STUDY

THE IMPACTS OF REMITTANCES ON DEVELOPING COUNTRIES

Abstract

The crisis that hit the western financial markets in 2008 has led to a severe global economic recession, which impacted and is still impacting migrants and migration policies worldwide. Despite the growing vulnerability of migrants, remittances have remained stable during and after the global economic downturn. Indeed, they continue to be a significant source of income for families and play a crucial role of co-insurance or risk mitigation in times of hardship. Moreover, remittances have proven to be a more sustainable source of foreign currency for developing countries than other capital inflows such as foreign direct investment, public debt or official development assistance. However, the nexus between remittances and development remains complex, especially with regards to the movement of people, which contributes to the spread of global interdependence at all levels – social, economic and political.
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ACP African, Caribbean and Pacific countries
ADOPEM Banco de Ahorro y crédito
AFDB African Development Bank
AFFORD African Foundation for Development
AIR African Institute of Remittances
AML/CFT anti-money laundering regulations/combatting the financing of terrorism
ATM automated teller machine
BIS Bank for International Settlements
BOP balance of payments
CELAC Communauté d’États latino-américains et caraïbes
CGAP Consultative Group to Assist the Poor
CICID Committee for International Cooperation and Development
CIVIS Centre of Sociological, Politological and Psychological Analysis and Investigations
CPSS Committee on Payments and Settlement Systems
CPSS-WB Committee on Payments and Settlement Systems of the World Bank
CSOs civil society organisations
DfID Department for International Development
DSD data structure definition
EAP East Asia and Pacific countries
EC European Commission
EEA European Economic Area
EU European Union
Eurostat Office des statistiques des commissions européennes
E-ZWICH National Switch and Smart card payment system
FATF Financial Action Task Force (also Groupe d’Action Financière – GAFI)
FDI foreign direct investment
FFR financial facility for remittances
FI financial institutions
FIIAPP International and Ibero-American Foundation for Administration and Public Policies
FLAR Fondo Latino-americano de Reservas
FReDI Financial Literacy for Remittances and Diaspora Investments
FTR fund transfers regulation
GCC Gulf Cooperation Council
GDP gross domestic product
GHIPSS Ghana Interbank Payment and Settlement Systems Limited
GIZ Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI gross national income
GPIRS General Principles for International Remittance Services (also GPs)
GRWG Global Remittance Working Group
IADB Inter-American Development Bank
IASCI International Agency for Source Country Information
ICT information and communication technologies
IFAD International Fund for Agricultural Development
IIP international investment position
INAFI International Network of Alternative Financial Services
The Impacts of Remittances on Developing Countries

UNFCCC  United Nations Framework Convention on Climate Change
UNFPA  United Nations Population Fund
UNHCR  United Nations High Commissioner for Refugees
UNODC  United Nations Office on Drugs and Crime
UN-DESA  United Nations Department of Economic and Social Affairs
UNTT  Union Nations System Task Team
UN Women  United Nations Entity for Gender Equality and the Empowerment of Women
UPU  Universal Postal Union
WB  World Bank
WSBI/ESBG  World Savings Banks Institute/European Savings Banks Group
EXECUTIVE SUMMARY

The crisis that hit the western financial markets in 2008 has led to a severe global economic recession, which impacted and is still impacting migrants and migration policies worldwide (Koehler, Laczko et al., 2010). Despite the growing vulnerability of migrants, remittances have remained stable during and after the global economic downturn. Indeed, they continue to be a significant source of income for families and play a crucial role of co-insurance or risk mitigation in times of hardship (Ratha, 2013). Moreover, remittances have proven to be a more sustainable source of foreign currency for developing countries than other capital inflows such as foreign direct investment, public debt or official development assistance. However, the nexus between remittances and development remains complex, especially with regards to the movement of people, which contributes to the spread of global interdependence at all levels – social, economic and political.

Part I of this paper presents the pros and cons of remittances in developing countries at a micro level (i.e. recipient household and family) and macro level (i.e. national and transnational). At a micro level, remittances are believed to increase recipients’ incomes, reinforcing their ability to resist external shocks as well as boosting their investments in health, education and assets. Although remittances have the potential to reduce the severity of poverty, some shortcomings have been pointed out, such as an increase in pressure on remitters, a growing culture of dependency in developing countries that undermines recipients’ motivation to work, an increase in the consumptive expenses of recipients and a rise in inequalities (between recipients and non-recipients, rural and urban areas). At a macro level, there is a complex welter of promises and pitfalls associated with remittances. While remittances seem to increase the credit-worthiness of a country and deepen the local financial market, they may also promote the loss of national competitiveness and increase the risk of government corruption by recipients in developing countries. At a transnational level, a review of current literature suggests a similarly complex reality regarding the impacts of remittances. For example, remittances could finance either migrant–diaspora entrepreneurship or criminal diaspora organisations, which are two opposite potential results.

Addressing issues related to the money transfer market, Part II is divided into three sections. The first section presents the existing formal channels in developing countries (e.g. remittances services providers, money-transfer operators, post offices, microfinance institutions and the new transaction technology). Despite some measures improving the transaction market, severe constraints still remain, for example the lack of transparency and competition among remittances services providers, costs inefficiencies mainly in the South–South corridors, limited appropriate infrastructures, as well as the growing complexity of money transfer regulations. In the second section, advantages and limits of informal channels are emphasised, and the third section shows how money laundering and terrorist financing legislation can lead to a rise in transaction costs and the use of informal channels, which may in turn weaken remittances data collection. There is a clear indication that further efforts are needed to balance regulations aimed at fostering money transfer security and those promoting the protection of consumers (remitters and recipients).

Part III reviews 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. The resilience of remittances as compared with foreign direct investment and official development assistance has led multilateral stakeholders to look at remittances as a source of revenue to be harnessed for development purposes. Believed to have curtailed investor panic and prevented sudden current account reversals during the crisis, remittances have been suggested as a means of increasing a recipient country’s creditworthiness,
allowing countries with high remittance inflows to borrow more. The World Bank’s *Financing for Development Post-2015* clearly mentions migrants’ remittances and other diaspora capital among the various resources identified to finance the post-2015 global objectives. At the same time, however, the private nature of remittances poses serious challenges to policymakers. Tapping into migrants’ remittances will require an understanding of the extent to which remittances in particular and migration in general could sustain the upcoming development objectives, while respecting migrants’ rights and the local population’s needs. While remitters and their relatives are free to use their money as they want, their monetary and in-kind remittances are more likely to contribute to development if pre-conditions such as public or social services as well as a stable political and investment climate are achieved in the home country. Therefore, national authorities have the primary responsibility to elaborate policies that will improve the quality of governance and institutions, restoring political trust and thereby ensuring the contribution of migrants’ and diasporas’ benefits to society as a whole. Beyond the economic considerations, greater attention must be paid to the effects of migration on migrants’ well-being. International efforts must shift from an approach that addresses migrants and remittances (both pecuniary and in-kind) as ‘instruments’ for development, to a progressive model that emphasises development policies that benefit remittances users beyond monetary aspects.

Focused on the EU and Member State levels, Part IV presents measures that mobilise remittances for development. The first section emphasises the EU initiative to harmonise and improve remittances data collection (e.g. the implementation of the EU Payment Services Directive), while the second covers South–South remittances (e.g. the African, Caribbean and Pacific Countries Observatory and the African Remittances Institute). The third section reports on some of the practical handbooks that present lessons learned and good practices related to remittances. The fourth section covers remittances comparison websites, while the fifth section highlights measures for improving the remittance market (e.g. reaching rural areas through postal networks, enhancing innovative technologies such as mobile banking). The sixth section presents projects connecting remittances to products such as savings, financial literacy inclusion, and small and medium enterprises. Some areas, however, remain poorly addressed and policymakers should identify means to leverage remittances in two key situations: i) the undocumented or non-regular migrants who lack access to remittances services providers and financial services in the country of destination; and ii) the money transfer regulations’ constraints on remittances market in (post) conflict regions.

Part V describes the following recommendations to the EU in light of the post-2015 financing agenda:

i) address barriers to remittances markets that result from money transfer regulations;
ii) harmonise data collection and definitions related to remittances and strengthen the role of the EU in coordinating actions taken by its Member States;
iii) build on collaborations with migrants and diasporas (both at home and in host countries);
iv) achieve a multi-dimensional synergy between stakeholders and ensure a policy coherence, as the remittance industry involves a wide range of sectors (e.g. migration, development, telecommunication, financing or banking) and levels (local, national and transnational);
v) design appropriate policies with respect to the migrants’ rights and local population’s needs (e.g. lowering remittances costs, developing remittances-linked products such as savings and insurance);
vi) adopt an integrated and inclusive financing approach for the post-2015 agenda, positioning migrants and diasporas as real partners to avoid an instrumentalist approach. Although there is great potential in migrants and diasporas, national revenues should remain the primary source of financing for national development while considering diverse sources of capital; and
vii) improve national infrastructures in developing countries to enhance the potential of remittances.
EXECUTIVE SUMMARY - FRENCH VERSION: SYNTHÈSE

La crise qui a touché les marchés financiers occidentaux en 2008 a conduit à une récession économique mondiale sévère, qui a eu des incidences sur les migrants et les politiques migratoires du monde entier et continue d’en avoir (Koehler, Laczko et collègues, 2010). Malgré leur vulnérabilité croissante, les migrants ont continué d’envoyer des fonds dans leur pays d’origine pendant et après la récession économique mondiale. De fait, ils constituent toujours une source de revenus significative pour leurs familles et jouent un rôle crucial de co-assurance ou de limitation des risques face à l’adversité (Ratha, 2013). De plus, ces fonds se sont avérés être une source de monnaie étrangère plus durable pour les pays en développement que d’autres entrées de capitaux, tels que l’investissement étranger direct, la dette publique ou l’aide publique au développement. Cependant, les liens entre l’envoi de fonds et le développement demeurent complexes, surtout eu égard aux déplacements de personnes, qui contribuent à propager l’interdépendance mondiale à tous les niveaux, que ce soit social, économique ou politique.

La partie I de ce document présente le pour et le contre de l’envoi de fonds dans les pays en développement à l’échelle microéconomique (c’est-à-dire pour les foyers et familles bénéficiaires) et macroéconomique (au niveau national et international). Au niveau microéconomique, l’envoi de fonds permettrait d’augmenter les revenus des bénéficiaires, en améliorant ainsi leur capacité de résistance aux chocs extérieurs tout en stimulant leurs investissements dédiés à la santé, à l’éducation et à l’achat de biens. Même si ces fonds sont susceptibles de réduire le degré de pauvreté, ce système présente aussi des inconvénients, tels que l’augmentation de la pression pour l’envoyeur, une culture de dépendance croissante qui nuit à la motivation au travail des bénéficiaires dans les pays en développement, la hausse des dépenses de consommation des bénéficiaires et une accentuation des inégalités (entre bénéficiaires et non bénéficiaires, zones rurales et urbaines). Au niveau macroéconomique, l’envoi de fonds est assimilé à un mélange complexe d’espérances et d’embûches. Alors que l’envoi de fonds semble augmenter la solvabilité d’un pays et renforcer le marché financier local, il peut également contribuer à une perte de compétitivité nationale et accentuer le risque de corruption gouvernementale par les bénéficiaires dans les pays en développement. Au niveau international, un examen de la littérature récente présente une réalité tout aussi complexe concernant les incidences de l’envoi de fonds. L’envoi de fonds pourrait par exemple tout aussi bien financer l’entreprenariat de migrants de la diaspora que des organisations criminelles issues de celle-ci, ce qui représente deux résultats opposés.

S’intéressant aux problèmes liés au marché du transfert de fonds, la partie II est divisée en trois sections. La première section présente les réseaux officiels existant dans les pays en développement (par exemple: prestataires de services d’envoi de fonds, opérateurs de transferts financiers, bureaux de poste, institutions de microfinancement et nouvelles technologies de transactions). Malgré certaines mesures améliorant le marché des transactions, des restrictions sévères demeurent, par exemple l’absence de transparence et de concurrence entre les prestataires de services de l’envoi de fonds, la gestion inefficace des coûts surtout dans les couloirs Sud-Sud, le nombre limité d’infrastructures appropriées ou la complexité croissante des réglementations des transferts financiers. Dans la deuxième section, les avantages et les limites des réseaux informels sont mis en avant et la troisième section montre comment une législation financant le blanchiment d’argent et le terrorisme peut aboutir à l’augmentation des coûts de transactions et encourager l’usage de réseaux informels, ce qui pourrait à son tour affaiblir la collecte des données sur l’envoi de fonds. Des efforts supplémentaires sont clairement à fournir pour trouver un juste équilibre entre les réglementations...
visant à promouvoir la sécurité des transferts financiers et celles visant à renforcer la protection des consommateurs (envoyeurs et bénéficiaires).

La partie III analyse la relation entre l'envoi de fonds et d'autres sources de capital (aide publique au développement, investissement étranger direct) et le rôle possible de l'envoi de fonds dans le cadre du programme de financement du développement pour l'après-2015. La résilience de l'envoi de fonds, comparé à l'investissement étranger direct et à l'aide publique au développement, a poussé les parties prenantes multilatérales à considérer l'envoi de fonds comme une source de revenus à exploiter pour assurer le développement. L'envoi de fonds semble avoir limité la panique des investisseurs et évité un inversement soudain de la balance des comptes courants durant la crise. Il a donc été suggéré d'utiliser ces fonds pour augmenter la solvabilité des pays des bénéficiaires, en permettant aux pays qui perçoivent des entrées de fonds importantes d'emprunter plus d'argent. Le programme de financement du développement pour l'après-2015 de la Banque mondiale mentionne clairement l'envoi de fonds des migrants et d'autres capitaux de la diaspora parmi les ressources variées identifiées pour financer les objectifs mondiaux après 2015. Cependant, dans le même temps, la nature privée de l'envoi de fonds pose de sérieux problèmes aux décideurs politiques. Pour exploiter l'envoi de fonds des migrants, il faudra déterminer dans quelle mesure l'envoi de fonds en particulier et la migration en général pourraient soutenir les objectifs de développement à venir, tout en respectant les droits des migrants et les besoins des populations locales. Alors que ceux qui envoient des fonds et leurs parents sont libres d'utiliser leur argent comme ils l'entendent, les transferts de fonds et l'envoi en nature seraient plus à même de contribuer au développement si des conditions préalables, tels que des services publics et sociaux, ainsi qu'un climat politique et d'investissement stables étaient établis dans leur pays d'origine. Par conséquent, c'est aux autorités nationales qu'incombe la responsabilité première d'élaborer des politiques permettant d'améliorer la qualité de la gouvernance et des institutions, de rétablir la confiance politique et d'assurer ainsi la contribution des bénéfices des migrants et des diasporas à la société dans son ensemble. Au-delà des considérations économiques, une plus grande attention doit être accordée aux effets de la migration sur le bien-être des migrants. Des efforts internationaux doivent permettre de passer d'une approche considérant les migrants et les transferts de fonds ainsi que les envois en nature comme des "instruments" de développement à un modèle progressiste mettant l'accent sur des politiques de développement bénéficiant aux destinataires des envois de fonds au-delà des aspects purement monétaires.

La partie IV présente des mesures mobilisant des envois de fonds pour le développement à l'échelle de l'Union européenne et de ses États membres. La première section met l'accent sur les initiatives de l'Union visant à harmoniser et améliorer la collecte de données sur les envois de fonds (par exemple la mise en œuvre de la directive européenne sur les services de paiement), alors que la seconde section est consacrée aux envois de fonds Sud-Sud (par exemple l'Observatoire des pays d'Afrique, des Caraïbes et du Pacifique et l'Institut africain pour les envois de fonds). La troisième section porte sur quelques guides pratiques, présentant des enseignements tirés du passé et des bonnes pratiques liées à l'envoi de fonds. La quatrième section est dédiée aux sites de comparaison d'envoi de fonds, alors que la cinquième met en avant les mesures d'amélioration du marché de l'envoi de fonds (par exemple l'accès aux zones rurales par les réseaux postaux ou le développement de technologies innovantes comme les services bancaires mobiles). La sixième section présente des projets combinant l'envoi de fonds à des produits comme l'épargne, l'inclusion de la culture financière, ainsi que les petites et moyennes entreprises. Certains domaines sont néanmoins négligés et les décideurs politiques devraient identifier les moyens d'exploiter l'envoi de fonds dans deux situations clés: i) les migrants sans papiers ou en situation irrégulière n'ayant pas accès aux prestataires de services...
d’envoi de fonds ni aux services financiers dans le pays de destination; et ii) les limitations des réglementations de transfert financier sur le marché de l’envoi de fonds dans des régions (post-) conflictuelles.

La partie V décrit les recommandations suivantes adressées à l’Union dans le cadre du programme de financement du développement pour l’après-2015:

i) s’attaquer aux barrières du marché de l’envoi de fonds résultant des réglementations du transfert financier;

ii) harmoniser la collecte de données et les définitions liées à l’envoi de fonds et renforcer le rôle de l’Union en tant que coordinatrice des mesures prises par les États membres;

iii) consolider la collaboration avec les migrants et les diasporas (à la fois dans leur pays d’origine et dans leur pays d’accueil);

iv) obtenir une synergie pluridimensionnelle entre les parties prenantes et assurer une politique cohérente, car l’industrie de l’envoi de fonds fait intervenir une vaste gamme de secteurs (par exemple la migration, le développement, la télécommunication, le financement ou le secteur bancaire) à différentes échelles (locale, nationale et internationale);

v) élaborer des politiques appropriées en ce qui concerne les droits des migrants et les besoins des populations locales (par exemple en baissant le coût de l’envoi de fonds, en développant l’envoi de fonds combiné à des produits comme l’épargne et l’assurance);

vi) adopter une approche financière intégrée et inclusive pour le programme de financement du développement pour l’après-2015, en faisant de réels partenaires des migrants et des diasporas, pour éviter une approche instrumentalisante. Malgré le grand potentiel des migrants et des diasporas, le revenu national devrait rester la source primaire de financement du développement national, tout en prenant en considération diverses sources de capital; et

vii) améliorer les infrastructures nationales des pays en développement pour exploiter le potentiel de l’envoi de fonds.
1. **INTRODUCTION**

Migrant remittances are not a new topic in the discussion of migration and development. Recently, however, an upward trend of migrants’ monetary flows has led to a resurgence of focus on remittances, gaining more prominence every day in research and policy debate on poverty alleviation and growth. The reason for heightened interest in monetary remittances is a sharp rise in the amount transferred by migrants, mainly into developing countries. According to the World Bank\(^1\), remittances flows to the developing world have reached USD 414 billion in 2013 (up 6.3 per cent over 2012), and are now, behind foreign direct investment, the second largest source of external financial flows to developing countries. In some States, remittances are equivalent to more than three times the official development assistance and can have profound implications for human welfare and economic development. Given the 232 million international migrants\(^2\) and the almost 700 million internal migrants, the earnings generated and transferred by migrants are projected to reach USD 540 billion by 2016.

**Figure 1: Upward trend of remittances**

As a cross-cutting thematic between migration and development, the examination of remittances yields critical questions: *To what extent can remittances contribute to promoting more sustainable livelihoods for the poorest people and how are they integrated in the overall national economy? To what extent might remittances’ shortcomings and the constraints of international money regulations limit remittances’ capacities to sustain development? What are the implications of the private nature of remittances on their hypothetical financing role? How could remittances possibly be combined with other financing mechanisms to ensure the achievement of the post-2015 development goals? What are the practices and policies that may enhance the development potential of remittances without deterring migrants’ motivation to remit?*

\(^1\) The World Bank calculation is based on data from IMF *Balance of Payments Statistics Yearbooks* and data releases from central banks, national statistical agencies and World Bank country desks. The dataset for all countries is available at [www.worldbank.org/migration](http://www.worldbank.org/migration). See the *Migration and Development Brief*, No 21, 2 October 2013.

1.1 Purpose and scope of the study

This study has been commissioned by the European Parliament and conducted by the Labour Migration and Human Development Division of the International Organization for Migration (IOM). It aims at assessing the development impact of remittances in developing countries and proposing recommendations in the framework of the post-2015 agenda on financing for sustainable development.

The study is structured as follows:

i) Part I reviews the evidence of remittances’ impacts on poverty reduction and national growth at the micro and macro levels and provides an evaluation of remittances’ shortcomings, from both developing and developed countries.

ii) Part II presents the formal and informal transfer channels and the issues related to them, as well as the initiatives on money transfer regulations and their shortcomings.

iii) Part III analyses the relationships between remittances and other forms of public and private revenue generation in developing countries and addresses the possible role of remittances within the post-2015 financing agenda for development.

iv) Part IV covers policies and initiatives at the EU, Member State and international levels that leverage migration remittances for national development purposes in developing countries. It describes major issues not (yet) tackled by EU policies and possible policy or research directions at the EU and international levels.


1.2 Data gap and limitations

The accessibility of both qualitative and quantitative data remains a serious concern, as people are generally reluctant to disclose the amount of remittances and information regarding their end use. The monitoring and appraisal processes of remitted flows present outstanding challenges for the field, bearing in mind that the majority of databases only include flows transferred through official channels.

Beyond data collection issues, the harmonisation of conceptual approaches and methods is a major concern in terms of the consistency of data and there is no international agreement on the basic components of remittances. There are similar divergences in understanding the terms ‘migration’ and ‘development nexus’ (Van Hear and Sorenson, 2003). All institutions do not record remittances in the same way. For instance, the 2013 projections of the World Bank have been made on the basis of a new definition of remittances. Following the Sixth Edition of the International Monetary Fund’s (IMF’s) Balance of Payments and International Investment Position Manual, remittances are defined as ‘personal transfers’ and ‘compensation of employees’, which are both recorded in the current account. ‘Personal transfer’ (i.e. workers’ remittances) consists of all current transfers in cash or in kind between (sent or received) resident households and non-resident households or individuals. ‘Compensation of employees’ (i.e. primary income) refers to the income of border, seasonal and other short-term workers employed in an economy where they are not resident, and of residents employed by non-resident entities. According to the WB Prospect Group, the ‘capital transfers between

households’ reported in the capital account represent the third item of personal remittances, but a lack of data does not allow for the capture of the true scale of this element.

In contrast to the International Monetary Fund’s approach, Eurostat, the primary body responsible for collecting data at the EU level, presents ‘workers’ remittances’ separately from ‘compensation of employees’. The first are transfers from relatively long-term residents outside the EU, while the second are transfers from mostly temporary or cross-border migrants from States neighbouring the EU. While Eurostat obtains and consolidates remittances data from each EU Member State’s balance of payment statistics, the way remittances data are collected in individual countries varies considerably, and some Member States do not collect remittances data at all (Collyer, 2011).4

With increasing attention paid to remittances and their development outcomes, numerous actions have been taken to improve the consistency and quality of databases. The World Bank has launched several initiatives to analyse the incidence and impact of remittances and, together with the UN and the IMF, they have created an intergovernmental technical group to improve remittance statistics. As well, the African Institute for Remittances (AIR) was launched in 2010, supported by the World Bank and the European Commission and in cooperation with the African Development Bank and IOM. The AIR consultations involve Member States of the African Union and the diaspora in a discussion on remittances and their development potential. Actions have also been taken at a regional level, such as remittances surveys in origin and destination countries, commissioned by the European Union (i.e. the European Parliament).

More recently, in 2012 Isaacs et al. published a report5 that assesses the EU’s commitments on remittances and addresses a range of themes, including data collection, transparency and transfer prices. The report emphasises the need for Member States to further improve the quality and comparability of remittances data. To further improve data collection, a new EU Regulation on Community Statistics concerning balance of payments, international trade in services and foreign direct investment stipulates that the reporting of annual data on remittances with full geographical breakdown will be mandatory in 2014 (projected). Several EU Member States have already begun to implement measures facilitating data collection on remittances as part of their balance of payments statistics.

### 1.3 Definition of remittances

There is a general tendency in migration literature to focus exclusively on workers’ remittances, yet this may not capture the overall size and full impact of remittances associated with the cross-border movements of people (Ghosh, 2006). Carling (2008), among others, has questioned the usefulness of conventional and technical definitions of remittances, arguing that remittances’ senders are not always migrants. In contrast, other experts believe that the sources (i.e. who remits and what kind of revenue) of remittances are totally irrelevant. Assuming that senders are migrants and that remittances come only from employment income may not present the full picture, as money transfers may include migrants’ pensions or reverse remittances. In addition, remittances are not always sent to migrants’ relatives and/or to the country of origin.

In consideration of these factors and for the purpose of this study, remittances are understood as cross-border, private, voluntary monetary and non-monetary (social or in-kind) transfers made by migrants and diaspora, individually or collectively, to people or to communities not necessarily in

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4 For more details, visit [http://ec.europa.eu/eurostat](http://ec.europa.eu/eurostat).
their home country. ‘Reverse remittances’ are money transfers flowing in the opposite direction, from non-migrant people to migrants abroad (e.g. to support them in difficult times or to finance education and housing).  

1.4 Motives to remit and remittances’ uses

Because remittances are embedded in a complex reality and driven by different kinds of socioeconomic links between the sender and recipient, there are different motives for remitting. The most recurrent are:

i) ‘insurance’ motives in which remittances are viewed as potential sources of income to insure households against external shocks (part of a risk spreading strategy);

ii) ‘altruism’ motives, which assume that migrants remit because of emotional ties to relatives in home countries (Karpestam, 2009);

iii) ‘self-interest’ motives (Agunias, 2006), which cover investment or entrepreneurial purposes as well as personal consumption, considering remittances as means of overcoming the lack of opportunities and a failing financial inclusion; and

iv) often overlooked, the ‘contractual arrangements’ and ‘bargaining power’ within a family or household (Stark, 1991), for example, the migrant worker abroad reimburses the debts that the family accumulated to pay for the migration or makes payments based on an agreement made with the family before migrating.

Such differentiation in the motives is important, especially with regards to the prospective uses of the remitted money by migrants and/or recipients. As observed by UNCTAD (2013), the sender’s motives may change at different periods of time based on changing needs, from the direct household consumption (food, rent and medicines), to the long-term capacity-building of households (health insurance, education and home comfort), as well as savings or investments.

Some studies have demonstrated the gendered aspects of the remittances chain from the senders to the receivers, arguing that the ‘motives to remit’ and the ‘use’ of remittance incomes may vary from women to men. For instance, the findings of De La Cruz (1995) reveal that women from rural Mexico remit to assist and ensure the wellbeing of their relatives, whilst their male counterparts remit for investment purposes. The volume of female remittance outflows may be less than those of men, considering also that men tend to gain higher earnings than women (see IOM, 2013a).

Differences in the remittances’ uses could depend on the source country of the remittances. For instance, a World Bank (Ratha, Mohapatra et al., 2011) study found that remittances received in Kenya from within Africa were primarily used for the construction of houses, while inflows coming from outside Africa were devoted to long-term investments. Given the characteristics of senders and recipients, a number of factors may indeed influence the motives and ability to remit, as well as the utilisation of remittances. Many (Ghosh, 2006; IOM, 2013a) have pointed out other influences on the final uses of remittances, such as the sender’s migratory status and living conditions, the income level and number of dependants, as well as the balance of power (e.g. influenced by gender, age, authority). In addition, it appears that while the sender may retain the decision-making power over the remittances’ uses in some cases, in others recipients may use remittances independently and/or contrary to the sender’s instructions.

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Because reasons to migrate and remit are intricate, distinct motives may coexist and depend upon the situations of both senders and recipients, which generally imply different priorities of need (e.g. immediate needs versus prospects); therefore, the previously mentioned motives for remitting and the various hypotheses regarding remittances’ uses should be viewed as complementary rather than contradictory.\footnote{See Lucas and Stark (1985), who have developed a model merging motivations. Karpestam and Andersson have discussed neoclassical theories, the NELM and other various theories including the self-perpetuating forces of migration in their paper, ‘Economic perspectives on migration’, in The Routledge International Handbook of Migration Studies (S.J. Gold and S.J. Nawyn, eds., London and New York, 2013, pp. 12–27).}
2. PART I: IMPACTS OF REMITTANCES

Part I explores in detail the evidence of remittances’ impacts, highlighting their advantages and shortcomings. The first section reviews the existing stock of literature on the positive and negative impacts of remittances on poverty reduction at a micro level (i.e. at the level of recipient household-family in developing countries). The second section emphasises the macro aspects of remittances (i.e. at the national level). The third section suggests a conclusion based on the promises and pitfalls of remittances.

2.1 Remittances’ impacts at a micro level

2.1.1 Remittances as a social insurance

Evidence from around the globe suggests that recipient households generally have higher levels of consumer spending and lower incidences of extreme poverty than their counterparts who do not receive remittances. Ratha (2013) argues that remittances could play a key role as a ‘powerful anti-poverty force’ because they tend to increase the incomes of households in the developing world. A recent study on Moldova (Stratan et al., 2013) found that remittances contribute to reducing the severity of poverty⁸, as migrants’ relatives directly receive remittances. Adams and Cuechuecha (2010a) indicate that international remittances have the greatest impact on reducing the depth and severity of poverty, rather than on reducing its scale. Analysing 71 developing countries, Adams and Page (2005) found a relationship between remittances and poverty reduction, statistically demonstrating that a 10 per cent increase in international remittances from each remitter will lead to a decrease of 3.5 per cent in the share of people under poverty. Similarly, Anyanwu and Erhijakpor (2010), who analysed remittance flows for a sample of 33 African countries for the period 1990–2005, found that the depth and severity of poverty were declining.

Furthermore, research reveals that remittances are often part of the risk-spreading strategies of households and arise as a ‘social insurance’ in countries affected by economic and political crises (Kapur, 2004), reinforcing the households’ capabilities to resist external shocks. Egypt is a good example of how migrants provided for their families when political instability struck the country during the Arab Spring. Investors (foreign direct investment) and donors (official development assistance) were pulling out while remittances inflows to Egypt increased between 2009 and 2011 (see Figure 2). Recently, households in Mali have also started to save a substantial portion of remittances for unexpected events, providing a private safety net for the migrant’s family⁹.

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⁸ ‘Extreme’ or ‘absolute’ poverty covers the portion of people whose income is less than $1 a day. The international poverty line was set at $1 a day when the Millennium Development Goals were established, but since 2008, the World Bank has defined people living in extreme poverty as those living on less than $1.25 a day. This reflects higher price levels in many developing countries than previously estimated. See www.un.org/millenniumgoals/pdf/Goal_1_fs.pdf.

⁹ The World Bank’s ‘Migration and Remittances Data’ and ‘Net Official Development Assistance Received’ are available at http://data.worldbank.org/indicator/DT.ODA.ODAT.CD.
The Impacts of Remittances on Developing Countries

Figure 2: Trends in remittance flows to the five largest recipients in the Middle East and North Africa (MENA) region

![Graph showing trends in remittance flows to the five largest recipients in the Middle East and North Africa (MENA) region]


However, these positive dynamics have been contrasted by other empirical findings that highlight the tendency to overestimate the power of remittances to alleviate poverty. Some have argued that remittances tend to create a culture of dependency within the developing world by undermining recipients’ motivations to work, since remittances are received at assured intervals. A survey in Angola revealed that 16 per cent of households rely entirely on remittances as income (Alvarez-Tinajero, 2010), while it is recognized that dependency on remittances in developing countries may be much higher. As a result, this reliance may inhibit progress in the local economy and, in the case of severe crisis in the country where the remitter works, the uncertainty of receiving remittances may further deepen the vulnerabilities of recipients.

Most critically, migration and remittances are not accessible to all needy populations. Not all poor or vulnerable households have the initial capital needed to migrate. Indeed, the costs and risks associated with migration are barriers for the poorest people (World Bank, 2011; Stark et al., 1988). Often selective and expensive, international migration is generally associated with flows of migrants to developed countries where immigration regimes tend to be more restrictive (de Haas, 2007). Consequently, the unlikeliness of the poorest migrating internationally may interfere with their ability to remit. In this sense, migration seems to increase inequality (Adams, 2011), not only between international and internal migrants, but also between migrants and non-migrants. As generally observed, the economic behaviour of recipient households usually tends to increase the prices of goods and services in the local domestic market, potentially affecting the entire community, including non-recipient households. This was the case in Cape Verde, where remittances recipients’ consumption contributed to the increase of local prices. Additional findings underline that migration and remittances deepen inequalities within home countries and between peripheral and central regions (Mishra, 2007; Papademetriou, 1985; Lipton, 1980). It is clear that remittances do not necessarily imply a financial benefit for all the poorest people.

In contrast to the previous arguments, other studies (Adelman et al., 1988; Durand et al., 1996a; Taylor et al., 1996) indicate that the consumptive expenses of recipient households within the home countries could positively impact, via multiplier effects, the labour force market and incomes of non-recipient households. These views suggest that migration and remittances do not automatically lead to the rise of inequalities between central and peripheral areas, as it appears that even ‘non-migrants’...
can benefit – indirectly – from the retail and investment activities of recipients (e.g. building of housing; development of enterprises).

Ultimately, these observations are inconclusive. Of course remittances have a development potential; however, to effectively benefit from the advantages of remittances, the key role of local governments should be clearly emphasised, remembering that development is the responsibility of the State and not the migrants.

2.1.2 Remittances as a means for investment

Numerous household surveys reveal that recipient households make relatively higher investments in health care than those who do not receive remittances. This is evidenced by, for example, recipient households having higher birth weights (e.g. in Mexico and Sri Lanka), lower rates of infant mortality, higher weight levels during early childhood, and higher health-related knowledge than other households that do not receive remittances (Hildebrandt and McKenzie, 2005; UNDP, 2009; Prabal and Ratha, 2012).

When it comes to the effects of remittances on education in origin countries, findings suggest that migration and remittance inflows can positively add value to the local human capital and ensure greater school attendance and educational achievement (de Haas, 2007). A cross-country comparison of six sub-Saharan African nations shows a strong, positive correlation between the average number of household members with a secondary education and the receipt of international remittances (Ratha, 2013). According to Mara et al. (2012), remittance inflows tend to reduce the liquidity constraints of households, allowing them to increase educational expenditures. This is, for instance, the case in the Philippines (Yang, 2004). Adams and Cuecuecha (2010b) also found that households in Guatemala receiving internal and international remittances spend 45.2 per cent and 58.1 per cent, respectively, more on education than do non-remittance households. As stated by de Haas (2007), such long-term investment of remittance inflows for education are of high interest because they function as insurance strategies for households and families that do not have access to formal social security arrangements.

Remittances are believed to further allow migrants’ households to build their assets, both liquid (cash) and fixed (property), enhancing access to financial services and investment opportunities (Orozco et al., 2005; IMF, 2005). In the Philippines and Mexico, for example, research suggests that remittance inflows are associated with a greater accumulation of assets in farm equipment, higher levels of self-employment and increased small-business investments in migrant-sending areas. Similarly, Rapoport and Docquier (2005) suggest that remittances can promote access to self-employment and increase the likelihood of recipients investing in small business, contributing in turn to the development of financial systems in the country of origin.

In contrast, it has been argued that remittances do not necessarily lead to long-term investment, since migrants and their relatives usually spend them on consumption or ‘consumptive’ investments (food, health, household’s needs) and rarely invest in long-term businesses. Even if remittances have the potential to lift people out of poverty, they do not necessarily turn them into entrepreneurs, because remittances play first and foremost a strategic role of social insurance for families and they are not for investment purposes. Besides, whether an investment qualifies as ‘productive’ or not depends on the sociocultural and economic considerations of each country; for example, in some communities investments such as the purchase of real estate are not considered an increase to the capital stock of recipients, while in others it may be the opposite.
At a transnational level, global migratory systems also seem to generate a more complex set of social, cultural and economic changes. While migrants’ organisations have generally been celebrated for their key role as actors of change in shaping socioeconomic and political reform in home countries, empirical evidence raises some concerns regarding this view. Indeed, a strand of research has found that migrants’ earnings and networks are likely to support conflicts in both home and host countries (Van Hear, 2004; Guarnizo et al., 2003). Gillespie and McBride’s (2012) findings also challenge positive perceptions of the role of diasporas in homeland investment and trade facilitation. Showing to what extent the transnational nature of diaspora criminal organisations enhances their ability to operate out of borders, Gillespie and McBride analyse the criminal interactions between residents in Hong Kong and the Chinese diaspora in the USA, and the role of Korean diaspora regarding counterfeit imports in Mexico. It is crucial for the field to provide further research on such issues as diaspora criminal organisations and their relationships to legitimate international businesses (see, for instance, Perez et al., 2012).

2.1.3 The non-pecuniary effects of remittances

Policies tend to focus mostly on monetary aspects, although the non-pecuniary effects of remittances and migration are equally important. Focusing on social remittances, Levitt’s study (1998) shows how migration drives forms of cultural diffusion and social change. She describes social remittances as being ‘the ideas, behaviours, identities, and social capital that flow from receiving-to-sending-country communities’. These transfers play a vital role in promoting immigrants’ entrepreneurship, community and family formation, as well as political integration. Three main types of social remittances are recognised (Levitt, 1998): normative structures (ideas, values, beliefs such as gender appropriateness), systems of practice (e.g. political participation, skills) and social capital (including all the values and norms that are socially remitted). Beyond the pure monetary considerations, ‘in-kind remittances’ seem to be associated with greater human development outcomes across a number of areas such as health, education and gender equality.

Of particular note, the ‘skills transfer process’ is one of the greatest social remittances and occurs when migrants return temporarily or definitively to their home countries and promote the acquisition and circulation of skills (or brain gain). Acknowledging the significant role of diasporas in transferring their skills back to their home communities, programmes such as IOM’s Migration for Development in Africa sponsor the temporary return of skilled professionals to their home countries. Some theorists, in contrast to the positive view of skills transfer and other human capital benefits, stress the limits generated by migration patterns, arguing that the most obvious effect of emigration is the reduction of the labour force. The qualitative findings of CIVIS/IASC/ (2010) – based on a series of interviews and focus groups that included migrants and stakeholders in Moldova – found that in most cases migrants face big difficulties when they return home. They argue that structural weaknesses of the domestic business environment do not facilitate migrants’ integration into the local labour market, nor the running of their own businesses, leading them to give up in short time and leave. Indeed, remittances’ impacts on human capital may vary depending on the quality of local structures in countries of origin. In fact, the ‘brain-drain-or-gain’ process could, if not well managed, destabilise development and reinforce global inequalities. In response to these concerns, policymakers should design projects that promote the sustainability of the domestic human capital force in terms of the resilience and empowerment of the local population, rather than focus only on the monetary transactions of migrants.

According to Soysal (1997), the sustained transnational relationships between migrants and communities of origin may lead to the emergence of a transnational public sphere through which
social remittances – ideas and behaviours of economic, political and cultural globalisation – are diffused in both home and host countries (see also: Orozco, 2003; Strang and Meyer, 1994; Soysal, 1994). Furthermore, by covering trade deficits and contributing to maintaining domestic stability in the home countries, financial remittances can be economic incentives that increase the willingness of local and national states to strengthen ties with their emigrant citizens working abroad (Barry, 2006). As a consequence, several countries of origin have started to adopt more inclusive policies to increase the voice of emigrants in internal political and economic affairs. For instance, Collyer and Vathi (2007) suggest that countries of origin may extend national rights to emigrants, their families and diaspora (which includes migrants’ descendants), e.g. free access to visas, property ownership or voting rights, as well as the endorsement of dual citizenship (recently a common tendency in countries of origin) (Østergaard-Nielsen, 2003; Gamlen, 2006).

2.2 Remittances’ impacts at a macro level

2.2.1 Remittances’ impacts on national economic growth

Some empirical studies (Solimano, 2003; World Bank, 2006) suggest that remittances may have the potential to positively affect a country’s economic growth. A group of studies (Aggarwal et al., 2006; Giuliano and Ruiz-Arranz, 2005) also confirm the significant positive impact of remittances on both bank deposits and bank credit to the private sector. They argue that remittances act as substitutes to other financial means such as credit and insurance, which do not necessarily exist in developing countries. Stimulating consumption and investment, remittances may have the potential to reduce the size of a recession in certain countries and to boost the local economy. Outside of the normal day-to-day consumption, remittances could possibly allow households to engage in more profitable economic and high-risk activities. Recently, Ratha (2013) reports that remittances raise domestic savings and improve financial intermediation, which could in turn improve the growth prospects of the origin countries. Correspondingly, Yasseen (2012) shows a positive correlation between remittances and the development of financial systems in developing or emerging countries, mostly in the Middle East and North Africa.

Notwithstanding these positive views of remittances’ impacts, evidence of remittances’ potential to sustain national economic growth or employment seems to be inconclusive. For example, Stratan et al. (2013) show that even in the case of Moldova, where remittances varied from 14 per cent to 19.1 per cent of GDP between 2006 and 2011, the correlation between remittance incomes and national growth is still ambiguous. While Barajas et al. (2012) argue that the volume of remittances may vary depending on the economic downturns in sending countries, Giuliano and Ruiz-Arranz (2005) find remittances impact positively on GDP growth when the financial markets are relatively underdeveloped. Chami and Fullenkamp (2013) indicate that the broader net economic impacts of remittances on national growth will strongly rely, on the one hand, on government policies to enhance their potentials and, on the other hand (and even more importantly), on how recipients use them.

As has been mentioned, remittances could produce negative incentives if they are perceived as a permanent source of income. Indeed, Jadotte (2009) demonstrates such negative effects in Haiti on both working hours and labour market participation. Accordingly, remittances may reduce the recipients’ likelihood to work, and increase the private consumption of (generally imported) goods instead of financing domestic investments or savings (Azam and Gubert, 2006; Chami et al., 2003). A relevant observation by Alper and Neyapti (2006) in their study of Turkish remittances is that while consumption refers to the short-term motives for remitting, the long-term investment aspirations may come much later. In the same vein, de Haas (2007) emphasises the temporal aspect of remittances’
impacts, claiming that the full development potential of migration and hence remittances should not be expected within the first or second decade following the onset of large-scale migration.

Additionally, some (Barajas et al., 2011; El-Sakka, 1999) have observed that the growing consumption of recipients may increase the local market price and appreciate the exchange rate. As a result, the macroeconomic mechanism known as ‘Dutch Disease’ may yield the failing of the tradable sector of domestic economy, the rising of current account deficit, and inflation with weaker monetary control (Kireyev, 2006). Meanwhile, the growing pressure on wages may lead to job losses in the tradable sector, while the sudden rise of prices would increase the labour costs in the non-tradable sector, thus leading to the loss of national competitiveness. Such findings have been observed in Latin America and Cape Verde (Bourdet and Falck, 2006). Given these adverse effects of remittances, local governments should be aware of the pitfalls induced by the consumptive behaviours of recipients and put in place business incentives that will foster long-term investments, which in turn may yield greater benefits for society as a whole.

2.2.2 Remittances, a source of revenue for local government?

The International Monetary Fund (IMF) and the World Bank (2009) recognise the benefits of remittances as a stable and countercyclical source of external financing when assessing how much debt low-income countries could safely handle. Being able to borrow more when receiving a high amount of remittances, States could use the extra borrowing power to fund investments, which may promote national economic growth. In fact, the World Bank–IMF Debt Sustainability Framework launched in 2009 is allowing recipient countries to carry higher levels of debt when the ratio of remittances is higher than 10 per cent of their domestic income and 20 per cent of exported goods and services.\(^\text{10}\)

On the other hand, Chami, Montiel et al. (2012a) have found that remittances can damage the quality of States’ institutions in recipient countries precisely because they tend to increase the ability of governments to have more or less expenditures without clearly showing the full cost of government actions. In a cross-section analysis of 111 countries, they empirically verify that an increase in remittances can lead to a deterioration of institutional quality (e.g. corruption). Remittances may expand the share of funds usurped by the government for its own purposes. Their findings reveal that a higher ratio of remittances to GDP leads to lower indices of corruption control, government effectiveness and rule of law. Similarly, Chami and Fullenkamp (2013) explain that remittances, by expanding national capital inflows, may enable a government to appropriate more resources and distribute them to those in power rather than invest in community projects. Hence a moral hazard could emerge because of the risk of government corruption. Therefore, initiatives such as that of the World Bank appear to be questionable, as there is no substantial evidence that the much-needed fiscal space generated by remittances will be used for projects benefitting the population. As such, it is important to ensure that remittances users as well as local communities are able to access information on government accountability with respect to the use of remittances-related revenues.

With regard to the economic recession and the growing pressure on state finances, some countries are proposing to tax remittances. The two ways to tax remittances are to directly tax wages or to tax when sending or receiving money. These measures are not only being suggested in countries of origin, but also in destination countries. For instance, an advisory committee to the Oman

\(^{10}\) The World Bank indicated that remittances will soon be included in the baseline scenarios of debt sustainability analyses for the following countries: Armenia, Bangladesh, Comoros, Guyana, Haiti, Honduras, Kyrgyz Republic, Lesotho, Moldova, Nepal, Nicaragua, Samoa, Senegal, Tajikistan, Togo and Tonga.
Government has suggested that Oman should tax the billions of dollars that ‘foreign workers’ send back to their home countries every year. This proposal also occurred in the United Arab Emirates, mainly in response to their fiscal problems. It has been further proposed that these increases in the costs of migration to foreign workers may encourage the hiring of Omani citizens rather than migrant workers, and prevent a politically sensitive rise of unemployment. Remittances-taxing policies have been introduced worldwide, even if they are pursuing different aims. In 2009, the state of Oklahoma in the USA started to tax remittances sent through money transfer companies by putting a USD 5 tax on each remittance transaction or wire transfer, plus an added 1 per cent charge on amounts over USD 500. The state of Kansas was also considering a similar action. According to the Drug Money Laundering and Wire Transmitter Act (HB 2250) of Oklahoma, the tax on remittances was proposed based on the argument that the money collected would go to a fund for fighting drug traffickers in the state and would hinder the financial operations of traffickers who use money orders. However, Mexicans criticised the Oklahoma tax, arguing that it was meant to target Mexican migrants and undocumented populations. Independently of the intentions behind the Act, these concerns demonstrate the extent to which some taxes and regulations can influence the migrants’ likelihood to remit and thereby undermine the broader potential of remittances.

On the recipient countries’ side, several governments tax remittances, often through indirect means. Generally, States may implicitly tax remittances when they require recipients to convert remittances to local currency at uncompetitive official exchange rates, for example in India, Ethiopia and Venezuela (MDB, October 2013; Mohapatra, 2010). Nonetheless, the general trend is to exempt taxes on foreign remittances, as is the case in the Philippines, where the government decided to exempt the remittances of its overseas Filipino workers from documentary-stamp taxes. Similarly, in Pakistan a recent proposal by the Federal Board of Revenue to tax remittances has faced strong opposition from various fronts.

Although governments might have different reasons to tax remittances, such measures are not recommendable because they could raise transaction costs and incentivise informal channels (UNCTAD, 2013). In fact, taxation at the migrant’s working place and at the recipient’s location of the ‘same’ remittance flows may lead to a double taxation, which can deeply undercut the socioeconomic insurance strategy of migrants and their families to overcome poverty and underdevelopment. As such, the taxation of remittances should be clearly addressed through international dialogue involving both home and host countries.

### 2.2.3 Harnessing diasporas’ potential for development

Maintaining substantive relationships to their countries of origin, migrants and diasporas are becoming more involved in socioeconomic and/or political activities in their home countries. To engage the diversified resources (monetary and in-kind) of migrants and diasporas, innovative mechanisms that are able to foster growth in developing countries are also in demand. These

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additional tools, such as diaspora bonds or migrants' businesses, are of high interest and are notably within the framework of the post-2015 financing agenda for development.

**Diaspora bonds**

The *G20 Cannes Declaration* and the *Gates Report* in 2011 acknowledge the crucial role that diaspora bonds could play in the mobilisation of resources for financing development. Kektar and Ratha (2007) define ‘diaspora bonds’ as debt instruments issued by a state, a sub-sovereign entity or a private corporation to raise funds from diaspora. Ratha and Plaza (2011) suggest that diaspora bonds can tap into the emotional ties of the diaspora and their desire to give back, offering to poor or/and wealthier migrants a means to invest in their country of origin. Using examples from Israel and India, they argue that diaspora bonds could be a viable source of income to finance national infrastructures (e.g. hospitals, water supply, roads, housing, schooling). These cases are not isolated; a number of countries have issued bonds through their consular networks to raise capital among their diasporas. More recently, Cape Verde’s government allowed non-residents to invest in the Stock Exchange and buy bonds, even at distance, in major commercial banks, and Ghana has created specialised funds to finance its infrastructure such as roads, health and education (Johannesburg Roundtable of Experts, 2013; Alvarez-Tinajera, 2009).

If these cases have been successful in bringing benefits to the whole society, others have clearly shown some shortcomings and failed to attract diaspora investment. Indeed, some governments have adopted a more opportunistic approach, damaging migrants’ and diaspora’s trust (e.g. in the case of Ethiopia). It is clear that diaspora bonds will not be productive in contexts characterized by poor governance, lack of economic and political stability, and unfavourable investment regulation. As such, policymakers should pay attention to these external factors, which may negatively influence the efficacy of diaspora bonds.

**Migrants’ entrepreneurship and businesses**

According to Agunias and Newland (2012), ‘large-scale’ investment by diasporas contributes to economic growth and employment creation, thereby filling gaps in the economy. These kinds of investments require large amounts of capital and are more likely to be undertaken by wealthier migrants with a good socioeconomic status and access to financial and social resources to carry the risks associated with such sizeable investments. Alvarez-Tinajera (2009) describes the successful example of Cape Verde’s Fast Ferry S.A., a company aimed at providing faster transport services for passengers and merchandise in Cape Verde. Created through a partnership between diaspora investors based in the USA and the Cape Verdiean government, this example of joint venture illustrates how diaspora investment, when well-managed, can generate healthier returns for the wider society.

Set up by migrants who invest their own resources or rely on micro-credit institutions, ‘micro or small-scale’ businesses cover economic activities that have less capacity to create jobs or produce benefits than large-scale investments. Generally, the migrants involved in this form of investment are self-employed by default and do not necessarily have access to significant resources or networks (Agunias and Newland, 2012). In fact, the limited access to credit and the lack of financial and technical resources and of guarantee to prevent risks are barriers that can undermine the potential of micro or small-scale businesses. To generate larger impact and sustainability of these forms of investment, policies that can enhance the financial and technical capacity of this specific group of migrant entrepreneurs should be put in place with the support of private and financial sectors.
2.3 The development effects of remittances: a multifaceted reality

A literature review focusing on the relationships between remittances and various dimensions of development highlights that migration and remittances are largely part of risk-mitigating strategies pursued by households and families in developing countries. As demonstrated within a broader conceptual framework of migration and development theories, remittances have the potential to reduce poverty directly (e.g. by providing basic subsistence needs of households, such as better housing) and indirectly (by providing a monetary base for the creation of new assets and facilities that benefit the overall community, e.g. medical centres) and to stimulate economic growth.

However, remittances’ outcomes seem to be conditional and temporal at both micro and macro levels. Based on Russell’s (1995) arguments, the development potential of remittances is likely to occur at the national level only in the long term. Although remittances are more likely to contribute to recipient households, reducing the severity of their poverty and providing a sort of insurance against economic downturn, their macroeconomic impacts remain under discussion. It is important to point out that economists still do not fully understand how remittances affect the economy (Kapur, 2004: viii). Quoting Chami and Fullencamp (2013), ‘There are many different paths through which remittances affect an economy (…) none of these paths is necessarily active at any given time – that is, many economic and social conditions determine whether any given path is active or significant.’ And many of these paths have opposing or conflicting economic effects. Therefore, the appraisal of remittances’ impacts on national growth suggests a wide range of multifaceted causal links and presents both positive and negative aspects, which may vary depending on the socioeconomic factors pertaining to each country (see Figure 3 below).

As private financial flows, migrants’ remittances primarily ensure social security for relatives left behind. They are, and must be viewed first and foremost, as a part of the households’ strategy to overcome a lack of opportunities in countries of origin. It would be naïve to expect remittances to solve the old and deeply entrenched structural ‘barriers’ to development, such as political instability, misguided macroeconomic policies, an insecure legal environment or corruptive habits and deficient infrastructure (De Soto, 2000). To quote de Haas, ‘If states fail to implement general social and economic reform, migration and remittances are unlikely to contribute to nationwide sustainable development. Migrants and remittances can neither be blamed for a lack of development nor be expected to trigger take-off development in generally unattractive investment environments’ (2007: iii). Remitters and their relatives should be free to choose how they want to use their money, whether this contributes or not, directly or indirectly, to the development of their countries of origin. Most importantly, authorities of recipient countries must elaborate policies aimed at strengthening and maintaining political trust, effective markets and a stable investment climate, as well as improving social security and public services. Undoubtedly, any broader benefits of migration and remittances can only be maximised if such pre-conditions are present at the national (domestic) level.
The Impacts of Remittances on Developing Countries

**Figure 3: The remittances and development nexus**

<table>
<thead>
<tr>
<th>Positive impacts</th>
<th>Negative impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National level</strong></td>
<td></td>
</tr>
<tr>
<td>• Increase national income if remittances are transferred through formal channels;</td>
<td>• Large remittance flows could lead to currency appreciation, with negative consequences on exports;</td>
</tr>
<tr>
<td>• Recipient countries gain creditworthiness in international credit markets;</td>
<td>• Destabilisation of weak economies;</td>
</tr>
<tr>
<td>• Recipient countries may stabilize national balance of payments accounts.</td>
<td>• Rise in inflation;</td>
</tr>
<tr>
<td></td>
<td>• Aggravate regional inequalities between receiving and non-receiving areas;</td>
</tr>
<tr>
<td></td>
<td>• Contribute to the privatisation of services that could/should be delivered through public means.</td>
</tr>
</tbody>
</table>

2.3.1 Positive impacts

2.3.2 Negative impacts

2.3.3 Local/household/individual level

<table>
<thead>
<tr>
<th>Positive impacts</th>
<th>Negative impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Boost local economies by stimulating consumption, demand for local goods or services, fostering job creation;</td>
<td>• Generate a demand for imported (rather than locally produced) goods;</td>
</tr>
<tr>
<td>• Potentially increase local capital to be reinvested in businesses;</td>
<td>• Increase the price of land, property, construction materials;</td>
</tr>
<tr>
<td>• Afford basic needs (food, healthcare, education, housing);</td>
<td>• Exacerbate structural inequalities between recipients and non-recipients;</td>
</tr>
<tr>
<td>• Face risks (unemployment, disability, accidents, illness);</td>
<td>• Foster dependency links between senders and recipients;</td>
</tr>
<tr>
<td>• Afford social/family events (town festivities, weddings, funerals); strengthen social networks; gain prestige, power and resources (social or material advantages);</td>
<td>• Put pressure on senders, leading to the deterioration of their living conditions.</td>
</tr>
<tr>
<td>• Redress relative deprivation (access to what others in the immediate environment have);</td>
<td></td>
</tr>
<tr>
<td>• Partly redress social (class, gender) disadvantages.</td>
<td></td>
</tr>
</tbody>
</table>

3. PART II: MONEY TRANSFER MARKET

Remittances transfer markets pose some challenges, not only in terms of market competition or consumer protection, but also within a broader set of regulatory frameworks. The growing complexity of the modern remittances market involves multilateral stakeholders from national to transnational levels in both sending and recipient countries, from the financial and telecommunications sectors to the socioeconomic development area. Addressing the issues related to such a market requires careful exploration of the respective barriers that each of the actors engaged in the remittances market may face.

For remitting, migrants use both formal (e.g. authorised money transfer companies, banks, mobile phones) and informal channels (e.g. remittances hand-carried by migrants’ relatives, informal hawala-type systems), chosen on the basis of their cost, reliability, accessibility and trust. The migratory status and the linguistic, cultural or socioeconomic (e.g. income level or profession, age) status of both the remitter and recipient in their respective countries may also influence his or her choice of channel. Part II explores remittance transfers in three sections: (1) formal channels; (2) informal channels; and (3) the regulation environment.

3.1 Formal channels

The main formal remittances services providers (RSPs) are money-transfer operators (MTOs), the banks and post offices, microfinance institutions (MFIs) and new transaction technology (NTT) mechanisms, including mobile network operators (MNOs). Formal channels are particularly important because they can serve as an entry point to formal financial inclusion by facilitating and expanding access to other financial products and services, in both origin and destination countries (Agunias and Newland, 2012; Gupta, Pattillo and Wagh, 2009).

3.1.1 The usual formal channels

MTOs, banks and post offices are generally assumed to offer the highest levels of security and reliability, as well as a larger geographical reach through their local branches. Another strand of formal means are local MFIs, which can expand remittance delivery channels and leverage remittances for deeper financial inclusion, tailoring future investments such as housing or micro-enterprise (Jaromillo, 2005).

On account of their very wide physical network across the world, post offices are usually cheaper than banks or MTOs. Carrying a sound financial dimension, post offices have the potential to link remittances with financial products, while reaching underserved rural areas. A recent study of Clotteau and Ansón (2011) reported that more than 80 per cent of post offices in Sub-Saharan Africa are located outside the three largest cities in each country – in small and medium-sized towns and rural areas where more than four fifths of the people in Africa live. In contrast to the mainstream commercial banks usually concentrated in the largest cities in Africa, postal networks across the country have a unique opportunity to become key players in both international and domestic remittances; however, they often have outdated information technology systems and lack Internet connectivity. Clotteau and Ansón (2011) indicated that less than one fifth of post offices in Sub-Saharan Africa are equipped with computers. In addition, the postal system faces a deep lack of trust with regards to employees who are not sufficiently trained to handle financial transactions, which negatively influences its use in developing countries. As such, improvements that increase the potential of postal operators to provide active solutions will be meaningful for money transfer markets.
In addition, operational and policy constraints obstruct the transfer markets in developing countries. In fact, there are exclusive agreements signed by international MTOs such as Western Union, MoneyGram, Money Express, Coinstar and Ria. Because these agreements apply to all agents (banks, foreign exchange bureaux and post offices, among others), they ‘lock’ the market and are likely to increase local monopolies. The 2012 UNCTAD report on least-developed countries indicated that for the whole Sub-Saharan Africa, 65 per cent of all remittance payout locations are controlled by only two MTOs, namely MoneyGram and Western Union. Meanwhile, these market conditions hinder non-bank institutions such as MFIs and postal offices to engage in the remittance market, leading to a lack of competition and raising costs.

Considering the overall formal system, it appears that the US regulations aimed at anti-money laundering/combatting the financing of terrorism (AML/CFT) implemented after September 11, 2001, pose some challenges for smaller RSPs and non-bank financial institutions. For prudential reasons, licenses for transactions involving foreign exchange and access to banking and settlement facilities have been restricted to well-established and capitalised banking institutions only. As a result, MFIs, smaller institutions and postal offices must often enter into relationships with commercial banks and/or with international remittance providers (such as Western Union, MoneyGram). As they are not linked to national payment, settlement and clearing systems, they could face at any time a problem of ‘empty cash drawer’, thus limiting their development opportunities (Clotteau and Ansón, 2011). Equally limiting is that they are not allowed to mobilise savings, which is an essential component of providing financial services. These legal constraints affect RSPs, leading them to close down (see, for instance the case of Dahabshiil15, whose closure was forced by the Barclays closure of their clearing account). Coupled with exclusive agreements, financial regulations limit the entry of new competitors in the market, raising the costs of transferring money. Therefore, national authorities should address these issues with the assistance of international partners such as the Universal Postal Union, the International Trade Centre and the International Telecommunications Union. Alongside these efforts, appropriate policies and regulatory frameworks allowing both banks and non-banks to operate under their supervision should be widely promoted. This will certainly contribute to lower transaction costs and, in particular, to better service in rural areas.

3.1.2 Innovative money transfer channels

Given that developing countries account for approximately two thirds of the world’s mobile phone subscriptions (OECD, 2010), the use of new information and communication technologies is becoming very popular in remittance transactions. A wide range of innovative transfer technologies is offering opportunities to broaden access to electronic payments services (e.g. prepaid cards or bankcards).

The most meaningful example is provided by the mobile banking services that are often accessible through partnerships between mobile phone companies, retailers and/or banks. For instance, Vodafone-Safaricom has launched mobile banking services in Kenya (M-PESA) to facilitate

14 Following the September 11 terrorist attacks, G8 countries established the international Financial Action Task Force (FATF), which developed recommendations to fight money laundering and financing terrorism, and more recently, corruption and tax crimes. The FATF’s recommendations relating to money or value transfer services (MVTS) are as follows: ensure that natural or legal persons that provide such services are licensed or registered and comply with FATF recommendations; identify natural or legal persons that carry out MVTS without a license or registration and apply appropriate sanctions; and ensure that agents are licensed or registered by a competent authority. More details on FATF are available at www.fatf-gafi.org/.

transactions. With more than 7 million subscribers, the company has generated more than USD88.5 million worth of transactions daily (UNCTAD, 2013). M-PESA allows its customers to transfer money at any time to any other network and to keep money in their phones, withdraw it or pay bills. Money can also be moved from bank accounts to the M-PESA virtual account. M-PESA is convenient, fast and cheap, but users run the risk of sending cash to the wrong number and the recipient redeeming it straight away. Bearing in mind that M-PESA was initially developed outside conventional banking regulations as allowed by Kenyan legislators, Safaricom is the one who sorts out the disputes (e.g. network problems) directly with customers. For now, this mechanism has proved to be efficient, notably because the Central Bank of Kenya and regulators were involved from the inception of M-PESA during its earliest pilot stages in 2004 and reviewed the security features of the technology platform. The example of M-PESA implies there is a huge market for technologies that help increase the geographical reach of RSPs, particularly for low-income customers (Mohapatra and Ratha, 2011). Originally operating only within Kenya, Safaricom is set to sign a deal with Skrill, a US-based remittances and online payment company, allowing Kenyan diaspora to send money directly to M-PESA accounts.\textsuperscript{16}

An additional example is the e-ZWICH smartcard, which was introduced by the Ghana Interbank Payment and Settlement System Limited (GHIPSS) in 2008. Associated with most of the post offices in Ghana, e-ZWICH is the conjoint platform (the National Switch) that links the payment systems of all banks, savings and loans companies as well as rural banks within Ghana. Regardless of the institution issuing the smartcard, the e-Zwich smartcard holders can proceed with electronic transactions (payment and cash) online and offline, at any e-ZWICH point of sale terminal or ATM in Ghana (Haruna, 2012).\textsuperscript{17} Another success story is the G-Cash Initiative introduced in 2008 by Globe Telecom in the Philippines. Functioning as an electronic money transfer facility, G-Cash allows person-to-person transfers, the purchase of goods from merchants and bill payments (Alampay, 2010; Porter, 2009; Sultana, 2009).

While in these examples money transfers are essentially allowed ‘within’ national borders, new smartphone-based mechanisms have been developed, enabling cross-border transactions and extending the scope for international remittances. For example, the largest mobile phone company in the Philippines, Smart Communications, has developed an innovative remittance system based on cell phone text messaging, which allows cross-border transactions. Besides keeping fees down, the system also appears to be secure. An ID is required when collecting cash and the use of different PINs for the cell phone and the Smart account prevent thieves from accessing funds.\textsuperscript{18}

New transaction technologies have increased the affordability and accessibility of remittances, thus fostering a broader inclusion in financial services of ‘unbanked’ recipients and marginalised people (Porter, 2009; OECD, 2010). Significantly, the size of remittances flowing through formal channels has grown, helping to improve the transfer market (Aker, 2010); however, some challenges have been noticed. Not all developing countries have the appropriate financial and technical infrastructures to develop electronic payment services. The effective use and spread of these systems strongly depend on factors such as electricity and network connectivity, the type of phone subscription and adequate financial facilities. Accordingly, the mobile banking service seems not to be widely accessible, also

\textsuperscript{16} C. Udemans, ‘Safaricom deal to allow diaspora to send money to M-PESA accounts’ (Humanipo, 10 February 2014) accessed at www.humanipo.com/news/39757/safaricom-deal-to-allow-diaspora-to-send-money-to-m-pesa-accounts/. For more information, visit www.safaricom.co.ke.
\textsuperscript{17} See Ghana Interbank Payment and Settlement Systems Limited available at www.ghipss.net/Table/e-zwich/.
\textsuperscript{18} For more details, visit http://www1.smart.com.ph/corporate.
because money transfers are not usually allowed between different providers, who limit the service to among their own clients. At this stage, the argument of ‘banking the unbanked’ appears to be subject to debate. Most critical is the increasing complexity of financial regulations related to the AML/CFT, which limits the adoption of new transaction technology to domestic money transfers. This is particularly the case in developing countries (Mohapatra and Ratha, 2011). Such innovative systems should probably involve separate regulatory authorities (OECD, 2010) to ensure coherent policies and compliance to the regulatory environment.

3.1.3 The issue of ‘undocumented’ migrants

While the barriers discussed in the previous section contribute to undermining the offer side (services providers), obstacles are similarly impeding the demand side (remitters). In several destination countries, only individuals with an identity card and regular situation can use formal channels. As a result, non-regular migrants are unable to send money through formal channels and may informally remit, as they do not have the required official identification and thus lack access to formal financial services. This has led some countries to issue official identification to their nationals living abroad, irrespective of their migratory status in the destination country.

For instance, the Mexican Government issues the Mexico’s Matricula Consular to Mexican citizens abroad. Recognised by the Vienna Convention on Consular Relations, these documents do not imply the regularisation of the migrants’ status in the destination country and do not allow them to travel to other countries. The migrant remains under the same migration laws and its formal application by the host country. Holders of this identification document can use it to return to Mexico, to obtain a driver’s license, to have access to financial services and so on. Other countries have issued similar identification cards, for example Brazil (matricula de cidadao Brasileiro), Colombia (tarjeta de registro consular), Mali (carte d’identite consulaire), Nigeria (citizen’s certificate), Senegal (carte consulaire) and Pakistan (National Identification Card for Overseas Pakistanis) (Agunias and Newland, 2012). Likewise, the European Investment Bank and Mediterranean developing countries have signed an arrangement to allow migrants in EU countries access to simplified banking facilities upon presentation of consular registration cards (UNCTAD, 2013). Nevertheless, not all financial institutions or national offices in host countries may accept these documents of non-regular people, who may then instead use the card of a regular person or informally remit.

3.1.4 Cost inefficiencies in the South-South corridors

A number of solutions have been elaborated at national and international levels, but surveys (see for instance Mohapatra and Ratha, 2011) still suggest major obstacles in several remittances markets, especially with regards to the South–South remittances corridors that remain the costliest.

South–South migration is rapidly growing, emphasising moves that have often been overlooked (IOM, 2013b). Some African, Caribbean and Pacific countries are becoming central regional immigration hubs with considerable amounts of money remitted. According to Melde and Anich (2013), South–South remittance flows represent the highest importance in least-developed countries (LDCs), where it has been estimated that two thirds of recorded remittances inflows were sent from other Southern countries in 2010. Due in part to the cost of international versus internal migration, the majority of African, Caribbean and Pacific countries’ and/or LDCs’ migrants move to other developing countries, often neighbouring ones. For example, India and the Gulf Cooperation Council countries play a role as remittance corridors for Asian LDCs (e.g. Bangladesh, Nepal, Yemen), while sub-regional hubs such as Kenya, South Africa and Nigeria play a similar role for African LDCs (UNCTAD, 2012).
The Impacts of Remittances on Developing Countries

The cost to send money through these corridors, however, remains very high (see figures 5 and 6). Most expensive are the intra-African transfers.\(^{19}\) The costs between developing states far exceed those applied in developed countries, while they may vary depending on parameters such as currency or location. The World Bank recognises a set of key features that can lead to cost inefficiencies, including weak infrastructures, a lack of transparency and competition, and financial regulation constraints. Moreover, some banks are charging additional fees or ‘lifting fees’ on recipients that can be as high as 8 per cent of the transaction value, while remittances can also be subject to taxes (MDB, October 2013).

![Figure 4: Cost of sending $200 in regions of the world](image)

![Figure 5: Cost of sending $200 within Africa](image)


Often end-users face barriers to comparing different remittances services providers (e.g. lack of access to information), even if the providers are transparent. While a lack of transparency leads to some extra costs for the end-users, transparency may also lead to some additional administrative costs. As a result, the raising of formal transaction fees may also exacerbate the use of informal means, thus reinforcing the lack of available data. The World Bank claims that some central banks take only data reported by commercial banks without effectively capturing flows through other channels (e.g. money transfer operators, post offices, mobile phones). Additionally, some countries do not necessarily report data on remittances in the IMF-Balance of Payments Statistics (e.g. remittances data on Malawi are non-existent despite the importance of remittances to the country). Therefore, specific measures should be taken to reduce transfer costs and improve data collection within South–South remittance corridors.

### 3.2 Informal channels: pros and cons

Informal arrangements are the common options available for marginalised people to send or receive money. Informal means include the use of friends or family, bringing the payments in person when travelling and using couriers. Hawala is one of the most widespread informal money transfer tools. Originating in South Asian societies, it emerged as a system for debt transfer to facilitate long-distance and cross-border trades, especially within a framework of imperfect legal context without sufficient payments methods. Such informal means have been recorded, for example, in China (fei-
ch’ien or the Flying Money system), India, Sri Lanka, Pakistan, Bangladesh, Iran, Afghanistan (hundi), the Philippines (padala) and Thailand (phei kwan). The basic hawala mechanism works in the following way: the remitter pays, often with a small fee, the first transfer person (in the sending country), who informs the second transfer person (in the recipient country), and the second transfer person releases the funds to the recipient. Built on ‘trust’ and solidarity networks, the transfers of money in hawala systems are done without the ‘physical’ transfer of funds between the two hawaladers who represent the transfer ‘channels’ in the two countries (Rodima-Taylor et al., 2013).

The advantages and disadvantages related to informal channels are perceived in contrasting ways by different authors. Some find that their fragmented nature presents advantages because they make services accessible for undocumented persons as well as for people based in marginalised areas affected by disasters or conflicts (Rodima-Taylor et al., 2013; Hariharan, 2012). For instance, evidence from Afghanistan and Somalia shows the usefulness of informal means (xawilaad, the local term in Somalia for hawala) in helping international development actors, among others, to transport funds across the country (Lindley, 2009, 2010; Maimbo, 2003).

Other authors adopt a less positive view, perceiving informal channels as means for criminal and terrorism activities due to their high degree of anonymity and fragmentation (Looney, 2003). States often lack the tools and faculty for monitoring transfer chains that tend to operate in parallel economies to the formal markets (Passas, 2008). According to Maimbo and Passas (2005), informal means are likely areas for tax evasion, terrorist funding, capital flight and smuggling. In addition, it is difficult to determine the size and importance of remittance flows to developing countries because of the unknown and unrecorded earnings informally remitted. As a result, the ability of a State to optimally use the foreign exchange sent by its overseas migrants may be limited, weakening its creditworthiness or financial inclusion.

The discussion on the choice between the formal channels and informal means also imply to ask whether the formalisation of remittance channels can be viewed as purely beneficial from a commercial perspective. This raises questions such as: how reliable banks or financial institutions and MTOs are for remittances-users? Why all “poor” remittances’ senders/receivers should be banked? Do they need to fill their basic needs or to have bank account? Does it not quickly become about increasing market shares than contributing to development? As observed also, smaller operators are often dependent of the big operators in several developing countries. Therefore, policymakers should pay attention to not adopt a commercial behave and to consider ways to couple the advantages of both informal value transfer systems and formal mechanisms (see for instance Kapur, 2004).

### 3.3 International regulatory environment

#### 3.3.1 Commitments at high levels

Many high level dialogues and multilateral institutions have highlighted the importance of facilitating a more efficient money transfer market, leading to multiple measures and regulations targeting remittance transactions. Several G8 declarations (e.g. Sea Island in 2004, Heiligendamm in 2007 and Toyako in 2008) have made specific reference to the importance of facilitating remittance transfers, issuing recommendations such as remittances data improvement, implementation of the General Principles for International Remittance Services (GPIRS), support of innovative payments means, channelling of remittances to banking products and establishing a Global Remittance Working Group (GRWG).
A GPIRS document was released in 2007, prepared by a multilateral taskforce jointly chaired by the World Bank and the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements (BIS). At the G20 Seoul Summit in November 2010, G20 leaders reiterated the importance of remittances for development purposes. They committed to join efforts to reduce the costs of remittance services. Articulated around the structure of the General Principles, the World Bank issued in 2012 a consultative Guidance Report for the implementation of the GPIRS of the CPSS-WB. The consultative report explores the common issues that policymakers (e.g. experts from the World Bank, governments, international institutions, private sector) faced when addressing the remittance market and its reforms. For each of the General Principles, they have indicated lessons learned and means of improvement.

At the European level, the European Commission emphasises the key role of the Payment Services Directive (PSD) 2007/64/EC, which provides the legal basis of a single European market for payments, in strengthening market transparency and competition, as well as improving consumer protection. Under the European Commission’s direction, the PSD has been revised, taking into account lessons learned, the latest market developments and innovation in retail payments. The full review of the PSD with relevance only for the intra-European Economic Area (EEA) is included in the Single Market Act II, presented in mid-2013. Based on recent reports (Isaacs et al., 2012; European Commission, 2013a), the PSD has considerably improved the payment environment by increasing the competitiveness among the remittances services providers and offering greater reporting requirements for money-transfer operators and accurate data on remittances. However, while the PSD is currently only binding for the European Economic Area (EEA) transfers, it should be broadened to include transactions involving (i.e. sent to or received from) countries outside the EEA.

3.3.2 Money laundering and terrorist financing regulations

Money laundering and terrorist financing are crucial concerns for the European Union, as well as national governments, from both economic and security perspectives. Given the high number of daily transaction flows, the main challenge is to separate the legal from the illegal uses of transferred money. Research published by the United Nations Office on Drugs and Crime (2011) estimates that the amount available for money laundering in 2009 was equivalent to some 2.7 per cent of global GDP (USD1.6 trillion), and may be even higher with regards to the informal flows. The Financial Action Task Force (FATF) in its 2010 report published a list of money transfer features (including the banking system, money value transfer services, electronic money and new payment systems) in relation to money laundering and terrorist financing activities. Right after September 2001, one of the FATF’s Special Recommendations on ‘Terrorist Financing’ was to address informal remittances issues, exhorting States to require licenses from remittance services providers and to apply the ‘know your customer’ and ‘control your business’ strategies. The FATF’s Best Practices Paper issued in 2003 presented a nuanced approach, emphasising the need to consider cultural and regional elements in

the understanding of informal money mechanisms and the appraisal of their potential to finance criminal activities (Lindley, 2009; Maimbo and Passas, 2005).

### 3.3.3 Shortcomings money transfer regulations

Despite the spread of nuanced views and initiatives at global and EU levels, regulation concerns are still impeding the money transfer market. One of the most obvious issues is the use of different terms in the field of anti-money laundering/combating the financing of terrorism (AML/CFT), characterised by distinctive terminologies that are not always coherent across jurisdictions or with other regulation fields of financial markets (see Maimbo and Passas, 2005; Shah, 2007). For instance, the FATF of the Organization for Economic Co-operation and Development has published some legal terms (e.g. ‘money or value transfer service’) that do not appear to be used by any EU legal act and are not commonly used by countries. For example, the Anglo-Saxon legal systems (e.g. UK, Ireland, USA) refer to terms such as ‘money service business’, while the EU regulation does not necessarily use them. Finally, some terms seem to be defined differently in different legal acts, for example, there are different meanings of ‘payment service provider’, which is defined differently in the Directive on Payment Services and the Fund Transfers Regulation. These unclear and inconsistent definitions and uses lead to problematic execution of AML/CFT regulations. At this stage, further clarification of terms and concepts is needed to avoid misinterpretations and to ensure consistent and effective implementation of legal provisions.

Noticably, the AML/CFT regulations and legal recommendations (e.g. ‘Know Your Customer’, the Patriot Act) may be, to some extent, counter-productive, causing negative spill-over into remittances markets (e.g. raising costs, use of informal means) (Pieke et al., 2005). The World Bank Group highlights the reversal of gains in the facilitation of cross-border remittances, pointing out the closing down of the bank accounts of MTOs. In fact, Barclays, which was the last institution to allow Somali remittance firms to have bank accounts, recently closed the accounts, while evidence shows that remittances have been the main source of foreign exchange, supporting the country for the last twenty years and since the civil conflict.\(^{25}\)

With regards to the regulations issues, the Consultative Group to Assist the Poor (CGAP) housed at the World Bank recommends a gradual implementation of rules that consider the level of maturity of the monetary industry in each specific country (Natter, 2013). The CGAP also insists that policy-and law-makers should not take actions that may inhibit the use of mobile phones for transfer purposes. Accordingly, further joint actions and institutional partnerships among national banks, remittance services providers, telecommunication operators and between sending and recipient countries could help to explore better options addressing both money transfer security and consumer protection (Jenkins, 2008; Omwansa, 2009). Reaching a good balance between these two mainstreams within the frameworks of the remittances market’s regulation definitely represents a key challenge for policymakers (Sultana, 2009; Alampay, 2010).

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4. PART III: PERSPECTIVES FOR THE POST-2015 FINANCING AGENDA

4.1 Remittances and other sources of revenue

According to the World Bank’s 2013 projections, remittances are nearly three times the size of official development assistance and are globally larger than private debt and portfolio equity flows to developing countries in 2013. Remittance inflows exceed the foreign exchange reserves in at least 14 developing countries and are equivalent to at least half of the reserves in over 26 developing countries (Figure 7). The importance of remittances as a source of foreign currency is increasing at an outstanding rate, notably because of the weakening balance of payments faced by emerging markets.

**Figure 6: Remittances larger than foreign exchange reserves in many countries (%)**

![Figure 6: Remittances larger than foreign exchange reserves in many countries (%)](image)


Based on several studies, foreign direct investments and overseas aid appear to be much more volatile than remittances, reflecting the political economy of aid (ODA) donorship or investors from developed countries. Hence regions with well-diversified sources of remittances proved to have higher degrees of resilience during the global crisis than regions receiving remittances from a limited number of sources. This is in line with the conclusions of UNCTAD (2012, 2010), which also points out the relationship between the diversity of sources and the resiliency of remittances. For instance, diaspora communities of Ethiopia, Guinea, Liberia, Sao Tome, Sudan and Zambia who were concentrated in Western economies at the epicentre of the financial crisis (mainly in the UK, France and the USA) were worst hit by the crisis. More recently, the World Bank observed that remittances to East Asia and Pacific countries and the South Asia Region during the global financial crisis were more resilient than remittances to Latin America and Caribbean countries, which are mainly sent from the USA.
Additional studies\textsuperscript{26} found that remittance flows are not only the most stable financial resource when compared to official development assistance (ODA) and foreign direct investments (FDI), but also that after the crisis they recovered in a relatively short time, resuming the level of growth rates registered in pre-crisis years. For example, remittances modestly declined in African, Caribbean and Pacific countries during 2008–2009, compared to a 40 per cent decline in FDI, trust funds, private debt and portfolio equity flows to developing countries, and then increased between 2009 and 2010 by 4 per cent (Melde and Anich, 2013). Similarly, the 2012 UNCTAD report on least-developed countries (LDCs) revealed that the recorded remittances exceeded both ODA and FDI inflows in nine LDCs, and surpassed FDI but not ODA in another eight LDC economies during 2008–2010. As a consequence of the global economic downturn, remittances have suffered a sharp slowdown in growth but are still continuing their upward trend. Such evidence underlines the increasing competitiveness and profitability of the remittances transfer market (Lowell and De la Garza, 2002). As highlighted by Melde and Anich (2013), however, ODA still exceeds remittances in several countries, mainly African, Caribbean and Pacific, which are supposed to have received only 6.7 per cent of all remittances worldwide in 2010. Also, they reported that remittance inflows to Southern Africa (except in the case of Namibia) and the Caribbean (except Suriname and Saint Vincent and the Grenadines) have been higher than ODA, while those to Western African countries were smaller than ODA (with some notable exceptions: Ivory Coast, Nigeria, Senegal and Togo).

**Figure 7: Remittances, FDI and ODA inflows to LDCs (in billions of dollars)**


Literature suggests that the relationship between aid and growth is not clear-cut (Easterly et al., 2004, 2006). Usually, causal links cannot be easily established whether overseas aid did help to achieve Millennium Development Goals and whether it did not, either in terms of development or poverty...

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reduction (UN DESA, 2010; Bandow and Vasquez, 1994)\(^{27}\). Most critically, despite the commitment adopted at the International Conference on Financing for Development (Monterrey Consensus) to a ‘substantial increase in official development assistance [to help] developing countries achieve internationally agreed development goals and objectives\(^{28}\), it has been acknowledged that ODA is decreasing, an effect of the 2008–2009 financial crisis. At the European level, the European Commission (2013b) observes that ODA growth has stagnated and emphasises the unclear prospective on the EU’s ability to meet the ODA objective of 0.7 per cent of gross national income. As a result, the uncertain future of ODA flows is leading developing countries to find alternative sources of income. Nevertheless, even if it is commonly believed that remittances are becoming important drivers for development, not all ODA recipient countries receive large amounts of remittances.

Concerning foreign direct investment (FDI), data show that there has been a significant rise of these capital flows to developing countries since the early 1990s, increasing rapidly from USD36 billion in 1990 to USD379 billion in 2006 (Benmamoun and Lehnert, 2013; Mohamed and Sidiropoulos, 2010). FDI flows are believed to have a meaningful potential to enhance development, surpassing official aid in some countries\(^{29}\). While the overall positive effects of FDI are widely acknowledged (Casson, 2007; Hsiao and Shen, 2003), there is a large set of literature that stresses the ambiguous effects of FDI on development. Some authors are concerned about the negative effects of FDI, as investors may take advantage of market imperfections (Eden, 2009; Blomstrom and Kokko, 2003). For example, Tekçe, Acar and Eris (2012) found that FDI is associated with reduced domestic investment when examining the relationship between FDI and domestic investment for selected countries in the Middle East and North Africa region from 1980 to 2008. Their findings also suggested that the inflow of FDI is not really creating business opportunities for local investors, but, instead, replacing them. Likewise, the Johannesburg Roundtable of Experts (2013) claims that when FDI is channelled into ‘consumptive’ investments rather than ‘long-term’ investments expenditures, their value for development is diminished and FDI may negatively affect domestic resources mobilisation.

Many other studies stress the need for institutional quality as a condition for successful private sector development. They warn about the relevance of critical factors such as capital market efficiency, property rights and minimal corruption, encouraging investment as well as strong governance institutions (see, for instance: Coricelli et al, 2012; Babecky and Campos, 2011; Boemer and Hainz, 2009). Analysing the impacts of FDI, ODA and migrants’ remittances on growth in developing countries, Driffield and Jones (2013) confirm that ‘institutions matter’, for example arguing that aid appears to have a negative impact on growth unless there is a level of bureaucratic quality. Furthermore, they show that improved institutional quality not only attracts more inward investments, but also that these investments have a greater impact on growth. Accordingly, the respective effects of FDI, ODA and migrants’ remittances on growth and development will depend on the presence and the running of well-functioning institutions.

Despite the shortcomings of FDI, ODA and remittances, and even if the flows of public aid to the developing world are declining and have to some extent failed to deliver sustainable growth, the post-2015 financing agenda should consider these various sources of capital as a whole. Policymakers

\(^{27}\) See also the chapter on the EU and the MDGs available at: http://www.erd-report.eu/erd/report_2012/documents/chapters/Chapter3_-_The_EU_and_theMDGs.pdf.

\(^{28}\) These commitments were made within the framework of the consensual agreement on Financing for Development reached in Monterrey Mexico in 2002 (United Nations, 2003:14). Visit also: www.un.org/esa/fdf/monterrey/MonterreyConsensus.pdf.

\(^{29}\) See, for instance, Colen, Maertens and Swinnen (2012) and UNCTAD (2007).
should also bear in mind that the contribution of FDI, ODA and remittances to national economies may vary depending on the proportional weight of their flows to each country. This suggests adapting strategies for development on a case-by-case basis, as it appears that the importance of their contribution may depend on the country, and whether it is high-, middle- or low-income. According to Benmamoun and Lehnert (2013), the contribution of remittances to ‘low-income’ countries’ economic growth may be greater than those of the FDI and ODA, even when countries are highly dependent on FDI. Once again, the quality of governance and institutions is critical to ensure the effectiveness in terms of development of these flows.

4.2 Role of remittances in the post-2015 financing agenda

4.2.1 Remittances, a source of innovative financing for development?

Although the future definition and structure of sustainable development goals are not yet known, the indication provided so far by the United Nations and the high-level panel of experts implies that financing will be a core issue. Indeed, the scale of resources needs for the post-2015 development agenda poses serious challenges with regards to the possible goals emphasised in the UN Secretary-General Report, *A life of dignity for all.* To bridge the gap of financial needs, alternative sources of funding should be combined, while ensuring the enrolment of local resources.

As potential sources of innovative financing, remittances and other diaspora investments are of the highest value in addressing sustainable development’s financial aspects. Evidence presented in the preceding sections tends to confirm that remittances have a development potential, especially with regards to their resilience to external shocks and to their relative stability when compared to ODA and FDI. Consequently, measurable targets have been and are being explored that seek to harness the financial resources of migrants/diasporas for development purposes. Agunias and Newland (2012:114) observe two broad policy trends that require solid partnerships to reap the dividends of remittances: i) strengthening infrastructure supporting remittances (transaction costs decreasing through technological diversification, increased competition and consumer information) and ii) opening up more opportunities for the productive use of remittances by cross-selling products linked to remittances and securitisering remittance flows (e.g. tax exemptions on diaspora bonds and migrants investments, products in areas such as education and health).

At the global level, one of the milestones towards lowering the transfer costs was the endorsement of the ‘5x5’ objective in 2010 and again in 2012 by the G20 leaders, demonstrating their commitment to reducing the global average cost of sending remittances by 5 per cent within 5 years. Likewise, the High Level Dialogue on International Migration and Development (2013:27) and the Swedish Chair of the GFMD 2013–2014 reaffirmed the need to promote conditions conducive to cheaper, faster and safer transfers of remittances in both source and recipient countries. This is in line with the views of several agencies that share their recommendations in a publication of the UN System Chief Executives Board for Coordination (2013), *International Migration and Development: Contributions and Recommendations of the International System.*

At the EU level, the European Commission has recently published the *Handbook on Financial Literacy for Remittances and Diaspora Investment.* The handbook has collected methodological tools

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supporting initiatives to link remittances to other financial products (savings, insurance, loans), thus increasing the financial inclusion and independence of migrants and recipients. The handbook also addresses means of fostering diaspora investments in the country of origin. For example, IFAD (2013) and the European Commission have supported the creation of the multi-donor Financial Facility for Remittances (FFR) in 2006, which is currently piloting innovative projects to enhance the development impact of remittances linked to other rural development efforts.

Many of these prospective measures targeting remittances may, however, be challenged or even shown to be inappropriate with regards to how the remittances are perceived and their uses by their ‘first and unique owners’, migrants’ and/or recipients’ households. This can never be said enough: remittances are private flows. The 2013 High Level Dialogue on International Migration\(^\text{32}\) repeatedly emphasises the private nature of remittances, while literature warns against policies seeking to directly tap into them, even for development purposes. Whilst overseas aid is associated with the international commitment of States and multilateral organisations, remittances should not be seen as substitutes of international development aid or for national revenues. They have different roles to play in the promotion of development: remittance incomes may serve specific purposes depending on the choices of migrants and recipients, whereas FDI may impact national infrastructure and ODA addresses the people’s social needs at a more national level. The UNTT Working Group on ‘ Financing for sustainable development’\(^\text{33}\) underlines these distinct roles, stressing the central function of ODA in assisting poor countries in meeting development goals, most prominently the eradication of poverty and fostering equity.

As argued by Collyer (2011), it appears that any pattern of reducing aid to countries that receive large remittances is unavailable. Research has clearly acknowledged the problems of viewing remittances as a substitute for aid (de Haas, 2005; SOLIDAR, 2007), highlighting that the large amounts of remittances go neither to the poorest countries, nor the poorest people in developing countries. Admitting likewise that remittances can play a significant role in the development financing agenda, the Istanbul Programme of Action for least-developed countries (IPoA) stresses that remittances cannot be considered a substitute for FDI, ODA, debt relief or other public sources of finance for development (UNCTAD, 2012). Worldwide, ODA remains crucial, particularly for low-income countries and fragile States where revenue mobilisation may be challenging. Recognising that ODA has been falling in real terms, notably for least-developed countries (LDCs), landlocked developing countries (LLDCs) and small island development states (SIDS), UNTT emphasises the key role of ODA, particularly for the most vulnerable developing countries.\(^\text{34}\)

Based on the debates regarding remittances’ role in financing development, emphasis should be placed on policies that reduce transfer costs and improve local institutions and governance. Given the increasing number of international and internal migrants, it is vital to ensure that all stakeholders,
including States, international agencies, civil-society organisations and others, fully understand to what extent and how migration and remittances can help the achievement of long-term development. While it is crucial to understand how recipients use remittances and for what purposes, efforts should be based on a course of action that creates appropriate incentives to motivate migrants’ investment in or donations to development-related projects. Improving remittances’ outcomes for migrants and recipients, as well as for both host and home countries, will require closer cooperation and real implementation of the commitments made.

### 4.2.2 Integrated and inclusive financing approach for development

The UNTT working group on ‘financing for sustainable development’ admits the need for and effectiveness of a more integrated and inclusive framework to manage the multiple sources of financing. The possibility of diversifying development funds has been repeatedly raised by several agencies and at different high-level dialogues. The Johannesburg Roundtable of Experts (2013) supports the importance of considering a broader cluster of financing sources that should be taken as a whole. Similarly, the World Bank in its paper *Financing for Development—Post-2015* suggests a range of existing and innovative financing mechanisms (including diaspora bonds and remittances) that could finance post-2015 development objectives.35

### 4.3 Beyond remittances: the well-being of migrants

Not all the poor people can migrate due to high costs and barriers for migration and thereby, not all the households (equally) benefit from remittances. To make remittances more inclusive, both opportunities and costs of migration should also be targeted, especially for lower-skilled migrants (including intra-continental and transcontinental mobility). Similarly highlighted in the European Report on Development 2013, such problematic poses the question of knowing whether these two agendas – the remittance agenda and the costs of migration agenda – could easily be separated. Focusing on the costs of remittances as for the post-2015 agenda, the narrow should be ideally complemented by actions reducing the personal, social and economic costs of migration.

Indeed while many reports on the migration and development nexus focus on the economic consequences of migration flows (e.g. monetary remittances), greater attention must be paid to the effects of migration on the lives and well-being of migrants themselves. The Fourth World Economic Forum of the OECD held in Delhi in October 2012 focused on the issue of ‘development and well-being’. To assess migrants’ well-being, the Gallup World Poll was established with the purpose of evaluating factors such as income level, housing and employment conditions, and the perceptions, feelings and satisfaction levels of migrants based on their lives in host countries. Calling back to the importance of well-being in the post-2015 framework as stressed by the United Nations (UN DESA, 2012a, 2012b), Gallup indicated that migrants’ quality of life is crucial because it determines their ability to be fully engaged in host countries and to acquire skills and knowledge that can be useful in the event of a return to the home country, as well as impact their likelihood of remitting. In the same vein, the *IOM Report on the Well-being of Migrants* (2013c) emphasises the necessity to focus on migrants’ well-being and quality of life, rather than on pecuniary remittances and migration impacts on economic and trade exchanges. The report notifies that an on-going investigation entitled *World Barometer of Migration* is being developed to regularly monitor the well-being of migrants in the world.

In its *Declaration at the High Level Dialogue on International Migration and Development*, the UN General Assembly recognises the crucial ‘roles and responsibilities of countries of origin, transit and destination in protecting the human rights of migrants, and avoiding approaches that might aggravate their vulnerability’.36 Accordingly, the 2013 *High-level Dialogue* identified concrete measures to strengthen coherence and cooperation at all levels and adopted an eight-point agenda for action, which notably recommends to ‘integrate migration into the development agenda; to invest in data collection, research and capacity development with respect to migration and its impacts on individuals, communities and societies; as well as to enhance migration partnerships and cooperation through Global forums or High-level Dialogues’.37

In conclusion, international community efforts must clearly shift from an approach that depicts migrants and remittances (both monetary and in-kind) as ‘instruments’ for development, to a progressive model that emphasises development policies that benefit migrants and remittance recipients.

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5. PART IV: INITIATIVES AND POLICIES TARGETING REMITTANCES

Reviewing initiatives and policies at the European Union, Member State and international levels, Part IV covers measures taken by national development agencies, for example the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Department for International Development (DFID), Agence Française de Développement (AFD) and the International Fund for Agricultural Development (IFAD), of EU Member States or (co-) funded by the European Union. At the EU-level, the measures have been selected from the main Member States that see significant amounts of remittances. For instance, the top remittance-sending countries include Germany, the UK, France, Belgium, Italy and the Netherlands, while Moldova, Tajikistan and Georgia are among the top recipient countries. At an international level, some of the successful initiatives targeting South–South remittances and those implemented in many developing or emerging countries are also highlighted. The measures included in this report have been selected by category (e.g. data collection, remittances services providers [RSPs], financial products, small and medium enterprises).

The first section presents specific EU initiatives regarding data collection methods, while the second section focuses on projects improving the South–South remittances corridors. The third section describes some practical tools that will be of value to policymakers. The fourth section emphasises remittances price comparison websites, while the fifth section highlights projects that improve the remittances services market, mainly in terms of remittances services providers’ cost efficiencies and geographical reach. The sixth section focuses on projects that link remittances to financial services and the seventh section indicates some key issues not (yet) tackled by the European Union.

5.1 Harmonisation of data collection, concepts and methods

As the cornerstone of any policies or measures, data collection is the critical issue that transcends the remittances sector. To meet its commitments to improving official data regarding the volume and geography of remittances and estimating informal flows, the European Commission launched the Luxembourg Group in 2006, which led to the publication of the Compilation Guide for Collecting Remittance Statistics for Member States. As the primary body responsible for data at the EU level, Eurostat obtains and consolidates remittances data from each Member State and uses internationally accepted definitions of remittances; however, considerable variations have been observed in the way data are collected in individual countries, and it has become clear that some Member States do not collect remittances data at all (Isaacs et al., 2012). As a result, methods for assessing the total volume of remittances flowing from and within the EU appear to be inefficient. One of the reasons for this is the minimal implementation encouraged by the non-prescriptive nature of the Luxembourg Group’s Compilation Guide for Remittance Statistics. Beyond these discrepancies within the EU, the methodology used by Eurostat for collecting data differs from that of other bodies (e.g. the World Bank, the International Monetary Fund). Nevertheless, some recent changes are being introduced and are projected to be in effect by the end of 2014.

The International Monetary Fund (IMF) released in 2009 the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6), taking into account important developments

38 The Luxembourg Group was created to consider the challenges of collecting, compiling and reporting remittances data and was composed of practitioners (representatives of the IMF, the OECD, the Statistical Office of the European Communities, the World Bank, and representatives from national statistical offices and central banks from throughout the world). The gathered recommendations led to the production of a compilation guide for remittance statistics. The end product was the International Transactions in Remittances Guide for Compilers and Users or RGC.
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(i.e. international labour migration, complex international company structures, cross-border processes and financial innovation) that have occurred in the global economy since the fifth edition released in 1993. Undertaken in close collaboration with the IMF Balance of Payments Statistics Committee, the updates involved extensive consultations with national and international stakeholders, including the European Central Bank (ECB) and the European Commission (Eurostat). To ensure consistency between external and domestic macroeconomic statistics, the manual was revised parallel to the introduction of the 2008 System of National Accounts (2008 SNA) and the European System of Accounts 2010 (ESA 2010). The major methodological changes are described in Appendix 8 of the BPM6, while the new international standards applying to national accounts are disseminated through a Eurostat website dedicated to ESA 2010 implementation. A new balance of payments and data structure definition (BOP-DSD) is being used in 2014, introducing totally new coding of all balance of payments and international investment position (BOP-IIP) statistics, harmonised around the world. At the EU level, the ECB and Eurostat share responsibility for producing and publishing the BOP and IIP statistics for the EU. National central banks of EU countries are currently working with other national statistical authorities to adapt national data collection and compilation systems (e.g. legal instruments, IT infrastructure) in line with the new ECB and Eurostat data requirements due by mid-2014. After effective introduction of BPM6 by each EU country, there will be no dual data dissemination following the two methodologies, and Eurostat will share the BPM6-based data in its online database. It is believed that these changes will ensure the provision of much more detail on transactions and positions, as well as a full geographical breakdown in the EU, while harmonising methods of data collection.

The Payment Services Directive (PSD) 2007/64/EC introduced by the EU in 2009 provides the legal basis of a single European market for payments, while promoting competition and strengthening transparency in the European market. As a result of the implementation of the PSD and its increased reporting requirements for money-transfer operators, there is the potential to develop a new methodology using this additional information as the basis for remittance volume data. As argued by experts, improving the reporting requirements of the PSD may aid in the collection of more accurate data. Within Europe, the introduction of the PSD has led to a significant movement towards more competitive and open markets, as well as greater adoption of the General Principles issued by the Committee on Payments and Settlement Systems and the World Bank in 2007. In fact, electronic money institutions (e.g. telecom providers, companies providing prepaid cards) may conduct other business activities, including payment services such as financial transfers. The coverage of the PSD, however, is only intra-EU to date. Aware of the importance of money transfer outside the EU, some EU Member States have already projected to extend the field of this legal basis among operators or actors located outside the EU and in currencies other than the Euro or other European currencies. This may also contribute to facilitating the access of migrants to financial services.

Alongside these direct actions on data improvement, the European Commission has funded a number of projects linked to remittances, mainly through the Aeneas Programme and Thematic

41 The World Bank and the Committee on Payments and Settlement Systems (CPSS) of the Bank for International Settlements (BIS) issued the General Principles for International Remittance Services (GPs). The GPs are international standards aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for remittance services should be contestable, transparent, accessible and sound. The GPs have been endorsed by the Financial Stability Forum and the G8, at which the EU is represented.
Programme for Migration and Asylum. A large strand of these projects aimed to improve flows from Member States to the South, including activities such as supporting research, improving the remittances-related capacity of governments, encouraging a coordinated approach to specific themes and providing funding for projects aiming to leverage the flow of remittances for longer-term development goals. Based on respect for the private nature of remittances, the European approach considers the expectations of migrants and diasporas who desire to save and invest in local economic development.\footnote{See \url{http://ec.europa.eu/economy_finance/international/development_policy/remittance/index_en.htm}.}

5.2 South-south remittances: the ACP Observatory and the African Remittances Institute

5.2.1 The African, Caribbean and Pacific (ACP) Observatory

Funded by the Directorate-General for Development and Cooperation of the European Community, the African, Caribbean and Pacific (ACP) Observatory on Migration is an initiative of the ACP Secretariat, implemented by the International Organization for Migration (IOM) and with the financial support of the IOM Development Fund, the UN Population Fund and the Swiss Federal Office for Migration. Officially launched in October 2010, the ACP Observatory currently operates in 12 pilot countries, including Angola, Cameroon, the Democratic Republic of the Congo, Haiti, Kenya, Lesotho, Nigeria, Papua New Guinea, Senegal, Timor-Leste, Trinidad and Tobago, and the United Republic of Tanzania. The objective of the ACP Observatory is mainly to establish a network of research centres and governmental departments working on migration issues in all ACP regions. Besides collecting data on South–South migration, it also provides studies on policies aimed at facilitating remittances inflows through formal channels and leveraging remittances for development.\footnote{Visit the ACP Observatory on Migration’s website at \url{www.acpmigration-obs.org/Welcome}. See also \url{www.acpmigration-obs.org/Remittances} and its paper \textit{Remittances in the African, Caribbean and Pacific Countries} (ACPOBS/2011/BN02), available at \url{www.acpmigration-obs.org/sites/default/files/EN-BN%2020112012remittances.pdf}.}

5.2.2 The African Institute for Remittances (AIR) project

Supported by the European Commission and the World Bank, and in cooperation with the African Development Bank and the IOM, the African Institute for Remittances (AIR) was launched in June 2010.\footnote{See \url{http://pages.au.int/remittance/about}.} This project aims to build the capacity of the African Union’s Member States, remittance users and other stakeholders to develop and implement concrete strategies and operational instruments to use remittances as a means of poverty reduction while studying remittances flows within Africa.

The core activities of the AIR include:

- providing technical assistance to government institutions (central banks, ministries, financial and non-financial institutions) regarding establishing and operating the necessary regulatory frameworks;
- carrying out required training and capacity building of national institutions;
- developing platforms for country-based payment and settlement systems for remittances;
- developing partnerships among African central banks, remittances services providers and non-bank correspondent agencies to improve financial access; and
- conducting policy research and sharing information and good practices on how remittances can better contribute to the development of African countries.
5.3 The importance of smart and practical tools

This section presents some of the relevant manuals and handbooks identifying the strengths and weaknesses of past and current projects. These compendiums of experience can serve as practical tools for policymakers to promote remittances-related best practices and lessons learned.

5.3.1 Manual on remittances projects (expected completion by March 2014)

Funded by the EU, a forthcoming manual is currently being developed by IOM in collaboration with its partner the International and Ibero-American Foundation for Administration and Public Policies (FIIAPP) and lead researchers, including Manuel Orozco and others. The draft version of the manual is entitled Manual sobre mejores prácticas en el apalancamiento de remesas, inversión y filantropía and the final version (in Spanish) is expected to be released around March 2014, with an English translation later on. The manual is projected to include the following points: (i) a map listing and describing all (68) recent or on-going remittances projects mainly in the Communauté d’États latino- américains et caraïbes (CELAC) countries; (ii) a SWOT analysis to determine which actions and strategies have effectively facilitated the leveraging of remittances based on the mapping’s results; and (iii) based on the SWOT analysis, a compendium of recommended strategies and mechanisms to further encourage and facilitate the leveraging of remittances via four key areas of intervention (transfer of money, finance inclusion, capital investment and philanthropy).

5.3.2 National Observatory for the financial Inclusion of Migrants in Italy

Co-funded by the European Commission and the Italian Ministry of Interior, the National Observatory for the Financial Inclusion of Migrants in Italy is a long-term project that aims to become a hub for the ongoing analysis and monitoring of the financial inclusion process for migrants in Italy. Managed by the Centro Studidi Politica Internazionale (CeSPI) for the period 2011–2014 in collaboration with the Italian Bank Association, the National Observatory recently produced statistics in the field of financial inclusion at the EU level, identifying good practices and a dedicated website (buonepraticheinclusione.it). The manual Good Practices for Financial Inclusion. A European Overview provides experiences and guidelines to support and coordinate the promotion of financial inclusion throughout a country. The process of selecting good practices has been carried out within France, Spain and the United Kingdom, and these examples could serve as a useful tool for other countries.

Although much has been done in terms of immigrants’ financial inclusion and entrepreneurship, the Observatory indicated that some barriers to the full financial inclusion of immigrants still remain. These obstacles are both on the demand side (awareness and financial education) and the supply side (accessibility, products and services tailored to the needs of a clientele that has distinctive requisites compared to the traditional customers of financial operators), as well as at the level of public policies supporting the process. The Observatory identified three key processes – social integration, financial inclusion and financial education – which are integrated, mutually self-reinforcing and cannot be split within the wider process of economic integration. In its second report assessing the evolution of the integrated approach (i.e. social integration, financial inclusion and financial education) in specific areas (Milan, Rome and Naples), the Observatory affirms that one

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45 The International and Ibero-American Foundation for Administration and Public Policies (FIIAPP) is a Spanish public international cooperation entity. For more details, visit www.fiiapp.org/proyectos.php.
46 Available in Italian and English at www.cespi.it.
challenge is to design financial inclusion mechanisms that will be more flexible, affordable and able to simultaneously meet the needs associated with different kinds of profiles (i.e. from the higher levels of financial maturity to the lowest or non-existent).

5.3.3 The FReDI Handbook

In Germany, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the Centre for International Migrant and Development (CIM) are the key actors for projects on remittances. In 2012, the GIZ Sector Project Migration and Development developed the *Financial Literacy for Remittances and Diaspora Investments (FReDI): A Handbook on Methods for Project Design*, as commissioned by the German Federal Ministry for Economic Cooperation and Development. Based on a review of international projects, including the Joint Migration and Development Initiative (JMDI), the handbook guides the design of development projects that: (i) support increased financial inclusion and independence of migrants and their families; (ii) link remittance flows to other financial products/services (savings, insurance, loans); and (iii) foster migrant savings and diaspora investments in countries of origin. Importantly, the methods emphasised in the handbook always include financial literacy tools to empower migrants and recipients and improve their skills applicable to the management of their earnings. Focused on indicators such as project objectives and components, results, costs and sustainability, the handbook provides some lessons learned and key success factors.

Issued primarily for development agencies implementing technical cooperation, the handbook targets those who are designing and implementing projects in the field of migration and remittances. This practical tool is of great value to multilateral stakeholders, non-government organisations, civil society, banks, microfinance institutions, money-transfer operators, as well as training institutions and experts. The materials for this handbook were collected through desk research, which in some cases was supplemented with direct input from project organisers. Important sources of information include reports from the Inter-American Development Bank’s Multilateral Investment Fund’s remittance programme (2010), the IFAD’s Financing Facility for Remittances (2013) and the Joint Migration and Development Initiative (2011).

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48 The JMDI is funded by the Directorate-General for Development and Cooperation of the European Commission and the Swiss Agency for Development and Cooperation. Currently the JMDI is in phase II and will continue to be implemented by the UN Development Programme jointly with IOM, the International Labour Organization, the UN High Commission for Refugees and the UN Population Fund, and additionally UN Women. Targeting local authorities and organisations involved in development and migration issues, the JMDI aims to strengthen migration’s contribution to development by reinforcing its local dimension. Specific remittance-related projects can be looked up at [www.migration4development.org/content/about-jmdi](http://www.migration4development.org/content/about-jmdi).

49 See IADB (2010); JMDI (2011); and IFAD (2013), which describes the FFR, a partially EU-funded project run by experts in the field.
5.4 Remittances price comparison websites

Several websites fostering information disclosure on remittances (e.g. the transaction costs, remittances services providers) have been launched in Europe and worldwide, with the aim to increase awareness and competition. A few examples of these websites are: enviaceutroamerica.org (Central America), envoidargent.fr (France to 21 countries), finansportalen.no (Norway), GeldnaarHuis.nl (the Netherlands), geldtransfair.de (Germany to 35 countries), mandasoldiacasa.it (Italy), moneymove.org (UK to 20 countries), sendmoneyafrica.worldbank.org (50 corridors related to Africa) and sendmoneypacific.org (New Zealand and Australia).

5.4.1 Evaluation of the Italian website mandasoldiacasa.it

CeSPI (Centro Studi di Politica Internazionale) is currently conducting an evaluation of the Italian website mandasoldiacasa.it, as certified by the World Bank. The website compares services for sending remittances from Italy to 14 migrants’ countries of origin (representing the destinations of 73 per cent of remittances sent from Italy) with the purpose of helping migrants choose the best way to remit. By offering a comprehensive view of existing money transfer means, the website stimulates market competition among money-transfer operators, thus lowering money transfer costs. It also provides information related to migrants’ financial literacy by reviewing financial products offered to migrants and initiatives channelling remittances for development. The website compares the costs, speed and modality of each money transfer corridor, taking into consideration the main operators, i.e. those covering together 60 per cent of the corridor, including both banks and money transfer agencies.

5.4.2 Assessment of the French website envoidargent.fr

Commissioned by the French Inter-ministerial Committee for International Cooperation and Development (CICID), www.envoidargent.fr was launched in 2007 and implemented by the Agence Française de Développement, who developed a new website in 2010 that provides more than just remittance price information. The lessons learned from envoidargent.fr point out the need to secure resources (financial, human) for on-going maintenance and the necessity of regular marketing to attract migrants to the website (e.g. linking the website to other useful web resources). It is difficult, however, to obtain real participation from remittances services providers in initiatives promoting transparency and lowering costs, and the effectiveness of websites in reaching the target group is below expectation. Critically, it has been noticed that some websites are experimenting with obtaining private funding (e.g. via advertisements of remittances services providers), with the risk of generating some negative impacts on the primary objectives (e.g. transparency, cost reduction).

It is important to note that to receive certification from the World Bank Standards for Remittances Databases requires: (i) the independence of the researchers; (ii) a ‘no advertisement policy’ for companies that have a direct or indirect interest in the remittance market; and (iii) free access to information (a ‘no subscription policy’). The monitoring of remittances websites is crucial to ensure their usefulness and to avoid any situation that may divert the remittance-related websites from their initial purposes.

5.4.3 Evaluation of the Dutch website GeldnaarHuis.nl

Not all websites have been successful in achieving their purposes or in their adoption by the targeted group (migrants and/or remittance users). For instance, the Geld naar Huis website (www.geldnaarhuis.nl) has not yet achieved its expected results. The goal of the website is to improve transparency in the Dutch money transfer market and contribute to cost reduction, but an external evaluation identified several shortcomings. Based upon observations reported in the evaluation, the implementation of an action plan (composed in 2012) is presently underway to improve the website’s success.

5.5 Improvements of the remittance services market

5.5.1 Reaching rural areas through postal networks

Cutting remittance transaction costs and increasing the remittances market’s transparency and competitiveness are the most effective means of helping maximise the flow of hard-earned funds directly to the hands of remittance senders and/or recipients. It is believed that scaling up successful business models and formalising the remittance transaction mechanisms will help reduce transaction costs and leverage remittances for development purposes. With the purpose of addressing these issues and reaching remote areas, the Universal Postal Union (UPU) partnered in 2008 with the IFAD and the French Post to launch a pilot programme in six West African countries (Benin, Burkina Faso, Mali, Mauritania, Niger and Senegal), which has been made possible thanks to the approval of the Postal Payment Services Agreement (PPSA). Given that 30 to 40 per cent of remittances go to rural areas, the Financial Facility for Remittances-funded project aimed to develop a postal money transfer service in the rural areas.

The African Postal Financial Services Initiative was launched in ten additional pilot countries in Africa, promoting postal networks as a valuable resource for all market players involved, as they do not favour any specific operator. Contributing to the enhancement of competition in the African remittance marketplace, the initiative is a joint programme established by the International Fund for Agricultural Development and the EU, in collaboration with the World Bank, the Universal Postal Union, the World Savings Banks Institute/European Savings Banks Group (WSBI/ESBG), and the United Nation Capital Development Fund (UNCDF). As a result, in 2009, 355 rural post offices were connected either directly by Internet (when available) or through the establishment of call centres. Remittances costs decreased and volumes increased between 2009 and 2010 in both North–South and South–South corridors.

Given the success of the African initiatives and building on the lessons learned, the Financial Facility for Remittances and UPU are currently implementing a number of similar initiatives in underserved areas of Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan) and Asia-Pacific (specifically, Asia-Pacific).

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51 As assigned by the Dutch Ministry of Foreign Affairs, Panteia/Research voor Beleid and the Maastricht Graduate School of Governance (MGSoG) have evaluated the migration and development policy since 2008. The evaluation was implemented between February 2012 and May 2012. The current indications on the Geld naar Huis website are taken from the ‘Conclusion and Summary’ document resulting from the evaluation.

52 ‘Extension of international and domestic postal financial services, including remittance-related services, to rural areas of French-speaking countries in Western Africa’, accessible at www.ifad.org/remittances/projects/africa/francophone.htm.

53 The PPSA is an international treaty allowing access to electronic postal payment services to all citizens and migrants workers of the world.

in Cambodia, India, Indonesia, Lao People’s Democratic Republic, Malaysia and Viet Nam). Considering the strong demand for sending remittances to rural areas, the project aims to extend the rural postal networks in these countries to offer affordable and reliable remittance services and to link remittances with other financial services/products (e.g. savings, insurance). Evidence confirms that focusing on rural areas is a winning strategy for postal operators, senders and recipients; however, challenges still remain according to the International Fund for Agricultural Development (2013), for example the existence of exclusive agreements with money-transfer operators that lock the market and a lack of infrastructure (connectivity, access to electricity). These are critical issues that highlight the key role of local states, which should coordinate their efforts with other actors involved in the process of leveraging remittances for development.

5.5.2 The potential of new technologies

With respect to the potential of new information technologies, several projects have been launched worldwide and proved successful in reaching remittances end-users, especially in under-served geographical areas.

**Mobile banking in Georgia, reaching the rural area**

Financed by the Financial Facility for Remittances (International Fund for Agricultural Development), this project focused on the potential for mobile financial services in Georgia. As part of the project, IOM firstly conducted research into the remittance market between Greece and Georgia and examined the demand for mobile financial services and investment opportunities for migrants’ families. The Financial Facility for Remittances (FFR) provided a grant to Crystal Fund, a non-government organisation operating in Georgia, with the purpose of developing a mobile remittance platform. What makes the platform unique is its broad range of key financial actors, including cash service providers and pay-out agents, three Georgian mobile network operators, a microfinance institution, two commercial banks and two money-transfer operators. Interestingly, all present and future partners will have equal access to the system, and mobile phone users are able to move funds from one service provider to another.

The transformative potential of Crystal Fund’s project lies in the nature of the platform in the sense that the project not only addresses the geographical limitations of traditional financial services (urban versus rural), it also provides users with access to a wide range of financial products. The new service is projected to benefit at least 15,000 migrants and their families in rural areas. The project resulted in policy dialogue between the electronic payments industry and the regulator, accelerating the drafting of the new Law on Payment Systems by the National Bank of Georgia. The active support and open regulatory stance of the local government have played a central role in the success of this project. In less than two years, the value of private-sector investment being mobilised has reached ten times the grant amount initially allocated by the FFR, thus conveying the sustainability of the model.

**Usefulness of inclusive partnerships**

Building strategic partnerships is one of the critical conditions to ensure the success of any project, as actors come from very diversified sectors and can greatly enhance the technical and human capacity needed. For instance, the African Foundation for Development (AFFORD) worked closely with three local money-transfer operators to facilitate the use of an innovative online remittance platform and create tangible links between remittances, enterprise development, investment and personal savings in Sierra Leone. The RemitPlus™ project aims to link remittances to financial literacy, small-scale business investment and general access to finance. Funded by the International Fund for Agricultural
Despite some successful achievements made possible through electronic means of money transactions, evidence shows that some critical obstacles are impeding innovative technology mechanisms. Multiple jurisdictions, technical issues (e.g. languages), criminal activities (e.g. fraud, money-laundering, financing of terrorism), lack of government identification, compliance and control requirements, and reciprocal understandings between different institutions all create challenges for both remittances users and policymakers. With regards to the real-time transaction across borders, risk management is indeed a critical process for preventing any form of unusual activity by senders or receivers. Furthermore, frequent check-up and due diligence overviews of the electronic mechanisms should be encouraged to avoid system dysfunctions.

5.6 Remittances-linked products

5.6.1 Moldova: Improvement of financial literacy for remittances users

Implemented for the period of February 2010 to March 2011 by the Frankfurt School of Finance & Management and the Rural Development Center (RDC), the ‘Improvement of financial literacy for remittance users in Moldova’ project aimed to increase financial literacy in rural Moldova for both senders and recipients. In partnership with Germany and funded by the EU and UN, the project provided financial training and encouraged the use of remittances for investment and savings. This helped to enhance the families’ ability to address future economic difficulties and anticipate a possible decline in income during crisis.

The key success factors of this project lie in the coaching sessions on different financial aspects of the savings and credit associations (SCAs) managers, mainly Moldavians. Bringing people to understand the risks associated with times of economic or financial crisis, this kind of project is of great value especially in consideration of the amount of remittances received by Moldova (24.6 per cent of its GDP); however, a financial literacy project should be linked to other relevant financial products and services that are made accessible to remittances senders and recipients, otherwise their improved literacy will be irrelevant.

5.6.2 Remittances and rural development in the Dominican Republic

Co-funded by the International Fund for Agricultural Development and the Multilateral Investment Fund of the Inter-American Development Bank, the ‘Remittances and rural development in the Dominican Republic’ project was implemented from 2005 to 2010 by the Banco de Ahorro y crédito (ADOPEM). The project developed a regulated system so as to bring remittances’ senders and recipients into the Dominican Republic’s banking system and channel remittances into production-oriented investments executed primarily by low-income women mainly in rural sectors. The project has been showcased in the GIZ Handbook (2012) because it helped microfinance institutions

56 See www.migration4development.org/content/moldova-improvement-financial-literacy-remittance-recipients-and-senders.
successfully introduce remittances and remittance-linked products. It has effectively included components such as: (i) market survey; (ii) linking activities between banks, money-transfer operators and microfinance institutions; (iii) development of a remittances platform (IT); (iv) development of specific marketing material; (v) product development; and (vi) education financial literacy and entrepreneurship of migrants and recipients.

The project did, however, face some problems. Creating a partnership with a money-transfer operator was the main obstacle during project implementation, as the targeted money-transfer operator had been sold. In addition, the regulatory requirements did not allow microfinance institutions to launch remittance products. Lowering the remittances’ costs was not feasible, as ADOPEM became a paying agent of a money-transfer operator that kept control of the fees charged to clients. It has been found easier and faster to increase remittances paid out than sell other products to remittance clients. Lessons learned from this project include that market research and the services developed should be adapted to the targeted area.

5.6.3 Channelling remittances to small enterprises in Bangladesh

Co-financed by the Remittances and Payment Challenge Fund (RPCF, financed by the Department for International Development and Bangladesh Bank) and Oxfam Novib, the present project has been executed by the International Network of Alternative Financial Services Bangladesh in consortium with five member microfinance institutions in Bangladesh from 2008 to 2010 (IFAD, 2013:70–73). Showcased in the GIZ Handbook, this project is considered somewhat successful, as it reached out to a significant number of entrepreneurial migrants, beyond remittances and financial training. The objective was to provide institutional support to moderately poor recipient families and returnee migrants to use remittances in productive investments (small and medium enterprises). These families did not have alternative sources for business loans and were identified as being part of the ‘missing middle’. More specifically, the project encouraged the target group to invest a portion of received remittances and provided support to the target clients (skills and business development services).

The key factors for success were the close cooperation with the microfinance institutions (rolling out the training to entrepreneurs and offering micro-loans), as well as the raising of stakeholders’ awareness regarding the development of the concepts of micro-, small- and medium-sized enterprises. Furthermore, developing a product in between microfinance institution loans and bank loans (as appropriate for the ‘missing middle’) was important because microfinance institutions did not have sufficient funds and banks were reluctant to take on clients considered high-risk. The success of the project, however, has been mixed with regards to the many stakeholders involved and its high cost due to the outsourced consulting for training activities. Improving target group screening and business selection techniques will help to speed up the process and improve its cost-effectiveness. Finally, sustainability from the perspectives of both migrant-entrepreneurs (to prevent over-indebtedness) and the financial institutions involved should be assessed before implementing the project.
5.7 Prospective of leveraging remittances for climate financing

The EU Accountability Report 2013 on Financing for Development indicates that discussions on appropriate funding to enable and support developing countries and address adaptation challenges and implement migration commitments will be a key element of the climate change negotiations under the UN Framework Convention on Climate Change (UNFCCC) and of the 2015 International Climate Change Agreement. Based on policy coherence between developed and developing countries, the range of potential sources for mobilising international financing for climate change considers, among others, new and innovative sources, including notably remittances. From this perspective, a forthcoming PhD thesis in the Climate Change Impacts and Management programme at Cà Foscari University (Venice) is trying to re-design a ‘matching-fund mechanism’ for remittances to be channelled for climate adaptation. Inspired by the Mexican program ‘3 por 1’ (for each ‘migradollar’ invested in a community project, the public sector would add another three), this financing mechanism may leverage small volumes of remittances for small community projects. Through the funds established under the UNFCCC (e.g. Adaptation Fund, Green Climate Fund, the Least Developed Countries Fund, Special Climate Change Fund), these facilities can be scaled up around the world to respond to climate challenges.

5.8 Prospective research and policy development

The previously mentioned projects give insight into the kinds of measures taken at the EU level and worldwide. All of these initiatives or policies are relevant, but their effectiveness and success strongly depend on the local conditions of the targeted region. The most direct way to maximize the potential of remittances with respect to their private nature is to reduce the transaction costs. Almost all of the EU Member States have launched initiatives to lower remittances transfer costs in their respective corridors. With regards to the set of existing projects, however, some areas appear not to have been addressed or have been addressed in a very limited manner at the level of EU and its Member States. While more attention should be drawn on them, these concerns are related to the following conditions:

(i) The access of undocumented migrants to remittances services providers and financial services in destination countries. This matter has not been generally addressed at the EU level and should be harmonised among EU countries. For now, the only arrangement observed is the one signed between the European Investment Bank and Mediterranean developing countries to allow this group of migrants in EU countries access to the simplified banking facilities upon presentation of consular registration cards (UNCTAD, 2013). Such actions should be extended to migrants coming from countries other than Mediterranean developing countries, especially those coming from the (post) crisis or conflict areas. This will help to improve not only the integration of migrants in host countries, but also improve their potential in the event of a return and increase their ability/willingness to contribute in the capacity building of their homeland.

(ii) The money transfer regulations' effects on the remittances market in (post) crisis/conflict regions. Anti-money laundering and combatting the financing of terrorism regulations obstruct the development of remittance markets, undercut efforts made to increase transparency and increase transfer costs. The multiple legislations as well as inconsistent definitions and/or uses of terms lead to a problematic execution of regulations. Although the EU Member States are

58 A dollar sent home by a foreign migrant worker (especially to Mexico).
harmonising concepts related to the money transfer market (notably through the implementation of the Payment Services Directive), there is still incoherence across jurisdictions (e.g. Payment Services Directive versus Fund Transfers Regulation). The increasing complexity does not ease remittances markets in some countries that do not have appropriate institutions due to a long-run crisis. In turn, the lack of effective infrastructures does not allow these countries to meet the legal requirements and thereby limit the local remittances market (e.g. in the case of Somalia). In collaboration with its international partners (especially the Financial Action Task Force) and the main actors or agencies concerned by the (post) conflict regions, the EU should further address this vicious circle. Simplifying the jurisdictions may enhance the money transfer market not only at the EU or Organization for Economic Co-operation and Development (OECD) levels, but also worldwide, as these regulations impact the global market and thereby remittances flows in other countries outside EU and OECD States.
6. PART V: RECOMMENDATIONS

Governments, institutions and civil society are interested in mobilising remittances, as illustrated by the growth in initiatives targeting the financial and human capital of migrants and diasporas. From socioeconomic to financial and legal dimensions, this study addressed a number of questions that are central to the policy making-process on remittances: How can remittances be incorporated in development strategies? What appropriate environment and incentives can be developed to support and maximise the remittances' benefits for developing countries? What are the partnerships frameworks available for migrants and policymakers in origin and destination countries?

Answering these questions requires a better understanding of remittances and related policy roles with respect to migrants' needs and priorities. Part V of this report describes recommended courses of actions that the EU (European Parliament) could or should encourage or implement, in light of the post-2015 financing agenda. Acknowledged by multilateral experts, governments and migrants' associations, these suggestions can be summarised as:

- Address barriers to remittances markets resulting from the money transfer regulations;
- Harmonise data collection and definitions related to remittances;
- Build on collaboration with migrants and diasporas, with respects to their rights, and improve their quality of life in host countries;
- Achieve a multi-dimensional synergy between stakeholders and ensure a policy coherence;
- Design appropriate policies, based on realistic objectives, tools and timeframes, that aim to facilitate the flow of remittances more reliably and at the lowest cost, develop remittances-related products (i.e. savings, insurance contributing to social protection for households) and foster access to financial and business services, thus stimulating the local economies of the communities of origin;
- Adopt an integrated and inclusive financing approach for the post-2015 development agenda, including diversified sources of capital to developing countries; and
- Improve the national infrastructure settings in developing countries.

6.1 Address barriers resulting from money transfer regulations

As previously described in this report, money transfer regulations obstruct the development of remittances markets. Small money-transfer operators are being affected (closed down) by wider AML/CTF regulations restraints, while small money-transfer operators play a vital role in ensuring money transfer in contexts where there is no banking system. Large financial institutions (e.g. Western Union) stand to benefit from the closing down of small money-transfer operators, leading to a monopolistic situation in developing countries. Occurring mainly in (post) conflict countries that lack a proper banking system, this issue will definitely require a long-term solution.

In response to the outcry from Somalia and South Asian Communities regarding the effects of Barclay's decision to close the accounts of several small money-transfer operators, the Department for International Development (UK) has set up an action group on safe cross-border remittances with a one-year timetable and a cross-cutting group of stakeholders. The Department for International Development will work with the World Bank to support the development of a pilot scheme to test
and establish audit mechanisms to track payments at the sending, clearing and receiving stages of the remittance process and train money-transfer operators in Somalia over one year.59 As stated by the UK Financial Secretary of the Treasury, ‘the right approach to tackling money laundering and terrorist financing should support a healthy and growing money transfer sector, rather than stifling legitimate money flows or financially excluding honest customers.’60

Additional actions to protect remittances customers could include creating a ‘trust account’, which would be completely separated from the business accounts of money-transfer operators. When sending money through the money-transfer operators, only commission fees (for example, 5 per cent of the total amount remitted) will go into the money-transfer operator’s business account, while the rest (95 per cent) will go into the trust account. This may help to avoid abuse from money-transfer operators, as they will touch only 5 per cent of the remitted money and 95 per cent will directly go to the recipient.

The above actions could be spread at the EU level through, for instance, the Development and Co-operation Directorate-General, who could serve as a focal point for bringing together the different stakeholders and sectors involved in the remittances industry (e.g. banking, legislative, migration, telecommunications, representatives of governments). Furthermore, the European Parliament could encourage the appropriate legal and banking bodies to review and harmonise existing laws regulating the money transfer market and/or to adopt a nuanced approach specific to (post) crisis contexts. For example, a guidance report from the European Central Bank could be shared among the national banks of EU Member States. To make the legal requirements more realistic in such remittances corridors, specific rules to facilitate small and medium money-transfer operators as well as innovative transaction means (e.g. mobile banking) could be further promoted at the EU level. Such actions will contribute to fostering a safe and efficient money transfer market in developing countries, particularly in the (post) crisis or conflict regions.

6.2 Harmonise data collection and definitions

A number of issues regarding remittances data have been highlighted, for example accessibility to qualitative and quantitative data, definitions of concepts and methods, and the coherence of processes. Data are not gathered in the same way within the EU, and not all EU countries proceed with remittances data collection. The minimal implementation of the Luxembourg Group’s Compilation Guide for Remittance Statistics by EU Member States and its non-prescriptive nature do not promote consistent data at the Member State level. In the same vein, the lack of effective adherence to the Committee on Payments and Settlement Systems of the World Bank’s General Principles for remittances does not lead to a harmonisation of processes. Furthermore, while some corridors (mainly North–South) have been the subject of substantial research, other corridors (e.g. South–South) face problems regarding the consolidation of reliable databases on remittances. While the Payment Services Directive may help to generate more accurate data within EU countries, this may not necessarily be the case for the non-EU countries as the Payment Services Directive concerns only EU States. Therefore, there are some key elements that the EU (Eurostat, European Parliament) could consider to help improve remittances databases, which in turn may facilitate the comparison and consistency of data:

59 See www.theguardian.com/global-development/2013/nov/05/somali-remittances-dahabshiil-barclays-bank.
- Harmonise definitions and methods regarding remittances data at a high institutional level, including both origin and destination countries (actions in the EU are already on track to do this, notably with the BPM6 Manual).

- Encourage EU Member States to effectively implement the Luxembourg Group’s Compilation Guide for Remittance Statistics, as well as the Committee on Payments and Settlement Systems of the World Bank’s General Principles for Remittances.

- Address the non-EU countries’ concerns related to the implementation of the Payment Services Directive, which may impact the relationship between non-EU countries and EU Member States. According to information currently available, a second Payment Services Directive is being negotiated with EU partners.

Enhance transparency and research on South–South corridors through a solid partnership between for example Eurostat and the African Institute of Remittances or the African, Caribbean and Pacific Observatory. Regular efforts are needed to foster partnerships at and between all levels (i.e. national and transnational, remittances services providers in both home and host countries).

6.3 Build on collaboration with migrants and diasporas

Remittances are private funds and their primary purpose is not to support national economic development. Accordingly, it is crucial to understand how remitters and/or their relatives use them and in what kind of development activities they would be most likely to invest. This implies working directly with migrants and diasporas, while addressing together the specific obstacles that may prevent the use of remittances to facilitate developments. Furthermore, EU policymakers should bear in mind the diversity of migrants’ expectations and strategies. While they are usually perceived as having a collective identity, migrants should not be considered as a homogenous entity. The diversity and heterogeneity of migrants as a group will certainly challenge policies that aim to leverage remittances for development in countries of origin. Critically, migrants and diasporas can also be negatively perceived by both home and host countries. While suspicion and reluctance may prevail in the relationships between migrants and their countries of origin, stigmatisation or discrimination may negatively influence their integration and consideration in the destination country. It is clear that the identification of migrants as development actors is linked to the improvement of their living conditions (e.g. housing, education, employment, social networks) in host countries. As such, EU policymakers should consider the following course of actions:

- Ensure a better, more inclusive integration of migrants and diaspora groups in the host society and labour market to foster their contribution to both home and host countries. This implies reducing migration costs (personal, social and economic), improving migrants’ quality of life and addressing irregular or undocumented migrants.

- Build on ‘direct’ collaboration with migrants with regards to their needs and rights and avoid an instrumentalist approach. Rather than focusing on monetary remittances, consider the wide range of migrant capital (human, social, economic and financial) and facilitate their decision-making power regarding their contributions, as they are familiar with their homeland context.

- Address the obstacles (e.g. dual citizenship, voting, property rights) impeding migrants’ commitment to support government activities in the origin country and strengthen their ability as agents of change.
6.4 Achieve multi-dimensional synergies and policy coherence

In some cases, remittances lose their potential because they are targeted at the same time by policies in both the home country and the host country. Typically, taxation of the same remittances flows in host and home States demonstrates a lack of collaboration. While they benefit governments, such taxes will inhibit the remittances’ potential to enhance the living conditions of recipients and to reduce the severity of their poverty. The remittances industry involves numbers of stakeholders and covers various sectors, such as migration, banking, development and telecommunications; therefore, maximising remittances’ outcomes and achieving policy coherence will require an outstanding collaboration between the set of stakeholders and sectors. To ensure internal (i.e. national) and external (e.g. between countries, institutions, sectors) policy coherence and to avoid duplication, key recommendations are as follows:

- Establish a coordinating body (within the EU, for example the Development and Co-operation Directorate-General) that could take ownership of the remittances agenda, enact the remittances strategies and coordinate projects among Member States;
- Encourage dialogue and reciprocal understanding between destination and origin countries, notably in identifying the areas requiring urgent actions based on the needs of the people; and
- Promote comprehensive partnerships between actors coming from different sectors when designing remittances policies (e.g. telecommunications and migration).

6.5 Design appropriate incentives and policies

As private flows, remittances can only be leveraged via incentives that preserve migrants’ rights while enabling them to make use of their earnings in pro-development ways. Projects should be based on the local population needs and priorities. For instance, financial inclusion may be appropriate and successful in some cases, but may be totally irrelevant in others. Bearing in mind these sociocultural disparities, policymakers should design programs that could attract a wide range of migrants and empower local people, based on realistic objectives, tools and timeframes. The following proposals may help to identify how and where remittances can add value to the financing development agenda:

i) Create an enabling environment for lowering remittances costs. While international leaders made several times commitment to reduce the costs of remittances to 5% (the 5x5 objective) until 2014, the average costs of sending remittances from EU is still above global average and stands at about 10%. This very clear goal has not yet been achieved whilst it is recognised to be the most direct action to enhance the development potential of remittances. Achieving this goal, will therefore require to:

- Address the political economy aspects and the reasons why it is difficult to make progress on the 5x5 commitment as well as improve countries’ track-record in achieving the 5x5 objective. Considering the potential trade-offs between the various and multifaceted policy

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61 The 5x5 objective was endorsed in 2010 by the G8 and again in 2012 by the G20 leaders and represents a commitment to reducing the global average cost of sending remittances by 5 per cent within 5 years.

62 For more details on the reasons for a lack of good track-record in achieving the 5x5 goal, see the study of Isaacs et al. (2012).
areas engaged by the remittances sector, EU Member States and the EU institutions will obviously need to intervene more cross-sectorally to make progress;

- Increase transparency and competition in the remittances markets as well as make efforts to reduce or avoid exclusive agreements and taxation measures on remittances;
- Identify incentives to better involve remittances services providers as well as make sure that formal mechanisms benefit to remittances-users and are not (only) serving mercantile objectives of operators; and
- Improve the infrastructure for domestic and cross-border payments (with new technology-driven solutions being of the highest value, broadening the geographical reach of remittances services providers). Being of value under certain circumstances, possible benefits of informal channels need to be highlighted rather than aiming to formalise all transactions.

ii) Adapt a gradual approach in the implementation of money transfers regulation. This requires governments to:

- Ensure a correct level of regulation with regards to the local context in developing countries by assessing the impacts of regulations on the remittances market and their end-users and removing barriers; and
- Rather than closing down some remittances services providers or other payment services, help local remittances services providers improve their capacity to meet regulatory requirements.

iii) Link remittances to other financial products (e.g. savings, insurance, housing, education, health, financial inclusion/literacy, small and medium enterprises). In doing so:

- Choose appropriate policy tools based on the sociocultural context and people's needs; and
- Assess major obstacles (e.g. structural and economic settings, sociocultural and political contexts, regulation) to policies channelling remittances for development and identify solutions.

iv) Evaluate projects' impacts on beneficiaries and societies and promote practical policy guidelines.

v) Assess and raise awareness on the shortcomings of relying on remittances policies.

6.6 Adopt an integrated and inclusive financing approach

Going far beyond economic and monetary dimensions, knowledge and social remittances should be more valuable in promoting development in communities of origin. Migrants possess a wide range of skills and could offer very diversified services for the benefit of both home and host countries. It would be a loss not to consider this full package of migrants' potential. Positive and comprehensive interactions between migrants/diasporas and governments (of home or host countries, in developed or developing states) should be further promoted to avoid an instrumentalist approach embraced by policymakers who may only be interested in ‘tapping into migrants' money’.

Unquestionably, migrants’ resources should not be viewed as substitutes for official funds, nor as funding for concrete national and structural reforms. Policymakers should bear in mind that not all families or households receive remittances. To address the unmet needs of the poorest and most exposed people in developing countries, official funds (i.e. national revenue, FDI, ODA) remain essential. Migrants’ remittances should be considered only as secondary resources supporting these
official sources of the national incomes. At this stage, the key recommendation would be that the EU (European Parliament) encourages its Member States to respect their commitments regarding the ODA and to strive to make them more effective.

6.7 Improve the national infrastructure settings in developing countries

In recipient countries, local macro and micro socioeconomic factors will influence the success of policies targeting remittances, with regards to the level of trust that migrants and diasporas have in the national institutions and their governance. Indeed, a fear of corruption, a lack of trust, political instability, underdeveloped markets and poor investment climates appear to be the main obstacles in implementing projects leveraging remittances for development. Even a well-designed project may not succeed if national macroeconomic preconditions are unfavourable. Accordingly, the EU could contribute to enhancing the capacity building of recipient countries via the following measures:

- Improve physical infrastructures (e.g. technology, transportation and communication means, Internet, electricity), which can lead to more cost-effective remittance transfers;
- Strengthen the national expertise (training and skills development of local people, e.g. in the case of financial literacy inclusion or other remittance-related products);
- Promote the right conditions (e.g. reducing bureaucracy and corruption, reform of judiciary system, fair competition) to invest in small- and large-scale businesses, which enhance job creation; and
- Increase synergies between national and sub-national (local) levels, as such collaboration is more likely to promote a better implementation of national policies, taking into account local realities and preventing disparities between rural and urban areas.
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