Thirteenth Coordination Meeting on International Migration
New York, 12-13 February 2015
UNCTAD submission: "Trade, remittances and financial inclusion"

Financial inclusion is of high relevance for the development agenda, including the post-2015 framework. It can contribute to poverty reduction and economic and social development, particularly for women and youth. This importance has also been increasingly recognised by international fora such as the G-8 or the G-20, with the latter endorsing 9 principles for innovative financial inclusion. Similarly, a network of financial regulatory authorities from several developing countries committed to policies and regulations towards financial inclusion by adopting the “Maya Declaration”.

This relevance is enhanced by the linkages between access to financial services and remittances, a particularly meaningful source of private financial flows for many developing countries. On the one hand, financial services may contribute to facilitate remittance flows, to reduce their cost and to maximize their developmental impact. On the other hand, remittances expand the demand for financial services. In this regard, the United Nations Conference on Trade and Development (UNCTAD) has supported members’ endeavours in fostering financial inclusion, in particular by taking stock of its linkages with remittances, through its analytical and operational pillars of work, including its work on the Services Policy Reviews, the contribution of migrants and remittances to development, trade and development implications of financial services, and multi-year expert meetings on services, trade and development.

In November 2014, UNCTAD organized an expert meeting on the “Impact of access to financial services, including by highlighting remittances on development: Economic empowerment of women and youth”, where it was discussed that governments can play an important role in financial inclusion by developing a sound regulatory and institutional framework, setting standards, overseeing effective measures to protect consumers, and considering direct intervention. A tailored and comprehensive policy mix towards financial inclusion should include building a robust institutional environment; considering simultaneously objectives of financial inclusion, financial stability and financial integrity; ensuring adequate infrastructure, including communications and energy; promoting technological innovation; collecting and analyzing data towards evidence-based policies; promoting competition and consumer protection; considering direct measures, such as subsidies and mandatory requirements, particularly towards universal access; applying regulation in a proportionate manner, defining differentiated requirements to attend different needs, whenever feasible; promoting demand through financial literacy, availability of information, and, when adequate, increased use of financial services by the government.

As discussed in this meeting, remittances represent major and usually steady flows of private funds that increase household income. They are mostly used for consumption, including of social services such as health and education, and will contribute to economic and human development. In 2013, 230 million migrants worldwide sent US$551 billion in remittance flows, of which US$414 to developing countries. This is probably an underestimation since it accounts only for what is sent though formal channels. The importance of the human rights-based and migrant-centred approach to remittances was also highlighted. To harness the benefits of remittances, it is necessary to ensure the protection of migrant workers, good governance of labour migration and policies based on international standards and social dialogue. The Turkish Chairmanship of the Global Forum on Migration and Development stressed the importance of building partnerships to address the protection of human rights of migrants.

It was pointed out that high transfer costs are major impediments to remittance flows and it is therefore important to make transfer systems less costly and more efficient. One of the targets proposed for the Sustainable Development Goals is to reduce transaction costs to less than 3 per cent of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent by 2030. The global average of transfer costs was standing at 7.99 per cent in the fourth quarter of 2014. Remittance costs have decreased for most developing regions but are still very important in many least-developed countries (LDCs).

A first step to achieve required scale to increase access and reduce costs is to promote an enabling environment. Advocacy efforts and gathering data that will enable evidence-based policies are important. It is also necessary to promote competition and intermediation and address, for example, exclusivity contracts. Innovation and technology can play an important role, and the particular importance of mobile money schemes was mentioned. The combined use of banking, postal and telecommunication networks may lower costs and enhances access to low income recipients in remote locations. Regulation should promote interoperability of platforms or even shared infrastructure to reduce operational costs, increase networks, facilitate competition and achieve economies of scale. Payment and settlement systems should facilitate cross-border payments. Improving transparency and information on the costs associated to each channel, for example through price databases, will enable senders to choose the most cost-efficient options.

If remittances are spent in consumption and other non productive expenses, the funds received are not leveraged and dependency is created. In this sense, financial inclusion is important because linking remittances to financial services such as savings, loans and insurance, together with scalable models of investment for migrants and their families, may incentivise channelling these funds to investments in productive activities, social services and infrastructure. This can enhance the development impact of remittances in the local and nationwide economy and can also develop financial services by increasing demand. It is important to keep in mind that remittances are private funds and that the focus should be in providing migrants and their families with financial options and tools, such as diaspora funds and diaspora bonds, which would allow them to best manage and maximize the impact of their funds. Financial education and counselling could contribute to these efforts. Tax and credit incentives to induce investments could also be considered. Diaspora associations, employers and workers' organizations could play a role in providing information on these possible tools.

In this context, migration can also have an impact on economic and social development. Furthermore, migrants can also increase trade between home and host country through, inter alia, nostalgia trade. This involves such things as trade in tourism services, when the migrants go back home to visit, or trade in home country goods. Products traded in this context may exhibit stronger links to the local economy in the home country. Migration can also boost trade flows between countries by allowing entrepreneurs to leverage diaspora networks for business leads and financing.

In the other direction, trade policy can also be relevant for migration. Economic integration and cooperation and trade agreements, at bilateral, regional and international levels, provide a platform through which measures can be put in place to promote migration and encourage gains from deriving trade and remittance flows. Trade agreements such as the General Agreement on Trade in Services (GATS), and some regional and bilateral trade agreements include the temporary movement of natural persons to supply services as one of the means to trade in services. Mode 4, as it is referred to in the GATS and other agreements, can therefore be considered a sub-set of regional and international migration and these agreements as one of the tools to remove barriers to the movement of people. In fact, trade negotiations address multiple issues which go beyond market access and that facilitate mobility, including recognition of qualifications, streamlining of recruitment criteria and search for related common international standards. In the Doha Round services negotiations, the current waiver enabling the WTO members to provide preferential market access to services and service suppliers of LDCs to their markets can be viewed as an opportunity for more advanced countries to implement policies that contribute to development and better mobility.

Therefore, a universal, rules-based, open, non-discriminatory and equitable multilateral trading system is a global public good in line with the second point of the eight-point agenda for action to make migration work, as included in the United Nations Secretary General Report A/68/190. UNCTAD, beyond its contribution to the Global Migration Group's discussion on migration and the post-2015 development agenda, draws attention to the importance of considering trade as an enabler in this development framework towards better migration. In particular, trade-related targets under goal 17 related to means of implementation of the post-2015 development agenda, should be strengthened to enhance its enabling role for migration and development.

For more information and related material on trade, financial inclusion and remittances: http://unctad.org/en/pages/MeetingDetails.aspx?meetingid=495

Sources:
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