used the General Principles to assess their remittance market using a methodology established by the World Bank. The assessments cover all areas of the General Principles (transparency and consumer protection, payment systems, regulatory framework, competition and market structure, and governance and risk management) and deliver recommendations for concrete actions for the implementation of the General Principles and improvement of the remittance market of the country.

Guidance
G20 countries can ask their Central Banks or other government agencies to undertake a General Principles self-assessment or request suitable consultants such as the World Bank to carry it out in the framework of non-lending technical assistance activities. The World Bank Guidance Note for the Implementation of the General Principles provides useful guidance in such exercise. Countries can also support the assessment of other countries' market, either by providing funds directly to the countries or by participating in regional programs that provide General Principles Assessments.

2. Better coordination between government agencies in sending and receiving countries to improve the development impact of remittances (Principle 3: Legal and Regulatory Framework)

General Principle for International Remittance Services 3 states that remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions. Remittance policies often involve multiple authorities in one country (for example, payment system overseers, competition authorities, and consumer protection authorities, the ministry of finance, financial supervisors and anti-money laundering authorities). In addition, due to the cross-border nature of remittance flows, they involve the legal and regulatory framework in both the sending and receiving country. Policymakers should ensure that domestic policies are coherent and coordinated and a degree of coordination, based on international best practices, between sending and receiving countries exists when relevant and appropriate.

Guidance
The G20 Principles for Innovative Financial Inclusion provide a useful checklist of issues to be addressed to improve the regulatory context, including clear leadership and coordination between government agencies. Regulators and policymakers of G20 countries can establish bilateral or multilateral dialogue with relevant authorities in their remittance corridors and coordinate where possible policy initiatives, ensure that policies in other countries are taken into account when formulating their own legal reforms, and ensure that they understand that possible effects of their policies on other affected countries. The 2005 CPSS Oversight report provides guidance on issues that should be addressed when coordinating payment systems internationally.

ACTIONS TO INCREASE FINANCIAL INCLUSION AND INCREASE THE DEVELOPMENT IMPACT OF REMITTANCES

1. Support financial inclusion mechanisms and financial education programs for migrants

Many migrants are keen to support development in their home countries, beyond sending money to their families. Given the large amounts of remittances they send, this can represent a substantial contribution. At the same time, migrants tend to be unbanked and hence lack access to, and experience with, financial services that could help them and their families to use financial services more effectively. G20 members can take action to: a) promote the use of financial education programs for migrants; b) encourage the development of financial services customized to the needs of and suitable for, migrants and; c) ensure that migrants have access to banks and other financial institutions.

Guidance

Governments can develop or support financial education programs to be delivered by financial institutions, government agencies or NGOs that help migrants, prior to departure, understand their financial options and further financial inclusion. Receiving countries can use their consular networks to offer migrants financial education or promote opportunities for investment in the country, be it only by opening a local savings account. Receiving countries can also encourage local banks to create and offer specialized products to migrants, such as non-resident savings and investment accounts.

2. Ensure cooperation between the public and private sector, migrants and civil society on the development impact of remittances.

Remittances impact different areas of public policy and implementation. Enforcement of remittance policies depends on cooperation between public authorities, migrants and civil society concerned with development and migrant welfare. Broad representation between stakeholders should be an integral element of the policy formulation process.

G20 countries could support this process by facilitating dialogue between the different stakeholders of remittance policy through formal bodies, roundtables, and other means of cooperation and communication.

Guidance

G20 countries could organise outreach events and special initiatives on the development impact of remittances with other governments, academia, the private sector and civil society. They can also initiate a Public-Private Remittance roundtable to advocate for reducing the cost and increasing the developmental aspects of remittances. Objectives may also include encouraging all remittance service providers to broaden their services and to discuss regulatory barriers, financial literacy campaigns or public service information campaigns.

ANNEX II

Review of the actions undertaken by the G20 countries towards the reduction of the cost of sending remittances.

Transparency and Consumer Protection

In the area of transparency and consumer protection, starting from 2010, **Australia, Germany, France and Italy** have established their own price comparison websites and keep them regularly updated. These websites can have real impact on encouraging competition in the remittance market and can contribute to a reduction in remittance costs. In the **US** the adoption in 2010 of the "Dodd-Frank, Wall Street Reform and Consumer Protection Act" and the subsequent regulations have introduced a series of requirements in the area of transparency that are in line with the spirit of the GPs and aim at increasing the possibility for migrants to make an informed choice.

Competition

In the area of competition, to allow a more open market structure, the G20 countries which are members of the **European Union** have adopted the EU Payment Services Directive in 2007, which provides companies with the opportunity to obtain a license that enables them to offer payment and remittances services across all countries of the EU[1]. In **Mexico**, the breakup of exclusivity contracts for MTOs and the entry of new competitors – especially banks – is one of the leading factors in the steady decline in prices. In **Japan**, the Payment Services Act of 2009 has reformed the regulatory framework for remittances in order to allow registered non-bank providers to offer remittance services in addition to banks.[24] In **Indonesia**, the Fund Transfer Act of 2011 has improved consumer protection for remittance services and strengthened the legal framework to improve the licensing regime for non-bank remittance service providers. At the same time, Indonesia has prohibited exclusivity agreements, increasing the level of competition in the market. **Canada**, in collaboration with **Australia,** has commissioned a study on the potential for innovative financing mechanisms to reduce the cost of sending remittances to developing countries. The proposed solutions will require more information about the Canadian remittance market and the Canadian authorities are in the process of commissioning a second study that will assess the Canadian remittance market (with a focus on corridors from Canada to developing countries) and recommend a course of action for the implementation of a specific innovative results-based financing mechanism to reduce the cost of sending remittances to developing countries.

Payment Systems Infrastructure Reforms

In the area of innovation of the payment systems infrastructure, the Federal Reserve in the **US** and the **Bank of Mexico** have

[24] The Payment Services Act of Japan (Act No. 59 of 2009). As of February 2014, there are 35 registered payments companies in Japan, of which 33 provide remittances services.

collaborated since 2003 to develop a cross-border Automated Clearing House (ACH) service from the United States to Mexico under the name "*Directo a Mexico*." It uses one of the representative exchange rates published daily by the Bank of Mexico ("the fix")[25] as reference exchange rate. The Federal Reserve Banks charge depository institutions in the US less than one dollar per payment. The Bank of Mexico does not charge banks in Mexico for the service but receives part of the fee charged by the Federal Reserve Bank. Since April 2010, remittance receivers are able to cash their payments at any of the 1,580 Telecomm-Telégrafos branches. In **India**, several banks have begun to offer online remittance services that allow Indian migrants in the US and the UK to send remittances directly from their bank account or credit card to recipients in India by visiting a website established by the Indian bank, eliminating the money transfer company as a middle man and reducing costs to migrants by more than 30% in some cases. In the assessment of the local market for remittances, the Australian government, starting in 2010, has supported the efforts of the World Bank to assess neighbouring countries like Tonga, Samoa, Vanuatu and Solomon Islands. In addition, Australia has also worked closely with the World Bank on the assessment of its own market for remittances against the GPs and in the implementation of several of the recommendations contained in the final report "Review of the Market for Remittances in Australia on the Basis of the CPSS-World Bank General Principles for International Remittance Services". Similar assessments have been undertaken in Brazil (2009), India (2009) and Indonesia (2012). **Germany** has recently developed a checklist to analyse national remittance markets and to identify bottlenecks which need to be tackled. The checklist has already been successfully tested in Uzbekistan and lead to the creation of specific financial products for migrants and remittance recipients, as well as increased work on financial literacy. **South Africa** has recently indicated its plan to undertake a GPs assessment in 2014.

Remittances, Financial Inclusion and Development

In the area of support to financial inclusion mechanisms to increase the development impact of remittances it is important to note that all the 5,578 municipalities in **Brazil** receive banking services through non-bank correspondent agents. The number of correspondent agents in the country rose from 19,000 in 2000 to 160,000 in 2013. Today, there are non-bank correspondent agents in all Brazil's municipalities, and they account for over half of all financial service access points. The correspondent agents have been recently authorized to distribute remittances and now represent a crucial tool to increase access to finance via remittances in rural and remote areas. **Germany** has recently organised a dialogue between Serbian banks and Serbian migrants' associations in order to discuss the migrants' needs for financial services in Serbia. As a result, Germany produced a brochure to inform Serbs living in Germany about recent changes in the Serbian banking system, provisions for customer protection and migrant-friendly financial services available (e.g. cost-free transfer of

[25] The "fix" is only one of the Exchange rates that Banco de Mexico publishes daily. It is a representative exchange rate used "for determining the amount payable in domestic currency of obligations denominated in foreign currency, on the day after it is published in the official gazette".

pension funds etc.). Since 2010, through its German Society for International Cooperation, **Germany** has funded several projects on remittances and development, including diaspora competency initiatives and financial education in Uzbekistan. In 2009 **France** launched a EUR 7 million funding initiative in partnership with the African Development Bank and USAID, which contributed with USD 150.000 each. The **USA** government has implemented various initiatives, including the African Diaspora Marketplace, a USD 2 million effort to promote diaspora investment as mechanism to enhance financial inclusion. **South Africa** is currently preparing a financial sector development project which would leverage remittances for financial inclusion. In addition to the above mentioned reforms, **Indonesia's** National Strategy for Financial Inclusion promotes a variety of remittance distribution channels, including innovative payments mechanisms.[26]

On leveraging the impact of remittances for development, the **European Union** has been very proactive. Together with other non G20 countries they funded a multi-donor USD 28 million initiative implemented by the International Fund for Agricultural Development (IFAD) aimed at increasing economic opportunities for the rural poor through the support and development of innovative, cost-effective, and easily accessible international and/or domestic remittance services. To date, the facility has financed more than 45 projects around the world in partnership with the public and private sectors as well as with the civil society.

National Coordination on Remittances Issues

In the area of coordination among government agencies and between public and private sector on topic related to remittances, **France** has recently established a coordination group on remittances that comprises representatives from the Ministry of Foreign Affairs, the Treasury, the Banque de France and the Agence Française de Développement. It meets around 5 times a year, conducts studies and works on ways to lower remittances costs and encourage productive investments from the diasporas in their country of origin, using the different tools and leveraging possibilities of each ministry or agency. Similar group has been established since 2011 in **Italy** under the leadership of the Ministry of Foreign Affairs, with the collaboration of Bank of Italy, the Ministry of Economy, and the active participation of representative of the industry and the banking sector. In the **UK**, the Department for International Development has lately set up an Action Group on Cross Border Remittances consisting of representatives from the private sector, including money transfer organisations, international banks, domestic banks, payment system operators and consumer representatives. The group will guarantee continued cross-sector, public-private dialogue on remittances in order to provide advice and technical support for implementation of the government and supervisor actions. In **Brazil**, the Ministry of Foreign Affairs organizes yearly a general meeting with

[26] Additional examples on how remittances are covered in financial inclusion strategies care available at the FI Strategies Resource Center on worldbank.org/financialinclusion.

members from the Brazilian communities living abroad to discuss issues of common interest. The topic of remittances has been addressed on a regular basis with support from the World Bank and the Central Bank of Brazil. In the **USA**, following the adoption of the “Dodd-Frank, Wall Street Reform and Consumer Protection Act” the US Consumer Financial Protection Bureau relied on a public consultative process to issue rules implementing the Act’s provisions affecting remittance transfers, allowing a transparent and balanced discussion on the rules’ critical elements. In **Japan**, relevant authorities and development agencies have begun organizing coordination meetings since 2013. Also, the Japanese government has conducted the analysis of current status of international remittances in Japan. The purposes of this analysis are to obtain detailed information on costs of international remittances from Japan, and also to consider proposals of possible actions to reduce remittance cost in the country.