

INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series



Facilitating the flow of remittances

International Organization for Migration (IOM)

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1. Introduction

Remittances are multidirectional, voluntary, and private international monetary transfers that migrants make, individually or collectively, to people with whom they maintain close links. Due to their sheer scale, remittances have been garnering more and more attention and interest worldwide in their potential benefits to development. However, there is recognition that there can also be downsides, and that the positive impact of remittances hinges on certain conditions being in place. Remittances have the ability to contribute to beneficiaries' wellbeing when they are additional, rather than the sole or primary source of income. The potential development gains of remittances will not be optimised if governments are not fully engaged in the provision of basic services and functional social security, health and education systems. The commitments outlined in the Addis Ababa Action Agenda (AAAA) are intended to enhance the benefits that remittances can bring to development.

2. Stocktaking (progress and implementation gaps)¹

Arguably, the sum of financial remittances sent by international migrants back to their families in origin countries amounted to \$581.6 billion in 2015, according to the World Bank estimates; almost 75 per cent were sent to developing countries (\$431.6 billion), representing more than three times the size of foreign aid received by such countries in the same year.² In some cases, earnings remitted by international migrants constitute a significant portion of a country's GDP - e.g. about 25 per cent for countries like Liberia and Moldova, almost a third for Nepal and the Kyrgyz Republic, and almost 37 per cent for Tajikistan.³

In absolute terms, top recipients of migrant remittances in 2015 (according to the latest World Bank estimates) were India (\$70 billion), China (\$64 billion), the Philippines (\$28 billion) and Mexico (\$25 billion) - which were also among the countries with the largest diasporas globally in 2015. Estimates on remittance outflows for 2014 indicate that remittances were mostly sent from the United States (\$56 billion), followed by Saudi Arabia (\$37 billion), and the Russian Federation (\$33 billion) - also not surprising, given that such countries are among the top international migrant destinations worldwide.

At the regional level, the East Asia and Pacific region was the main recipient of remittances in 2015, with \$127 billion in 2015, followed by South Asia (\$118 billion) and Latin America and the Caribbean (\$67 billion). The Middle East and North Africa region was the top remittance-sending region in 2014 (\$98 billion), according to available World Bank estimates, mostly due to

¹ IOM (2016) Global Migration Trends Fact Sheet 2015.

² World Bank Migration and Development Brief, 26.

See: <http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/4/661301460400427908/MigrationandDevelopmentBrief26.pdf>

³ World Bank, based on remittance inflow data in 2014.

increasing labour migration into the Gulf Cooperation Council countries over the past few years, particularly from Southeast Asia.⁴

Seemingly, the global average cost of sending \$200 globally fell to 7.4 per cent in the fourth quarter of 2015, from 8 per cent in the same period in 2014.⁵ However, much remains to be done, particularly in sub-Saharan Africa, where costs continue to be the highest, now standing at 9.5 per cent.

Remittances can be sent in various ways, ranging from funds transferred through formal channels, such as money transfer operators, banks or other financial institutions, or “informal” channels, such as cash carried in person or in-kind transfers. Reducing remittance costs, together with lowering recruitment costs of low-skilled migrant workers, and mobilizing diaspora for development will be important contributions towards the achievement of the sustainable development goals (SDGs);⁶ this is particularly so given that target 10.c seeks to reduce remittance costs to less than 3 per cent, and to eliminate remittance corridors with costs higher than 5 per cent by 2030.

3. Policy options and recommendations for corrective action

Remittance-linked initiatives must be seen through interlinkages with a wider development agenda that addresses access to decent work for migrants, their participation in the societies where they live and the systematic lack of basic services for communities in countries of origin. Remittances must not be relied upon to fill the gaps, or be conflated with diaspora investment, savings and other financial transactions. It is important to recognize that the responsibility for development lies with states and not migrants.⁷

3.1 Improving the conditions under which remittances are earned

While SDG 10.c is the most directly relevant target of the financial aspect of the cost of remittances, SDG 8.7 on forced labour as well as SDG 8.8 on labour rights reflect the need to improve the conditions in which remittances are earned.

Governments have a great role to play by promoting policies and programmes that create enabling environments for remittances to be earned safely and, more generally, by including all aspects of migration in their development-planning policies. Along these lines, governments

⁴ World Bank Migration and Remittances Factbook 2016.

⁵ World Bank Remittance Prices Worldwide (RPW) database. As of the end of 2014, RPW is based on average prices calculated on 300 country corridors worldwide (35 remittance-sending countries to 99 remittance-receiving countries).

⁶ “Available data at present are not precise or complete enough to estimate the real costs of sending remittances, owing to limitations embedded in the data collection methodology commonly used for this purpose. It is nevertheless important to improve the transparency in service provision, to lower the costs of remittances and to improve the data related to transaction costs, so that a greater proportion of funds go to the desired recipients.” Cite Migration policy practice, Vol. V, Number 2, April 2015–June 2015

⁷ Thompson, L. (2014) Financial Remittances – al tool for development? See: <https://www.iom.int/oped/financial-remittances-tool-development>

should ratify the conventions that relate to migrants' rights, improve their legislation to make sure that it is aligned with international principles, and enhance recruitment regulation to ensure that employers comply with fair recruitment practices. IOM is engaged with labour migration stakeholders through the Public-Private Alliance for Fair and Ethical Recruitment in the promotion of ethical recruitment practices.

3.2 Improving the conditions under which remittances are sent

The immigration policies of destination countries and the legal status of migrants can have important impacts on their possibilities for sending remittances. Migrants in a regular situation potentially have more opportunities for upward mobility in the labour market and better access to information on human and labour rights than migrants without regular status. More avenues for regular migration need to be opened if migrants are to become active member of the communities where they live if they are to realize their full potential. Because migration realities are more evident at the local level, central and local authorities could promote social cohesion by building the capacities of local service providers to cater to more diverse populations. IOM supports migrants through tailored pre-departure orientation training, including financial literacy, aimed at improving their knowledge about the destination country, as well as their rights and obligations.

Wider availability of money transfer operators and easy access to information to compare costs and services to send remittances is crucial. IOM has built strategic partnerships with a view to support the development of more complex methodologies and datasets on real-time remittance costs and ensure the dissemination of more accurate information on remittance services available and their costs. IOM also seeks to combine its knowledge on migration with the expertise of other stakeholders to promote innovative remittance mechanisms including the mobile money technology or postal networks.

3.3 Supporting financial inclusion so that remittances are better used

Furthermore, financial education initiatives for migrant workers and recipient households are a proven way of increasing the likelihood that remittances directly impact the life of recipients and their communities. IOM advocates for the improvement of access to duly regulated, reliable and efficient financial services and products, for improved financial infrastructure and for financial literacy opportunities for remittance senders and recipients. Since recruitment of migrants and transferring remittances from the country of destination to the country of origin are mostly done by the private businesses, engagement of the private sector actors and the government regulatory body is crucial to change current business practices and environment.

Annex 1. Presentation of relevant work by UN system and others in the area

Data on Remittances

IOM partners with TawiPay, a Swiss start-up providing a powerful tool for migrants to help them choose among the constellation of existing money transfer operators. Using an innovative methodology, TawiPay displays transfer costs for any corridor, any amount and in real time. Building on the collected data, TawiPay will furthermore be able to provide actual and updated data on average transfer costs, and therefore, in cooperation with IOM, support the Sustainable Development Goal objective of reducing transfer costs.

<http://www.iom.int/news/iom-tawipay-sign-mou-enhancing-transparency-remittances-market>)

Harnessing Remittances for Development and Promoting Legal Migration in Tajikistan

IOM partnered with the Jamoat Resource and Advocacy Centres (JRCs). These are local non-governmental community-based organizations set up by the United Nations Development Programme (UNDP). Together, IOM and the JRCs build the skills and knowledge of migrant households, local communities and civil society to take advantage of and promote the use of migrant remittances to develop practical livelihoods for families affected by emigration. The project will promote micro-credit plans and local socio-economic development of migrant communities of origin through remittance contributions. It also addresses the legal side of labour migration. The project targets 15 rural communities of Khatlon Oblast and Rasht Valley where emigration is high.

<http://www.iom.int/harnessing-remittances-development-and-promoting-legal-migration-tajikistans-rural-areas>)

Mobile phone money transfers in Georgia

IOM Georgia implemented a project aimed at improving access to remittances for migrant-sending families in Georgia by diversifying remittance transfer services for Georgians in Greece and enhancing the development impact of remittances by offering migrants and their families new investment opportunities. This two-year project, funded by the International Fund for Agricultural Development (IFAD), included a study on the scale and use of remittances by 207 remittance receiving households in a target community in Georgia. It also included a technical feasibility and cost comparison study of mobile phone technology as a tool for money transfers, and an assessment of opportunities to link remittances to savings and credit schemes. In parallel, IOM identified the target community's needs and explore how these could be met through matching the investment of remittances with financial and institutional support from the local government. The capacity of 60 people from remittance-receiving households will be built on starting small businesses using their remittances. A positive outcome after the project is finalized would include the formal commercial launch of mobile phone money transfers in Georgia.

http://www.iom.ge/index_iom.php?newslater4&home; <http://iom.ge/1/feasibility-study-use-mobile-phones-facilitating-international-money-transfers-georgia-may-2009>)

Lowering the cost of remittances in Burundi

IOM, the Universal Postal Union (UPU) and the Burundian Régie Nationale des Postes decided collaborate to establish an innovative pilot project designed to reduce transfer costs of remittances in Burundi. The project will strengthen the role of post offices as remittances transfer providers and build on that network to develop financial literacy and promote the financial inclusion of remittance users.