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RMMRU

POLICY BRIEF 8

Probashi Kallyan Bank: Innovative approaches for Remittance Transfer, Migration Finance Loan and Investment Loans

Summary of Key Issues

Short-term labour migration has come to be a mainstay of Bangladesh economy. But high cost in remittance transfer, lack of affordable migration loan and limited investment opportunities for returnee migrants are reducing the gains from labour migration. High migration cost often undermines gains from migration. In 2010 the Government of Bangladesh established Probashi Kallyan Bank as a specialised financial institution for migrants to facilitate remittance transfer, provide migration loan and expand investment opportunities. RMMRU has extended its experience and expertise in labour migration to the Probashi Kallyan Bank (PKB) so that the latter can achieve its goals in the three of the above operational areas. This Policy Brief analyses main problems in each area, discusses policy options and presents policy recommendations. It builds on the consultation with banking, financial and policy experts, 3 guidelines prepared by RMMRU for loan disbursement, and strategy development workshop organised by RMMRU on 29 May 2011.

Introduction

Money for financing migration is often hard to come by for potential migrants of Bangladesh. Banks usually do not provide loans for migration. The money required is usually collected from family savings, sale of family assets and most worryingly, borrowing from informal loan providers at high interest. As a result, migration cost skyrocket and income from migration in first 1-2 years is mostly spent in loan repayment. Amending this sorry state of migration financing was a long-standing demand of the country's civil society.

The Prime Minister handing over cheque to the first recipient of PKB loan

Probashi Kallyan Bank (PKB) was established in October 2010 through the Probashi Kallyan Bank Act. The law stipulates banking role of PKB in the following areas: financing labour migration, supporting employment generation for returnee migrants, encouraging investment by the expatriates and facilitating remittance transfer.

PKB Board of Directors

Chairman: Zafar Ahmed Khan, Secretary, MEWOE

Directors:

- Imdadul Hoque, Ministry of Finance
- Gokul Chad Das, Ministry of Finance
- Md. Abdur Razzak, Ministry of Labour
- Md. Ashadul Islam, MEWOE
- Khurshed Alam Chowdhury, BMET
- Sultana Laila Hossain, MOFA
- Tasneem Siddiqui, RMMRU, DU
- Md. Abul Bashar, Chairman, BAIRA

Managing Director & CEO: CM Koyes Sami

Member Secretary: M. Kefayetullah, MEWOE

PKB has a paid-up capital of Taka 100 crore sanctioned by the government. Of this amount Taka 95 crore was allocated from the Wage Earners' Welfare Fund (WEWF) that consists of fees paid by migrant workers during emigration and only Taka 5 crore came directly from the government exchequer. So, PKB is not just a bank for migrants but also a bank of migrants since its main source of capital is migrants' contribution.

"The PKB has raised the expectation both at home and abroad. It is imperative that the bank delivers on its promises. What is needed at this stage is well thought out guidelines and strategies. I believe this workshop will play a crucial role in this regard" - Dr. Zafar Ahmed Khan, Chair of PKB

Migrant targeted specialized financial institutions and bank products have already been experimented in some countries. But their track record is not encouraging. For example, case studies of migration loan from the Philippines, Sri Lanka and Indonesia show that most of them ended in default. In Bangladesh, four banks introduced migration loan schemes; one of which never got operationalised and the performance of others have been quite unimpressive. So, while PKB holds much potential as a financial institution specialised on migrants, challenges involved are also enormous

"Refugee and Migratory Movements Research Unit (RMMRU) with support of Manusher Jonno Foundation (MJF) joined hands with PKB in developing appropriate policies and strategies that will enable the Bank to serve migrants better" - CM Koyes Sami, Managing Director, PKB

In this circumstance, RMMRU is working with government, migrant workers, civil society and private sector for over a decade to promote safe labour migration, protect migrant workers' rights and facilitate sound policies and governance of labour migration sector. It played an important role in formulating Bangladesh Overseas Employment Policy (BOEP) and drafting the proposed Migration and Overseas Employment Act to replace the Emigration Ordinance of 1982.

Remittance Flow

Remittance flow has three main interlinked aspects: collection, transfer and delivery. These aspects are dealt by banks, exchange houses, money transfer agencies and mobile phone operators through various products. PKB has to find its market niche(s) in remittance flow and then develop relevant product(s).

Remittance collection is generally done by banks through exchange houses. All the 48 banks in the country are engaged in remittance and each exchange house has agreement with about 10-12 banks. So, exchange houses are often not interested in relationship with an additional banks if they do not have sufficient country-wide coverage and branches. Moreover, is Bangladesh Bank (BB) regulation requires mandatory security deposits worth US$ 25,000 from exchange houses for every remittance agreement. PKB will be constrained by these difficulties in assuming remittance collection function. PKB can network with well-established banks to be part of pre-existing exchange agreements.

Remittance transfer procedures are becoming technology-intensive. Use of advanced technology is enabling more efficient service provision, quicker transaction at lesser price. Previously, Demand Draft (DD) was the main remittance transfer procedure that was cheap but time consuming. Then Telegraphic Transfer (TT) and Web-based Money Transfer (WT) gradually replaced DD. While remittance transfer from the Gulf countries would cost 10 dirhams in total and take 15-20 days in time, TT would cost same amount but reach in about 24 hours. Despite the efficiency, WT is also constrained by lack of internet connectivity, necessary equipment and skill to conduct web-based transactions throughout the country. Security of web-based transfer is another difficulty particularly amid threats of virus attack and hacking. If those difficulties can be addressed, transfers can take place in almost zero time through customised softwares.

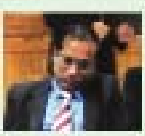
"While all the banks together have six and half thousand branches, there are more than 10 thousand post offices which may function as distribution outlets for the bank (PKB)." - Sufia Akter Begum, Consultant, GPO

Remittance delivery is also becoming highly automated. Electronic or ICT-enabled bank products supported by customised softwares are fast replacing long-drawn manual delivery mechanisms. Remittance is now delivered to clients either by account credit to individual bank

"Mobile operator Robi has about one hundred thousand retail outlets that can be used for remittance delivery". - Md Shahriar, Robi

accounts or by cash delivery through WT. Cash-to-cash service is gaining popularity as one does not need to have any bank account to avail this. Electronic Fund Transfer (EFT) and Electronic Money Transfer (EMT) are reducing the distance between banks and clients by several steps. Mobile banking is taking remittance delivery literally to doorsteps of clients through vast retail networks of mobile operators.

But electronic remittance delivery is vulnerable to virus attack and hacking. The number of ATMs is still insignificant compared to the size of population. The largely illiterate rural population is averse to opening bank account and using ATM. Even when they have bank accounts those are with



"PKB has to operate totally online right from the beginning to facilitate instant cash transfer." Abul Kashem Mohammad Shirin, DMD, Dutch Bangla Bank Ltd.

NCBs who are not sufficiently automated. The NCBs also have fund management limitations, many branches in remote areas have vault limit of taka 500,000. High service charge keeps some remittance delivery products expensive. PKB can develop remittance delivery products that address some of these difficulties. It can harmonise remittance delivery through separate NCBs and the POs under a single branded product range. Its remittance delivery products should be cheaper and targeted to predominantly rural and semi-urban clientele who are out of bank coverage. It can familiarise rural illiterate remittance receivers to electronic banking devices like ATM through automated POs acting as e-centres. PKB can also tap into NGOs' microcredit and service delivery networks both for remittance delivery and corresponding information dissemination.

"Western Union jointly with BRAC Bank is working with NGOs since 2003 for remittance distribution. We have now 14-15 NGOs as our partners." - Syed Mohammad Kamal, Country Manager, Western Union

Recommendations

- Signing of exchange agreement with exchange houses, or, if that is difficult, joining exchange networks of NCBs and PCBs.
- Establish high-tech advance TT and WT network engaging NCBs and POs physically spread throughout the country including far-flung rural areas. The network will be backed by necessary infrastructure: connectivity, equipment and trained human resource.
- Establish fully automated online banking with country-wide coverage through networks and partnerships with other banks, financial institutions, GOs and NGOs. Predominantly rural areas still not penetrated by other banks will be emphasised in extending coverage.
- Design and offer electronic or ICT-enabled bank products supported by customised softwares that may include: cash-to-cash service, EFT, EMT and ATM.
- Harmonise remittance delivery through separate NCBs and POs via a single branded remittance delivery product range that is cheap and easily accessible to largely illiterate rural population.
- Service charge for remittance delivery should be low but competitive.
- Capitalise NGOs' microcredit and service delivery networks both for remittance delivery and corresponding information dissemination.

Migration Loan

"Migration finance loan should be the main activity of PKB to serve migrants effectively. It can be a leader in this product area both nationally and globally if successful." Professor, Tasneem Siddiqui, Chair RMMRU

The core issues of migrant loan product are: purpose, objectives and goals, credit principles, business strategy, and, loan processing, disbursement and collection procedures.

Migrant Loan is the name of the migration loan product of PKB. It is a terminating facility offered to Bangladeshi individuals who are willing to go to abroad as wage earner. It will be given to persons with or without any secured property or mortgage. The loan's sole purpose is to provide support to potential migrant workers who want to go abroad for job purpose. A set of credit principles will govern the migrant loan that focus on client characteristics, risk assessment and recovery prospects. The credit risk of the migrant loan product is covered by a process of strict selection of prospective borrower. PKB shall focus on credit quality and risk management. This will include aim of maintaining the overall delinquency ratio (30+ dpd) at below 1% and overall net bad debt ratio at below 1% for the first year. It shall run seasonal promotional campaigns to create market awareness and to boost sales.

Credit Principles to govern Migrant Loan

- Assess the customer's character for integrity and willingness to repay.
- Only lend to the customer who is honest and want to go abroad for supporting his/her family.
- Only lend to the person or customer who has goodwill in the local community.
- Assess carefully the integrity and loan repayment capacity of the guarantor.
- Plan for the possibility of default.
- Use common sense and past experience in conjunction with thorough evaluation and credit analysis. Do not base decisions solely on customer's reputation, accepted practice, other lender's risk assessment or the recommendations of other officers.
- Behave ethically in all credit activities.
- Be proactive in identifying, managing and communicating credit risk.
- Be diligent in ensuring that credit exposures and activities comply with the requirement set out in this product programme.
- Be proactive in analyzing job or employment condition of the borrower in destination country.
- Be active to analyze the customer's potential recruiting agencies financial condition.

NGOs will act as bank partner of PKB in processing loan file in a locality. Concerned NGO official will send the loan file to loan officer of PKB who will judge the loan application. If the loan is approved, the loan applicant will open an account in a bank of PKB network where money will be disbursed. NGO will collect the loan installments for PKB from the client. If a client fails to repay installment, NGO will notify the bank. In case of loan default, NGO will recover the loan from client on a best effort basis.

"Agrani, Pubali and Mercantile - these banks now offer migration loan. But in last 3 years of operation since 2008, together they could provide loan to only 97 persons" Marina Sultana, Programme Coordinator, RMMRU.

It is nothing compared to hundreds of thousands people who are emigrating every year as short-term workers and who need such loan. RMMRU facilitated 100 loan applications to the above banks through its 48 union-level Migrants Rights Protection Committees (MRPCs) in 4 migration intensity districts. But only 3 applications could be processed. It was not that the banks did not want to give loan but they were unable by such considerations as loan recoverability, loan risks and insufficient client information. These issues have to be addressed to make migration loan effective. If loan recovery cannot be ensured, the whole initiative may go astray.

A Comparative Statement of Migration Loan Programmes of Three Banks

Information	Agrani Bank	Pubali Bank	Mercantile Bank
Started from	July 2008	February 2008	January 2008
Area of Operations	All Branches in Bangladesh	All Branches in Bangladesh	All Branches in Bangladesh
Eligibility for loan	Aspirant labour migrants	Aspirant labour migrants	Aspirant labour migrants No credit defaulter
Loan amount in Tk	300,000	250,000	300,000
Rate of interset	10%	13%	14%
Number of loan account	3 persons till 2010	79 persons till 2010	15 persons till 2010
Total Amount of loan disbursement in Taka	570,000 till 2010	1,30,00,000	15,00,000
Recovery status	—	Satisfactory	Not Satisfactory

Source : RMMRU - 2011a

A bank generally gives loan on the basis of some initial criteria that enable it to judge the viability of the client. Considerable information about the client is required for this. PKB has to have a databank that will store necessary relevant information about loan applicants and their family members. These may cover information about personal profile, passport, visa, emigration, recruiting agent, employer in destination country, asset, liabilities, family earning, family members employed etc. Such detailed and extensive information will enable PKB to understand client behaviour and better assess risks involved. This databank can be linked to existing databases (i.e. national ID, BMET, CIB) for cross-checking.

"The borrowers of PKB can be monitored through embassies of Bangladesh. The labour wings in migrant intensity countries can perform this task as representatives of PKB."- Salim Reza, Director, Emigration, BMET

Ensuring proper utilisation and recovery of migrant loan is no easy task. As migration is for income generation, migrant loan has to be supervised and credited amount is to be recovered in monthly or similar periodic instalments. But credit supervision is difficult in this case as the borrowers will be in foreign countries with their loans. An on-spot monitoring mechanism would be useful in this case. This can be done through embassies/labour wings of Bangladesh in the destination country. The role of local guarantor is important. S/he can be a family member or a reputed person of the locality like UP chairman/member or NGO official. As PKB's partner, NGOs will share both risk and profit. Loan recovery can be done through deducting loan instalment from remittance transfer. Loan recovery schedule may vary according to contract duration. Migrant loan may not be directly handed over to the migrants. Rather migration expenses like air ticket etc. might be directly borne by PKB.

Recommendations

- Strictly follow credit principles regarding client characteristics, risk assessment and recovery prospects.
- Forge partnerships with NGOs and PCBs in processing, disbursement and collection of migrant loan.
- Establish a databank where necessary relevant information about loan applicants and their families will be stored. The information will include personal profile

passport, visa, emigration, recruiting agent, employer in destination country, asset, liabilities, family earning, family members employed etc. The databank will be linked to other existing databases like national ID, BMET and CIB for cross-checking.

- There shall be one or more local guarantor of migrant loan. S/he will be family member(s) and/or a reputed person of the locality like UP chairman/member or NGO official who is legally and financially capable of taking responsibility for the loan.
- NGOs will share both risk and profit with PKB as their product partner for migrant loan.
- Install on-spot monitoring of migrant loan borrowers through embassies/labour wings of Bangladesh in destination countries.
- Deducting loan installment from remittance transfer will be one option of loan recovery.
- Loan recovery schedule will vary according to contract duration.
- PKB will not have its own branches rather maintain its presence through NCBs and POs.
- An insurance premium of 0.25% or 0.5% may be added to migrant loan scheme. Such a facility may be developed by involving reputed insurance companies to cover credit default due to accidents and other emergencies (RMMRU-2011 c)

Investment Schemes

Investment is crucial for short-term and long-term utilization of remittance. PKB can take suitable investment products to migrants' doorsteps as the welfare finance institution keen on serving them. "Remittance sent are often all spent. PKB should take care about bringing all these remittance into savings and investment systems so that they can benefit from their life's earnings when they are finally back to country." - Amir Hossain Bhuiyan, SAVP, ID (remittance), Southeast Bank

There already exist many investment products that target migrants from existing banks. But migrants and their family members are often not aware of them. PKB's main mode of work will be networking and partnership. It can provide referral service for other banks. It can thus guide migrants to make investments that will permanently improve their families' living standards. PKB can assist them to invest in agriculture and human resource development. So, their lands can be turned into profitable assets and family members can be trained to take up skilled employment at home and abroad. PKB should strive to bring all migrants under bank account coverage and total transfer of remittance through banking channels. A percentage of remittance (i.e. 10-15%) can be saved on a regular basis. Then savings and investment schemes can be offered from that amount. The returnee migrants have skills and some capital. There should be appropriate loan package for them to initiate enterprise. There can be SME loans customised to returnee migrants' reality. The equity requirement may be reduced in loan equity ratio for them. The interest rate can be lesser than usual double-digit figure and loan ceiling can be smaller.

Recommendations

- Provide referral services to link with investment products of other banks.
- A savings account drawing on 10-15% of remittance transfer will act like provident or pension scheme accruing a little higher interest rate than usual.
- Design a different loan-equity ratio in SME loan targeted to returnee migrants. It should be 80:20 instead of 50:50 or 60:40 or 70:30 as usual.
- The interest rate charged for migrant targeted SME loan should be lesser, single-digit rather than double-digit. If the general interest rate for SME loan is 12-12.5% then it should be 9% for migrant SME loan.

- SME loan offered may be of varying size, from minimum Tk. 50,000 to Tk. 5 lakh.
- Introduce readymade enterprise loan packages for returnee migrants as a matching loan facility for SME investments.
- Induce remittance investment in agriculture and human resource development.
- Massive media advocacy through print and electronic media and mega-shows for information dissemination about investment opportunities particularly in countries with concentration of Bangladeshi migrants (RMMRU-2011 b).

Conclusion

Labour migration sector should secure the highest priority for Bangladesh. But we have to do more to reap full benefits from this sector. So, we have to make banking and financial services available to the migrants and customize to their needs. PKB can take the lead in this process through adopting the recommendations of this policy brief.

Acknowledgement

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An emotional moment of a loan recipient at the launch of the Probashi Kallyan Bank

LOOKING FOR SKILLED WORKERS?
ENTER RMMRU'S ONLINE SKILLED PROFILES
OF EMERGENCY RETURNEE MIGRANTS FROM LIBYA

RMMRU has developed an online profile of 10,000 emergency returnee migrants from Libya. You can access the jobseekers' profile at http://returnee.rmmru.org. Soon it will be available at www.BDjobs.com.

Potential employer or employers association such as REHAB, BGMEA, FBCCI, BKMEA, G4 Security Services, and restaurants can recruit skilled workers by entering into this website. The skill profiles of the job seekers reflect that 44.7% are masons, 22.7% carpenters, 7.6% electricians, 7.4% ceramics and tiles fitters, 5.9% steel fixers, 3.5% chefs 2.0% plumbers, 1.69% lab technician, 1.60% cleaners, 0.9% security guards, 0.6% painters, 0.25% engineers and 0.2% nurses.

RMMRU research on this group of migrants finds that two-thirds of them belong to the age group of 20-30 years. Around 69% only have class 10 level educational background. 65% returnee migrants do not posses any arable land where as 9.65% do not even have homestead land. The average cost they incurred while migrating to Libya was BDT 2,50,000 (US$ 3500). On an average they stayed for 17 months in Libya. 90 percent of them took loan to finance migration. Currently 92% of them are in debt due to emergency return. The average size of debt is BDT 165,000 (US$2200).

RMMRU urges public and private sector employers to engage our skilled migrant workers. We strongly believe that it is very much possible to rehabilitate the emergency Libya returnees within Bangladesh. The BMET and the recruiting agencies can also use this online database to recruit workers for overseas employment. The programme is part of RMMRU and RPC on Migrating out of Poverty collaboration supported by DFID, UK.

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Comments on this Policy Brief are welcome. They may be sent to:

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