

CeSPI

Centro Studi di Politica Internazionale

Financial instruments for the optimization of the role of remittances in development

by Daniele Frigeri and Anna Ferro

**STRATEGY PAPER
MIDA – Ghana/Senegal Project**

November 2006

TABLE OF CONTENTS

1. Introduction.....	3
2. Some characteristics of the migration phenomenon in Italy from a financial perspective	3
3. Significance of remittances.....	4
4. Principal channels for sending remittances from Italy	6
5. Optimization of remittances, principles.....	8
6. Financial instruments to channel remittances in support of development.....	10
6.1 – Reducing remittance transfer costs	11
6.2 – Channelling remittances through savings accumulation products	15
6.3 – Instruments to encourage entrepreneurial activities in Italy and in Ghana and Senegal	16
6.4 – Investment instruments to support productive activities: the establishment of a Closed Investment Fund for start-up businesses.....	23
7. Conclusions	24
Annex 1.....	26
Summary table of financial instruments for channelling and optimizing remittances.....	26
Annex 2.....	29
Summary table of organizations involved	29

1. INTRODUCTION

Within the ambit of the MIDA-Ghana/Senegal Project (Migration for Development in Africa, a project of the International Organization for Migration and financed by Italian Development Cooperation), a field of research was devoted to identifying and tailoring financial instruments capable of tapping into the transfer of remittances and supporting the role of Senegalese and Ghanaian immigrants in the development of their countries of origin.

The study of the issue of remittances or, more precisely, of the financial inclusion and bancarization of immigrants, is finally developing in Italy also, even if a little late compared to other European countries. The search for new instruments capable of marrying immigrant resources to development in countries of origin, through a proper channelling and optimization of remittances, constitutes a challenge today which the MIDA project has chosen to confront in operational terms.

This paper summarizes and structures the research, analysis and reflection that CeSPI has undertaken within the ambit of the IOM's Ghana/Senegal-MIDA project, not solely for the purposes of the said project, but rather as an approach exploring the merits and concepts of the relationship between remittances and development.

After having identified the main characteristics of the migration process from a financial point of view (§2) and the significance and potential of remittances (§3), we briefly describe the main channels in Italy for the transfer of remittances (§4) and then identify principles and guidelines for the optimization of remittances from an integration and development perspective (§5). Finally, this paper analyses in detail the main financial instruments identified to address the various areas and needs for intervention, setting out their main advantages and disadvantages (§6).

The process of consultation and involvement of the various actors is still in progress (the table in Annex 2 gives a summary of the parties involved in the process). In some cases, we are in an operational implementation phase, while in others we are open to the participation and contribution of new interested parties.

2. SOME CHARACTERISTICS OF THE MIGRATION PHENOMENON IN ITALY FROM A FINANCIAL PERSPECTIVE

The migration phenomenon is continuously growing on a worldwide level and particularly in Italy. The most recent OECD¹ figures demonstrate that it predominantly involves so-called “long-term” migration (in Italy, the increase recorded in long-term immigration was equal to 28% between 2003 and 2004). At the same time, a recent study conducted by CeSPI in collaboration with the Italian Banking Association estimated that almost 60% of immigrants who are legally living in Italy (over 1 million people) are clients of a bank².

From a financial perspective, looking at the characteristics of immigrants as financial actors, it may be said in brief that they are characterized by:

- i. on average, a young age;
- ii. a high propensity towards saving;
- iii. a medium to long-term migration plan demonstrated by several factors: the growing number of family reunions, high birth rates among immigrant families and strong demand for home loans (14% of the home loans granted in 2004 by Italian banks were to immigrant clients). This is a migration plan which, being geared towards integration in a third country, carries

¹ OECD (2006), *International Migration Outlook, Annual Report – 2006 edition*.

² Rhi-Sausi, J.L., Zappi, Gianna (2006), *La bancarizzazione dei “nuovi italiani”. Strategie e prodotti delle banche per l’inclusione finanziaria* (Bancarization of the “new Italians”. Banking strategies and products for financial inclusion), Rome, Bancaria Editrice.

with it a series of specific financial needs such as housing, education, health, and pension support, needs which also have a financial significance;

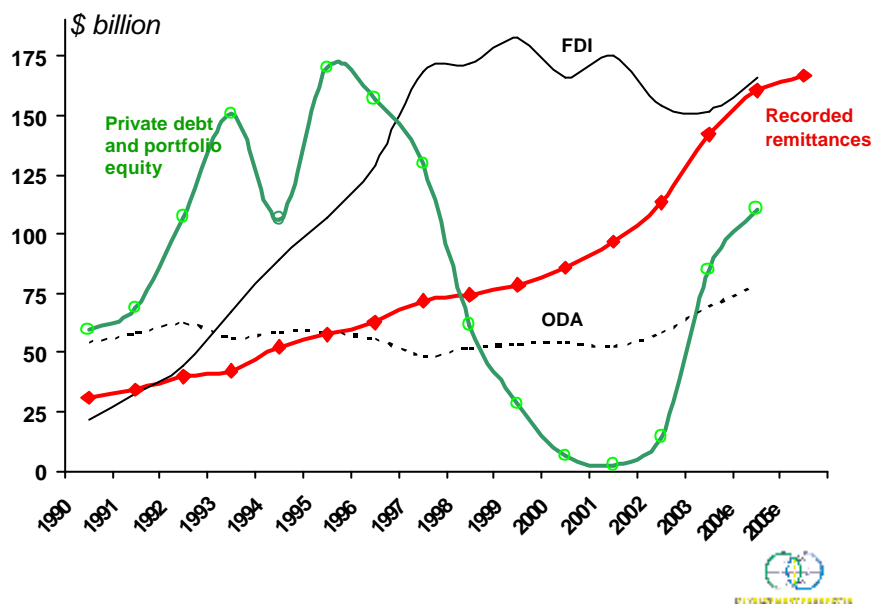
- iv. increasingly more dynamic entrepreneurship; and
- v. a partiality for their country of origin.

3. SIGNIFICANCE OF REMITTANCES

From a macroeconomic perspective, the flow of remittances at a global level is becoming a factor of great importance and interest, particularly because of the role that remittances are taking on in the economies of destination countries.

The following graph (Figure 1) shows how the overall volume of remittances at the worldwide level has grown at a constant and sustained pace for each of the last 15 years and how it has now exceeded the volume of productive investment flows (FDI) and tripled the volume of official development assistance (ODA).

Figure 1



Source: The World Bank, *Global Economic Prospects 2006*

These figures relate only to so-called official channels for the transfer of remittances and thus do not take into account remittances transferred by means of “informal” channels. Recent studies estimate that if we also took into account the volume of remittances transferred via informal channels, on an aggregated level this would amount to around 50% of the total flow of remittances, according to a conservative estimate. If we then consider the inherent limitations in the monitoring of remittance flows, which are due to the different recording methods used by the various institutions, it is possible to conclude that the figure specified **significantly underestimates** the actual flow of remittances.

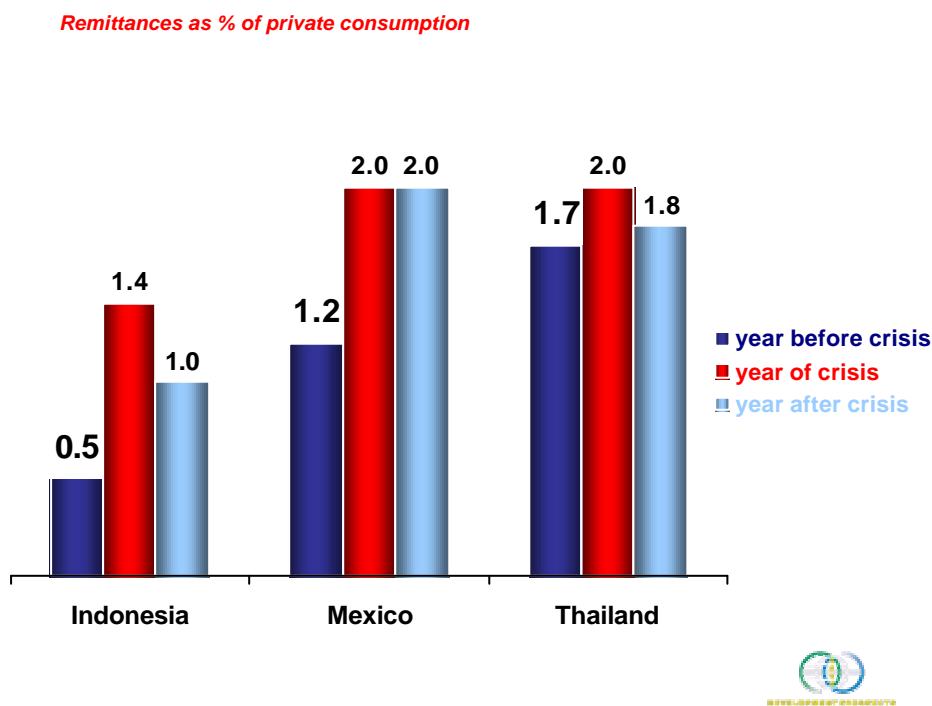
The overall effects of these flows on development and the economies of the various countries are not readily quantifiable, but they undoubtedly have a positive impact on the reduction of poverty, welfare and the capacity of the recipient country to attract investment. The recent issue of *Global*

Economic Prospects 2006 dedicates a chapter entitled “Remittances, Households and Poverty” to the impact of remittances on countries of origin, maintaining among other things that, in addition to consumption, in the process of the allocation of remittances by recipients, savings and investment choices aimed at investing in education and health, and investments of an entrepreneurial nature and in savings products³ are increasingly gaining greater significance.

To these brief micro-level observations, some short remarks linked to the role of remittances in the economies of recipient countries should be added. In fact, remittances have:

- A positive macroeconomic impact:
 - constant growth during each stage of immigrant integration;
 - high stability and low elasticity vis-à-vis interest and exchange rates; and
 - anti-cyclical vis-à-vis economic crises in recipient countries (Figure 2 shows remittances as a percentage of private consumption in the years immediately preceding and following crises in three countries).
- A direct impact on the reduction of poverty:
 - in the majority of cases, remittances are directed to poor populations; and
 - remittances are directly received by beneficiaries.

Figure 2



Source: World Bank, *Global Economic Prospects 2006*

While involving transfers of private savings - “*It’s their money*”⁴ - the potential role that a proper channelling and optimization of remittances could play in the development of the recipient countries, particularly of developing countries, both in micro (development of recipient families) and macro (development of the entrepreneurial and social economic system) terms, cannot be

³ The World Bank, *Global Economic Prospects 2006*, Remittances, savings and investment, pp.125 et seq.

⁴ See Donald Terry, IDB-MIF, 2004.

ignored. The challenge thus becomes to identify channels and instruments which simultaneously enable more and improved opportunities to be offered to recipient families for channelling and maximizing remittances, the accumulation of part of these savings for their future use and the provision of support to development of the relevant country.

In Italy, the annual rate of growth in remittances has reached 79%⁵. The majority of remittances are still transferred through informal channels and money transfer companies at a significant cost and, hence, a clear loss for the immigrant and the recipient country. A significant increase in the share of remittances which are transferred via the banking sector has been noted, but in proportional terms this share is still low and this is due to factors on the demand side (mistrust on the part of immigrants, lack of information, lack of a bank account in the country of origin to which to send the money and cultural factors) and to factors on the supply side (access barriers to money transfer services at banks, the absence of electronic transaction facilities such as ATMs for the direct transfer of remittances and the remittances market being considered a marginal sector in supplies to immigrants).

4. PRINCIPAL CHANNELS FOR SENDING REMITTANCES FROM ITALY

Analyzing the main instruments used for sending remittances, it is possible to group them into three principal categories:

- i) **formal channels**, which include all those remittance transfer mechanisms that permit a channelling of flows through official channels and are therefore subject to control and monitoring by authorities (namely, the Banca d'Italia and the Italian Foreign Exchange Office) in compliance with anti-money laundering laws. These channels include the postal, banking and money transfer agency systems;
- ii) **informal channels**, which include all those forms of remittance transfer that occur without the involvement of a specialized or authorized international money transfer operator. Typical of this category are transfers of money effected through relatives and friends going back to the country of origin and include more complex and organized forms of couriering between the two countries. Naturally, it is impossible to quantify the volume and costs of remittances transferred using these channels; and
- iii) **innovative instruments**, which have been developing, particularly in recent years, using new data transmission technologies, especially rechargeable debit cards.

The choice of one avenue over another is made in response to a series of selection criteria. In addition to cultural aspects linked to the role of the community and to a form of internal word-of-mouth, the principal criteria relate to transaction costs (including costs withheld at the time of withdrawal of the money and costs associated with the rate of exchange applied), the speed of the transfer, the certainty of the outcome of the transaction and the amount to be received, how simple the transaction is and, in some cases, anonymity.

On the basis of studies conducted by CeSPI, it has emerged that the principal channel for sending remittances from Italy is via money transfer operators, among which Western Union appears to be the clear leader. The figures also show that that the money transfer agency avenue has in part gained a share of the remittances market previously operating through informal channels.

The banking system is the second main channel for the transfer of remittances, though the figures are decidedly lower as – even if at times banks are cheaper than the money transfer agencies – they are considered a slow mechanism, which requires the existence of a bank account in the country of origin and which often entails a complex procedure (especially from the point of view of the documents required).

⁵ CeSPI estimate 2006.

The use of rechargeable debit cards for the transfer of remittances is significant even if still marginal and not easy to quantify. Launched by Banco Poste, today it has become an increasingly widespread instrument, including among immigrants, thanks to its low costs, the immediacy of the transaction and its flexibility of use, particularly in areas where ATMs and POS outlets are common. The rechargeable card, issued in Italy without the need for a linked bank account, is sent to family members and is used by them as a debit card through an international (Visa or MasterCard) circuit. Top-ups do not require physical possession of the card, carry decidedly lower costs compared to a normal money transfer transaction, are immediate and have the official interbank exchange rate of the international circuits applied.

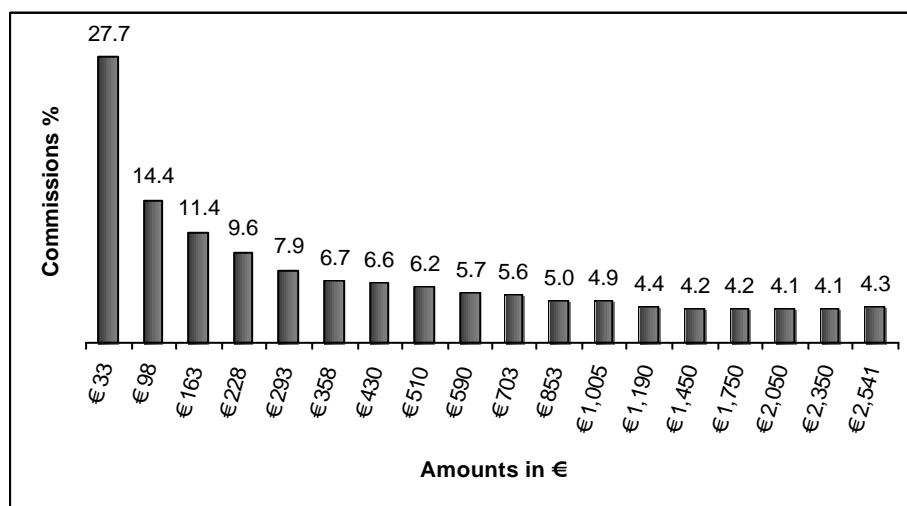
Overall, in the last few years, the remittances market in Italy has witnessed two main positive trends: on the one hand, greater competition at the level of alternative operators and instruments, which has led to a reduction in transfer fees and costs and, on the other hand, a gradual reduction in the use of informal channels in favour of formal channels.

In light of the reduction in transfer costs as well as the dynamics of immigration and the legalization of the immigrant community, it is easy to predict a **further increase** in the volume of remittances sent from Italy over the next few years.

Nevertheless, there is great room for improvement as regards remittance transfer channels. Firstly, it is to be hoped that the process of cost reduction continues further, not just through greater competition between money transfer operators and between the latter and the banking system, but also through the development and spread of innovative mechanisms such as rechargeable cards.

Figure 3 shows the average costs (as percentages) applicable to various remittance amounts calculated on the basis of the commissions charged by the two main money transfer operators for Senegal⁶. It becomes clear that there is still a relatively high cost in commissions (without including indirect costs linked to the exchange rates applied) and a high impact of commission percentages on small amounts (if one considers an average remittance amount of €30, the average commissions can reach 14.4%).

Figure 3: Average costs of remittances to Senegal by mean values for amount ranges



Source: CeSPI estimates based on publicly -available information from Western Union and MoneyGram, 2006

There is still a lack of transparency regarding the applicable terms, particularly in relation to the exchange rate. In this regard, the development of interbank agreements for the spread of euro-

⁶ The graph shows the average commissions charged (without considering the effects of exchange rates) by the two main money transfer operators, MoneyGram and Western Union, calculated by applying the declared commissions to the mean value of the relevant amounts range. Current promotional offers have not been taken into account as they are limited in time; in this case, the percentages undergo an average reduction of 38% up to an amount of €100.

currency bank accounts in countries of origin will constitute an important step forward for the assurance of transparency and for the reduction of currency-related costs.

Finally, the current remittance transfer channels do not seem adapted to an optimization of remittances. The first obstacle relates to the loss of control by the transferor of the remittance with respect to the end-use of the same. Immigrants increasingly wish to break the remittance=consumption cycle and to participate actively in the allocation of the money sent, particularly with a view to the accumulation of savings aimed at future investment in their families (home purchase, education and pension support).

Secondly, the current channels do not have a direct impact on productive activities, especially as regards supporting small- to medium-sized enterprises which constitute the real driving force of development in a country. Despite enormous flows of cash, the entrepreneurial system continues to suffer from forms of rationalization and difficulties in accessing credit.

Finally, since the majority of remittance flows are not transferred through the financial system, the financial leverage which savings normally generate does not eventuate.

In conclusion, for the above reasons, it can be said that while on the one hand the resources transferred by immigrant communities in Italy towards their countries have an immediate impact on the quality and conditions of life of recipient families, they do not seem to have a direct and significant impact on the productive system and on investment and, in the final analysis, on local development. Under current conditions, remittances do not therefore realize all their potential as development resources for Ghana and Senegal.

5. OPTIMIZATION OF REMITTANCES, PRINCIPLES

In the search for financial channels and instruments which are capable of fostering virtuous behavioural models and which could become effective instruments for social cohesion and local development, it is important to make some significant premises. Firstly, it must be stated that here we refer to the term “remittance” in its widest sense, which thus includes not only the financial resources transferred but also human and social resources which are transferred by co-nationals who live abroad, as they are inseparable aspects from a migration and development relationship perspective. Indeed, immigrants are bearers of a set of resources which are transferred to the country of origin through various economic, financial and social opportunities and mechanisms and which should not be overlooked given the objectives we have set ourselves.

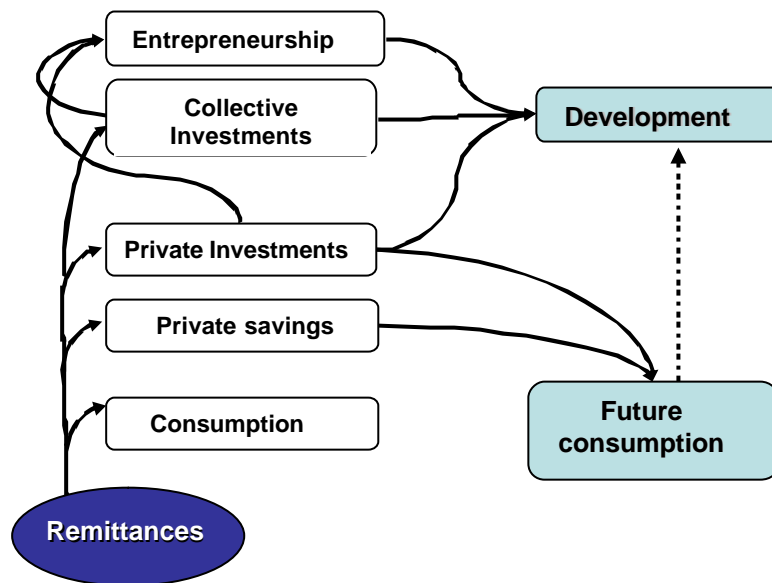
Remittances thus acquire a multiplicity of functions, each of which should be enhanced and strengthened through tailored instruments and strategies:

- remittances are principally a source of subsistence and consumption for the family of origin; the reduction of transfer costs and the migrant’s ability to influence end-use choices are two strategic factors;
- remittances can become a source of future consumption, particularly in respect of education, purchase of a home and forms of welfare and pension support; in this sense, the availability of tailored financial (savings and investment) products and the transferability of accumulated funds are two fundamental elements;
- remittances can become a resource for the development and support of entrepreneurial activities in the country of origin and activities of a transnational nature; the channelling of remittances to facilitate access to credit by small to medium-sized enterprises requires new and tailored instruments; and
- finally, remittances, through the financing of collective social projects, can constitute an important resource for the support and development of one’s community of origin,

strengthening one's connection and identity to cultural roots. It is necessary to create mechanisms that are capable of acting as catalysts and multipliers.

Figure 4 below is an attempt to outline and summarize the various functions which remittances can have and the various roles which they play in the development of the country of origin and the families of immigrants.

Figure 4



Currently, remittances are still perceived as a simple net outflow of financial resources from the host country to the home country. They predominantly involve private remittances, hence funds which move between private individuals, without any intervention of intermediaries unless in the form of a mere “transportation” service. No value is added to the remittance during the transfer. On the contrary, the high costs deducted constitute a significant reduction of available resources. Neither do they constitute a resource for the Italian financial system.

Despite these financial flows, however, in developing countries a series of obstacles and problems of accessibility to financial resources emerges, including a surplus of cash reserves in microfinance institutions, a lack of credit instruments and financial resources for medium-sized enterprises (from 5 to 20 employees) and poor bancarization of financial flows which prevents banking channels from reaching target populations.

CeSPI believes that a different approach is necessary that, on the one hand, enhances remittances as a **resource** capable of generating a financial multiplier effect and of addressing not only the basic needs of families but also those relating to emerging local small to medium-sized entrepreneurial activity, which constitutes the true foundation and driving force of development.

Similarly, we envisage an approach that builds a **public-private-tertiary sector partnership** which links remittances (the cash flow), microfinance and the banking system with development and in which immigrants are active and proactive participants. It is necessary to study sophisticated financial processes and products capable of generating added value for the recipient country, through the involvement of more stakeholders both in the immigrant's host country and the home country. It is necessary, first of all, for the banks to come forward as active participants in a new financial policy geared towards mediation and comprehensive cooperation.

In other words, it is necessary to forge a role as **financial intermediaries** which does not merely entail transmission. In this sense, input from organizations engaged in development policies, which is capable of guiding and driving the banking system, becomes fundamental in an increasingly more comprehensive approach to development.

Only by acting on both fronts will it be possible to trigger collective and individual savings enhancement and efficiency/efficacy circuits with sufficient guarantees for the investor-saver. In other words, it is necessary not just to **channel** remittances but also to provide **vehicles** that give immigrants the possibility of setting aside their savings for targeted and strategic goals, tying up savings in Italy for a length of time for planned use in the future and/or overseas.

Remittances=Savings=Resources

Some precedents already in place, such as for instance the commercial operation recently set up by an Italian finance company in Ghana which provides for the creation of an electronic payment system and the provision of 2,000 ATMs and 20,000 POS outlets and the issue of rechargeable credit cards at branches of the Ghana Post company, demonstrate that:

- African countries are capable of building the necessary structures, with a positive and immediate impact throughout the country. The creation of an efficient electronic payment system becomes a strategic instrument for the circulation of financial resources and, hence, also for the influx of capital, for investment, for the banking system and for economic development in general;
- remittances are effectively a resource which the market is already exploiting; and
- rechargeable cards as an avenue for the transfer of remittances are feasible.

6. FINANCIAL INSTRUMENTS TO CHANNEL REMITTANCES IN SUPPORT OF DEVELOPMENT

On the basis of the observations made thus far and thanks to a consultation process with various operators which is still in progress, it has been possible to formulate a series of proposals for possible financial instruments which, based on the financial needs of immigrants, seem capable of providing some appropriate responses to the objectives of the MIDA project.

We have thus identified four needs areas which different financial instruments could be tailored to address within the ambit of the MIDA project. They are:

- a. Reduction of remittance transfer costs
- b. Channelling remittances through savings accumulation products
- c. Instruments to promote entrepreneurial activities in Italy and in Ghana and Senegal
- d. Investment instruments supporting productive activity: the constitution of a Closed Investment Fund for business start-ups

For each of these areas, the type and main features of the tailorable instruments, their advantages and limitations will be set out (see the summary table contained in Annex 1). In relation to some of the instruments, two or more active interlocutors may coexist, while in other cases, given their specificity or complexity, only one interlocutor will be required. Similarly, it is possible to configure the use of each product jointly (within a dedicated structured project) and the interchangeability of some of their elements.

6.1 – Reducing remittance transfer costs

The transnational⁷ aspect of migrant relations (or of emigrant family relations, given the ever-increasing number of family reunions) particularly evident for immigrants coming from Africa, is a significant and essential characteristic in relationships with the family of origin that are typically very close (including because of the ease of communication). Remittances thus become an integral and fundamental part of this relationship and are often linked to a strong and express commitment to support the family in the country of origin.

Within this context, it therefore becomes crucial to develop mechanisms which are capable of ensuring effective and efficient (including in terms of costs) channelling of these resources and, at the same time, guaranteeing to family members overseas control or at least participation in decisions regarding the end use of the said resources.

In reality, moral hazard⁸ issues emerge in the management of remittances, due to information imbalances between migrants and intended recipients of remittances and to the feebleness of the institutions and financial instruments available. Many recipient families are poor, while those who send remittances are far away. In the absence of adequate mechanisms, both these factors result in the migrant having little control over the end use of remittances (which nevertheless constitute a loss of resources that could be used for his/her own integration) and, over time, in feelings of insecurity and mistrust towards the final beneficiaries.

In the face of these immigrant needs, the instruments utilized for the transfer of remittances **do not appear to be adequate** both in terms of enabling immigrants' control or participation in the control of the use of the resources transferred, as well as enabling the accumulation of a part of the resources for investment in the future of their families and their communities. There is an absence of a link between the resources and the development of human capital (principally education), social welfare (child and old-age assistance, health assistance and pension support) and investment projects in general (the acquisition of durable goods and real estate). In other words, there is a clear gap between the channels for sending remittances and immigrants' needs and potential.

In our view, the **banking system** constitutes the main interlocutor for bridging the existing gap and contributing to the reduction of transaction costs, increasing the certainty and transparency of transactions, control over end use, and the relationship between remittances and the achievement of life goals of individuals and their families.

Channelling remittances through the banking system offers a much wider range of possibilities for their optimization in support of the integration of the migrant and of families in their country of origin and, at the same time, permits the level of transparency and the control over flows and their costs to be increased. It also facilitates an increase in the level of bancarization both of Senegalese and Ghanaians in Italy and of their families, a process which constitutes an important aspect of integration and development in both countries.

Under this category, we have included those financial instruments which enable the reduction of transaction costs of immigrants' individual remittances and their transmission through official channels subject to anti-money laundering legislative controls. Thus, the key factors taken into account when selecting these instruments were value for money, speed, transparency and legality. The instruments that could be set up are:

RECHARGEABLE DEBIT CARDS WITH THE CREATION OF A FUND. THE "ETHICAL CARD"

The rechargeable debit card is in, in fact, establishing itself as an innovative alternative to traditional money transfer mechanisms. The card is issued in Italy, often without the need for a

⁷ Transnational families are defined by Orozco in the following way: they are "groups that maintain relationships and connections with home and host societies". See: Orozco, M. (2005): *Transnationalism and Development: Trends and Opportunities in Latin America*, IDB.

⁸ Chami, Ralph, Connel Fullenkamp, and Samir Jahjah (2005), "Are Immigrant Remittance Flows a Source of Capital for Development?" *IMF Staff Papers*, vol.52, no.1.

linked bank account and with streamlined procedures, is sent to family members and used by them. The immigrant will periodically top up the card in Italy, with the card's credit being immediately available. In practice, today so-called “**twin cards**” are becoming widespread. These are two rechargeable cards made out to the same person, one of which remains in Italy while the second one is sent to a family member or friend in the country of origin. The main advantage of twin cards lies in the fact that the top-up transaction is not considered a money transfer and therefore carries lower costs while benefiting from the advantages linked to the use of international circuits such as VISA-MasterCard (in particular, these circuits apply interbank exchange rates to transactions, which are characterized by greater transparency and, above all, are more financially advantageous).

Table 1 provides a summary of the average issue and top-up fees of rechargeable debit cards issued by credit institutions in Italy, on the basis of a sample of 493 banks, distinguishing between the various types of top-up methods utilized⁹ (it is considered that around 52% of the banks surveyed use this type of distinction and around 37% apply flat fees, while 19% of banks do not charge any issue fee).

Table 1. Costs of rechargeable debit cards within the banking system

	<i>Flat fee</i>	<i>POS</i>	<i>ATM</i>	<i>Online</i>
Average top-up fee	€2.01	€2.58	€1.56	€1.01
Average issue fee	€5.70			

Source: prepared by CeSPI on the basis of data from ABI (Italian Banking Association) 2006

This figure is significant if one considers that the average fees charged by money transfer companies vary from a minimum of € (for transfers of less than €65) to a maximum of €7 for transfers of less than €2,500.

While the issue of “twin card”-type rechargeable debit cards is becoming a rather well-established practice with Italian credit institutions, their full legality is not clear as the twin cards are made out to one single person but presumably used by different people, an irregular practice even if it has never, in fact, been outlawed either by the UIC (Italian Foreign Exchange Office) or the Banca d'Italia. The problem could be obviated by means of an agreement with an authorized operator in the country of origin for the identification and transmission to the issuing body of the details of the holder of the second card sent to the country of origin.

This instrument also lends itself well to the possibility of attaching to each issued card a system of fees which would involve the withholding of a part of these by the bank or issuing body for payment into a **Fund** (the Ghana-Senegal Fund) usable for projects supporting development in the country of origin. It is considered that, in the early experimental phase, the Fund should be dedicated to financing projects of a social nature, as they are more easily implemented and monitored, as well as having a greater impact in terms of involvement of the various stakeholders. Later, the instrument could also be utilized to indirectly support entrepreneurial activities in Senegal and Ghana by funding a guarantee or business start-up fund or financing training activities geared to entrepreneurs. The Fund mechanism would further enable the participation of local authorities (provinces, regions and municipalities) through their contribution in order to give the Fund a minimum critical mass.

The existence of a sufficiently widespread network of ATMs and POS-enabled outlets and the usability of debit cards at main shopping complexes constitute two fundamentally strategic elements for the success of the use of these instruments for the transfer of remittances.

⁹ These figures come from a survey conducted by ABI (the Italian Banking Association) on a sample of 493 banks that are members of the Patti Chiari circuit (a programme aimed at providing banking customers with more transparent terms and conditions) and therefore do not take into account any specific initiatives that target categories of clients such as immigrants.

Advantages: The card, using the international VISA and MasterCard circuits, may be used at any store which is POS-enabled and permits the withdrawal of money (cash out) via ATMs. In addition, while a money transfer transaction obliges the recipient to withdraw the entire amount of money transferred in a lump sum, the rechargeable card enables the spending or withdrawal of money sent on various occasions and in various amounts according to the end-user's needs. The instrument enables the reduction of the unit costs of transfers, guarantees the certainty of the transfer and the amount actually sent, while the money is received instantaneously. The use of the international VISA-MasterCard circuits also enables interbank exchange rates to be applied to transactions, which are lower than those otherwise chargeable by money transfer companies as well as being more transparent. No linked bank account is required and it takes the form of a particularly flexible instrument.

Disadvantages: A sufficiently developed POS and ATM network is necessary in the country of origin and it is necessary for there to be a sufficiently widespread distribution network for cards (and the ability to top them up) in Italy. The issue of dual cardholders and the ascertainment of the details of the cardholders still need to be investigated and resolved.

BILATERAL AGREEMENTS BETWEEN BANKS

The development of bilateral agreements between Italian banks and Senegalese and Ghanaian banks represents the main and most effective mechanism for moving in the abovementioned direction. There are various possible ways of developing arrangements of this kind in order to channel remittances. Firstly, they could enable a substantial reduction in transaction fees, guaranteeing rapid turnarounds and, above all, certainty and transparency of the terms applied to the traditional SWIFT transfer used for international transactions. Secondly, bilateral agreements would allow the opening, in Senegal and Ghana, of bank accounts in the currency of the remittances, thereby providing benefits and certainty with respect to the management of exchange rates.

Advantages: Based on these agreements, it is possible to reduce the timeframes for the transfer of remittances (theoretically to even within 24 hours) and the associated costs (especially costs deducted at the point of withdrawal of the money), thereby providing greater certainty and transparency. This reduction is not, however, *a priori* quantifiable and may vary according to the agreements reached. The mechanism is already available from various Italian banks for Ghana and Senegal, but in some cases the geographical market reach of the corresponding bank and its poor representation in rural areas constitute an obstacle to the success of this mechanism. For the recipient bank, there is a clear advantage in terms of cash availability.

Disadvantages: Creating a network of bilateral agreements of this kind is very costly in terms of searching for a counterpart bank, the negotiation stage and the monitoring of agreement compliance. The instrument also necessitates opening a bank account at both banks (in Italy and the country of origin). The geographical reach of branches and their proximity to users of the service constitute two key elements to be taken into account and which make this instrument not very suitable.

Strategies: CeSPI has launched a monitoring process on the banking system to identify those credit institutions that have the most extensive network of agreements in place and those that have specific agreements with individual countries. Given the high costs associated with the structuring of an agreement of this kind, it is considered that this mechanism is appropriate only within the framework of a wider project involving commercial agreements with foreign banks and the development of broad and diversified banking products. In this regard, a greater proactiveness is noted on the part of country-of-origin banks in prompting agreements of this type and, at the same time, there is a greater interest on the part of Italian banks also, who complain of the difficulties connected with the lack of knowledge of local banking systems and potential counterparts.

DUAL BANK ACCOUNTS

Within the framework of bilateral agreements between credit institutions, the possibility would also open up of developing common products and services between the corresponding banks, such as dual bank accounts, capable of guaranteeing the smooth transferability of immigrant savings from one country to the other according to needs that from time to time emerge out of immigrants' life goals (for instance, the purchase of a house in Italy and in Ghana or Senegal, education of children, family reunions, forms of insurance and pensions etc.). In addition, a greater use of the financial system accompanied by a wide range of products and services would enable the application of the typical financial leverage to remittances as regards the savings portion, which (including through microfinance institutions) favours productive investment.

Dual bank accounts make the operation of sending remittances equivalent to a normal transfer between affiliated banks, enabling costs to be reduced and, thanks to the agreements in place between the banks, guaranteeing rapid timeframes and certainty. The mechanism also lends itself well to the development of financial products capable of meeting immigrants' mobility and relationship needs with the country of origin, particularly as regards savings accumulation products geared to the purchase of a house or to education or pension assistance.

This instrument has an ability for Italian banks to select corresponding foreign banks and to establish commercial ties with them.

It should not be forgotten either that the encouragement to open bank accounts with Italian credit institutions also constitutes an incentive to open similar accounts in Ghana and Senegal, an outcome which, apart from widening the user-base of both the involved banks, would seem to be an important tool for the increased bancarization of immigrants and their families in both countries. This increased bancarization in turn translates into an increased possibility of integration of the immigrant in Italy and optimization of his/her savings and those of his/her family, with a multiplier and development effect on both countries' economic systems.

Advantages: It makes the sending of remittances equivalent to a normal transfer between affiliated banks, enabling costs to be reduced and ensuring rapid timeframes and certainty of terms. The existence of an offset account between the banks makes the transaction a mere bookkeeping entry without the need for the transfer of money. Offsetting would take place periodically and cumulatively between the two banks, through the interbank circuit according to agreements in force, thus enabling the reduction of costs and cash availability for both banks for several days.

Disadvantages: An agreement which underpins an instrument of this kind is much more complex and structured than a simple SWIFT agreement. It would undoubtedly form part of a wider joint venture between the banks involved (there are considerable possibilities connected with agreements of this kind which are extendable over a very wide bundle of products) thus forming part of the credit institution's growth strategy which goes beyond the marketing or products office and requires very long periods of study, decision-making and implementation. The complexity of the necessary agreements also makes it feasible only for certain areas of origin, where the corresponding bank has a market presence. Furthermore, only a credit institution which is adequately represented within Italy in the areas of residence of Senegalese and Ghanaian immigrants could obtain the necessary critical mass to cover the high costs associated with the agreement. This mechanism requires a bank account to be opened with both banks (in Italy and the country of origin). The geographical reach of branches and their proximity to users of the service constitute two key elements to be taken into account and which make this instrument not very flexible and capable of being proposed only within a wider package.

Strategies: Based on the observations made, this instrument lends itself to being proposed to large credit institutions with already-existing international operations or to institutions that are particularly present in the areas of residence of immigrants.

6.2 – Channelling remittances through savings accumulation products

Remittances constitute an important flow of financial resources which, when properly channelled through the banking system, can be targeted not solely at consumption, but also transformed into savings and allocated to future expenditure and investments, thereby linking them with the immigrant's long-term goals. The creation of savings accumulation instruments with features and terms tailored to the needs of immigrants would enable the accumulation and channelling of a share of resources normally earmarked for direct remittance into savings with the aim of meeting substantial future expenses, accessible both in Senegal or Ghana and in Italy (a possibility that would be governed by dedicated commercial agreements between the banks).

The development of instruments of this kind gives rise to unquestionable *advantages* in that: it breaks the remittance-consumption cycle; it triggers welfare and pension-type instruments which better respond to the mobility and family-of-origin relationship needs of immigrants; it enables control by the immigrant of part of his/her savings set aside for the country of origin; and it has a clear and solid impact on the country of origin in terms of resources accumulated and earmarked for development activities, such as health and education. For the banks involved, there is a benefit in terms of directly-managed financial resources.

On the basis of the above, among the possible uses of accumulated savings we have identified the following from which to develop targeted products:

- a. *Funds for education*: aimed at the accumulation of resources to fund higher and/or university studies. In this regard, the English Child Trust Fund represents a significant experience.
- b. *Home purchase*, which represents one of the main immigrant savings targets.
- c. *Pension-related life insurance*: the insecurity of employment conditions of many immigrant workers as regards the accumulation of contributions to the Italian pension scheme is increasingly giving rise to the need for supplementary pension schemes for the future. The transferability of such funds to Ghana and Senegal, in the case of return to the homeland once work activity ceases, becomes a determining factor in the development and spread of such schemes.
- d. *Health insurance*: the demand for forms of insurance that cover immigrants and their families' needs is increasingly spreading (from repatriation of deceased remains in the case of death to coverage of repatriation expenses for the immigrant and family members in the case of serious illness).
- e. *Family reunion*: the need to provide financial assurances for family reunion gives rise to a need for *ad hoc* financial products in support of the related procedures and expenses.

The *key factors* to be taken into consideration regarding this category of instruments are: the existence of monthly and flexible savings instalments of a reasonable amount and the transferability of funds to the country of origin on pre-established terms and without costs (other than the rate of exchange).

Disadvantages: The instrument requires a bank account both in Italy and abroad (at the time of the funds transfer) and, in particular, requires a specific agreement between the banks (in Italy and the country of origin) on savings management and especially on the transfer of capital and the *ex ante* definition of the applicable terms.

Strategies: Savings accumulation products form part of the typical products offered by credit institutions and finance and insurance companies in the Italian market. It is necessary to adapt the products on offer to retail clients to the characteristics and needs of immigrants and to develop specific interbank agreements with Senegalese and Ghanaian banks. All the credit institutions involved in the MIDA project have been asked to develop these kinds of products and to begin trialling them as part of the project.

6.3 – Instruments to encourage entrepreneurial activities in Italy and in Ghana and Senegal

The role of immigrant entrepreneurship within the Italian entrepreneurial world is increasingly becoming a growing and significant phenomenon from an economic point of view. A recent study conducted by the Chamber of Commerce of Milan¹⁰ on the Italian Business Register showed that, at the end of the first quarter of 2005, there were 213,000 sole trading firms run by foreign citizens, equal to 6% of the total of Italian sole traders - most of which (85%) were established by non-EU citizens.

This phenomenon, even if it calls for a more detailed analysis regarding the characteristics of this new entrepreneurial activity, demonstrates that there is an entrepreneurial buzz, particularly within the Senegalese community, which is still characterized by strong links with the community of origin and, above all, by a potential that is capable of being realized both in Italy and in favour of the development of the economic and entrepreneurial system of the country of origin (in those cases where a productive exchange and an enhancement of resources is possible).

However, as against this buzz, it should be noted that there is a difficulty in raising funds and obtaining credit for entrepreneurial activities and a lack of training structures and technical and managerial assistance structures aimed at new entrepreneurs. These are difficulties which constitute significant obstacles to the development of an entrepreneurial network in the country of origin and often also for the development of immigrant entrepreneurship in Italy.

The microfinance sector and the banking sector can, however, play an active role not only by providing access to capital and credit, but also by providing the necessary technical assistance for drawing up business plans, for the identification and setting up of an optimal financial structure and better financial products as well as in the management of risk.

The lack of financial support to small-to-medium-sized enterprises capable of sustaining development of the country and the unutilized potential of financial flows from remittances make for an important area of development of dedicated financial products. A crucial factor for real support to the development of the country of origin is the identification of avenues through which immigrants in Italy can channel not just financial resources, via remittances, but also entrepreneurial skills and know-how acquired in Italy, triggering that fundamental momentum necessary for the development of the country of origin.

The objective is thus to identify financial mechanisms capable of channelling part of immigrant savings in support of entrepreneurial projects which envisage their involvement both in Senegal and Ghana as well as in Italy, within the framework of a broader collaboration between the various stakeholders, namely immigrants, the financial system, the Ministry of Foreign Affairs, ICE (National Institute for Foreign Trade), SACE (Foreign Trade Insurance Services), International Financial Institutions (guarantees), Italian Development Cooperation, local authorities/institutions (in Italy and the country of origin), Chambers of Commerce and governments.

The instruments that could be set up are:

GUARANTEE FUNDS

This involves the establishment of (international) Guarantee Funds through the pooling of immigrant resources (via immigrant associations in Italy) and/or public-private institutions/bodies in order to guarantee credit granted for the development of local entrepreneurial activities. Guarantee funds constitute the main instrument for facilitating access to credit for small-to-medium-sized enterprises.

Advantages: These easily-set-up instruments enable the channelling of resources in support of entrepreneurial activity. They require the assumption of risk which is in any case low, as they are

¹⁰ Chamber of Commerce of Milan, *Risultati dell'Indagine (Study results)*, 6 October 2005.

merely guarantee funds, with the possibility of ploughing back the capital gradually as the credit is paid back and leverage which permits financing for a multiple amount¹¹ of the capital pledged.

Disadvantages: These are simple guarantee funds. They do not directly generate credit in countries of origin, but only facilitate access to credit. The capital invested is tied up for the duration of the fund, without any envisaged return and with a certain degree of risk (even if secondary compared to that of the other financiers).

CERTIFICATES OF DEPOSIT

These are savings instruments issued by a credit institution and may be offered to public at large. They entail a fixed deposit for a certain period of time (with maturity dates that may be chosen at the time of issue: 6, 12, 24, 36 or 48 months) with a fixed return. In contrast with ordinary deposits, these savings instruments lend themselves to being earmarked for financing specific projects. The bank may utilize the pooled funds to grant lines of credit to targeted entrepreneurial activities, in Italy or the country of origin, through a local bank or a microfinance institution. The product has been designed and launched by the Banca Etica and sold at its branches and at CCBs. It is an instrument that may be easily created by any credit institution and may be applied to any project.

Advantages: It is a common savings instrument (it forms part of the products typically offered by banks) and is easily-created. It provides a return on the invested capital and repayment of the capital in full, while the risk is carried entirely by the bank. They thus lend themselves well to short-term targeted investment of the savings of the Senegalese and Ghanaian communities in Italy. With an improved management of the mismatching of maturity dates, the bank has a fixed pool of funds at its disposal for a defined period of time.

Disadvantages: It ties up immigrant savings for a period of time (as the savings cannot be withdrawn before the maturity date) and requires a (microfinance or banking) credit institution in the country of origin to which to allocate the resources and to grant the credit. It only channels resources that come from bank deposits while its spread is dependent on the geographical reach and the distribution and sales network strength of the bank that offers the product.

CREATION OF A FOUNDATION

This project entails the creation of a Foundation constituted by 30 associations of Senegalese people in Italy (North Italy) with the consultancy of the G.P. Consulting company, for the creation and management of a pool of assets (comprised of the contributions of members and public and private financiers) used to finance social projects and to provide guarantees for financing entrepreneurial activities in Italy and Senegal.

The legal structure of the Foundation, in addition to providing greater visibility and bargaining power vis-à-vis the financing banks, enables other financing bodies or institutions to make contributions (increasing the volume of the assets and thus the level of guarantees), a greater sphere of operations both at the international level as well as with respect to the criteria set by Basel 2, in addition to the possibility of using part of the assets to finance activities of a training and social nature both in Italy and in Senegal in favour of small and medium-sized enterprises.

Advantages: The instrument enables the direct involvement of Senegalese associations in Italy both in the design and proposal of projects to be financed and directly in the co-financing of the Foundation and its management. It represents an advanced form of the credit guarantee consortium which permits the involvement of a greater number of stakeholders, both public and private, with a multiplier effect on the asset pool and the possibility of financing entrepreneurial and social projects in Italy and Senegal. The assets allocated to the guarantee fund generate leverage, financing amounts that are multiples of the fund amount itself and constituting a solution to the credit access

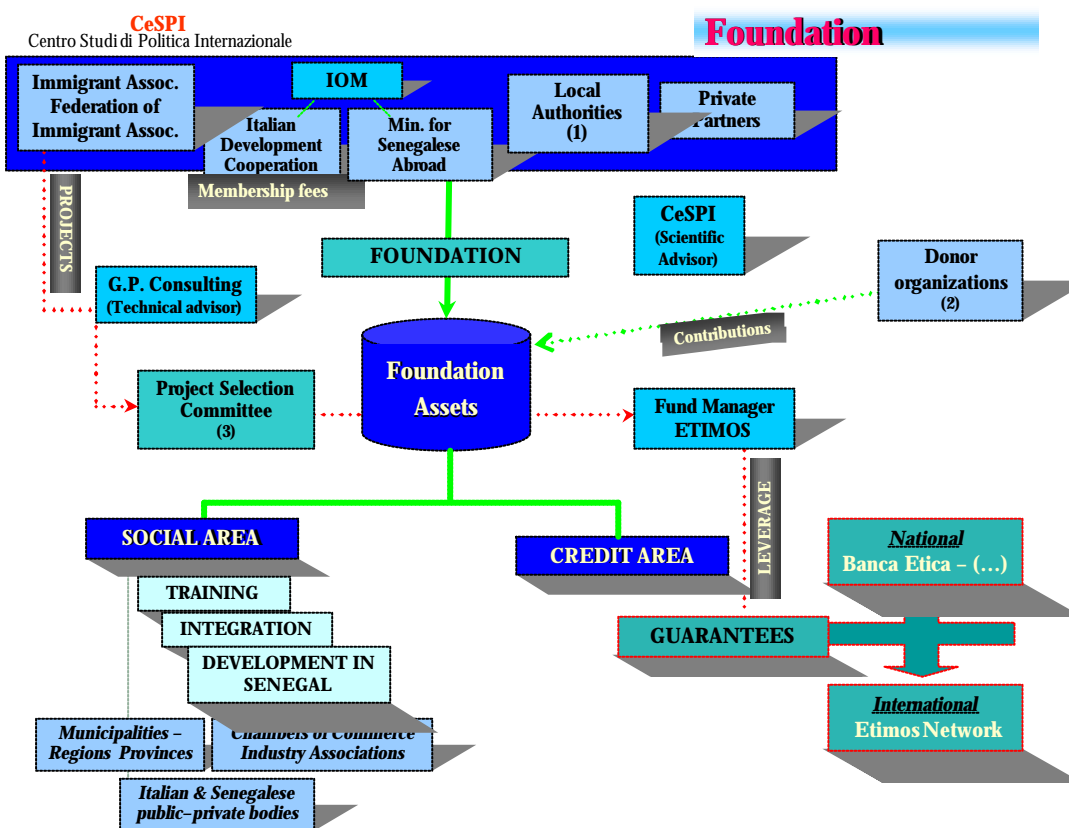
¹¹ This multiple is determined by the body issuing the guarantee depending on the risk of the financing in question.

problem. The instrument also lends itself well to being easily replicated in various countries and places of origin.

Disadvantages: Establishment and recognition of a Foundation entails a complex legal process. There is also a need for an entity that manages the assets and dedicated agreements for the provision of finance against security. It entails the tying up the funds invested and requires an appropriate governance and control body to be devised which ensures its democratic nature and transparency as well as expertise and representativeness.

Strategies: the Foundation's structure has already been formulated, with a Constitution approved by the Senegalese associations and by the various parties involved, who have committed themselves in accordance with their respective roles. Below is a chart setting out the Foundation's operations, organisation and functions.

Figure 5: Outline of the Foundation



Structure and running of the Foundation

The Foundation will be constituted by other public or private bodies or institutions making a financial contribution (*membership fees*) and joining the **Organizing Committee**, at the time of its establishment or subsequently, as **Members**. Membership contributions will constitute the Foundation's pool of assets.

The Organizing Committee will be comprised of:

- The Federation of Senegalese Associations in Italy (recognized by the Ministry for Senegalese Abroad);
- Individual member associations (currently 30 associations concentrated in the North of Italy with the possibility of other associations in Italy joining);

- The International Organization for Migration (IOM), whose presence as an intergovernmental body will represent Italian Development Cooperation (on behalf of Italian institutions) and the Ministry for Senegalese Abroad (for Senegalese institutions);
- Italian local authorities: membership talks are in progress with the Municipality of Milan and the Lombardy Region; and
- Private partners: active (not merely financial) membership will be offered to the Cooperative Credit Banks that are part of the Consultative Groups for Ghana and Senegal initiative.

Alongside these organizations will be other **Donor Organizations** who will make a financial contribution which will also form part of the Foundation's pool of assets but which will not give rights to life membership or participation in the decision-making of the Foundation, other than through election of a Representative who will be an as-of-right member of the Board of Directors of the Foundation. Interest has been expressed and membership has been offered to the Senegalese Embassy in Italy, Banca Intesa, Fondazione Cariplo and the Monte dei Paschi di Siena Bank.

On the basis of dedicated agreements, the Foundation will also be assisted by a **Technical Advisor**, in the shape of the financial consultancy company G.P. Consulting, and by a **Scientific Advisor** in the form of CeSPI (Centro Studi di Politica Internazionale).

The management of the Foundation's assets will be entrusted to the **Fund Manager**, the Etimos Consortium, which in view of the availability of returns from the management of the assets will provide national and international guarantees for financed projects, applying leverage (the guarantees granted will be a multiple of the assets-on-hand).

The Foundation will have the tasks of:

- Pooling the contributions made by members and allocating them from time to time to projects proposed and selected in accordance with the aims of the Foundation;
- Presenting the entrepreneurial projects to Etimos, providing the proponents with appropriate training and support through the technical advisor;
- Providing guarantees backed by its own assets to entrepreneurial projects presented by the Foundation to banks in accordance with memorandums of understanding or dedicated agreements; and
- Developing tailored training instruments and projects to support entrepreneurial activity in Italy and Senegal.

A **Project Selection Committee** will have the task of evaluating and approving projects presented to the Foundation (both for the credit and social areas). The Committee will remain in office for a term of 7 years and its composition will involve a governance mechanism capable of providing adequate representation to the interested parties (Senegalese associations), thereby ensuring autonomy and professionalism for the Committee. The composition of the Committee represents a sensitive and important element for the functioning of the Foundation and the achievement of its objectives in accordance with the criteria of skill, representativeness and transparency. In this regard, the main criteria for the selection of its members are: *expertise* in the area of credit and *representativeness* in the social area.

Activities. The Foundation is conceived as an instrument to support the entrepreneurial initiatives of Senegalese in Italy which are transnational in nature and channel remittances and savings of immigrants towards entrepreneurial activities that involve the country of origin.

In the initial stages, due to the timeframes needed to obtain recognition, the Foundation's area of operations will be limited predominantly (but not exclusively, as specified by the law on foundations) to the Lombardy region, to be later extended to the whole of the country once recognition has been obtained.

The Foundation will have two main areas of activity:

1. Credit Area

- a. As far as the financing of projects in Italy is concerned, credit facilities will be granted by the Banca Etica (in this regard, a specific proposal will also be made to the CCBs that are members of the Consultative Groups initiative) by means of concessional lines of credit backed by a leveraged guarantee granted by Etimos after an evaluation of the projects.
- b. For the financing of projects in Senegal, guarantees will be given by Etimos through a network of microfinance institutions (to be identified and selected) and possibly Senegalese credit institutions.
- c. Potential agreements with the Banca Etica, CCBs or Senegalese credit institutions could also give rise to the tailoring of dedicated banking and financial products to meet the needs of member associations and their members.

2. Social Area

- a. *Training* aimed at giving dedicated entrepreneurial training (for instance, drawing up business plans, market studies, management, finance, etc.) through courses geared to member associations, their members and to proponents of projects both in Italy and Senegal. In addition to G.P. Consulting's support, it will be possible to mobilize other resources in Italy such as Chambers of Commerce and Industry Associations.
- b. *Integration*. This involves financing activities and projects in support of improved integration of Senegalese migrants in Italy. Local authorities (municipalities, regions and provinces) as well as private and non-profit organizations may be involved here for the financing of projects.
- c. *Development in Senegal*. This involves financing social projects in support of development in Senegal, such as funding infrastructure or other social projects through forms of public-private co-financing, including international financing.

ITALIAN COLLECTIVE CREDIT GUARANTEE CONSORTIA (CONFIDI)

As part of the array of instruments available to support entrepreneurship, the possibility of using the guarantee organizations typical of the cooperative world - the collective credit guarantee consortia - for these purposes is particularly significant and interesting. This would offer to Senegalese and Ghanaian businesses in Italy the opportunity to join them and to establish new ones autonomously, under the guidance and with the assistance of the existing consortia. This instrument lends itself to easy access, through dedicated agreements, and could draw on the benefits of the structures and experience which credit guarantee consortia have in the Italian business environment.

Advantages: This mechanism is very simple and easily implemented, especially in the case of joining consortia which already exist. It opens up the possibility of the involvement of industry associations and enables the use of resources (including training and technical assistance) which already exist in the credit guarantee consortia sphere. It may also be possible to replicate it in other contexts.

Disadvantages: The application of the criteria and rules established by the Basel 2 agreements will require an adjustment of the credit guarantee consortia in order to avoid limiting their sphere of operations. In addition, in order to ensure the operability of the credit guarantee consortium at an international level too, it is necessary to identify an intermediary capable of furnishing international guarantees.

REPLICABILITY OF THE ECUADOR CCB PROJECT

This project constitutes an example of support to entrepreneurship in developing countries. In brief, it is a project supporting local entrepreneurship in Ecuador in rural areas, through the creation of small local cooperative credit banks. The project, which provides for the direct involvement of the immigrant community, enables the level of bancarization to be increased and the creation of a financial system which is fundamental for the support of productive and entrepreneurial development in rural areas of the country, which are usually excluded from common circuits. It also enables the transfer from Italy to the beneficiary country of not just financial resources but also know-how and assistance at various levels, covering:

- a. financial support through the granting of concessional lines of credit and the possibility for clients of Italian CCBs to subscribe for shares in Ecuadorian cooperative credit banks;
- b. technical support from the central Italian cooperative credit organizations - ICCREA Holding and Federasse; and
- c. Staff training activities by CCBs.

Once moulded and adapted to the diverse development circumstances of different financial systems, the structure could be replicable in other countries.

Advantages: It entails the creation of an entrepreneurial and financial network capable of generating financial leverage and of self-sustaining itself, with enormous development potential. It also sees the direct involvement of immigrant communities and local communities and the transfer of know-how in the financial field.

Disadvantages: It is complex and there are a great number of parties involved. Medium-to-long timeframes are needed to implement it and activate the involvement of stakeholders. It is also necessary for there to be a minimum basic development of the banking and financial system in the country.

COOPERATIVE CREDIT BANK CONSULTATIVE GROUPS

Within the framework of the consultative process and involvement of diverse actors, a series of operational consultative groups have been established, under the coordination of CeSPI, between Italian Cooperative Credit Banks with respect to the various places of origin of immigrants in Italy. One of the Consultative Groups is dedicated to Ghana and Senegal. In addition to gaining a better awareness of the characteristics of different immigrant groups, the objectives of the initiative include the development of instruments and projects for the optimization and channelling of remittances, with the direct involvement of immigrant associations and through the enhancement of the features and potential of cooperative credit. Each Consultative Group will undertake an internal study, with the participation of the various actors involved (immigrant associations, local authorities and other institutions and organizations in Italy) and, after having identified the instruments considered most appropriate, will enter into an operational phase for the implementation of dedicated projects and instruments. The initiative constitutes an important mechanism not solely because it goes towards filling the knowledge gap and thus addressing the lack of supply of financial products geared to immigrant needs, but also because it tends to approach the problem from a systemic and multi-actor joint partnership perspective.

Advantages: The project establishes a forum for discussion and debate between the various stakeholders on a directly operational level. The territorial coverage of the CCBs within Italy and their particular mission, together with the direct involvement of central and service organizations, constitute important elements capable of creating a real strong point and which make cooperative credit one of the preferred actors for the creation of financial products within the framework of the MIDA project.

Disadvantages: There is a high number of parties involved and medium-to-long timeframes are needed to implement it and involve the stakeholders.

3X1 FUND

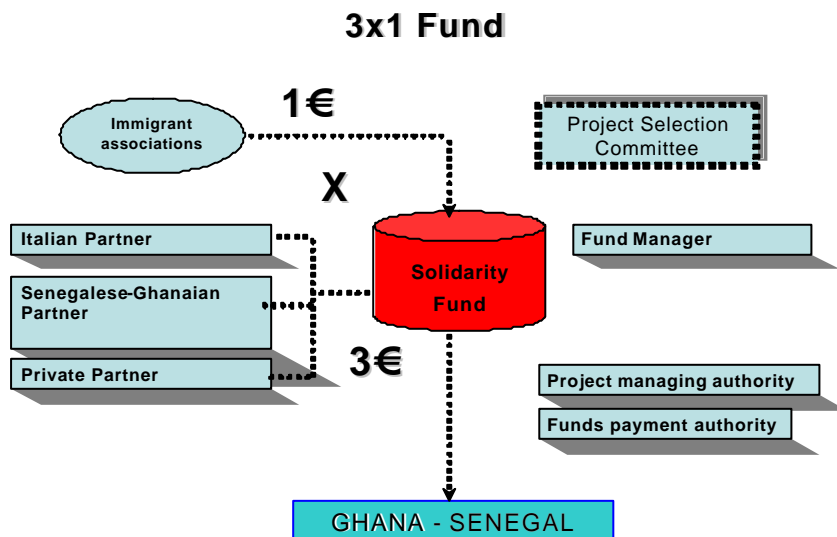
One of the more interesting instruments for channelling remittances and other financial resources towards projects in support of communities of origin is the so-called 3x1 Fund

The mechanism underpinning the 3x1 Fund enables the impact of remittances on the development of local communities to be maximized, through a multiplier mechanism. It is sustainable over time and replicable. It has a real effect on the socio-economic conditions of beneficiary communities, whose leadership role is acknowledged.

Underpinning the mechanism is the contribution of resources by immigrant communities, which are supplemented, proportionately, by other local and Italian actors through a multiplier mechanism: “For every euro contributed by migrants, three partners contribute another euro each”, thereby increasing the critical mass of the fund. The fund constituted in this manner may be allocated to finance social and development projects in the country of origin. The model can, in reality, be multiplied and replicated according to the availability and number of the actors involved (2x1, 3x1, 4x1) and enables a substantial amount of resources to be obtained through a moderate outlay by each of the parties involved. On the one hand, the instrument enables the creation and reinforcement of a solidarity network among immigrants and between them and their communities of origin and, on the other hand, the combined involvement of public and private actors from both countries.

The following diagram summarizes the general structure of the operation.

Figure 6: Outline of the 3x1 Fund



Advantages: It is easily constituted, involving the creation of a critical mass with a small investment by all of the involved parties. It provides participatory mechanisms for immigrants and communities of origin which are particularly important and significant, giving them an active and responsible role in the use of their resources. It allows for the transfer of not just financial resources but also, through projects, of all the human capital and know-how that the immigrant population brings with it, thereby recognizing immigrants as an entity with a collective identity capable of functioning as an interlocutor. It is a mechanism which may be readily replicated for a variety of projects, without

having to create limitations or exclusivity relationships among the various actors involved. Even though traditionally it has been utilized for the financing of social and infrastructure projects, we believe it is an instrument which may also be applied effectively to support entrepreneurial projects in the country of origin.

Disadvantages: The model does not envisage the repayment of the investment made, nor any returns. It is not a self-replenishing fund. It is necessary to identify mechanisms for the selection of projects to finance which satisfy all the actors involved and the organization or institution responsible for the development of the project in the country of origin.

Strategies: The instrument is conducive to being readily proposed to a multiplicity of actors (public and private, banks and private companies) and replicated for many projects, without there being any particular exclusivity constraint. Remodelling it would enable a search for suitable partners to be launched.

6.4 – Investment instruments to support productive activities: the establishment of a Closed Investment Fund for start-up businesses

The instruments in support of entrepreneurial activity described so far are aimed at resolving the problem of access to credit of various entrepreneurial activities within the MIDA project, but they do not resolve the problem of finding the financial resources necessary for launching an entrepreneurial activity of a certain size, which requires the availability of start-up capital not easily set aside by immigrants.

Moreover, while they provide for the partial use of remittances or a channelling of them for the purposes of facilitating access to credit, in reality they do not constitute true and proper instruments for the allocation of the remittances themselves, which in any case still constitute private resources earmarked for families of the immigrants.

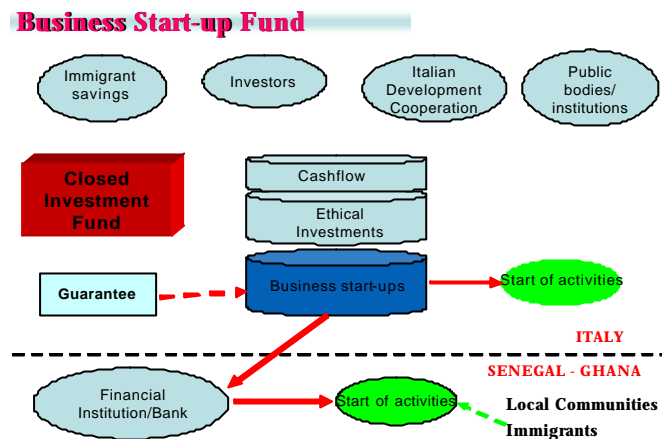
For these reasons, it is necessary to develop a mechanism which is capable of offering a secure remunerative investment for any immigrant who decides to allocate part of his/her resources to an income-yielding investment facility and, at the same time, of channelling financial resources for the development of entrepreneurial activities.

The mechanism, as outlined in the diagram below, represents a proposal which involves the pooling of financial resources through the purchase of units in an investment fund by individual migrants and various operators, such as institutional investors, public authorities/institutions and private subscribers.

The Fund constituted in this manner, which takes the form of a closed investment fund with a pre-established term, is managed by distributing the resources between the working capital necessary for the day-to-day running of the Fund itself, investment in other highly-rated ethical funds and a fund for business start-ups which would directly finance, with a capital contribution, the start-up and development of entrepreneurial activities developed by immigrants in Italy and in Ghana and Senegal (through a local financial institution). In view of the portion earmarked for more risky investment, collateral security to protect the investor is envisaged.

The instrument constitutes an innovative solution for the optimization of remittances from a sustainability and investment vehicle supply perspective.

Figure 7: General outline of the Business Start-up Fund



Advantages: It involves the pooling of savings deposits by immigrants, savers, institutional investors and other parties, and is thus characterized by a wider user-base. It constitutes an ethical and innovative savings instrument, especially in terms of the possibility of applying and generating financial leverage and investments in Italy and in countries of origin. It is a self-replenishing fund, which yields a return on capital proportional to the risk underwritten and the possibility for all participants to recoup the capital invested.

Disadvantages: It is complex and takes a long time to get up and running. There are a high number of parties involved and approvals needed. It is an investment which ties up capital for an fixed period of time (being a closed investment fund) and involves the assumption of high risk (even if this is partially mitigated by the guarantee on the portion invested in productive activities).

7. CONCLUSIONS

The research and analysis approach adopted in the IOM's Ghana/Senegal-MIDA project rests on the principle – and on the proven fact – that immigration can be a driving force for development and play an active role in the economic and social growth of the country of origin. For this to occur, conditions such as a full integration of the immigrant population into the economic and financial framework of the destination country, a framework which responds and interprets the needs and potential of the immigrant population better, and a more complex and mature understanding and consideration of “remittances” for all parties involved (the transferor, the transferee and the financial intermediary), are necessary.

In reality, efforts at optimizing resources which immigrants bring with them need to overcome certain limitations that prevent them from being fully realized. The first step consists of breaking the remittances=consumption equation and understanding remittances in their widest sense, hence not just as a simple transfer of money but also as a resource which, if properly channelled, can generate cascading benefits for all stakeholders.

Subsequently, the creation of optimization mechanisms for remittances must develop a bottom-up approach, through the involvement of and partnership between many actors and at various levels, namely: the immigrant community, the private sector, the banking and finance system, local authorities, development agencies and governments. Within this process, while on the one hand involvement of immigrants as principal actors and agents is fundamental, on the other, that can only occur through instruments that are truly capable of optimizing their resources, their identity and their ties with their communities and country of origin.

The overall result has wide-ranging impacts on the financial system (which becomes more responsive to the real needs of immigrant clients and communities), on immigrants (better able to express their money ownership and, above all, more aware, involved and authors of the development of their country of origin as a consequence of their financial behaviour in Italy) and on the country of origin (through the resulting bancarization and the widening of development possibilities).

In truth, despite the entrepreneurial dynamism of Senegalese and Ghanaian communities in Italy, severe limitations emerge which are due - in addition to shortages in management and training skills among immigrants themselves - to the weakness of the financial structure and credit-access difficulties faced by non-EU businesses.

A fundamental aspect CeSPI underlines is the necessity of supporting and encouraging the process of bancarizing Senegalese and Ghanaian immigrants in Italy, attributing to the banking system a (necessary and strategic) role as intermediary - including in the development of the countries of origin. Furthermore, in addition to the resulting bancarization of families of origin, the channelling of remittances through the banking system involves a very broad range of enhancement possibilities especially for support to entrepreneurial activity. At the same time, it enables the level of transparency and the control of flows and the terms applicable to them to be increased.

Based on the goals which the IOM set for the MIDA project, CeSPI has thus identified several proposals for financial instruments capable of responding to the new needs of immigrants in Italy, supporting their economic and social integration and capable of enhancing the relationship between immigration, remittances and development. Lastly, the results of CeSPI's research indicate the existence of areas evidently requiring intervention both in terms of the reduction of transfer costs and of the control of the end-use of remittances.

In truth, all this requires mechanisms and solutions that are not isolated and limited but capable, over time, of self-sustaining and self-replenishing themselves. The financial situation and market today are still weak and incapable of offering advanced instruments able to respond to a more structured view of the role (the potential and the impact) of immigrants. What the Ghana/Senegal-MIDA project has managed to achieve is, precisely, to identify methods and solutions for virtuously sustaining the process of transformation of immigration into development.

By way of conclusion, it can be said that as there is still a clear gap between existing remittance transfer channels and instruments and the needs and potential that these remittances are capable of generating, the remittances of Senegalese and Ghanaians in Italy today are financial flows still in search of financial products.

ANNEX 1

Summary table of financial instruments for channelling and optimizing remittances

Area of Intervention	Product	Advantages	Disadvantages:
Reduction of remittance transfer costs	<i>Rechargeable debit cards</i>	<ul style="list-style-type: none"> • Reduced remittance transfer costs • Quick turnaround for transfers • Certainty and transparency of terms • Compliant with anti-money laundering laws • Linked bank account not necessary • Possibility of linking a development fund • Flexible instrument 	<ul style="list-style-type: none"> • A developed POS and ATM network is necessary in the country of origin • A card distribution and top-up network capable of reaching immigrants is necessary • Further study is needed into the legal issues connected with dual cardholders
	<i>Bilateral agreements between banks</i>	<ul style="list-style-type: none"> • Reduced remittance transfer costs • Quick turnaround for transfers ensuring certainty and transparency • Increased bancarization 	<ul style="list-style-type: none"> • The reduction of transfer costs is not always <i>a priori</i> quantifiable (it depends on the agreement) • Costs associated with finding a counterpart, negotiations and compliance checks • A bank account in both countries and adequate geographical market reach of banks are needed • Not very flexible
	<i>Dual bank accounts</i>	<ul style="list-style-type: none"> • Reduced remittance transfer costs (simple bank transfer) • Quick turnaround for transfers (within 24 hours) • Certainty and transparency of terms • Possibility of offering combined products between the two banks which meet the needs of flexibility and mobility • Effortless transferability of savings • Bancarization of the country of origin 	<ul style="list-style-type: none"> • Complex and structured agreements • It involves strategic decisions by the bank regarding commercial and partnership agreements and not a simple product-related decision • Long timeframe for implementation • Adequate geographical market reach is needed and a critical mass needs to be achieved • A bank account in both countries is needed
Channelling remittances	<i>Savings accumulation products</i>	<ul style="list-style-type: none"> • Control over own savings and the allocation of remittances • These products break the remittance-consumption cycle • Possibility of linking savings to one's life goals • Positive impact on development: education, health assistance and pension support • Sustainable and self-replenishable 	<ul style="list-style-type: none"> • An agreement is necessary between banks and/or financial institutions for the transfer of savings • Costs and timeframes associated with finalizing agreements • It is necessary to define <i>ex-ante</i> the terms for the transfer of products or funds (ensuring certainty and transparency) • A bank account in both countries is needed

<i>Instruments for the encouragement of entrepreneurial activities in countries of origin</i>	<i>Guarantee funds</i>	<ul style="list-style-type: none"> • Easily constituted (various precedents exist) • Facilitate access to credit by local entrepreneurs • Enable forms of risk reduction for resources invested by immigrants 	<ul style="list-style-type: none"> • They do not directly provide credit • Capital invested is tied up • No returns
	<i>Certificates of Deposit</i>	<ul style="list-style-type: none"> • Common savings instrument • Easily and quickly created • Yields returns • The risk falls entirely on the issuing bank 	<ul style="list-style-type: none"> • Capital invested is tied up for a period of time • Need for the establishment or identification of a credit-issuing institution in the country of origin • Reliance on the sales network of the issuing bank
	<i>Creation of a Foundation</i>	<ul style="list-style-type: none"> • Involvement of immigrant associations • Replicability • Enables the involvement of more stakeholders • Possibility of financing both social and entrepreneurial projects in Italy and Senegal • Leverage through guarantee facility 	<ul style="list-style-type: none"> • Complex legal procedure • Assets rating • Capital is tied up • Requires an appropriate governance and control structure • Requires an intermediary capable of providing finance in Senegal
	<i>Italian Collective Credit Guarantee Consortia (Confidi)</i>	<ul style="list-style-type: none"> • Simplicity and accessibility • Replicability • Involvement of industry associations 	<ul style="list-style-type: none"> • Requires an intermediary capable of providing international guarantees • Requires two guarantors • Effects of the Basel 2 agreements on the sphere of operations of collective credit guarantee consortia
	<i>3x1Fund</i>	<ul style="list-style-type: none"> • Easily and quickly established • Critical mass reached with limited outlay • Involvement of local communities and direct impact • Active and responsible role for immigrants • Enables the transfer of not just financial resources 	<ul style="list-style-type: none"> • Invested capital tied up for a period of time • Capital not recouped and no returns • The Fund is not self-replenishing • There are no similar precedents in Italy • It is necessary to identify mechanisms for the selection of suitable projects
	<i>Replicability of the Ecuador Cooperative Credit Banks Project</i>	<ul style="list-style-type: none"> • Creates an entrepreneurial and financial network • Direct involvement of immigrants and local communities • Bancarization in support of rural areas • Know-how transfer between banks 	<ul style="list-style-type: none"> • Complexity and number of parties involved • Medium-to-long timeframes necessary • No returns and illiquid investment (capital shares) • A sufficiently-developed banking and financial system is necessary
	<i>CCB Consultative Groups Initiative</i>	<ul style="list-style-type: none"> • Creates an operational forum for discussion and debate between the various stakeholders • CC B territorial coverage and their mission-sensitivity to the impact on the territory • Involvement of central organizations 	<ul style="list-style-type: none"> • High number of parties involved and diversity in approaches • Medium-to-long timeframes
<i>Investment instruments in support of productive activity</i>	<i>Closed Investment Fund</i>	<ul style="list-style-type: none"> • Pooling and channelling of savings of a wide (immigrant and non-immigrant) user-base • Critical mass reached by means of a multiplier mechanism 	<ul style="list-style-type: none"> • Complexity • High costs and long timeframes • Involvement of a high number of parties and guarantees • An investment which carries a risk

		<ul style="list-style-type: none">• Ethical and innovative mechanism which generates credit and productive investments• Self-replenishing	<p>for the investor</p> <ul style="list-style-type: none">• There are no similar precedents
--	--	--	---

ANNEX 2

Summary table of organizations involved

In formulating the financial instruments described, CeSPI has so far contacted and involved the following organizations at various levels:

<i>Banking System</i>	<i>Other financial institutions</i>
ABI (Italian Banking Association)	Etimos
Banca Etica	Finlombardia
Banca Popolare di Milano	G.P. Consulting
Banca Popolare di Sondrio	VISA Europe
Banche Popolari Unite	Western Union
Monte dei Paschi di Siena	
Unicredit	
Fondazione Un idea	
Fondazione Cariplo	
Cooperative Credit Banks participating in the Senegal and Ghana “Consultative Groups” initiative:	
Banca di Credito Cooperativo di Terra d'Otranto	
Banca di Credito Cooperativo di Roma	
Banca della Valpolicella Credito Cooperativo di Marano	
Banca di Credito Cooperativo Camuna (Esine)	
Banca di Credito Cooperativo di Macerone	
Banca di Credito Cooperativo del Garda – Banca di Credito Cooperativo Colli Morenici del Garda	
Banca di Rimini Credito Cooperativo	
Banca di Credito Cooperativo di Sesto San Giovanni	
Emilbanca Credito Cooperativo Bologna	
Cassa Rurale Banca di Credito Cooperativo di Treviglio	
Banca di Credito Cooperativo Valle Seriana	
Banca di Credito Cooperativo di San Marzano di San Giuseppe	
Banca di Credito Cooperativo delle Prealpi	