

## **“Remittances and Diaspora Resources in the Context of the Preparatory Process for the Third International Conference on Financing for Development”**

Side event, co-organized by Bangladesh and Switzerland  
13 November 2014, 1.15 to 2.45pm, United Nations Headquarter, New York

### **Executive Summary**

1. The side event on “Remittances and Diaspora Resources in the Context of the Preparatory Process of the Third International Conference on Financing for Development”, co-organized by Bangladesh and Switzerland, aimed at stimulating the discussion on how to unleash the potential of remittances within the sustainable development financing framework that will be finalized in Addis.
2. The session was moderated by Mr. Mahmoud Mohieldin, World Bank’s Corporate Secretary and President’s Special Envoy on Millenium Development Goals, the post-2015 process and financial development. The speakers at the event were H.E. Mr. Abulkalam Abdul Momen, Ambassador and Permanent Representative of Bangladesh to the United Nations; Ms. Tatjana von Steiger, Minister at the Permanent Mission of Switzerland to the UN , Mr. Krishnan Sharma, Senior Economic Affairs Officer at UN DESA’s Financing for Development Office; Mr. Dilip Ratha, Manager for Migration and Remittances and CEO of KNOMAD of the World Bank Group; Mr. Jörg Frieden, Executive Director for Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan at the World Bank Group; Mr. Henri Dommel, Director for Inclusive Finance at the UN’s Capital Development Fund; and Ms. Mirjam van Reisen, Board Member of the Philips Foundation and Professor for International Social Responsibility at Tilburg University.
3. The key considerations highlighted during the discussion can be summarized as follows:
  - Remittances are highly relevant for post-2015 and Financing for Development discussions given the contribution they make towards poverty eradication and their potential to contribute even more if the right policies are in place. Contrary to other private and public finance, remittances are free from aid effectiveness and agency problems. The counter cyclical nature of remittances further emphasizes their relevance in benefiting recipients as their inflow increases in times of a crisis, as opposed to most other financial flows.
  - The importance of reducing the transfer costs of remittances cannot be emphasized enough. Access to remittances in rural areas continues to be a challenge and requires solutions. However, it is equally important to strengthen financial inclusion, to provide opportunities and incentives for savings and investments and to improve financial literacy. In this regard the potential of information and communication technologies for financial service solutions is very promising. Innovative approaches could link remittances directly to service provision in fields such as health, education and utilities.

- The contribution of migration to development and its relevance for the Financing for Development process and post-2015 discussions is much broader than the question of remittances. Remittances are the financial face of migration but migrants can contribute to sustainable development as entrepreneurs, facilitate trade and investment – even more so if there are policies fostering diaspora involvement. Currently, diaspora saving and giving represents a largely untapped potential source of finance.
  - Remittances can amount to a considerable proportion of GDP in some states and may have consequences for the state and its function as a provider of social services. It is crucial to respect the private nature of remittances though there are possibilities for public-private partnerships in particular concerning the transfer of funds. While new approaches and ideas are needed, evidence-based policy design is often lacking.
  - The prominent role of remittances in financing for development is reflected in the report of the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) and the proposal from the Open Working Group (OWG). The deliberations of the coming month and the Third International Conference on Financing for Development offer opportunities for deliberations inter alia on ways to reduce the cost of sending remittances, strengthening the legal and regulatory environment and financial inclusion and to build international agreement on these issues.
4. Looking ahead, it was noted that there are a number of issues which the international community should discuss during the preparatory process for the Addis Conference and the conference. These include innovative ways to reduce the costs of sending remittances, improve competition, strengthen the legal and regulatory environment, improve data on remittances, enhance the links between remittances and financial inclusion (financial education programmes, ensure access of migrants to financial institutions, encourage development of financial services customized to needs of migrants) and leverage remittances to enhance capital market access for some countries. It may also be useful to venture beyond remittances and consider the broader ways in which diasporas can further promote development in their homelands.

#### **Content of the presentations and subsequent discussions**

1. The side event on “Remittances and Diaspora Resources in the Context of the Preparatory Process of the Third International Conference on Financing for Development”, co-organized by Bangladesh and Switzerland aimed at stimulating the discussion on how to unleash the potential of remittances within the sustainable development financing framework that will be finalized in Addis.
2. The session was moderated by Mr. Mahmoud Mohieldin, World Bank’s Corporate Secretary and President’s Special Envoy on Millennium Development Goals, the post-2015 process and financial development, who set the scene by suggesting that speakers focus on necessary policy changes at national, regional and international levels –

including innovative approaches – and the role that the Addis conference can play. The speakers at the event were H.E. Mr. Abulkalam Abdul Momen, Ambassador and Permanent Representative of Bangladesh to the United Nations; Ms. Tatjana von Steiger, Minister at the Permanent Mission of Switzerland to the UN, Mr. Krishnan Sharma, Senior Economic Affairs Officer at UN DESA's Financing for Development Office; Mr. Dilip Ratha, Manager for Migration and Remittances and CEO of KNOMAD of the World Bank Group; Mr. Jörg Frieden, Executive Director for Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan at the World Bank Group; Mr. Henri Dommel, Director for Inclusive Finance at the UN's Capital Development Fund; and Ms. Mirjam van Reisen, Board Member of the Philips Foundation and Professor for International Social Responsibility at Tilburg University.

3. Focusing on the situation of emigration countries, H.E. Mr. Abulkalam Abdul Momen, Ambassador and Permanent Representative of Bangladesh to the United Nations recognized migration as a new element in the run up to Addis Abeba, but stressed that because migration is an independent human enterprise and remittances are private money the international community can neither generalize, nor direct the utilization of remittances and therefore they are needed to be dealt with caution and consideration in the context of FFD. Ms. Tatjana von Steiger, Minister at the Permanent Mission of Switzerland to the UN highlighted the need to reduce the transfer costs of remittances including through technology and innovation in the field of remittances and other diaspora services, as well as the importance of financial inclusion and the promotion of financial literacy. Mr. Krishnan Sharma, Senior Economic Affairs Office at UN DESA's Financing for Development Office, gave an overview about the role that remittances have played in the financing for development process in previous conferences. Mr. Dilip Ratha, Manager for Migration and Remittances and CEO of KNOMAD of the World Bank Group stressed that remittances were one of the few sources of finance that are not fully tapped including the potential for diaspora giving and saving. Subsequently, Mr. Jörg Frieden, Executive Director for Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan at the World Bank Group framed migration as an entrepreneurial venture. Mr. Henri Dommel, Director for Inclusive Finance at the UN's Capital Development Fund presented work undertaken by his organization on linking domestic and international components of remittances. Lastly, Ms. Mirjam van Reisen, Board Member of the Philips Foundation and Professor for International Social Responsibility at Tilburg University drew attention to viewing remittances as carriers of social responsibility and compassion.
4. Salient points made during the presentations and the ensuing discussions included the following:
  - Globally, remittances reached some \$435 billion in 2013, compared to ODA at \$135 billion. For some developing countries, remittances can reach up to 30 to 50 per cent of GDP. Remittances are private flows from people to people and carriers of social responsibility and compassion. They thus avoid aid effectiveness and agency problems. Although international remittances have grown significantly, their true size is much larger when taking into account unrecorded flows through formal and informal channels. Remittances often largely contribute to basic needs spending and their contribution to productive investment is low. Additionally, remittances were also less pro-cyclical than private capital flows to developing countries and more evenly distributed across them. Remittances are thus a form of insurance: if there's hardship or a crisis in the recipient country remittances increase.

- Overall, while remittances serve critical functions, participants agreed that their potential is currently not fully tapped including the potential of diaspora giving and saving. Moreover, data on remittances and countries' capacity to project flows is limited and broader policy research is needed.
- A reoccurring theme was the cost of transferring funds. Currently, the cost of transfer in Sub-Saharan Africa may be as high as nine to ten per cent, and even higher in other countries such as Venezuela. According to the Open Working Group, a one percent reduction in the cost of transfer would amount to \$3 to \$4 Billion in global savings. Reducing the costs would thus increase the net flows. The role that technology can offer was discussed including mobile technology and the use of virtual currency.
- Closely linked to transfer costs is the issue of access to finance and financial inclusion, i.e. how to bank the unbanked, people that don't have access to bank accounts and often live in unsafe conditions. Traditional means to access the banking system are oftentimes too costly, particularly for those residing in rural areas and for making in-country transfers. One alternative that was mentioned was banking with mobile phones, as currently practiced in Kenya. In order for novel approaches to work, a proper regulatory environment is needed that allows innovation and the use of technology. Financial literacy was also identified as crucial and there was agreement among the discussants that those receiving remittances should be enabled to produce or acquire assets that will sustain them over the long term.
- Participants stressed the important role that banks, including central banks, play possibly in cooperation with the public sector or in the form of a public private partnership. However, the state and international organizations should only facilitate the transfer of remittances, not interfere in the process.
- Discussions also scrutinized how to link remittances to service provision. One example from Senegal mentioned that migrants working abroad could directly pay for their families' school fees. In the health sector, research has shown that strengthening the link between remittances and the supply of services made the delivery of such services much more sustainable and improved their quality. Other discussants mentioned innovative approaches linking remittances to saving accounts or other financial services, crop insurance and utility payments.
- During the side event, several speakers noted that remittances should not be treated as being separate from migration. Migration involves the transfer of skills and is an entrepreneurial venture. Policy makers shouldn't forget about the human dimension of migration and governments should help migrants by protecting them, facilitating skill development and providing the right incentives. The social costs of migration include separation from family and society, family breakdowns, and delayed non-agricultural growth. Therefore, a holistic approach to managing migration in conjunction with remittances is needed.
- Some discussants noted that remittances and mass migration can challenge the state and that brain drain, particular in the form of youth migration, can hamper domestic growth. One should also be mindful that remittances are private finance, and not a

substitute for ODA. A further possible problem with remittances is that they may be channeled into destructive purposes, for example into human trafficking

- Discussants reminded the audience that remittances have featured in the financing for development process since its beginning. The Monterrey Consensus referred to reducing the costs associated with transferring remittances and creating opportunities for development and the issue was further elaborated in the Doha Declaration and subsequently expanded in the outcome of the Conference on the World Economic and Financial Crisis and its Impact on Development. The latter called for ways to strengthen international cooperation in the area of international migration and development. Work on diasporas and ways that they can contribute to development, including through remittances but also looking at their role in facilitating investment and trade, in transferring knowledge and promoting entrepreneurship was undertaken by the UN's Financing for Development Office.
  - The October 2013 High Level Dialogue on Migration put the issue of migration and remittances on the global agenda and there is now a guideline for a Sustainable Development Goal on migration. Moreover, the Intergovernmental Committee of Experts on Sustainable Development Financing noted remittances' growing impact and the report of the Open Working Group on Sustainable Development Goals mentioned new means of transferring remittances and called for innovative solutions such as digital transfer, cash in cash out channels, micro saving and insurance schemes for migrants etc.
5. Going forward, it was noted that there are a number of issues which the international community should discuss during the preparatory process for the Addis Conference and the conference. These include innovative ways to reduce the costs of sending remittances, improve competition, strengthen the legal and regulatory environment, improve data on remittances, enhance the links between remittances and financial inclusion (financial education programmes, ensure access of migrants to financial institutions, encourage development of financial services customized to needs of migrants) and leverage remittances to enhance capital market access for some countries. It may also be useful to venture beyond remittances and consider the broader ways in which diasporas can further promote development in their homelands.