

International Network of Alternative Financial Institutions

INAFI Bangladesh Remittances Project Workshop

**Institutional Support for Productive Utilisation of Migrant Workers
Remittances**

Discussion Workshop

on

***'Tapping Returnee Migrants' with SME Services:
Prospects and Challenges'***



Keynote paper on

***'Tapping Returnee Migrants' with MSME Services:
Prospects and Challenges'***

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Key Note paper on *'Tapping Returnee Migrants' with MSME Services: Prospects and Challenges'*

1.0 Background

Bangladesh is a labour surplus country and this country contributes in the international labour market through temporary labour migration. People usually migrate internationally for better opportunity and financial wellbeing. But the pattern of migration is different according to socioeconomic status of migrants. Some are temporary and others are permanent migrants. Both categories of migrants send money to their country of origin, to their families; but the temporary migrants, often poor, sends more. Remittances have become the most powerful means to maintain relationship with migrants with their societies of origin. Remittances play a most important role in the accounts of many developing countries and are crucial to the survival of poor individuals and communities around the world. The emphasis of development policy is now firmly on poverty alleviation and the achievement of the Millennium Development Goals (MDGs) and remittances are playing a significant role to achieve some goals of MDGs.

According to Bureau of Manpower, Employment and Training (BMET); up to December 2008 total approximately 6.27 million people migrated from Bangladesh from 1976 to 2008 to different countries¹. Most of these people migrated for short-term employment like for 3 to 10 years. According to Bangladesh Bank, remittances totalled approximately USD 7,915 million – about 12% of GDP -- for the fiscal year 2007-2008, growth of just over 30% over the previous fiscal year.² The remittances flow in the last year (January to December 2008) was US\$ 8.98 billion and for the ten months of fiscal year 2008-2009 (July 2008 to April 2009) the remittances flow was US\$ 7.87 billion³. The remittances flow of Bangladesh is not affected adversely even in the present global economic recession. It is assumed that almost 75% of these total remittances were sent by the temporary migrants. Both temporary and permanent migrants send remittances to Bangladesh.

The remittances have both benefit at macroeconomic level and also household level. Remittances play a significant role in generating foreign exchange reserves for Bangladesh and retain positive balance of payment. Remittances have positive impact at household level of families of migrants. The living standard of families of migrants increases due to remittances flow. Moreover, the families of migrants can invest more in food, housing, education, healthcare and social security due to higher income flow from

¹ Source: BMET website link: <http://www.bmet.org.bd/report.html>

² Bangladesh Bank. Financial Sector Review. Volume III, No. 2, June 2008. Online at <http://www.bangladesh-bank.org>.

³ Source: Bangladesh Bank website link : <http://www.bangladesh-bank.org>

remittances. But due to global financial crisis many Bangladeshi temporary migrant workers are returning home. During January to February 2009, total 12,839 Bangladeshi migrants have returned home. Moreover, the outflow of migrant workers fell 13 percent in January 2009.⁴ During January 1-May 30 last year, 3,78,994 workers went abroad for jobs, while the figure is only 2,12,332 in the same period this year.⁵ Now it is big challenge for Bangladesh how to create employment for this large number of returnee migrants.

At present INAFI Bangladesh has been implementing a project titled '***Institutional Support for Productive Utilisation of Migrant Workers Remittances***' with the partnership with 5 Member MFIs. The broad objective of the project is to provide institutional support to the remittance recipient families and/or returnee migrants to utilise remittances in productive investment especially in small and medium enterprises.

The project has been implementing in 14 of the most migrant-prone districts of Bangladesh. Initially the project will be implemented for 18 months. The total number of target clients of the project is 2000. Now INAFI Bangladesh thinks that as the number of Returnee Migrants is increasing, so how to tap this large number of Returnee Migrants with Micro, Small and Medium Enterprise (MSME) services. From this perspective, INAFI Bangladesh has organised a discussion workshop titled '***Tapping Returnee Migrants with SME Services: Prospects and Challenges***'. The key objective of this discussion workshop is to gather different stakeholders like Government agencies, banks, NGOs/MFIs, migrants' organisations, donors and policy makers to discuss about how to create self-employment, extend financial and non-financial services to develop MSMEs for the Returnee Migrants.

2.0 Objectives of this Discussion Workshop

- To inform the participants about INAFI Bangladesh Remittances Project and how the project is addressing Returnee migrants through MSME services and how to extend the services to more returnee migrants
- To orient the participants about the present constraints faced by MSME clients and collect expert opinion from the participants to overcome the constraints
- To make aware the participants specially to banks, donors, SME Foundation, PKSF about the constraints faced by the project clients and how to overcome these constraints; and
- To collect expert opinion how to extend financial and non-financial services to the Returnee Migrants and what role should government, banks, donors, SME Foundation, and PKSF should play

⁴ The Daily Star, Sunday, March 8, 2009

⁵ The Daily Star, Thursday, June 18, 2009

- To develop possible partnership with different stakeholders like banks, donors, SME Foundation, PKSF to link the clients for MSME financing.

3.0 Initiatives Undertaken by INAFI Bangladesh Remittances Project

INAFI Bangladesh has been implementing a project titled '*Institutional Support for Productive Utilisation of Migrant Workers Remittances*' by developing partnership consortium with its 5 Member MFIs (UDDIPAN, Padakhep, Shakti Foundation, POPI, and SSS). The project is supported by Remittances and Payment Challenge Fund-RPCF (a joint project named Remittance and Payment Partnership-RPP of DFID and Bangladesh Bank) and OxfamNovib, Netherlands. The broad objective of the project is to provide institutional support to the remittance recipient families and/or returnee migrants to utilise remittances in productive investment especially in small and medium enterprises. The mission of this project is to motivate remittances recipient families to invest a certain portion of remittances for productive purposes like enterprise development, to provide necessary support services i.e. skill development training, enterprise development training, business development services to the target clients, to sensitise NGOs/MFIs and mainstream financial institutions like banks and non-bank financial institutions to address this missing middle target clients, to contribute to the micro, meso and macro level economic development of Bangladesh and to pilot the Remittances project successfully and replicate it in locally and globally. The project has been implementing in 14 of the most migrant-prone districts of Bangladesh. The districts are Tangail, Noakhali, Feni, Dhaka, Naraynganj, Munshiganj, Brahmanbaria, Gazipur, Comilla, Chittagong, Chandpur, Mymensingh, Narsingdi and Kishorenganj. Initially the project will be implemented for 18 months.

The project has developed operational manual and preliminary client assessment form to identify the potential clients, and total 5030 potential clients have been assessed and total 3299 clients have been selected. Among the selected clients 2044 have already enterprises and 1255 don't have enterprises, but willing to invest in different enterprises. The project has already developed 6 Training Modules and Resource Books. The project has organised Training of Trainers (TOT) courses for the 109 staffs of partner MFIs. Now the project is offering client level trainings and up to date total 1657 clients have participated in different trainings like Enterprise Management Training; Basic Skill Training on Bookkeeping and Accounting; and Business Development Services. The partner MFIs have already started to disburse Microenterprise loan to the target clients and up to May 2009 total 58 clients have received loan from partner MFIs. Moreover, the project is identifying and assessing the enterprises of the target clients to link with banks for SME Financing. Up to date total 160 clients have been primarily identified to link with

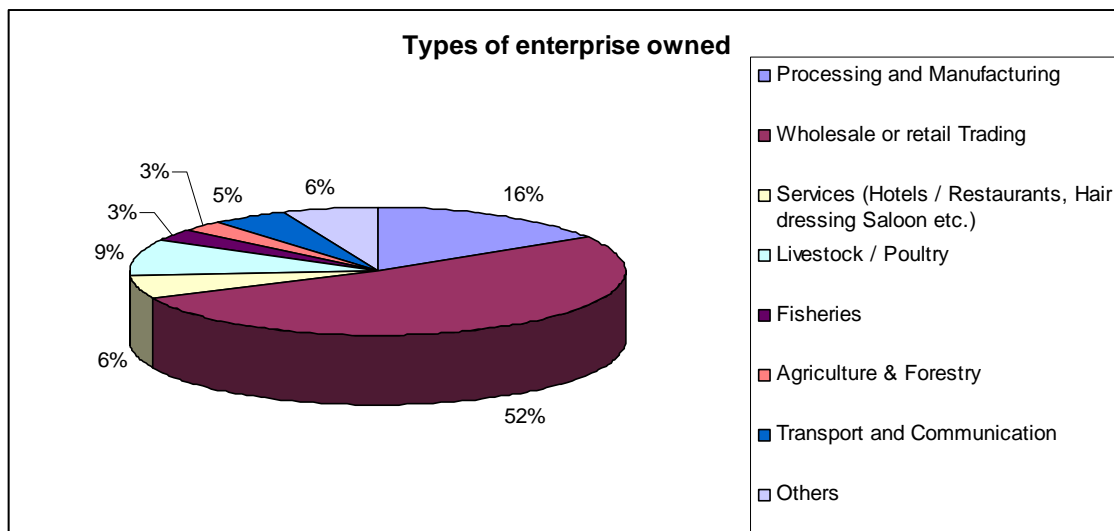
banks for SME Financing. The project has already gained wide attention both locally and globally.

4.0 Key Findings of INAFI Bangladesh Remittances Project Mapping on Migrants' Enterprise Development

INAFI Bangladesh has conducted a Mapping on Migrants' Enterprise Development by collecting information from family members of migrants/returnee migrants. INAFI Bangladesh has developed two Questionnaires. Questionnaire-1 for the respondents who already have enterprises and Questionnaire-2 for the respondents who don't have enterprises, but willing to invest in different enterprises. Total sample size was 370 (Questionnaire-1 is 187 and Questionnaire-2 is 183). The sample has been collected from 14 highest migrants' prone districts of Bangladesh. Key Findings of this Mapping are:

4.1 Present Scenario of SMEs owned by Remittances Recipient Families / Returnee Migrants

Types of Enterprise Owned: It is evident from study that 52% of respondents have wholesale or retail trading business, 16% have processing and manufacturing business, 9% Livestock / Poultry, 6% Services (Hotels / Restaurants, Hair dressing Saloon etc.), 5% Transport and Communication, 3% Fisheries, 3% Agriculture & Forestry, and 6 % others.



Source: Al Hasan, Rashed (2009), INAFI Bangladesh Mapping on Migrants' Enterprise Development

Employment Generated: It is evident that average 3.23 employments have been generated from SMEs owned by the remittances recipient families and returnee migrants.

Invested Capital: The total investment volume of these SMEs is approximately Tk. 11 crore (US\$ 1.6 million) and the average investment is Tk. 573,460 (US\$ 8200)

Main Sources of Capital: The main sources of capital of SMEs owned by the remittances recipient families and returnee migrants is owned fund including remittances income (68%). Along with owned fund, some of them borrowed from NGOs/MFIs or banks (64%), received fund from relatives or family members (25%) and sold assets like land or jewellery (4%) for capital.

Capital invested from Remittances: Total volume of investment from Remittances is Tk. 4.16 Crore (US\$ 0.60 million) and average investment is Tk. 255,300(US\$ 3650). It is evident that approximately 38% of total invested capital comes from Remittances income.

Annual Income from Enterprises: The average monthly income from enterprises is Tk. 14,473 (US\$ 207) and the average annual income is Tk. 171,452 (US\$ 2450).

Constraints faced by the enterprises: The respondents have reported about various constraints faced by their enterprises. The main constraint is lack of capital (87%). Along with inadequate capital the respondents have identified some other constraints like lack of managerial skills(20%), inadequate technical skills(16%), no enterprise development training and business development services(13%), no backward and forward linkage opportunity (7%), and no Insurance coverage of enterprises(22%) etc.

Types of support required: The respondents have asked for different supports like more or additional capital (92%). Along with additional capital the respondents have also asked for training on managerial skills (22%), training on technical skills (19%), enterprise development training and business development services (10%), backward and forward linkage opportunity (4%), insurance coverage for enterprises(32%), and opportunity to link with MFIs / mainstream financial institutions (16%).

Additional Capital Requirements: It is evident from the study that 95% respondents reported for additional capital requirements. The total volume of additional capital requirements is Tk. 4.74 crore (US\$ 0.68 million) and an average capital requirements is Tk. 278,882 (US\$ 3984).

Demand for Financial and Non-Financial services: The respondents have demanded for financial and non-financial services like various trainings, business development services, and forward and backward linkage (55%); linkage services with MFIs / mainstream financial institutions to get loan (85%); insurance for enterprise (73%), and other insurance products (53%). Among the respondents who have asked for different insurance products most of them demanded for life insurance products (61%), asset insurance (28%), livestock insurance (4%), health insurance (4%), and crop insurance (3%).

Willingness to pay for different services: It is evident from study that 52% respondents are willing to pay for various trainings, business development services, and forward and backward linkage; and 85% respondents are willing to pay for linkage services with MFIs / mainstream financial institutions to get loan. The respondents reported that they are willing to pay average Tk.2085 (US\$ 30) for various trainings, business development services, and forward and backward linkage; and Tk. 8283 (US\$ 118) for linkage services with MFIs / mainstream financial institutions to get loan. Moreover, the respondents are willing to pay average Tk. 2555 (US\$37) per annum for different insurance products.

4.2 Findings from Remittances Recipient Families / Returnee Migrants who don't have enterprises but willing to invest in different enterprises

Average Remittances Receives Annually: The respondent reported that they receive average Tk. 252,435 (US\$ 3606) remittances annually.

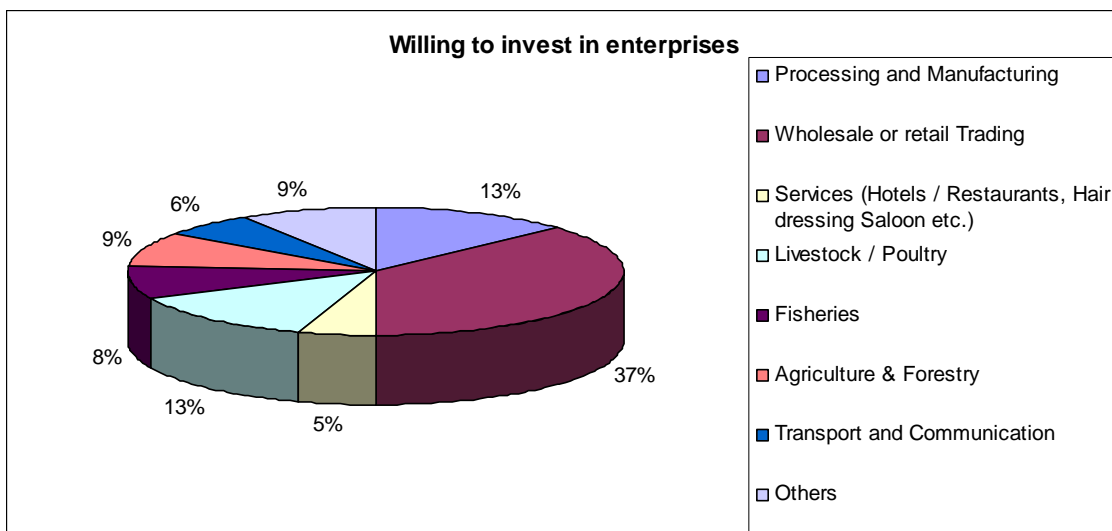
Utilisation pattern of Remittances: It is evident from the study that almost 60% remittances are utilised for non-productive purposes. The utilisation pattern of remittances is given in the following table:

Sl. No	Purposes	Remittances used (%)
1	Food and cloths	20.85%
2	Home construction or repair	15.11%
3	Loan repayment (loan taken for migration)	9.52%
4	Purchase agricultural land	11.33%
5	Sending other family members abroad	4.43%
6	Marriage ceremony of family members	3.45%
7	Medical treatment	12.97%
8	Purchase household items (Electronics products, furniture etc.)	7.06%
9	Investment in business enterprise	5.91%
10	Savings (Deposited in banks or savings instruments)	8.70%
11	Others(sending family members for pilgrimage, social ceremony, gifts, loan given to relatives etc)	0.67%
Total		100%

Source: Al Hasan, Rashed (2009), INAFI Bangladesh Mapping on Migrants' Enterprise Development

Remittances Deposited as savings: The total volume of savings of the respondents is Tk. 2.21 crore (US\$ 0.32 million). The respondents reported that they have average savings Tk.129,442 (US\$ 1850).

Investment Planning: The study has clearly depicted that 84% respondents have a plan to invest some portion of their remittances in different enterprises. The total volume of planned investment is Tk. 6.15 crore (US\$ 0.88 million). Each respondent has planned to invest average Tk.334,212(US\$ 4775). The respondents are interested to invest in different enterprises like processing and manufacturing business (13%), wholesale or retail trading business (36%), Services sector (4%), Livestock / Poultry(13%), Fisheries (7%), Agriculture & Forestry (8%), Transport and Communication (5%), others (9%).



Source: Al Hasan, Rashed (2009), INAFI Bangladesh Mapping on Migrants' Enterprise Development

Types of Support Requires: The respondents have pretended that they need different supports after investing in different enterprises like require more or additional capital (78%). Along with additional capital the respondents have also asked for training on managerial skills (29%), training on technical skills (27%), enterprise development training and business development services (11%), backward and forward linkage opportunity (14%), insurance coverage for enterprises(23%), and opportunity to link with MFIs / mainstream financial institutions (18%).

Willingness to pay for different services: It is evident from the study that 55% respondents are willing to pay for various trainings, business development services, and forward and backward linkage; and 76% respondents are willing to pay for linkage services with MFIs / mainstream financial institutions to get loan.

5.0 Lesson Learnt and Challenges of the Project

INAFI Bangladesh has been implementing the Remittances Project over the last 10 months. During this period the project has learnt some lessons and also faced some challenges. The lessons and challenges are given below:

- Lack of awareness among the target clients
- Some target clients are shy to invest in enterprises
- It has been difficult to identify suitable enterprises as well as thrust enterprises in project operational areas.
- As the socio-economic conditions of the clients were not homogeneous and their demand for training was diverse, so it was very difficult to develop uniform training modules for the target clients.
- Lack of market information and enterprise database
- Inadequate experiences and knowledge of MFIs staffs to address these target clients
- Existing enterprise clients give more emphasis on loan other than training
- Due to global financial crisis and economic recession the flow of remittances may shrink. So the potential client may not have sufficient fund to invest in different enterprises.
- Lack of availability of resource person to conduct TOT and field level training.
- Due to global financial crisis many Bangladeshi migrants are returning home, so number of potential clients would increase and it would be difficult to serve this client within limited resources.
- MFIs are facing fund constraints to disburse loan to the target clients
- Due to complexity of SME loan procedures of banks and non-banks financial institutions, it is assumed that very few target clients will qualify for SME loan.

6.0 Prospect of Tapping Returnee Migrants and Remittances Recipient Families with MSME Services

It is assumed that there is a big prospect to tap Returnee migrants with MSME services. If the Returnee migrants can be provided different financial and non-financial services then they will not become shy to invest in different enterprises. Along with Returnee migrants, remittances recipients' families will also become interested to invest in different enterprises. It is estimated that approximately 4 million Bangladeshi temporary migrants are now staying in different countries. According to INAFI Bangladesh study, it is found that 84% remittances recipient families are interested to invest some portion of their remittances in different enterprises and they have planned to invest average Tk.334,212(US\$ 4775). Moreover, the remittances recipient families who already have

enterprises need average additional capital Tk. 278,882 (US\$ 3984). Based on this demand for additional capital, a projection of total fund requirements is given in the following table:

Table: Additional capital requirements projection

SI No	Percentage of potential investors among the total migrants	Total number of potential clients /investors	Average amount of additional capital requirements (in Tk)	Total volume of capital requirements (in crore Tk)	Total volume of capital requirements (in million US\$)
1	1%	41000	278,882	1143	163
2	2%	82000	278,882	2287	326
3	3%	123000	278,882	3430	490
4	4%	164000	278,882	4574	653
5	5%	205000	278,882	5717	817

Source: Estimate based on assumption and findings of INAFI Bangladesh Mapping on Migrants' Enterprise Development (2009)

7.0 Challenges

There are some challenges to tap Returnee Migrants' and remittances recipient families with SME services. INAFI Bangladesh has already observed some challenges during implementation of Remittances projects. The probable challenges are:

- Lack of awareness among the target clients
- Some target clients are shy to invest in enterprises
- Target clients are reluctant to keep books of accounts properly and it is very difficult to identify profit and loss of the enterprises
- Lack of market information and enterprise database
- Inadequate network of banks and non-bank financial institutions in rural areas
- Although the partnership of banks with MFIs seems to be promising, but to identify the mode of partnership is challenging
- Inadequate experiences and knowledge of MFIs staffs to address these target clients

8.0 Way forward

Although there are some challenges to tap Returnee migrants and remittances recipient families with SME services, but it is assumed that there is huge prospect in this sector. Now the question is how to tap these target clients and what will be the role of different stakeholders. The Microfinance industry in Bangladesh has made a remarkable growth during the last decade with diversified products and services. Due to diversified products and services, some poor people have become very good entrepreneurs. Moreover, they

have very good infrastructures and networks in the rural areas. So the Microfinance sector has some comparative advantages to address these target clients. On the other side mainstream financial institutions like banks and NBFIs have resources and capacities, but they don't have enough infrastructures and networks in the rural areas. The government and donors can also play a significant role to allocate resources and create enabling environment to address these target clients. Now the question is how to integrate all resources together to tap returnee migrants with MSME services. If these target clients could be addressed with MSME services, then it will have positive impact on Micro, Meso and macro level of the economy. It is expected that the discussion workshop can come up with a concrete idea.

Some key Questions for Discussion

1. How to create employment opportunity for the Returnee Migrants?
2. Whether MSME Services is suitable to create employment opportunity?
3. How to extend MSME Services to large number of Returnee Migrants?
4. What are the opportunity and challenges to tap Returnee Migrants with MSME services?
5. What are the role of different stakeholders like banks, donors, SME Foundation, and PKSf to address these target clients?
6. What are the constraints faced by the MSME sector of Bangladesh?
7. How to overcome the constraints?
8. What will be the role of different stakeholders like banks, donors, SME Foundation, PKSf, Microcredit Regulatory Authority (MRA) etc to create enabling environment for MSME clients?