

Strengthening Evidence-Based Management of Labour Migration in Armenia
«Հայաստանում աշխատանքային միգրացիայի գիտավերլուծական կառավարման հզորացում»

Policy Brief

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International Organization
for Migration

Alternative Solutions to the Financial Issues of Labour Migrants



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Heavy cares, big hopes

Labour migrants from Armenia are mostly engaged in irregular migration. The vast majority either has low qualifications or lacks any at all. The cost of engagement in labour migration is comparatively high, and Armenians seem to prefer to “find Euro3000 from somewhere and leave”, rather than to sign an employment contract and secure safe warrants, such as insurance, a legal status in the destination country for the period of employment and so on. In the result, labour migrants face a number of financial challenges while working abroad.

In contrast, credit resources for overcoming such challenges, are practically unavailable or are quite expensive for migrants suffering the consequences of illegal migration, and their families. Migrants intending to apply for loan services offered by microfinance institutions (MFI) can verify only their officially recorded expenses, such as air fare, whereas it is almost impossible to verify unofficial expenses. Therefore, loans available to illegal migrants are usually consumer credits, and are quite expensive. Interest rates remain quite high in Armenia and no decreasing tendency is visible in the nearest future. Still, high interest rates are not a serious obstacle for funding departure expenses of labour migrants, since in case of small loans monthly loan repayments and other fees are small and do not make any significant difference on the customers’ budgets (for instance, AMD 10000-10500).

When all the links of the chain are weak: creditworthiness, income, loan securities, guarantees...

Though labour migrants are ready to use micro-financing services even under unfavourable conditions, issues associated with loans are still quite complex. Specifically, one of the major challenges is creditworthiness of labour migrants, assessment of their actual income, as well as the reliability of the guarantees or securities they offer for loans. A labour migrant who leaves the country in search of a job naturally is not employed and cannot provide a confirmation letter from an employer verifying the accuracy of information on their income. Moreover, liquidation of a loan is especially problematic in rural residences, where collaterals, as a rule, substantially lack liquidity. Thus, in case of labour migrants, banks do not get accurate information on their income flows and do not get sufficiently strong loan securities. However, the mentioned challenges do not shrink in any way the need of labour migrants and their families for financial resources. Therefore, the necessity of solutions to offer new guarantees and easier access to such resources is simply urgent.

Heavy lions and rapid panthers

The Armenian financial system presently does not stand out with initiatives targeting the above-mentioned needs. On one hand, the number of labour migrants in the EU countries is still quite small. However, given the current dynamic of Armenia’s European integration, in time this target group will enlarge considerably, and its solvency will increase, gradually turning this group into a quite a desirable potential target for financial institutions. On the other hand, the Armenian banking system seems to lack ambitions to utilize development opportunities, enlarge the range of services and increase the number of customers, especially in comparison with the systems in Eastern Europe. It seems that the Armenian financial institutions are waiting for the customers to come to them, whereas the latter do not seem to be too eager to appear at their door.

Perhaps micro-finance institutions and insurance companies are the more active and flexible in this regard. Actually Armenian MFIs are quite capable of successfully meeting some of the pre-departure financial needs of labour migrants, because the necessary amounts are not too large. These institutions have quite a well-developed network in the country and provide services in almost all communities.



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Information and information once again...

Thus, one of the serious obstacles for introducing additional financial guarantees for labour migrants is the issue of their creditworthiness to be verified through confirmation of their incomes. When there is no unified information system to provide credit history checks of potential customers, the capacity of MFIs to get such information is quite limited. Indeed, there is no central or unified system to provide information on financial flows of individuals. ACRA credit bureau provides information only on individual's credit history and utility billing. Customers can certainly ask for information on their financial flows from their banks, or require that such information be readily available to MFIs in case such a request is made.

The role of MFIs will significantly increase in providing credit services to labour migrants and their families in case a unified and universal system of exchange of information on financial flows of labour migrants is in place. This is indeed necessary, even though the number of labour migrants in the European Union may not exceed three thousand. However, eventually even these additional three thousand are a tempting morsel for any MFI. Statistics and facilitation of access to information about this target group would help MFIs to develop a targeted strategy and serve this specific group of customers more effectively through developing adequate tools and mechanisms for meeting their financial needs. It is perhaps redundant to mention that each of these solutions should keep to the relevant provisions of the RA laws on banking secrecy and protection of personal data.

Cooperation for profit in the interests of all parties

It is necessary to work out and use new approaches and mechanisms of financial guarantees for labour migrants and their families. Those need to be based on several principles, such as cooperation of major players, enlargement of the range of services provided by financial institutions, guarantees provided by public or private partners and provision of state subsidiaries. The new approaches should never compromise on the rationality of the decisions. Thus, under the given conditions of current limitations, the new products and solutions providing additional financial guarantees for labour migrants can be worked out in the result of cooperation between different financial institutions, for instance between the EU and Armenian insurance companies, the Armenian banks and credit organizations, Armenian credit organizations and insurance companies. Particularly, new opportunities will be shaped in the result of introducing intermediary services for the facilitation of information flows between financial institutions – banks, credit organizations and insurance companies. Moreover, increasing the reliability of employment contracts and the information included in these contracts will go hand in hand with increasing the role and reputation of employment agencies dealing with recruitment of international labour and circular migration issues.

Sharing risks, multiplying the profits

Various cooperation mechanisms have already proven their vitality. Thus, one of the leading credit organizations provides loans for purchasing airplane tickets for labour migrants through quite a unique mechanism: tour operators who provide airfare purchase services in client villages provide also loan securities to the credit organization which provides loans in order to purchase the air tickets. In the result, both players share the credit risks, and all gain - both the commercial institutions and the labour migrant.

Another MFI, in cooperation with international organizations, has made credit resources available to labour migrants through providing financial guarantees and subsidizing interests. Such an approach can be applied not only for creating additional financial guarantees for the labour migrants and ensuring the availability of these resources to them and their families, but also within the framework of reintegration assistance to returnees to Armenia.

A new player, new rules

Thus, loans can be meant not only for pre-departure and travel expenses, but also for funding the development of the families of labour migrants, such as education, and health, since there is the prospect of repayment of loan from their future income. Remuneration flows of labour migrants can be partially directed to the repayment of the loan and either the employer or the intermediary employment agency can be tasked with such a commitment. However, necessary prerequisites for this to happen are the accuracy of information regarding the Armenian labour

demanded in the European labour market, significant improvement of the quality of services and the reputation and reliability of employment agencies.

When the shoes are a smaller size, the pain causes a headache too

Another indirect obstacle to impede loan provision to labour migrants and their families is the limited range of activities of microfinance institutions. They do not provide money transfer services or personal savings accounts and cannot make use of the services of agent networks. However, such frontend of customer service would have made financial services more accessible for Armenians and specifically for labour migrants. In parallel, there is a need to discuss the issue of other financial institutions, for instance, bank and MFIs, using agent networks. Services provided by agent networks indeed require strict monitoring and supervision, which is an additional challenge for the Central Bank of the Republic of Armenia. For instance, the supervisor needs to be able to confirm and guarantee that e.g. a missing payment made through one or the other agent is actually returned to the appropriate addressee. The opportunity for MFIs to provide small loans is also a heavy supervisory load for the Central Bank.

To introduce such a supervisory system the Central Bank should demonstrate that it possesses a holistic, long-term and innovative strategy for the development of the financial system of the country. However, such a system can be an agonising task for a weak banking system and a similar supervisor. Still, for years the Central Bank has been able to develop strong technical and institutional capacities and has turned to a powerful supervising agency. Today at least the consideration of the recommended alternative expansion of the activities of MFIs in our country is highly realistic.

Appearance of new players in the market of personal loans will perhaps significantly increase the supervisory load of public agencies, but instead the financial market will activate. Eventually, public agencies are called for the development of this sector, and not for facilitating their workload and increasing the efficiency of their comfort.

Always together, for better and for worse

Armenian insurance companies have also a lot to do in order to expand the range of financial guarantees for labour migrants and their families. Often the earnings of labour migrants are spent for things different from their initial intentions. Insurance companies are currently seeking possible solutions. For instance, one of such companies offers a specific service targeting labour migrants: the latter can insure their families up to one million Armenian drams. This mechanism is available only to labour migrants in the US, but in the nearest future migrants in Russia and the EU countries will also have an access to this service.

This paper has been developed based on the opinions passed by the participants of a round table discussion, titled "Opportunities for offering new financial services to labour migrants", organized within the framework of the project "Strengthening Evidence-Based Management of Labour Migration in Armenia". The event took place on June 28, 2012. The roundtable was attended by independent analysts, government officials, and representatives of the international organizations. The project is financed by the European Union.