Policy Brief

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Strengthening Remittance-Based Development Initiatives through Gender-Sensitive Financial Services and Banking

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For the most part, remittances sent by international migrants to low-income households are used to support regular expenditures on food, housing, health and education. We should not, however, underestimate the amounts that go into productive investments, or the impact they may have on local development. Financial institutions can play a key role in promoting the development potential of these investments, particularly with regard to women. As women play increasingly important roles as remittance senders, recipients and managers, the kinds of services provided by financial institutions should be carefully considered in terms of their specific needs and priorities.

Assessing the impact of remittances on local development depends on the way both 'development' and 'investment' are defined

Low-income households throughout the world use remittances first and foremost for food purchases, followed by housing, children's education and health. It is clear that these expenditures help families alleviate poverty and improve their well-being, and many experts view them as investments in human capital and increased future productivity. However, these positive effects depend on the continued flow of remittances from abroad, which can perpetuate continued migration as households are unable to sustain themselves through other means. This reality points to the need for 'productive' investments, that is, those that can increase household income independently of remittances, either through improvements in traditional economic activities (such as agriculture) or through new undertakings such as small businesses. Remittances can improve the household's access to financial capital, which can be used to secure credits and other financial services for productive investments.

Increased incomes do not always mean increased well-being

The positive effects of remittance flows are not always automatic, nor are they equally distributed. Within remittance-receiving households, men and women may not have equal access to the benefits offered by remittances – for instance, they may not have the same investment opportunities or remittance-based investments may significantly increase women's workload by creating additional labour. At the community level, remittances can lead to significant economic disparities between migrant- and non-migrant households. While the money injected into local economies by remittance-receiving households can have a positive multiplier effect, as demand for local goods and services increases, it can also lead to price inflation that causes harm to non-migrant households, who are unable to keep up with rising costs. Migration and remittances can also lead to increased disparities amongst communities and even regions in countries of origin.

The development impacts of productive investments must be carefully considered. Not all investments provide sustainable livelihoods or increase well-being

To begin with, as most income from remittances is used for household expenses, the amounts available to individual investors tend to be small, which significantly affects the types of investment that can be made. As a result, farmers may plant the same new cash crops, and local entrepreneurs often set up similar small businesses that compete with each other, such as grocery stores, bakeries, pubs, or public transport vehicles. Case

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studies in various parts of the world show a common pattern of remittance-based small business investment characterized by low capital outlays, high dependence on unpaid family labour, little ability to generate new jobs and low profitability. Female entrepreneurs face additional obstacles associated with gender norms and with their generally lower educational levels, such as less entrepreneurial skills and access to credit, restrictions as to "gender appropriate" undertakings (i.e., those that do not require her to leave the house), etc. Most of these small businesses represent a form of family survival with very little impact on long-term well-being or local development.

Beyond the profitability of the individual entrepreneur, measuring the success of productive investments in terms of local development means re-evaluating the extent to which such investments are: i) financially, socially and environmentally sustainable; ii) create positive synergies within local and regional economies; iii) reduce social disparities and exclusion; and iv) are capable of generating new livelihoods and improving the well-being of the community as a whole.

Migrant communities of origin are affected by severe structural constraints

These constraints restrict the opportunities for sustainable livelihoods and constitute the main reason that people migrate in the first place. Examples include bad infrastructure, little access to credit, small or distant markets, inadequate or non-existent energy and water services, etc. In today's globalized context, outside factors can also play an important role, such as when global trade in subsidized agricultural products brings down the prices of local crops and threatens the livelihood of local farmers. In this unfavourable investment climate, migrant households with larger amounts of capital may prefer to invest outside the community, and others may choose to invest their savings in real estate or to purchase expensive imported goods. It is therefore important to view local development in terms of a broader structural scenario that can place many restrictions on the opportunities available to individual investors. It is in this context that the role and contributions of gender-sensitive financial services should be examined.

Financial services can play a decisive role in promoting remittance-based local development and the advancement of women

Banking and other financial institutions can reduce the cost of sending remittances through innovative service packages, thus increasing the amount of money available to recipient households for savings and investment. In addition to credit and other financial services, they can promote education in financial and entrepreneurial skills. More importantly, however, the banking of remittances can increase the availability of financial capital, which can then be channelled into credits for productive investments by both recipient and non-recipient households. Although the need for sound financial services for migrants and their households is widely acknowledged, there is less agreement on which type of banking model is better-suited to their individual needs and to the development needs of local communities.

Financial service models and remittance-based local development initiatives

Two main financial service models can be promoted by remittance-based local development initiatives. The first is often referred to

as the micro-finance model and is generally characterized by small-scale, socially-oriented institutions that are publicly supported by State or donor agencies and emphasize democratic, cooperative and small-scale collective ownership. The second model is known as financial democracy or the inclusive finance model. This approach is driven by market dynamics and focuses on the financial sustainability, profitability and efficiency of financial institutions, emphasizing large-scale private ownership.

Micro-finance Model	Financial Democracy or Inclusive-Finance Model
Small, Socially-Oriented Institutions	Sustainability, Profitability and Efficiency-Oriented Institutions
Some Degree of Public Financing from State or Donor Agencies	Market Driven Approach
Democratic and Cooperative Approach	Promotion of Microfinance Institutions' integration into the Formal Financial Market
Small-scale Collective Ownership	Large-Scale Private Ownership

Formal banks vs. micro-finance institutions

The issue is whether interventions channelled through formal banks are as beneficial as those channelled through micro-finance institutions, which stay somewhat outside market demands. The logic moves from social considerations in the micro-finance model to financial profitability in the market-driven model, and institutions are quite different in terms of size, ownership, and operation (small-scale and collective ownership as opposed to large-scale and private ownership). Empirical research on the impact of micro-credits indicates that the benefits to the community as a whole – and especially to women – will depend on a number of factors, most importantly on the type of ownership of financial institutions and on their operational procedures (interest rates, re-payment schedules, demand for collateral, size of credits, etc.). The greatest beneficial impacts on local communities – including women and the very poor – are generally associated with the following characteristics: flexible operational procedures, in accordance to the needs of beneficiaries; a commitment to the community; and the integration of financial and non-financial services (such as capacity-building, investment counselling, etc.). Since these non-financial services are not profit-oriented, they are rarely provided by profit-making institutions.

The market-driven approach to financial services presents obstacles to local development

Commercial banks promote investments in very different ways from credit cooperatives or other micro-finance institutions. They also have very different impacts, particularly in the poorest areas where structural conditions are least conducive to risk-taking by banks. In those cases, the banking of remittances may not lead to increased availability of credit in the community, as formal banking institutions may prefer to channel these funds to other regions or economic sectors. Poor, non-migrant households, in particular, may be denied access to credit and other financial services, as they may not satisfy the banks' demands for collateral and other lending criteria. The chance to bridge the growing economic disparities between remittance-receiving and non-receiving households in the communities is thus lost, and the poorest sectors – including women – continue to be excluded from the potential development benefits of remittance-based investments.

Women are at a disadvantage when making remittance-based investments

Firstly, women's businesses often rely on non-tangible assets such as social capital which are not currently taken into account by formal financial institutions when assessing eligibility for credits and other financial services. Secondly, most financial institutions consider the accumulation of financial capital as the sole motivation for investment and banking services. However, a wide range of economic goals and motivations can be found amongst men and especially women investors –for instance, they may value long-term sustainability over profitability, as in the case of women migrants who choose to invest in real estate. This narrow focus on profit limits financial institutions' ability to attend to broader investment interests at the individual, household and community levels in migrant-sending regions. Finally, the tendency amongst women to prioritize the well-being of their family and household members before looking to productive investments frequently translates into reduced amounts of money available for investment. As women tend to invest in 'gender appropriate' businesses, the range of options available to them is also smaller and generally less profitable (i.e., beauty salons, food and clothing stores, snack bars).

Key Policy Recommendations

1 Strengthen gender-sensitive micro-finance services

Gender-sensitive micro-finance services respond better to the needs of poor women and can contribute to women's entrepreneurship and local development to a greater degree than formal banks While formal banks may more adequately serve the needs of larger-scale investors, they are generally not well suited to the needs of the smaller investors in poor migrant-sending communities, particularly women. The type of services offered in these settings should be characterized by flexible operational procedures which take into account beneficiaries' particular needs and resources. This means going beyond a financial service and banking model and moving towards the integration of financial and non-financial services in accordance to local needs.

2 Financial services and banking must be committed locally

Rather than transferring financial capital and opportunities according to market-driven interests and potential profits, institutions should focus on providing financial infrastructure that is dedicated to local well-being in communities of origin. This means making credit and other financial services available to non-migrants and their households, while offering opportunities for local investment to migrants and remittance-receiving households.

3 Special attention should be paid to women's unpaid work and non-material needs

The absence of a monetary measure usually leads to women's unpaid work and non-material needs being ignored. The common assumption that investments by women will automatically result in increased personal empowerment, family well-being, and improved social status should be reviewed in light of the many obstacles faced by women entrepreneurs. Household income expansion through women's unpaid work is a common strategy used by both male and female investors, and it clearly places a greater burden on

women for securing the well-being of family members. Since women are already burdened with the unpaid labour of social reproduction, care should be taken by local development initiatives not to further increase their workloads with additional unpaid labour. This can result both from the appropriation of their labour by male family members or from their own investment initiatives.

4 Strengthen the analysis of gender differences in remittance use, savings and investments

Women's increasingly important roles as remittance senders, recipients and managers make them critical actors in remittance-based local development initiatives. Because gender norms and relationships set both opportunities and constraints for remittance-based investments, further gender analysis is needed regarding both the impact of remittance flows on local development and the types of banking services most appropriate for men and women and to different settings. Women's well-being and empowerment must be seriously addressed as key components of development that need to be encouraged. Therefore, the effect on gender relationships should be a decisive factor in the provision of financial services.

5 Public institutions should support mechanisms that promote remittance-based development initiatives

As long as the structural context remains unchanged, remittance-based individual entrepreneurship will have little possibility of success, as investors face constraints that cannot be overcome simply through individual efforts. Public interventions should be based on an integrated economic perspective, which recognizes that development cannot be equated with capital accumulation and productive investment, but rather with processes that improve the provision of resources for human development and well-being. Initiatives promoted by public institutions must therefore include orientation and guidelines so that new investments 'fit' with local development planning. They must also include support for modifying structural conditions that represent obstacles to investment, and create alternatives for decent income-generating opportunities in order to reduce remittance-dependency and promote long-term sustainable development in communities of origin.

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