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Contribution of Migrants to Development:  
Trade, Investment and Development Linkages

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**MIGRANTS AND FINANCIAL SECTOR DEVELOPMENT**

*By*

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# Migrants and Financial Sector Development

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UNCTAD's Ad Hoc expert meeting on Contributions of migrants to  
development: Trade, Investment and Development Links.

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Disclaimer: My views do not implicate those of the EIB

# Remittances as an engine of economic development

- ▶ Remittances are the largest/second largest source of external finance for developing countries
- ▶ Throughout the crisis, and despite a significant contraction, remittances will remain an important crisis smoother for a number of emerging markets; Remittances are mostly stable
- ▶ Remittances help reduce poverty, particularly in rural areas
- ▶ Remittances sustain household expenditures on health and education

# Remittances as an engine of economic development

Migrants also an engine for financial sector development

- ▶ as source of funding (deposits) and promoting the extension of credit to the private sector (Aggarwal, Kunt, and Peria, 2006)
- ▶ By expanding the number of users of the banking sector (migrants' families)
- ▶ But also through innovative funding schemes, such as future-flow securitisation, and diaspora bonds

# Improving the efficiency of workers' remittances

## Market imperfections and information deficiencies

- ▶ Exclusivity contracts for MTOs in post offices
- ▶ Lack of transparency on transfer costs (particularly as regards exchange rate fees);
- ▶ Inadequate information regarding available transfer mechanisms and associated costs, speed and reliability;
- ▶ Accessibility to banking accounts for emigrants residing in the EU is also limited and banking products are not sufficiently tailored for remitters, with few exceptions.
- ▶ Inadequate payment systems and limited usage of bank accounts

# Improving the efficiency of workers' remittances

Imperfections result in high transactions costs

Transaction costs matter:

As the cost of sending remittances through official channels increases, migrants send less per capita remittances home







Migrants send more money through cheaper informal channels  
(Freund and Spatafora, 2008)

# Improving the efficiency of workers' remittances

## Comparatif des coûts d'envoi d'argent : Bénin

 [Imprimer le tableau comparatif des prix](#)

Etablissement	Nom	Somme envoyée	Coût de l'envoi	Délai	Type d'opérations proposées	Commentaire
CELDA 	Virement international	100 €	15.60 €	Plus de 2 jours	Compte à compte	Dans la cas d'un transfert dans une autre devise que ... <a href="#">En savoir +</a>
		300 €	15.60 €			
		500 €	15.60 €			
La Banque Postale 	Mandat Express International	100 €	8.00 €	12 heures à 2 jours	Espèces à espèces	Le Mandat Express International est disponible en France ... <a href="#">En savoir +</a>
		300 €	15.00 €			
	500 €	20.50 €	Plus de 2 jours	Espèces à espèces	Le Mandat Ordinaire International est disponible en France ... <a href="#">En savoir +</a>	
	Mandat Ordinaire International	100 €				7.10 €
300 €	10.90 €					
500 €	13.90 €					
MONEYGRAM INTERNATIONAL 	Transfert d'argent MoneyGram	100 €	8.00 €	Inférieur à 1 heure	Espèces à espèces	Pour trouver nos points de vente, veuillez cliquer sur le ... <a href="#">En savoir +</a>
		300 €	15.00 €			
		500 €	25.00 €			
Western Union Network Ireland Ltd 	Transfert d'argent immédiat en ligne sur <a href="http://westernunion.fr">westernunion.fr</a>	100 €	10.00 €	Inférieur à 1 heure	Carte à espèces	Cette tarification est la meme pour toutes les destinations ... <a href="#">En savoir +</a>
		300 €	20.00 €			
		500 €	30.00 €			
	SFdP	100 €	10.00 €	Inférieur à 1 heure	Espèces à espèces	Réseau dédié de la Société Financière de Paiement
		300 €	21.00 €			
		500 €	32.00 €			

# Improving the efficiency of workers' remittances

## Results from UK to Philippines for 100 British Pound

Organisation	Transfer type	Method	Exchange Rate Guide	Fee	Speed	Amount received for 100	Account Needed	Loyalty Scheme	More Info	Send Now	Notes
Money Express	Pre-pay money card - withdraw from ATM	cellphone, online	77.6847	2.50%	Instant	7574.26PHP	Yes	No	<b>Info</b>	<a href="#">Send now &gt;</a>	No bank acct required - Rates issued each day by MasterCard
White Eagle	Prepaid Maestro Card	agent, cellphone, online, telephone	76.5738	£1.50	Instant	7542.51PHP	Yes	No		<a href="#">Send now &gt;</a>	
Freedom	Prepaid MasterCard	agent, cellphone, online, telephone	76.5738	£2.75	Instant	7446.80PHP	Yes	No		<a href="#">Send now &gt;</a>	
OrbitRemit	Bank account to Bank account	online	77.3673	£5.00	1 day	7349.89PHP	Yes	Yes		<a href="#">Send now &gt;</a>	door-to-door delivery and cash pick up available
Halifax Bank of Scotland	Bank Draft	branch	74.5900	£10.00	3-7 days	6713.10PHP	No	No		<a href="#">Send now &gt;</a>	
HSBC	Bank Draft	branch	75.7802	£15.00	3-7 days	6441.32PHP	No	No		<a href="#">Send now &gt;</a>	
HSBC	Bank account to Bank account	online	75.7802	£15.00	3-5 days	6441.32PHP	Yes	No		<a href="#">Send now &gt;</a>	
Halifax Bank of Scotland	Bank account to Bank account	branch	74.5900	£17.50	3-5 days	6153.67PHP	Yes	No		<a href="#">Send now &gt;</a>	
HSBC	Bank account to Bank account	branch	75.7802	£21.00	3-5 days	5986.64PHP	Yes	No		<a href="#">Send now &gt;</a>	
Alliance & Leicester	Bank account to Bank account	branch	75.3835	£30.00	5 days	5276.84PHP	Yes	No		<a href="#">Send now &gt;</a>	



# The (indirect) impact of the crisis

- ▶ Impact on the duration of migration?
- ▶ Impact on financial providers
  - Market structure?  
⇒ Transfer costs ?
  - Changing regulation?
- ▶ Exchange rate volatility ⇒ Transfer costs ↑

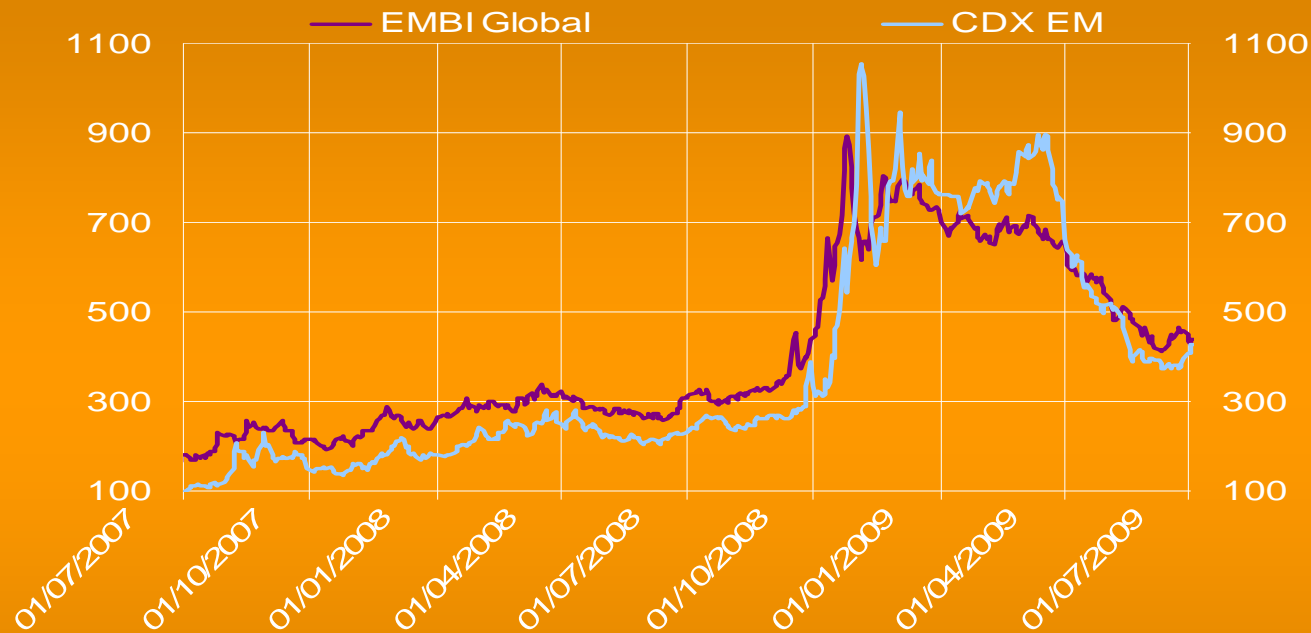
# Policies responses

- ▶ General: avoid discriminatory/protectionist measures in the labor market
- ▶ IFIs: Facilitate the sending of remittances to developing countries, by
  - Contributing to lower transaction costs, through increased market competition
  - Promoting financial innovation in remittances' markets
  - Promoting the use of remittances as a lever for economic development

# Some EIB examples

- ▶ Launching of studies to better understand/document remittances' flows
- ▶ Disseminate information/promote best practices, through
  - Conferences
  - Consortium with financial institutions from North and South of the Mediterranean aiming to develop financial services and products designed to address the needs of migrants
  - Technical assistance to Tunisian banks, aimed at exploring new products in a faster and safer environment.

# Leveraging migrants' and diaspora resources

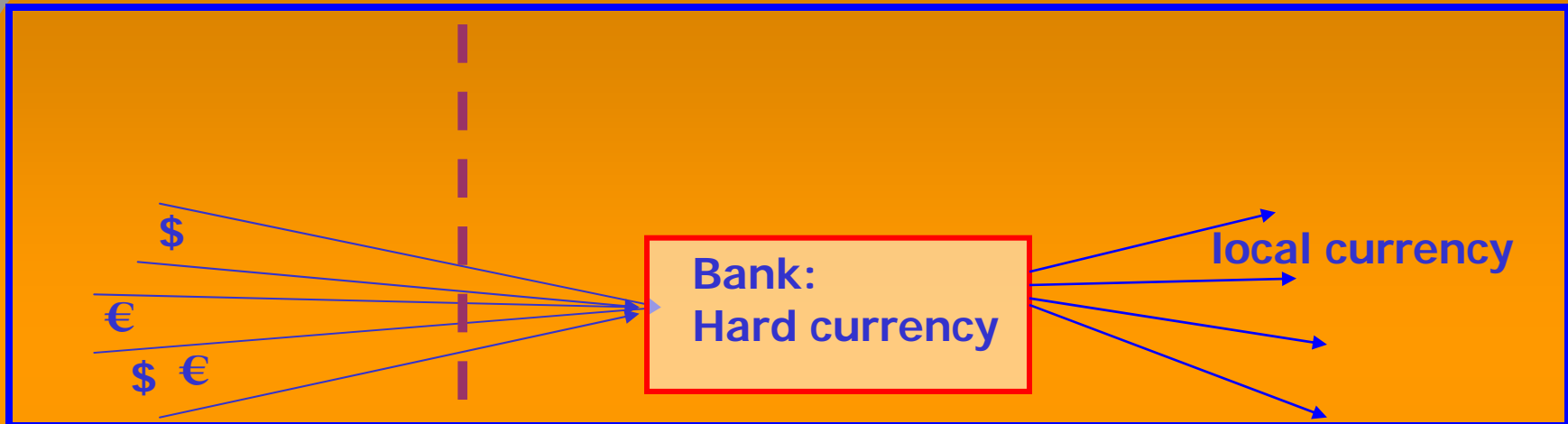


With capital flows still anaemic and the price of risk still above pre-crisis levels, alternative sources of financing might be important

# Leveraging migrants' and diaspora resources

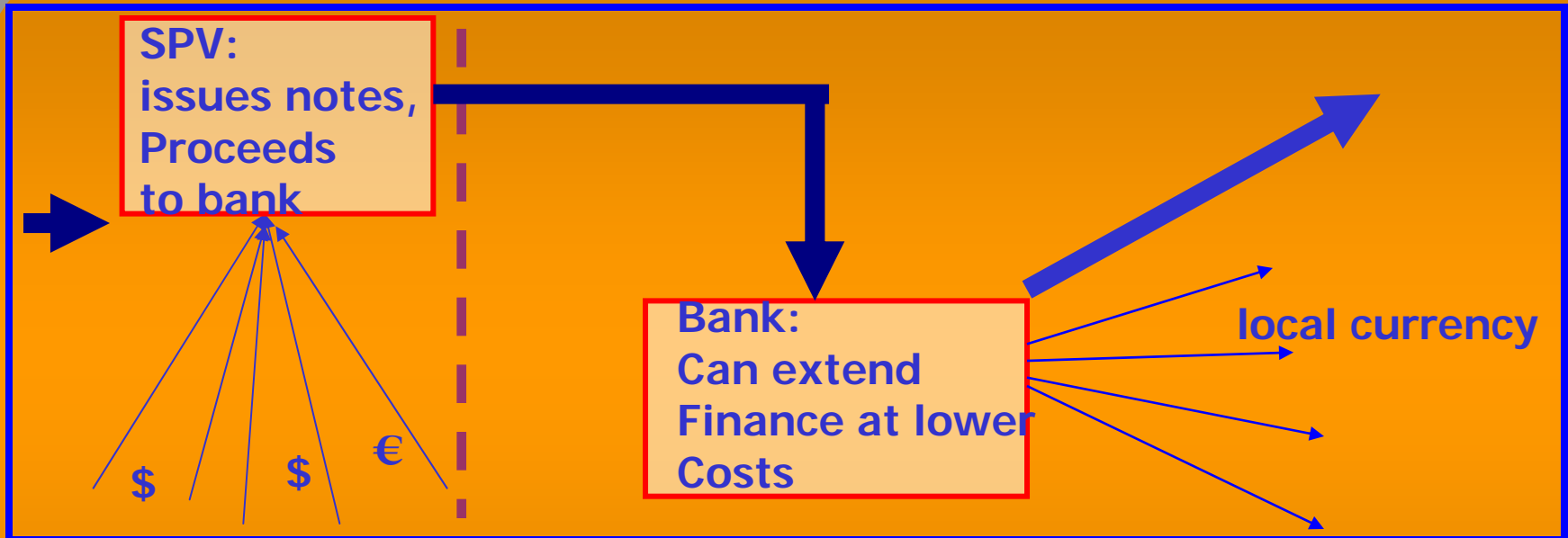
- ▶ Diaspora bonds
  - Sovereigns to tap into diaspora wealth: India, Israel, but also Ethiopia, Sri Lanka, ...?
- ▶ Securitization of remittances:
  - Remittances as collateral for the issuance of bonds/notes (future flow securitization)

# Securitization of remittances flows



- ▶ Remittances as collateral for the issuance of bonds/notes (future flow securitization): banks transfer the foreign currency flows to an SPV set-up in an offshore financial centre.

# Securitization of remittances flows



# Securitization of remittances flows

- ▶ Risk to international investors gets reduced:
  - ▶ Willingness to pay issues are settled
  - ▶ Transfer and convertibility issues are tackled
- ▶ Particularly appealing for countries with sub-investment ratings
- ▶ In 2005 alone, five SPVs issued more than 4 billion USD in Turkey securitized by *diversified payment rights* (SWIFT transfers MT-100, MT-102, MT-102+, MT-103, MT-103+..., corresponding to transactions such as cash-against-goods, cash-against-document transactions, letter of credit transactions, cheques, as well as workers' remittances)