



# REMITTANCES

*Building upon the New York Declaration for Refugees and Migrants adopted on 19 September 2016, the Global Compact for Safe, Orderly and Regular Migration (GCM) will set out a range of principles, commitments and understandings among Member States regarding international migration in all its dimensions. The GCM should make an important contribution to global governance and enhance coordination on international migration. For the consideration of Member States, the “Thematic Papers” developed by IOM, outline core topics and suggestions to inform actors involved in the 2017 consultation process that will lead to the inter-governmental negotiations and final adoption of the GCM.*

## INTRODUCTION

With an estimated USD\$465 billion in remittances expected to flow into developing countries in 2017,<sup>1</sup> the impact of remittances on development has been receiving significant attention in the international arena.<sup>2</sup> Given the wide variance in remittance transaction costs across the globe, particular focus has been dedicated to how high transaction costs can discourage sending of remittances through formal channels and hinder the development impact of remittances that are sent.

Remittances are an important contributing factor to poverty reduction. Remittances are voluntary and private international monetary transfers made by migrants to people with whom they maintain close links.<sup>3</sup> Remittance senders and recipients are thus free to decide on the use of these private funds, although policy makers and development partners can facilitate the leveraging of remittance flows to stimulate their use towards sustainable development initiatives.

## EXISTING PRINCIPLES

Remittances undoubtedly lift the families of many migrants out of poverty, paying for basic needs and education, enhancing their ability to withstand risks related to unemployment or illness, and building their resilience to external events such as climate change or humanitarian crises. The 2030 Agenda for Sustainable Development sets a specific target (10.c) for SDG Goal 10: “By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent”, reiterating the targets set by the Addis Ababa Action Agenda.<sup>4</sup> Target 10.c is only one part of the targets that address the responsibility of governments to provide all sectors of the population with social protection, including public services such as education (Goal 4) and universal health care (Goal 3). The following principles should lay at the basis of policies and programmes designed to maximize the development value of remittances:

- **Remittances on their own will not result in development** if the conditions for those sending and those receiving remittances are not conducive to development and if governments don’t provide basic services and functional social security, health and education systems. Remittances can better help realise development if those receiving them can spend them on higher education, the creation of self-employment opportunities, and the improvement of local community infrastructure;
- The potential for remittances to contribute to the beneficiaries’ well-being increases when they are an **additional, rather than the sole or primary, source of income**; and



- The development value of remittances depends on the conditions under which remittances are earned. Decent work, the possibility for migrants and their families to participate fully in their host societies, as well as the potential opportunities and benefits foregone by migration, must be taken into account.

## ISSUES

High transfer costs, the conditions under which remittances are earned, and dependency upon remittances for access to basic services such as health and education, by receiving households all negatively affect the positive contributions of remittances for sustainable development. In addition, remittance receivers often lack a good understanding of, or access to, programmes or initiatives that leverage remittances to support broader development, such as financial literacy, education savings programmes, and access to affordable insurance.

The cost of remittance transfers varies greatly across the globe and remains persistently high in certain corridors. Sub-Saharan Africa, with an average cost of 9.5 per cent on the amount sent, is the highest-cost region. The reasons for the high costs are essentially threefold:

- 1) the international regulatory framework to combat money laundering and the financing of terrorism poses compliance challenges for smaller and non-bank money transfer operators;<sup>5</sup>
- 2) the lack of competition between money transfer operators; and
- 3) the lack of transparency about the actual costs of transferring money which helps keep prices high.

Lower-skilled migrant workers often opt to live in precarious conditions to maintain remittance flows to their families back home. The well-being of these migrant workers through decent work conditions needs to be ensured for their remittances to have a positive impact on development.

Remittances can foster dependency between recipients and senders where the amount remitted exceeds reservation wages<sup>6</sup> in the local economy of the receiving households, thereby discouraging recipient family members from seeking employment. Financial literacy training for both senders and recipients can help families leverage remittances for education, vocational training and small business investment, and reduce their remittance dependency.

Gender dynamics are also an important consideration. Women migrants tend to remit higher proportions of their income more frequently than do male migrants.<sup>7</sup> As remittance receivers, women also tend to allocate more resources for the benefit of their children.<sup>8</sup> On the other hand, the commonly accepted assumption that women are empowered to make financial decisions when their partners migrate is not always true.

Financial products and services — such as payment, savings, and insurance services — adapted to the needs of different groups increase the capacity of remittance households to generate savings. Such products and services, however, are often not available to remittance-receiving households.



## SUGGESTED ACTION

Although the World Bank has documented an evolving reduction in the global average,<sup>9</sup> the wide variance in remittance costs globally will require concerted action through multilateral cooperation:

- 1) A concerted campaign, supporting the recommendation of the Special Representative of the Secretary-General on Migration,<sup>10</sup> led by international agencies, should be launched to **spearhead operational partnerships at a global level amongst financial industry representatives and regulators**, to create an enabling regulatory framework that breaks the monopolies of larger money transfer operators, promotes the use of new technology, such as mobile telephony for money transfer, and facilitates the transfer of smaller amounts without the restrictions imposed by anti-money laundering/counter financing of terrorism regulations.
- 2) Member states should take the lead in addressing the lack of transparency in their **domestic financial markets and legislative frameworks governing international financial transfers**, with the ultimate aim of spurring competition, reducing costs and providing better information to remittance senders. This could be achieved by **convening working groups consisting of representatives of their Central Banks and agencies**, such as the World Bank, to promote the harmonization of data collection and the sharing of data. These working groups could be convened at a regional level by multilateral development banks. This in turn can be coupled by upscaling efforts already underway to provide migrants with easy access to **platforms that compare the real cost of sending remittances** among service providers so that they can make informed decisions.

To leverage remittance flows for sustainable development beyond poverty reduction, and to tackle the issue of remittance dependency, financial services need to be tailored in innovative ways. Financial services can, on the one hand, incentivize savings and investment behaviour and, on the other, should take into account the different needs of remittance-receiving households, such as those headed by women or where women have migrated abroad to work. As such, priority actions on remittances need to evolve beyond a narrow focus on remittance transfer costs:

- 3) Financial institutions have piloted a number of schemes aimed at providing targeted services to remittance-receiving households, which can enhance a recipient family's capacity to accumulate savings and invest in further education, vocational training or entrepreneurship to enhance livelihood opportunities. Governments could support the promotion of **duly regulated, reliable and efficient financial services and products** tailored to lower-income and vulnerable households, to ensure that they are equitably treated and can benefit from the most cost-efficient services that enhance the multiplier effect remittances can have in the local economy.
- 4) Concurrently, civil society and community-based groups should be empowered to provide **financial literacy training** that enhances the financial decision-making of remittance households and that takes into account the specific needs and opportunities of women recipients.



## ANNEX

### **Additional relevant references**

Detrell, Grosjean and Peruffo (2014) **Handbook To Develop Projects On Remittances** Brussels, International Organization for Migration. Good practices to maximize the impact of remittances on development. An instruction manual to accompany the design of projects in the area of remittances, migrant investment and migrant philanthropy. Available at <http://www.migracion-ue-alc.eu/index.php/en-GB/productive-investment-of-remittances/manual-on-remittances>

Isaacs, L. (2017) **Remittances in ACP Countries: Key Challenges and Ways Forward**, Brussels, International Organization for Migration. The report's objective is to make recommendations and suggest actions that stakeholders can take to introduce real change in the international remittances market. Available at <https://publications.iom.int/books/remittances-ACP-countries-key-challenges-and-ways-forward>

Lubambu, K. (2014) **The Impacts of Remittances on Developing Countries**, Brussels, European Parliament. This study examines the nexus between remittances and development at the micro (family) and macro (national) levels, the money transfer markets, and the relationships between remittances and other sources of capital (official development assistance, foreign direct investment) and the possible role of remittances in the post-2015 financing development agenda.

Available at:

[http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/433786/EXPO-DEVE\\_ET\(2014\)433786\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/433786/EXPO-DEVE_ET(2014)433786_EN.pdf)

**Migration, Remittance and Economic Development**, Dhaka, International Organization for Migration. This study aims at understanding the contribution of remittances at the macroeconomic and household levels and exploring how these transfers could be better leveraged for development in Bangladesh. Proactive measures are suggested, through collaborative initiatives to promote migration and address efficient transfer of remittances through formal channels, which, leading to an increment of saving with investment, would in turn become an important tool for sound socioeconomic development.

<sup>1</sup> D. Ratha et al., *Migration and Remittances – Recent Developments and Outlook*, Migration and Development Brief 26 (World Bank, Washington, DC, April 2016). Available at:

<http://pubdocs.worldbank.org/en/661301460400427908/MigrationandDevelopmentBrief26.pdf>.

<sup>2</sup> The topic was the subject of a thematic paper at IOM's SCPP recently *Remittances: Socioeconomic Opportunities And Challenges*, IOM S/19/6, Oct 16

<sup>3</sup> Remittances are defined as "multidirectional, voluntary, and private international monetary transfers that migrants make, individually or collectively, to people with whom they maintain close links" in IOM's Position Paper on Remittances (2015).

<sup>4</sup> Para.40 Addis Ababa Action Agenda of the Third International Conference on Financing for Development (2015)

<sup>5</sup> A major barrier to reducing remittance cost is de-risking – when international correspondent banks close bank accounts of money transfer operators to avoid the risks of money laundering and financial crime. (*Migration and Remittances – Migration and Development Brief 27* World Bank)

<sup>6</sup> A reservation wage is the lowest wage rate at which a worker would be willing to accept a particular type of job.

<sup>7</sup> T. Tullao, M.A. Cortes and E. See, *The Economic Impacts of International Migration: A Case Study on the Philippines* (Center for Business and Economics Research and Development, De La Salle University, Manila, 2007).



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<sup>8</sup> UN-INSTRAW 2008a Gender, Remittances and Development: The Case of Filipino Migration to Italy

<sup>9</sup> The Global Average was reduced to 7.40 percent in Q4 2016, compared to 9.67 percent in Q1 2009. (World Bank: Remittance Prices Report, December 2016).

<sup>10</sup> Recommendation 9, Report of the Special Representative of the Secretary General on Migration, United Nations General Assembly, A/71/728, 3 February 2017.

