Swiss NON PAPER
Remittances as Private Capital for Sustainable Development

Context

Remittances to people living in developing countries have seen a rapid increase over the past decade and have remained more stable during the recent economic crises than other categories of private capital flows. Evidence from all parts of the world demonstrates the positive impact of remittances on all three dimensions of sustainable development: Remittances have increased girls' school attendance rate and improved children's health, particularly in low income families; they have boosted entrepreneurial activities or have contributed to the reduction in headcount poverty rate. Households receiving remittances are less involved in deforestation and are more resilient against natural disasters. In 2013, private money transfers made by international migrants amounted to an estimated $550 billion, whereof $404 billion were sent to people living in developing countries (World Bank WB[1]). This amount exceeds the total sum spent on Official Development Assistance (ODA) times three. It is estimated that the total sum of remittances is at least 50% larger, if remittances transferred through informal channels were included.[2] The declaration of the UN High Level Dialogue on International Migration and Development, adopted in consensus, recognized the importance of remittances. Recent reports, notably the synthesis report by the UN Secretary General, the document of the Open Working Group on Sustainable Development and the report of the Intergovernmental Committee of Experts on Sustainable Development Financing reaffirmed the same message.

How to capture this in the Addis Abeba outcome document

At a side-event organized by Bangladesh and Switzerland during the informal substantive sessions of the Financing for Development process, discussants generated a number of ideas to foster the contribution of remittances to sustainable development. The outcome document of the Addis Abeba conference should include the following comprehensive and forward-looking policy recommendations related to remittances:

1. Acknowledge the private nature of remittances and thereby the fact that they are not a substitute for Official Development Assistance

These transfers are private economic transactions by individuals and conceptually quite different from other private or blended sources discussed in the context of the Financing for Development process. Nonetheless, they do have an evidence-based impact on all three components of sustainable development, and yet they should not be considered as substitute for Official Development Assistance.

2. Reduce the transfer costs of migrant remittances to less than 3% and eliminate corridors with transfer costs higher than 5%

Reducing the transfer costs of migrant remittances remains one of the principle objectives. With every percentage point we reduce the transfer costs, between 4-5 billion dollars remain in the hands of migrants and their families. Notably disruptive market innovation, access to mobile technologies of transfer as well as market competition and transparency are key factors reducing the costs. Governments should also review existing legal and policy frameworks to eliminate unnecessary and costly barriers. Finally, it can be assumed that low transfer costs would increase migrants' use of formal transfer channels, which in turn relates to the role of remittances in enhancing financial inclusion.

3. Facilitate the role of remittances as a driver of financial inclusion by generating demand for tailor-made financial services

Financial inclusion contributes to poverty reduction, economic and social development and financial stability. By expanding the physical, economic, regulatory and cultural accessibility of financial services, we can reduce the number of un- or underbanked people, notably women, youth and the rural population and increase the sustainable development impact of financial inclusion. New technology and innovative business models can be linked to the transfer of remittances, thereby generating synergies. Migrants should get tailor-made offers to transfer their remittances into deposit or saving accounts, to pay for mortgages, insurance products or other services.

4. Ensure access to targeted gender-sensitive financial literacy training for migrants and their families

Migrant families often do not have the necessary financial literacy skills to best harness the opportunities of the usually quite steady inflow of remittances. Particularly women find themselves lacking knowledge of and access to financial services. Financial literacy trainings and consumer empowerment should therefore form an integral part of policy recommendations related to remittances.

5. Improve quality and accessibility of remittances data

Progress has been made in past years to improve the quality of remittances data. However, more can be done to further enhance the available data to support evidence-based policies.

[1] See WB: Migration and Development Brief 22
[2] See IOM and Remittances (2009).

Wording proposal

Considering the above, the drafting of the outcome document of the Addis Abeba conference could be inspired by the following wording proposal, which captures the essence of the Elements Paper and suggests a concise but comprehensive formulation of policy recommendations related to remittances:

"We recognize that remittances are a growing source of private financial transactions contributing globally to sustainable development, but do not represent a substitute for official development aid. To better harness the economic sustainable development potential of remittances, the transfer costs have to be reduced below 3% and all corridors with transfer costs higher than 5% eliminated. Furthermore, we acknowledge that remittances could be better utilized by recipient households if they are more closely aligned with new financial services and could thereby contribute to increased financial inclusion, notably of women, youth and rural populations. We therefore encourage all actors to facilitate the use of modern technologies and promote financial product innovation, notably by enabling tailor-made, affordable services for migrants and their families such as micro-savings and deposit accounts, insurance, credit, green energy solutions or investment products. Such enabling factors should also be made available to small and medium enterprises who may wish to draw start-up funds or investment capital through remittances channels. We should furthermore promote accessibility, competition and transparency in the money transfer market, including by reviewing existing legal and policy frameworks to eliminate unnecessary barriers, especially for international transfers of small amounts. To further strengthen financial inclusion, we need targeted, gender-sensitive financial literacy trainings accessible for migrants and their families. We also encourage, where appropriate, to consider diaspora bonds as an additional opportunity for migrants to voluntarily contribute to the sustainable development of their home country. Finally, we acknowledge the importance of further improving the quality and accessibility of remittances data as a basis for evidence-based policies."