High-level segment: Maximizing the development impact of remittances and diaspora knowledge in LDCs: Policy implications

Remittances in Perspective: Panacea or Curse?

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REMITTANCES IN PERSPECTIVE

¿PANACEA OR CURSE?

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functionality of remittances

- reduce poverty
- increase expenditures in education and health
- insure against adverse shocks
- finance housing and capital investments
however,

- not focused on the poorest countries or the poorest households or geographical regions within countries
- migration costs seem to discriminate against the poorest households
- environments of recipients are key to maximise development potential
thus,

✓ remittances are neither a substitute for development assistance, nor for public policies targeting the poor households and regions

✓ remittances can be a useful complement

✓ development assistance and public policies can be relevant for reaping potential benefits from remittances
in short,

remittances are market-led (decisions to remit funds are decentralised), however, international and national interventions can make the difference regarding their developmental impact
preconditions

at the heart of remittance’s potential impact on development:

– well functioning institutions

– adequate public policy-making capacity
policy and regulatory reform

Recommendations to increase competition include:

i. promoting regulatory changes to enable greater participation of micro-finance institutions, credit unions and savings and loans cooperatives

ii. strengthening post offices to enable them to handle remittances while increasing their offer of savings products

iii. active promotion of specialised remittances trade fairs

iv. discouraging of exclusivity agreements between banks and money transfer institutions

v. a multi-pronged attack to promote greater participation of the formal remittance networks, including cost, efficiency, availability of services in the rural areas, anti-corruption, etc., financial regulations and prudential supervision to promote competition and a healthy financial system, and pro-growth macroeconomic policies
micro-level recommendations

To maximise developmental impact of remittances local governments can:

• improve conditions in the communities of remittance recipients, such as access roads and productivity inducing investments, e.g., irrigation
• enhance the empowerment of household methods to access public services and thereby increase total coverage
meso and macro levels

- Matching grants to diaspora community development projects

- Central banks need to monitor the additional impact of remittances on exchange rates and real estate prices, so as to tailor monetary policies to compensate for possible undesirable consequences
further financial access

- securitisations of remittances: future-flow receivables remittance securitisation
- candidates: Ethiopia, Haiti, Nepal, Senegal and Sudan
- further analysis is clearly necessary
- however, direct support by donors may be necessary as the market would gravitate towards more developed capital markets
further financial access

• Long-term loans. The African Export-Import Bank has experience arranging remittance based future-flow based syndicated medium to long-term loans

• Conditions for remittances backed loans are less stringent than those required for a securitisation
further financial access

✓ **Diaspora bonds**: debt instruments issued by a sovereign country to raise funds from its diaspora population.

✓ worth further study as to the feasibility of issuing diaspora bonds are Bangladesh, The Republic of Yemen and Mozambique which have India, Saudi Arabia and South Africa as migrant destinations.

✓ worth exploring could be a regional issuance of diaspora bonds by a group of countries supported by a regional bank.
Haiti

- Haiti could issue diaspora bonds to finance reconstruction but lacks most institutional and governance pre-requisites

- Necessary the involvement of the UN and multilateral and bilateral donors with technical assistance and providing credit enhancement options to add credibility

- Management of proceeds from the bonds, earmarked for specific projects, could also gain credibility if supported by the UN
regional integration

Efforts should expand beyond trade to include:

- the adoption of common or harmonised legal frameworks related to migration and money transfers

- reforms proposed for increasing competition and efficiency in the remittance markets could be undertaken regionally
a role for ODA

• support policy reform aiming at maximising the developmental impact at the micro, meso, macro and regional levels:
  – households (promoting productive investments);
  – communities (supporting links of the migrants and their communities of origin, and the establishment of matching grants funds);
  – macro-economy (support issuing of diaspora bonds, securitisation of remittances, development of financial institutions, and enhancing prudential regulation and supervision); and,
  – regional (supporting convergence of legal frameworks related to migration and money transfers).
research and enhanced data gathering agendas

• data needed for: better macroeconomic management; improving quality and reliability of debt indicators; and, achieving more realistic country risk assessment results

• a call for further research:
  - economic logic of household remittance recipients’ behaviour, community and macroeconomic issues
  - diaspora organisations
loyalty of diaspora communities

• LDCs governments would benefit from maintaining the loyalty of diaspora communities

• Actions include:
  – offering dual citizenship
  – ensuring emigrants can vote in the elections
  – supporting the development of diaspora private networks
REMITTANCES IN PERSPECTIVE

THANK YOU!