



# Remittances and Mobile Banking



## Remittances and mobile banking: The potential to leapfrog traditional challenges

With mobile phone coverage generally surpassing 90 per cent of the population, even in developing countries, the potential to leapfrog to mobile banking holds the promise of addressing many of the challenges currently faced by rural remittance recipients. Long, costly and potentially dangerous treks from isolated villages to urban financial institutions could soon be replaced by instantaneous transfers of funds from one country to another using mobile phones. The convergence of remittances and mobility is inevitable and new opportunities in basic financial services for remittance senders and recipients are growing rapidly. The growth of this market will benefit all sectors, making payments faster, more convenient, more secure and more accessible to a greater number of senders and recipients. Overall, rural consumers will particularly benefit from money transfers and other mobile and online services currently designed for and offered to urban consumers in both remittance sending and receiving countries.

However, there are a series of unique challenges in using mobile phones to transfer international remittances. Regulatory, security and legislative issues regarding the

### KEY FACTS

#### ... What you might know

- Over 220 million migrants sending over US\$450 billion in remittances
- Remittances to developing countries total three times official development assistance (ODA)
- In most developing countries, remittances exceed foreign direct investment (FDI) inflows

#### ... What you might not know

- From 30 to 40 per cent of remittances go to rural areas
- Over the next five years cumulative remittances to developing countries will surpass US\$2.5 trillion
- The grand majority of mobile remittance transactions happen at domestic level and not internationally
- Transfer of remittances using mobile phone technology is becoming a cheaper means of transferring money
- In Uganda and Ghana, remittances have reduced the percentage of poor people by 11 per cent and 5 per cent, respectively
- Remittances equal around 49 per cent of gross domestic product (GDP) of countries such as Tajikistan and around 25 per cent of GDP of countries such as Cape Verde, Eritrea, Kyrgyzstan, Liberia and Somalia

nature of transfers still need to be addressed. This policy debate is essential in laying the groundwork for the development of remittance services. This is particularly the case for international remittance services that have been rather stagnant when compared to domestic mobile transfers. However, domestic remittances are bringing together mobile

banking and remittances and it is expected that in the process international remittances will follow suit.

The next goal for the development community in this ever-growing field is to identify and bring down the barriers for expansion of a very promising instrument that tackles the 'last mile' issue.



## FFR projects in the field

The FFR pioneered the creation of an enabling environment for the introduction of mobile remittance and banking services through its collaboration with the International Organization for Migration (IOM) in Georgia. Georgia is affected by labour migration and is highly dependent on migrants' remittances. Financial services for remittance receivers are rarely diversified, and existing official transfer channels are cost-intensive and not available to all rural populations. The FFR project has raised awareness

of key actors in the field of remittances, such as the National Bank of Georgia, money transfer operators, microfinance institutions, mobile operators, an international technology company and responsible government and parliamentary authorities.

Moreover, this project laid the groundwork for implementation of the joint FFR-Crystal Fund initiative in the Imereti region of Georgia. The project has set up a mobile remittance platform, integrating key players, such as microfinance institutions, commercial banks and utilities. The newly established platform is providing remittance services and leveraging them with high-value financial services, such as microloans, microsavings and micro health insurance products.

Along the same lines, the FFR has promoted the introduction of mobile financial services in Paraguay, where each citizen over 15 years of age today has a mobile phone, and over 25 million text messages are sent monthly. Together with Konecna S.A., an FFR-funded project has developed a technological platform service for fast money transfer

service and is linking it to financial institutions providing such services. Up to 75,000 people will use the remittance service offered and send up to US\$150,000 per month.

In the Philippines, G-Xchange, Inc. established "G-Cash", the new remittance service system which transforms a mobile phone into a virtual wallet, enabling rural and urban remittance receivers to access their funds in ways that are more convenient and at a lower cost.

The FFR will continue to seek out projects that use mobile technologies to address the unique challenges faced by rural communities, while seeking to ensure that mobile remittance services are truly transformative in nature.

## Financing Facility for Remittances

The Financing Facility for Remittances (FFR) is a US\$28 million, multi-donor facility, administered by the International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations dedicated to the eradication of rural poverty. The FFR has been working since 2006 with the goal of increasing the development impact of remittances and enabling poor rural households to advance on the road to financial independence. The FFR cofinances development projects in close collaboration with public, private and civil society partners. Furthermore, it acts as an information broker to facilitate the dissemination, replication and scaling up of remittance-related best practices.



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