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Maximizing the development impact of remittances

Note by the UNCTAD secretariat

Executive summary

Migrants make important economic, developmental and cultural contributions to sending and receiving countries. Remittances from migrants have positive impacts on poverty reduction and development in originating countries, mostly developing ones, substantially contributing to the achievement of the Millennium Development Goals. These positive impacts become greater when remittances can be saved and invested in infrastructures and productive capacity. Government policy measures could induce such use. Significant barriers to migration and remittance transfers need to be addressed in order to harness opportunities for development and poverty reduction, including through easing financial transfers, setting appropriate incentives, improving policy coherence in migration and remittances policies, and facilitating the temporary movement of people.

I. Introduction

1. Recent evidence points to a significant and growing contribution of migration to economic and social development throughout the world. Migrants form part of a diverse but highly engaged workforce that not only provides required labour inputs and brings new developmental and cultural resources to receiving countries, but also contributes to poverty reduction and development finance, as well as domestic demand, knowledge and skills transfer, and trade and commercial networks in both sending and receiving countries.

2. Remittances have attracted increasing interest at the national and international level. Drawing linkages between migration, remittances, trade, investment and development is complex and multifaceted. For the purposes of this note, a wide definition of "remittances" is used, encompassing private monetary transfers that a migrant makes to the country of origin, and including investments made by migrants in their home countries, as such funds significantly contribute to development and poverty reduction. A stricter statistical definition made by the International Monetary Fund (IMF) includes workers' remittances, compensation of employees and migrant transfers. Migration, remittances and development issues were addressed in 2009 at the Ad Hoc Expert Meeting on the Contribution of Migrants to Development: Trade, Investment and Development Linkages.[1] The present note seeks to respond to paragraph 170 of the Accra Accord and to the United Nations General Assembly resolution passed in 2010 on international migration and development,[2] and also to provide input to the informal thematic debate in 2011 on international migration and development in preparation for the second United Nations high-level dialogue on migration and development to be held in 2013.

II. Current migration trends

3. People have continuously moved, seeking better economic opportunities, family reunion, and humanitarian relief. Globalization, modern communications and transportation have greatly facilitated such movement. The United Nations Department of Economic and Social Affairs (DESA) estimates that the total migrant stock increased from about 195 million to 215 million between 2005 and 2010 at 1.8 per cent annually on average, while the share of migrants in the total population remained stable in the same period (only moving from 3.0 to 3.1 per cent). Compared to the 2000–2005 period, the growth in the number of migrants in developed countries decelerated between 2005 and 2010. Migrant workers, who are the main source of remittances to their home countries, numbered about 86 million by 2009. The stock of international migrants is expected to rise to 405 million by 2050.

4. South–North migration through traditional corridors remains important, accounting for 43 per cent of migrant stock from the South, which suggests that South–South migration has become larger. The latter accounts for 73 per cent in sub-Saharan Africa, reflecting that most migration occurs within regions.[3] The prosperity of certain countries attracts large numbers of migrants, explaining why Saudi Arabia, the United Arab Emirates and Singapore are favoured destinations.

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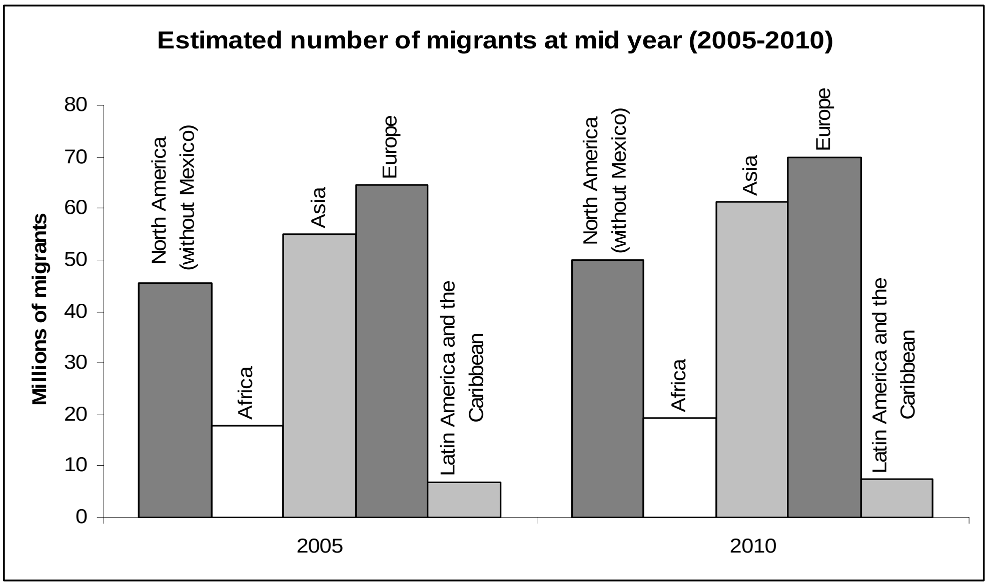
[1] See UNCTAD/DITC/TNCD/2009/2, and the Report of the Ad Hoc Expert Meeting on Contribution of Migrants to Development: Trade, Investment and Development Linkages.

[2] A/C.2/65/L.69.

[3] World Bank (2010a). *Migration and Remittances Factbook 2011*.

5. The number of migrants varies considerably across regions (see fig. 1). Most migrants live in Europe, Asia and North America, with growth rates in 2005–2010 in North America and Europe standing at about 10 and 8 per cent respectively. Growth is expected to continue but at lower rate in those two regions. The top migrant destinations in 2009 were the United States, the Russian Federation, Germany, Saudi Arabia and Canada. As a share of total population, the top receiving countries were Qatar (87 per cent), the United Arab Emirates (70 per cent) and Kuwait (69 per cent), whose popularity as destinations has increased owing to their more resilient labour markets as has been revealed during the recent economic crisis.

Figure 1

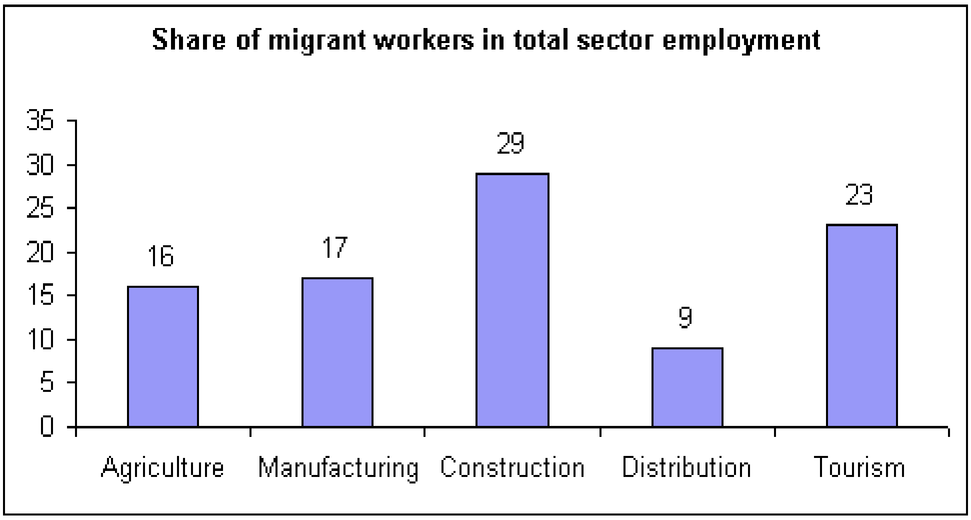


Source: DESA (2009).

6. Female migrants constitute a significant proportion of international migrants, though their numbers have remained relatively stable, going from 49.2 per cent in 2005 to 49 per cent in 2010. Migrant women are in many cases the only contributor to family finances. Many fundamental aspects relating to them need to be addressed, including rights-related issues and equal labour opportunities.

7. In terms of sectoral distribution, migrants are concentrated in key sectors such as construction, tourism, manufacturing and agriculture, accounting for 29, 23, 17 and 16 per cent respectively (see fig. 2).

Figure 2

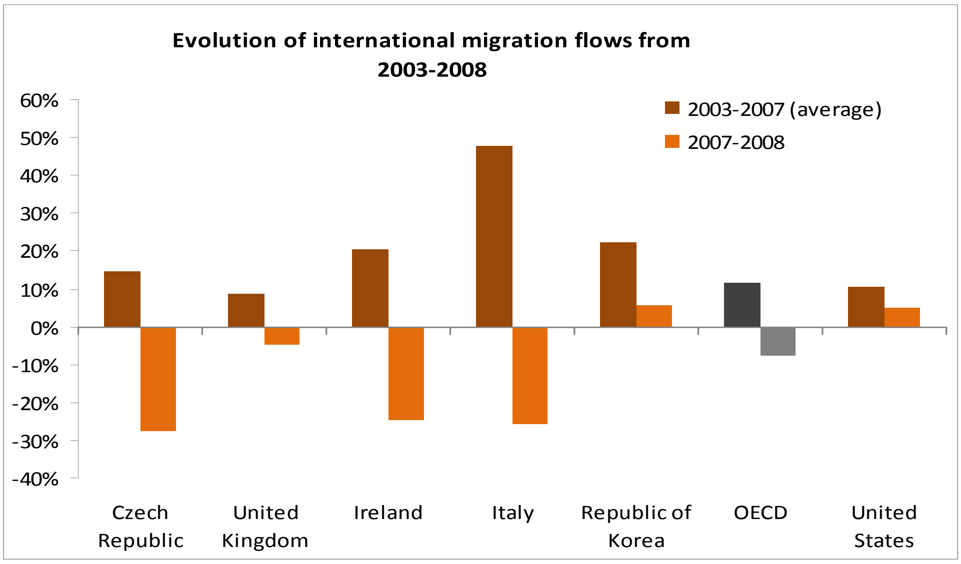


Source: UNCTAD, based on data from the International Labour Organization (ILO) (2010).

8. The crisis has severely impacted on sectors that absorb large amounts of labour (e.g. construction, tourism, and financial services). Demand for labour has fallen substantially. The number of unemployed people worldwide reached nearly 212 million in 2009, adding 19 million more jobless to the 2008 total.[4] Disproportionately more jobs have been lost among immigrant youth, in particular among men. In 2009, the unemployment rate of the foreign born between 15 and 24 years old reached 15 per cent in the United States, 20 per cent in Canada and 24 per cent on average in the European Union (EU). Consequently, migration to OECD countries fell by about 6 per cent in 2008 to about 4.4 million people, reversing a continuously upward growth trend[5] (see fig. 3). Unemployment is projected to continue to rise, at 10 per cent on average in 2010. More than 57 million people will be unemployed compared with 37.2 million at the end of 2008, which makes OECD labour markets less appealing for new migrants and difficult for existing migrants. Globally, according to DESA, the number of international migrants continues to increase despite the crisis.

[4] ILO (2010). *Global Employment Trends.*
[5] OECD (2010a). Economy: Migration key to long-term economic growth.

Figure 3



Source: OECD (2010).

9. Some countries responded to the crisis by restricting the inflow of migrant workers, often under public pressure to keep jobs for nationals, with the attendant effect on remittance flows. Such measures have included lowering numerical limits (quotas and caps); tightening labour market tests; inserting "hire nationals" provisions in stimulus packages; limiting the possibilities for migrants to change status and renew permits; and promoting return migration. The changes in visa regulations and/or restrictions on work permits that have been introduced in some countries, such as Canada, India, Japan, Malaysia, Thailand, Singapore, the United Kingdom and the United States, have impacted on migrants, including highly skilled migrants.[6]

10. The number of migrants may increase as post-crisis economic prospects improve. Some longer-term trends have not yet been reversed, necessitating future migration. Labour demand will continue to exist in the Organization for Economic Cooperation and Development (OECD) countries, due to ageing population trends and continuous demand for certain jobs in domestic, healthcare, and education services. Emerging developing countries are expected to attract higher migration flows as the amount of labour force in developed countries is projected to remain stable at about 600 million until 2050, whereas in emerging developing countries it is expected to increase from 2.4 billion in 2005 to 3.6 billion in 2040.

11. Climate change and natural disasters are increasingly relevant to migration flows. Environmental changes such as rising sea levels, extreme weather events, decreased or increased rainfall, and shifts in disease patterns could trigger population displacement. At least 20 million people were estimated to have been displaced (in many cases temporarily) by climate-related disasters in 2008, and about 200 million people may be displaced by 2050.[7] On the other hand, measures to mitigate the impacts of climate change and to promote environmental sustainability are creating green jobs, for example solar/wind power

[6] International Organization for Migration (2010a). *World Migration Report*; and WTO (2010). WT/TPR/OV/W/3.

[7] International Organization for Migration (2008a). *Migration, Environment and Climate Change.*

engineers and technicians and repair and maintenance specialists. It is estimated that 2.1 million jobs will be created in wind energy, 6.3 million in solar photovoltaic energy, and 12 million in biofuels by 2030.[8]

III. Trends in remittances

12. Data clearly indicate the increasing importance of workers' remittances to developing countries. Asia is the biggest remittance-receiving region, followed by Latin America and Africa (table 1). From 1990 to 2008, Asia experienced the fastest annual remittance growth (17 per cent), followed by Latin America (14.3 per cent) and Africa (10.2 per cent). A rapid increase in workers' remittances to Asia is evident. In 1990, workers' remittances to Asia were roughly 20 per cent less than to Africa and 47 per cent greater than to Latin America. In 2008, they were roughly 2.3 and 2.4 times the size of inflows to Africa and Latin America respectively.

Table 1
Top five receiving countries, by region (in billions of dollars, 1990–2008)[1]

	1990	*2000*	*2008*	*Average growth rate (1990–2008)*
Asia[2]	5.5	21.5	93.2	17.0
Latin America[3]	3.8	12.2	41.4	14.3
Africa[4]	6.9	7.8	39.5	10.2

[1] Credit of workers' remittances.
[2] Bangladesh, China, India, Pakistan and the Philippines.
[3] Colombia, the Dominican Republic, El Salvador, Guatemala and Mexico.
[4] Egypt, Morocco, Nigeria, Sudan and Tunisia.
Source: UNCTAD (2010), based on IMF BOP statistics.

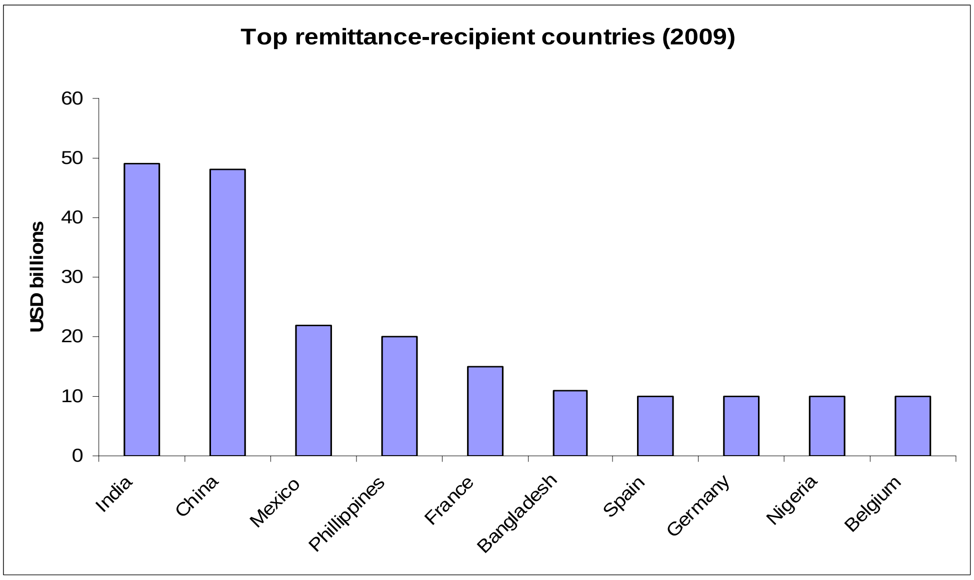
13. The level of remittances fell during the crises due to decreased migration flows, in particular to OECD countries, and due to the reduced income of migrants. In 2009, remittances to developing countries reached $316 billion, down 6 per cent from $336 billion in 2008. They are expected to increase by 6 per cent in 2010, 6.2 per cent in 2011 and 8.1 per cent in 2012, to reach $374 billion by 2012.[9] The crises have generated different effects in key migration corridors. Remittances to Latin America and the Caribbean, Central Asia, and the Middle East and North Africa fell more deeply than the world average, by 15 per cent, 21 per cent and 8 per cent respectively, whereas overall remittances to South Asia continued to grow at 6 per cent, adding to the resilience of domestic demand in this region.[10] Flows to East Asia and the Pacific region remained flat, while they fell by 3 per cent in sub-Saharan Africa.[11] The growth of remittances in Asia and modest falls in sub-Saharan Africa can be explained by higher diversity in destination countries including other developing countries. For example, India received 27 per cent of all its remittances from Saudi Arabia, the United Arab Emirates and Qatar in 2009.

14. China, India, Mexico and the Philippines remained the top recipients in 2009 (fig. 4). It is worth noting that remittances are not only of value to developing countries. In 2009,

[8] United Nations Environment Programme, International Labour Organization, International Organization of Employers, and International Trade Union Confederation (2008). *Green Jobs: Towards Decent Work in a Sustainable, Low-Carbon World.*
[9] World Bank (2010a).
[10] UNCTAD (2010). *Trade and Development Report.*
[11] World Bank (2010c). *Migration and Development Briefs, 12.*

developed countries such as France, Germany and Spain were among the top recipients. Spain has been a major recipient since the 1960s. The United States is the largest source of remittances, with $46 billion in recorded outward flows in 2008, followed by the Russian Federation, Switzerland and Saudi Arabia.

Figure 4

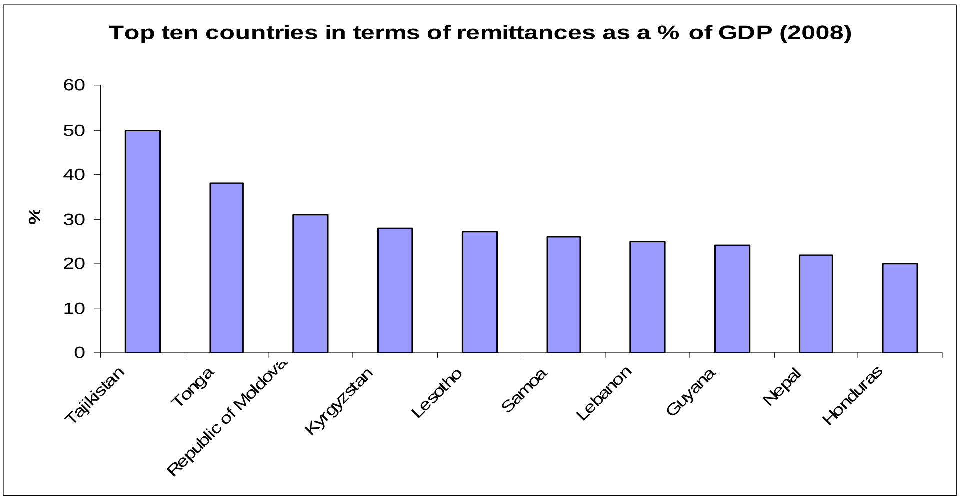


Source: UNCTAD, based on World Bank data (2008).

15. In 2009, remittances accounted for 1.9 per cent of the gross domestic product (GDP) of developing countries and LDCs. In terms of share of GDP, smaller countries such as Tajikistan, Tonga and the Republic of Moldova, and a few LDCs including Lesotho and Samoa, were the largest recipients in 2008 (see fig. 5), suggesting the greater role of remittances in these countries' economic and social development. The impact of remittances on LDCs can be even higher. Remittances account for more than 5 per cent of gross national income (GNI) in almost a third of the LDCs.[12] The share is more than 10 per cent in some LDCs such as Cape Verde, Gambia, Haiti and Lesotho. For Cape Verde, it ranged from 12 to 17 per cent during 2000 and 2006 (a relevant period for the LDC graduation evaluation) and remittances were the second largest source of foreign exchange.[13] Remittance inflows are considered to be one of the contributors to LDC graduation, for example in the case of Cape Verde's graduation from LDC status in 2007.

[12] UNCTAD (2008). *Least Developed Countries Report 2008.*
[13] African Development Bank (2009). *Republic of Cape Verde: Country Strategy Paper 2009–2012*.

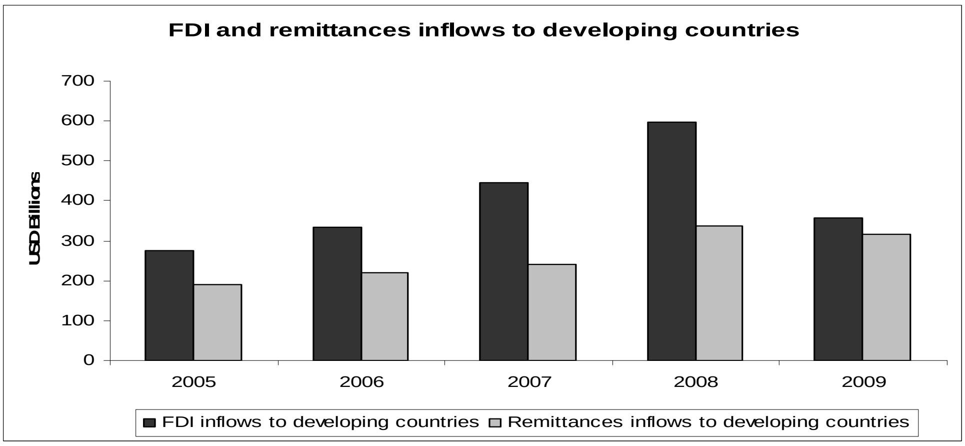
Figure 5



Source: UNCTAD based on data from World Bank (2008).

16. Remittance inflows have proved to be resilient relative to foreign direct investment (FDI) and are an important component of financing for development. Figure 6 shows the evolution of FDI inflows versus remittances in developing countries between 2005 and 2009. FDI tends to be higher in developing countries' balance of payments. However, the gap is getting smaller as a consequence of the crises. FDI fell by about 40 per cent from $598 billion in 2008 to $358 billion in 2009. It is not expected to return to the pre-crisis level until more solid economic recovery driven by output levels and trade recovery gains momentum. Remittances became an even more important source of external financing during the crisis and in the recovery phase. The reasons for the resilience of remittance flows include the value-driven nature of remittances, some level of stability of many resident migrants in host countries, and continued demand for many of the services performed by migrants even during the crisis because the services are not performed by locals either due to demographic change or the unwillingness of locals to do them. As economic conditions improve in migrant receiving countries, remittance flows to developing countries are projected to increase by 6.2 per cent in 2010 and 7.1 per cent in 2011, partly offsetting the weak recovery in other financial flows to developing countries.

Figure 6



Source: UNCTAD and World Bank data (2010).

IV. Remittances, development and poverty reduction

17. Remittances are expected to reduce poverty, as they are, in many cases, directly received by the poor, augmenting their income and alleviating their poverty. In some countries, remittances may make up over 50 per cent of the recipient's total household income. They also represent a more stable source of poverty reduction than other capital flows. Flows can last for one generation or more, and usually go to more or less the same family members.

18. While there are concerns about brain drain, remittance-dependence, and the negative impact of remittances on small countries' export competitiveness due to pressure on currency appreciation, in general, remittances have contributed positively to advancement of the Millennium Development Goals (MDGs). In Nepal, for example, remittances, together with urbanization and higher wages, have resulted in a decline of the incidence of poverty of about one percentage point annually since the mid-1990s (from 42 to 31 per cent).[14] The Asian Development Bank estimates that 4.3 million people in the Philippines remain above the poverty threshold simply because of remittances. Studies in El Salvador and Sri Lanka find that children of remittance-receiving households have a lower school dropout rate.[15] Qualitative studies in Ecuador, Mexico, the Philippines and Thailand[16] have demonstrated that migration also allows rural women to gain autonomy by taking paid work in urban areas or abroad. Finally, remittances contribute to improving child and maternal health by allowing the purchase of food and medicines. In Guatemala, Mexico, Nicaragua and Sri Lanka, children in remittance-receiving households have higher birth weights and better health indicators than children in other households.[17]

19. Recent analysis demonstrates that an increase in international migration is positively linked to a decline in the number of people in poverty. Various studies indicate that a 10 per cent increase in the share of remittances in a country's GDP leads to, on average, a decline from 1.6 to 3.5 per cent in the proportion of people in poverty. Despite heterogeneous effects across countries, remittances have reduced the incidence and depth of poverty at the household level in sub-Saharan Africa, Latin America,[18] Asia and the South Pacific.[19] Recent evidence indicates that the effect on reducing the poverty gap could in some cases be more important than the effect on the poverty rate.[20]

20. A recent study by UNCTAD (see box 1) provides additional evidence on the linkage between remittances and poverty reduction in developing countries. For larger countries such as India, the impact of remittances is perceived as less notable, however remittances do form an important part of the country's economic and financial variables.

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[14] UNDP (2010). *MDGs: Nepal*.
[15] Migration Policy Institute (2007). *Leveraging Remittances for Development*.
[16] IOM (2010c). *Migration and the MDGs*.
[17] World Bank (2007). *Increasing the Macroeconomic Impact of Remittances on Development.*
[18] Fajnzylber and Lopez (2006). *Close to Home: The Development Impact of Remittances in Latin America.*
[19] Brown (2010). *Assessing the Impact of Remittances on Poverty using Household Survey Data.*
[20] ADB (2009). *Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth*.

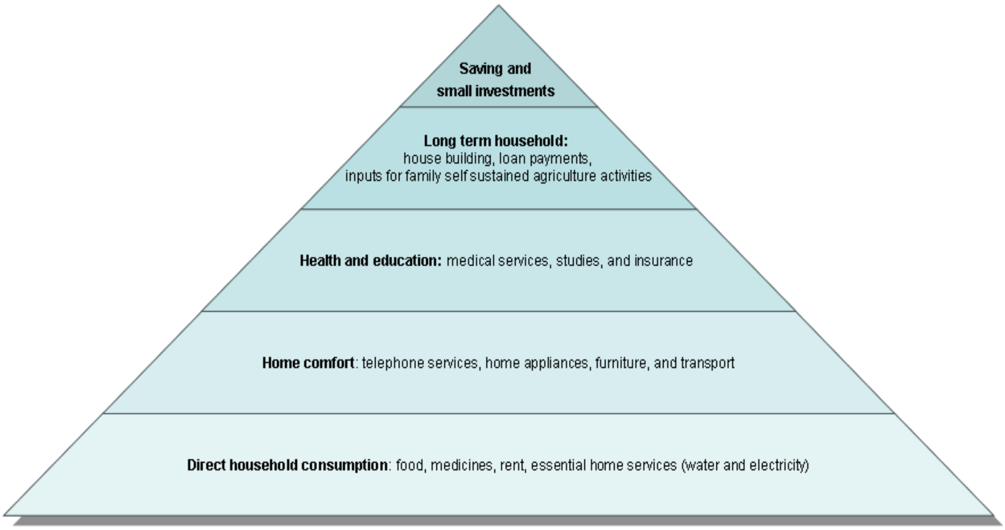
Box 1.
India: Remittances and poverty reduction

Using the panel data for 77 developing countries (1980–2008), the study finds that remittances significantly reduce poverty in recipient countries, but that results are more reliable for countries where remittances make up 5 per cent or more of GDP. In these countries, on average, for the given level of GDP, a 10 per cent rise in remittances leads to a reduction of 3.9 per cent in the poverty headcount ratio and to approximately a 3–3.5 per cent reduction in the poverty gap. With respect to India, empirical estimates show that a 10 per cent rise in remittances as a share of GDP leads to a 1.7 per cent reduction in the poverty ratio. At the regional level, the province of Kerala, which receives about 20 per cent of total remittances in India, has experienced higher levels of average per capita consumption than the rest of India. Between 1988 and 2008, it witnessed an increase in annual average per capita net state domestic product by 5.8 per cent, against a 14.7 per cent increase in per capita remittances. Empirical causal tests undertaken in the Kerala region indicate that higher remittance levels have led to higher per capita income and higher levels of investment, which are considered key variables affecting poverty reduction.

Source: UNCTAD (2010). *Impact of Remittances on Poverty in Developing Countries.*

21. The way in which remittances are used can produce wide multiplier effects in the economy and for development. While there are differences among countries on how remittances are spent, evidence shows some similarities in the order of priorities that recipient families and sending migrants give to their use (fig. 7). Household consumption represents 70 per cent of the amounts transferred.

Figure 7



22. The multiplier effect can be felt in the purchase of essential goods and services, home appliances, and medical and education services. Most of the goods and services consumed (mostly utilities and financial services) are produced locally, except for home comfort goods with a high level of imported component. Such consumption increases the local demand, particularly in poor or rural areas, thereby driving domestic production. To avoid remittance-dependence, investment in education becomes particularly relevant for long-term human development, as professional prospects of the next generation improve, generating less dependency on remittances in the future.

23. When a share of remittances is used for small business investments, the multiplier effect becomes larger and more sustainable as they create income stream. On average, around 10 per cent of remittances are found to be saved and invested.[21] Evidence shows that remittances help to increase the level of small business activities in the recipient developing countries. For example, in Ghana and Guatemala, about one third of remittances are used for starting small businesses and house construction. Remittances are key sources of finance for investment in farming, or for underwriting risks in new agricultural ventures. Providing financial counselling to remittance recipients helps to mobilize their savings into the financial sector, which could then be utilized for credit to enhance the country's productive base. It has been reported by DynaMicrofinance in Senegal that 20 per cent of its remittance clients have acquired a savings or loan product, in part due to its efforts to systematically offer savings accounts and other financial products to remittance recipients and to explain how they work.[22]

24. Remittances can help local entrepreneurs bypass inefficient or non-existent local credit markets, especially in rural areas, and to start productive activities. El Salvador[23] implemented a pilot programme (2008–2009), together with a non-profit organization from the United States (TechnoServe), to help small-scale entrepreneurs leverage remittances to access credit and grow their businesses, including hotel and restaurant services.

25. Remittances can also play an essential role in responding to devastating natural disasters. Reconstruction can be supported by international aid and assistance and also by private philanthropic support during the initial phase, however this aid can not be long-lasting. Remittances and other supports from migrants abroad could play a more effective role in the post-disaster recovery and rehabilitation (box 2).

Box 2.
Remittances and post-earthquake reconstruction in Haiti

Officially recorded remittance flows to Haiti were $1.4 billion in 2008, but the true figure could be near $2 billion. Haitian diasporas have played a key role in the reconstruction and rehabilitation of Haiti. In 2009, they sent $1.64 billion to Haiti, constituting 26 per cent of the country's GDP. Some 300 Haitian hometown associations in the United States and Canada also donated $10,000 each to their communities for social projects. The temporary protected status granted by the United States after the earthquake for a period of 18 months to Haitians already in the United States enabled over 200,000 Haitians without proper documents to work in the United States legally. This allowed more money to be sent through formal channels.

Source: Mobilize the Diaspora for the Reconstruction of Haiti by Ratha (2009).

26. Remittances and other diaspora funds (including investment) can be channelled as a source of development finance by home countries to support development and poverty reduction, including the building of local infrastructure and productive capacity. To create opportunities for development-oriented investment from migrants, as stated in the United Nations Doha Declaration on Financing for Development, several tools have been utilized by developing countries.

[21] UNDP (2005). *International Financial Flows and Worker Remittances: Best Practices.*
[22] ILO (2010). *Remittance Transfers in Senegal*.
[23] Hudson Institute (2010). *The Index of Global Philanthropy and Remittances.*

27. Diaspora bonds could be used as an innovative tool for development financing by tapping into the wealth of a diaspora population and opening new marketing channels. India was the first developing countries to issue diaspora bonds during the economic crisis in 1991, when it experienced a large trade and fiscal deficit, high inflation and devaluation of the Indian rupee. The Indian Development Bonds targeted at Indian diasporas enabled India to raise $1.6 billion in a short period of time, which was critical to India's recovery from the crisis. In 2000, the Indian Government sold Resurgent India Bonds to non-resident Indians.[24] Since then, it has been selling diaspora bonds to support the budget and keep the Indian diaspora engaged by using national values as a key component of the marketing strategy. It is estimated to have raised a total of $11 billion from diaspora bonds.[25] Foreign banks were allowed to sell the bonds, as they were considered better located to serve the Indian diaspora. Tax and credit incentives could make diaspora bonds more attractive. The Philippines has also used this type of bond to finance social housing projects. Greece is also planning to issue diaspora bonds to alleviate the country's debt problem.

28. Steady flows of remittances and other funds from migrants can have important stabilizing effects on the balance of payments. Despite chronic trade deficits, the current account balance of Bangladesh, Nepal and the Philippines has turned positive with the rise of remittances.[26] Such funds also improve a country's creditworthiness for external borrowing (box 3).

Box 3.
Turkey: Attracting expatriates' funds to strengthen international reserves

Turkey has allowed its expatriates to open foreign currency deposit accounts at the Central Bank since 1976, when it had difficulty in financing increasing current account deficits due to the oil crisis. Because the Turkish lira was not convertible until 1989, these account enabled Turkish expatriates to hold their savings in foreign currency with attractive returns. In order to facilitate the efficient transfer of savings, Turkey signed special agreements with the European central banks, the German postal services, and financial institutions from Europe and the United States, and from Turkey. During the financial crisis in 1994, which led to a sudden capital outflow, the Turkish Government launched a new instrument (Super Foreign Exchange Accounts), offering longer-term and higher interest rates to Turkish expatriates. The two special accounts now account for roughly half of Turkey's international reserves, which can be used as safeguard against swift capital reversals and can help to reduce interest premiums on external borrowing.

Source: Atalay A. (2005). *Almanya'daki İşçi Tasarruflarının Değerlendirilmesi: Kredi Mektuplu Döviz Tevdiat ve Süper Döviz Hesapları Örneğinde Bir Makro Analiz*.

29. Many migrants, in time, become important investors by setting up businesses in home countries. Starting from 1978, businessmen from Hong Kong SAR, Macao SAR and Taiwan Province of China, as well as members of the Chinese diaspora living in South-East Asia, became the first investors to seize the opportunity of China's open-door policy combined with various tax incentives. Most of them started their businesses in China by investing in their regions of origin. They made important contributions to China's trade and development, especially in the early years of China's economic take-off. As their investment is concentrated in the manufacturing sector, they have promoted China's

24 Inter-American Dialogue (2003). *Worker Remittances in an International Scope*.
25 World Bank (2007), *Development finance via diaspora bonds: Track record and potential*.
26 GFMD (2010). *Key Trends and Challenges on International Migration and Development in Asia and the Pacific*.

exports in manufactures through their networks in foreign countries, and have introduced new technology and management expertise, thus helping this sector's development. Their success encouraged multinational companies to invest directly in China a decade later. The Indian diaspora has played a well-known key role in the growth of India's ICT outsourcing services through direct investment and by facilitating commercial relations between United States & European firms and Indian firms.

30. Government assistance, including credit provision and incentives, can induce migrants and diasporas to invest in home countries. Supported by the Inter-American Development Bank, Brazil established a Mutual Fund for Investment in Emerging Enterprises (the "Dekassegui Fund") in the early 2000s, aimed at channelling a small portion of regularly transferred remittances to more productive uses. The fund offers support to Brazilians abroad (principally those in Japan) hoping to open small businesses in Brazil. This support includes selection and training of potential entrepreneurs in Japan; integration and business training in Brazil; and start-up and growth of new businesses. The results seem to be encouraging, with more than 11,000 entrepreneurs supported, 1,000 training activities, and 3,500 consultancies undertaken to assist Brazilian returnees from Japan between 2005 and 2008. The funds also provide microcredits for start-up businesses, for example in restaurants, food processing, and agribusiness. In Morocco, the Groupe Banques Populaires is a state-owned bank with branches in several European countries. Receiving about 60 per cent of all remittances to Morocco, it provides subsidized credit for real estate and entrepreneurial investments in Morocco. Bangladesh has announced the creation of an expatriate welfare bank to provide collateral free loans, in particular to returnees, as well as support for investment in productive sectors of the economy.

31. Diasporas can play an important role in supporting the development of local infrastructure and public services such as roads, hospitals and schools. The Indian Government is presenting an ambitious $500 billion national infrastructure project to overseas Indians in more than 50 countries.[27] Indian diasporas will participate through public–private partnerships that will include knowledge and financial contributions from them.[28] If successful, this model could open a new way to finance significant infrastructure projects by diasporas interested in promoting development and higher standards of living in their countries of origin. In addition to family remittances, Somali diasporas have built flexible social support networks to gather resources to finance infrastructure, equip schools and hospitals, pay health and educational service providers, and train professionals in Somalia. Members of the Somali diaspora in the Netherlands were assisted by the Diaspora Partnership Programme (DPP) established in 2008 by a non-governmental organization, CARE. DPP strengthens diasporas' capacities to deal with a wide range of local partners to undertake joint development projects. Mexico is also well known for its active efforts in seeking diaspora contributions in local development projects by providing matching funds (the "3x1" citizens' initiative). The programme's budget went from $5 million in 2002 to $42 million by 2009, and more than 12,000 projects had been implemented by 2010.[29]

32. Diaspora spending can attract trade in goods and services (such as nostalgic goods and nostalgic tourism) from countries of origin. Nostalgic goods include traditional exports such as tortillas, tea and curry, which tend to be labour-intensive and artisanal. In this way, the export earnings are more likely to benefit the local population. Nostalgic tourism usually refers to the circular flow of tourists for holidays and other personal purposes. ILO has estimated that a significant percentage of migrants visit their home countries as tourists.

[27] Ministry of Overseas Indian Affairs and Confederation of Indian Industry (2010). *Engaging the Global Indian*.
[28] One India. *Prez woos diaspora to invest in India.* 11 January 2010.
[29] Secretaría de Desarrollo Social (México) (2010).

A study on Oaxaca in Mexico shows a positive correlation between nostalgic tourism and local development.[30]

33. The level of coherence and coordination of policies, regulations and institutions relating to migration and the use of remittances varies among countries. A comprehensive approach that seeks to: (a) set clear and aligned policy goals and priorities; (b) strengthen regulatory and institutional capacity; (c) assess labour market needs; and (d) provide pre-departure and return reintegration training of migrants, as well as multi-stakeholder consultations processes, could facilitate remittance flows for development and rights-based managed migration. Cooperation and trade agreements at bilateral, regional and international levels can also contribute to ensuring benefits from migration and facilitated remittance flows.

34. An institutional mechanism, as set up by Ecuador in 2007, could facilitate such coherence in countries of origin. The Secretaría Nacional del Migrante (SENAMI) is in charge of all policies related to migration and remittances, with competence at the national and international level. It has signed cooperation agreements with local institutions, including tax authorities, banks, the post office, the national civil register, and universities, to provide tax incentives (e.g. tariff exemptions for returning migrants’ housing and working equipment) and services of interest to migrants. SENAMI has introduced facilitated migrant return programmes that provide business plan design, training, and seed capital provision. A bank for migrants to provide low-cost transfers and soft credits is also planned. SENAMI has also signed agreements with public and private institutions abroad to protect migrants’ rights, promote circular migration, and facilitate transfers of remittances and mutual recognition of social security. Sri Lanka has created a multi-stakeholder committee to formulate and implement a comprehensive national migration strategy to develop a vision for the role of labour migration in the economy, improve protection of migrants’ rights, and enhance benefits from migration including remittances.[31] This policy was adopted by the cabinet of Sri Lanka in 2009. Some destination countries are deploying efforts to improve coherence. More specifically on remittances, Albania has developed a comprehensive action plan which includes expansion of banking services, development of partnerships between national banks in main destination countries, and strengthening of microfinance institutions. In destination countries, the EU’s Global Approach to Migration aims to create partnership agreements with non-EU countries and to address all migration and asylum issues.[32] It guides several policy areas including development, foreign affairs, employment and social affairs. An example is the EU–Africa Partnership on Migration, Mobility and Employment (2007) which includes specific EU measures such as encouraging the use of one services provider in the EU for remittance transactions, and supporting diaspora groups engaged in development-related activities and country initiatives to safeguard skills for development.

V. Addressing barriers and harnessing opportunities

35. Significant barriers exist in harnessing the positive roles of remittances in development and poverty reduction. There are barriers that increase the risk or cost of sending home remittances, and barriers that impede new flows of remittances. The former can be found in both home and host countries; they include lack of safe, reliable, affordable and accessible transfer systems for remittances, taxation, information asymmetries

[30] Reyes, Mata, Gijón, Cruz and López (2009).
[31] ILO (2008).
[32] EU Commission. COM(2008) 611.

regarding the nature of the services, prices and competition. The latter include migration policies and trade-related barriers including market access limitations related to the temporary movement of natural persons. Remittance flows could benefit from lower transaction costs and facilitated movement of people. Strengthening the financial services sector will be key in reducing cost and channelling remittances into productive sectors.

A. Addressing cost-related barriers

36. Several policy options can be indentified to ensure safety and security in transactions, ensure affordability and accessibility, promote competition in remittance-related services, increase remittance flows via tax exemptions, and improve transparency and information flows.

37. Regarding safety and reliability, banks, money transfer organizations (MTOs) and post offices offer the highest levels of security and larger geographical reach through their branch networks. It is generally agreed that remittances transferred through formal rather than informal systems are more likely to be leveraged for development. Many migrants have felt obliged to use informal channels as a consequence of being undocumented. Consular ID cards, such as those as issued by the Mexican Government, could address their needs to access formal financial services. Such cards have been accepted by mainstream financial institutions in the United States.[33] Formal transfers can also reduce the risk that migrants and recipients will be exploited by money-laundering networks. To facilitate access to bank accounts in EU countries, the European Investment Bank and Mediterranean developing countries signed an arrangement to allow migrants access to simplified banking facilities upon presentation of identity or consular registration cards.[34]

38. Affordability is one of the most important barriers to remittance flows, as the transfer fee is a key cost component of sending remittances. The lower the transaction cost is, the greater the benefits and opportunities are for receiving families and countries to capture development gains and reduce poverty. The volume of remittances from destination countries and the average total cost are closely correlated. The global average total cost fell to 8.7 per cent in 2010, but it remains high.[35] Generally, it is more expensive to send money through commercial banks, with a global average cost of 12.3 per cent in Q1 2010. Post Offices and MTOs were the cheapest, at 6.7 and 7.1 per cent respectively.

39. Latin America and South Asia have recorded the lowest regional average total cost for remittances. While transfer cost in Latin America was 5 per cent in 2010,[36] South Asia has seen a consistent drop in average total cost since 2008, from 7.8 per cent in 2008 to below 6 per cent in Q1 2010. Lower costs are the consequence of high transfer volumes and high levels of competition among service providers in both host and home countries. Africa has the highest average cost – between 10 and 14 per cent in the 2008–2010 period – mainly due to lower volume and to lack of competition in the provision of financial services in home countries, for example, owing to exclusivity contracts between MTOs and their agents. South–South transfers are expensive too, with an average cost of 12.3 per cent in Q1 2010.

40. There are solutions to reduce the cost of remittance transfers. Turkish banks, which receive half of workers' remittances transferred, have been using a cost-effective "passing trade system" and collective accounts. The easier and faster passing trade system is similar

[33] MPI (2003). *Consular ID cards: Mexico and Beyond*.
[34] EIB (2006). Study on improving the efficiency of workers' remittances in Mediterranean countries.
[35] World Bank and IFC (2010). *Remittance Prices Worldwide*.
[36] Inter-American Dialogue (2010). A scoreboard in the market of money transfers.

to a post office transfer and does not need either the sender or the recipient to open an account at the bank concerned. The cash remittance takes place simply on presentation of identity documents valid in the country of residence for the sender and in Turkey for the recipient. The money is transferred to Turkey on the same day, at a lower cost than other financial institutions.[37] The "collective accounts" system has been set up among banks to overcome the constraints caused by the inadequate network of Turkish branches abroad. The Turkish expatriate deposits the money to be transferred at a Turkish bank abroad, which passes the money to the collective account of the recipient's bank in Turkey. The transaction can take less than four days; the only cost is the transferral fee between different banks, as in the case of the passing trade system.

41. Costs involved in the migration cycle can impact on the amount of remittances sent home. The upfront costs tend to rise inversely against migrants' skill levels. Employers often cover these costs for more skilled migrants, but lower-skilled migrants frequently have to pay themselves, due to lack of information and bargaining power vis-à-vis recruiters and employers. For instance, Asian migrants moving to Qatar, Saudi Arabia and the United Arab Emirates often pay 25–35 per cent of what they expect to earn over two to three years as recruitment-related fees.[38] Responsibility for reducing the costs of migration lies with both origin and destination countries. Some countries have enacted relevant legislation. For example, Canada and the United States require employers to cover the recruitment and travel costs of migrant workers, and the Philippines has set ceilings on what migrant workers should pay to recruitment agents.[39]

42. Partnerships between non-governmental organizations (NGOs) and banks could also be considered in addressing this issue. In 2009, the Global Forum on Migration and Development commissioned a study on the feasibility of providing low-cost loans to Bangladeshi migrants, who typically spend a third of their expected earnings over three years on recruitment, travel, and related fees. The study[40] proposes that low-cost loans be provided early in the recruitment process via NGOs already operating microfinance schemes in villages, in partnership with banks. The NGOs would also check the validity and terms of the contracts. The loans would be repaid via remittances sent through the banks. Such partnerships could be launched with donor funds, and should become self-financing over time.

43. Widespread retail payment networks in home countries have proved to be a relevant factor for ensuring accessibility, particularly in rural or poor areas where such networks do not exist or are not well developed. Some countries have taken steps to expand networks of remittance services. Mexico has invested significantly in improving the retail payment infrastructure to promote safe and efficient receipt of remittances. It has more collection points than the African continent.[41] To increase the financial services available in Mexico, particularly to low-income Mexicans, the Banco de Servicios Financieros has created the second-largest network in Mexico of popular banks, microfinance institutions and credit unions to act as remittance distributors. It received about $580 million of remittances in 2008. In El Salvador, 40 per cent of remittances go to rural areas where there are few commercial banks. The Federation of Salvadorean Savings and Credit Cooperatives (FEDECASES) and other microfinance operators has played an important role in expanding networks, by establishing branches in low-income and rural areas. The success of FEDECASES has attracted support from the IADB to strengthen its financial and

[37] OECD (2005). *Principal Channels and Costs of Remittances: The Case of Turkey*.
[38] UNDP (2009). *Human Development Report*.
[39] GFMD Mexico (2010).
[40] Philip Martin (2009). *Reducing the Cost Burden for Migrant Workers: A Market-based Approach.*
[41] World Bank and IFC (2010).

administrative capabilities in providing such remittance services. Remittances transferred by FEDECADES went from $1.2 million in 2001 to $88 million in 2004.[42] At the regional level, under the ASEAN framework on transport and communications cooperation, inter-country remittance services were provided between Brunei Darussalam, Malaysia and Singapore through postal and money orders.

44. New smartphone-based products and services can help increase both affordability and accessibility. In many parts of Asia and Africa, mobile phone companies are developing ways of transferring money to remote parts of the country. Under the money transfer arrangement between Vodafone Qatar and Philippines-based Globe Telecom, 200,000 Filipinos working in Qatar will be able to send money to the Philippines.[43] Safaricom, a United Kingdom telecom operator in Kenya, has launched broad financial mobile services to facilitate the transfer of workers' remittances.[44] It has more than 7 millions subscribers, generating more than $88.5 million worth of transactions daily. Efforts are also being deployed by France and French-speaking Africa in identifying regulatory challenges to allow remittance transfers via the internet and mobile phones.[45] To facilitate such transactions, there is a need to legalize related operations, harmonize certain technical standards, and take specific measures to address security and consumer protection issues. Joint cooperative mechanisms among central banks, associations of financial institutions, and telecommunication providers in home and host countries could help address some of these challenges. Such cooperation could also serve as a platform to respond to concerns regarding intermediaries and unfair competition practices among service providers.

45. Allowing non-bank institutions such as microfinance institutions to transfer remittances under proper oversight could facilitate distribution and lower transaction costs, in particular when anticompetitive practices are prevalent. Abusive exclusivity agreements between international MTOs and local banks are reported to exist especially in Africa, where 60 per cent of funds are transferred by banks.[46] Such agreements and internal regulations authorizing only banks to operate impede the ability of microfinance institutions to engage in remittance payouts. Development cooperation agencies, international and regional institutions could support the enhancement of regulatory and institutional capacity, especially in Africa where the highest transfer costs are found.

46. Taxes on remittances could raise transaction costs, incentivize informal transfers, and reduce resources that in many cases go to the poor. Most developing countries offer tax incentives to attract remittances, but a few countries still worry about tax evasion.[47] On the destination countries' side, recently in the United States, the states of Oklahoma and Kansas have imposed taxes on remittances. Oklahoma introduced a $5 tax on each remittance transaction or wire transfer, plus an added 1 per cent charge on amounts over $500, generating concerns in Mexico. Both home and host countries need to maintain due restraint on taxes on remittances in order to maintain remittance flows and ensure that they benefit those in need.

[42] Institute for Inter-American Integration (2006). *Levering efforts on remittances and financial intermediation.*
[43] Vodafone enables mobile money transfers between Qatar and Philippines. *Cellular News.* 10 November 2010.
[44] Greenwood (2009). Africa's mobile banking revolution.
[45] République Française, AFD, UBM, BAD, and CDBCA (2009). *Transfert de fonds des migrants au Mahgreb et en Zone Franc.*
[46] IFAD (2009). *Sending money home to Africa.*
[47] MPI (2007).

47. Improving transparency and information flows could help to address information asymmetries and make senders aware of the best transfer options. Centralized information centres and training services in both home and host countries could be particularly useful for low-skill workers. Information provided could include safe and reliable suppliers of remittance services, means of transfer, and fee comparisons. For example, Mexico and the Philippines (in their overseas workers resource centres) have sought to improve transparency by maintaining a price database that provides competitive price information to consumers. Countries could establish a similar database by using the World Bank's *World Remittances Prices Database*, which covers prices in the main migration corridors, and country-to-country information. Development aid could play a useful role in helping developing countries to maintain information services, which require human and financial resources.

B. Addressing barriers impeding flows of remittances

48**.** Barriers to migration in general, and more specifically to the temporary movement of natural persons (mode 4), can impede temporary and circular migration processes (temporary workers going back home and returning to host countries upon new contracts) and potential growth in remittance flows. The migration policies of destination countries can have important implications for remittance flows. There has been found to be a correlation between the level of integration of migrants and their preponderance to remit. Legal status, for example, is an important variable in determining the extent to which migrants make contributions to their country of origin.[48] Introducing stricter requirements for visas and work permits without providing facilitated options for temporary migration in sectors where demand for foreign labour is high is counterproductive. Experiences in Eastern Europe have shown that strict migration policies exacerbate human trafficking, pushing would-be immigrants into irregularity and fostering irregular migration.[49] One compelling argument for migrants not leaving the host countries is the prospect of being unable to return due to increasingly strict and burdensome regulations on migration. The more predictable, transparent and open the regular channels are, the fewer incentives there would be for irregular migration. Some migrant workers' programmes have understood this paradox. For example, the return programmes of the Spanish Government for Ecuadorian workers provide cash incentives plus priority consideration in applying for new contracts for workers who have chosen to return home.

49. By and large, temporary migration is facilitated in highly skilled professions, whereas it is more restricted for lower-skilled labour. Trade agreements can partially address these barriers through the World Trade Organization (WTO) services negotiations in the context of Doha Development Agenda (DDA). Barriers to mode 4 found in key markets include quotas, economic needs tests, burdensome visa procedures, and the lack of mutual recognition of qualifications. Fewer commitments have been made by WTO members in mode 4 than in other modes of supply. Commitments during the Uruguay Round have been low and limited to the higher-skilled categories (managers, executives and specialists), with approximately one half relating explicitly to intra-corporate transferees. While mode 4 technically covers all skill levels, only about 17 per cent of horizontal commitments cover low-skilled personnel, and only 10 countries have allowed some form of restricted entry to "other level" personnel. Existing mode 4 commitments have not produced the expected results for developing countries and LDCs. This imbalance

[48] IOM (2010).

[49] Journal of Comparative Economics (2010). *The Economics of Human Trafficking and Labour Migration: Micro-Evidence from Eastern Europe*.

was supposed to be corrected in the DDA, nevertheless offers in mode 4 remain limited. Commercially meaningful commitments in mode 4 could bring important development gains for developing countries estimated at between $150 billion and $300 billion, without including other benefits such as development and poverty reduction impacts. A great part of these benefits will take the form of remittances. A coherent trade liberalization policy that not only liberalizes movement of goods and capital but also provides real market access in mode 4 will contribute positively to economic integration, poverty reduction, facilitating managed migration flows, and increased remittances.

50. A special arrangement on mode 4, including market access and regulatory issues, could be explored. It could contain elements such as a stand-still clause on restrictions; focused request and offer sessions with special consideration for LDCs in the WTO Council for Trade in Services (e.g. providing objective criteria for economic needs/labour market tests or progressively expanding quotas); and specific regulatory principles applicable to mode 4 in the domestic regulation negotiations (e.g. balancing requirements for experience vs. academic qualifications, and non-discrimination in relation to the origin of service providers). An early harvest on the most-favoured-nation waiver for LDCs enabling unilateral openings in mode 4 could address some of the barriers in areas of interest to both destination countries and LDCs. Positive outcomes in these areas could become a deal-maker in the General Agreement on Trade in Services (GATS) and other negotiations under the DDA. It could also facilitate continuous flows of remittances, and incentivize circular migration.

51. Bilateral arrangements accompanying mode 4 commitments could dissipate concerns about making binding commitments in WTO. These arrangements could be similar to the existing bilateral labour agreements, which cover, among other things, areas such as short-term employment, recognition of qualifications, and technical and cultural exchanges. By ensuring that migration takes place in accordance with agreed principles and procedures, they would help to guide the migration process towards meeting economic, social and development objectives. Deeper engagement, implementation and monitoring of partnerships under the Global Forum on Migration and Development could also assist in optimizing mutual benefits. These arrangements, such as Canada's guest worker programmes with several countries in Central America and the Caribbean, enable circular migration, create a steady flow of remittances, and reduce the incidence of brain-drain. Another example is the 2009 agreement on temporary contractual employment between the United Arab Emirates, India and the Philippines, which provides for a framework for worker selection, orientation, training, contract validation, and return and reintegration.

52. Regional trade and cooperation agreements, such as the Caribbean Community, the Andean Community, and the Association of Southeast Asian Nations, can be useful avenues for addressing barriers to the flow of people, including mode 4, as they imply wider and deeper political agreement and trade-offs between Parties that could facilitate some openings in this mode. North–South integration agreements could also offer a facilitated framework; for example, the EU economic partnership agreement negotiations with the African, Caribbean and Pacific Group of States could provide commercially meaningful access on mode 4.

53. Lack of access to social benefits such as pensions, and their non-portability, affects migrants and reduces their potential to contribute to development through remittances. In the case of lack of access to the social benefits system in destination countries, originating countries could explore facilitating registration and direct payments to the social security system by migrants. Some countries, such as Mexico and the Philippines, allow migrants to contribute to the national pension and healthcare schemes regardless of their access in

destination countries.[50] Many migrants consider returning home after some time, or at retirement age. Encouraging coverage and payments to the social security system to workers abroad could incentivize social investment in pension and health insurance, with benefits upon retirement. Non-portability of contributory pensions not only discourages return and circular migration due to the impossibility of accumulating benefits, but also reduces the amount of remittance money that can be sent home. Solutions to address the portability issue[51] include unilaterally allowing full or partial portability, and bilateral agreements seeking to avoid double contribution of social benefits in both origin and destination countries.

VI. Conclusions

54. Migration is a win-win pro-development opportunity for origin and destination countries. Empirical evidence indicates a positive correlation between remittances, development, and poverty reduction. Remittances have, if properly harnessed, multiplier effects on economic and social development. Proactive policy measures could induce the productive use of remittances and capitalize on diaspora networks for developmental purposes. There is a need for a comprehensive and coherent policy – a regulatory and institutional framework at the national level with the involvement of all stakeholders.

55. Expanding networks to transfer and distribute remittances, strengthening the capacity of the financial services sector to channel remittances into productive activities, using new technology, and improving information flows can facilitate the efficient transfer and use of remittances. To enable temporary and circular migration and steady remittance flows, there is a need to remove barriers to the movement of people, including through GATS mode 4 commitments. Managing migration and facilitating the flow of remittances also requires increased efforts toward a higher level of policy coherence and cooperation at bilateral, regional and multilateral levels.

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[50] Holzmann (2010). *Portability of Pension, Health, and other Social Benefits: Facts, Concepts, Issues.*
[51] Ibid.