The Impacts of Remittances on the economy of Developing Countries

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OUTLINE

- Background
- Impacts of remittances
- The Money Transfer Market
- Main issues in developing countries
- Measures leveraging remittances for development
- Perspectives for the Post-2015 Financing Agenda
- Recommendations and ideas
BACKGROUND

- “Remittances are 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 their home country”.

- Remittances flows to developing countries have reached USD 414 billion in 2013 (World Bank, Migration and Development Brief, No 21, 2nd October 2013)

- Aim of the study
  - Assess the development impact of remittances in developing countries
  - Propose recommendations in the framework of the post-2015 agenda on financing for sustainable development

- Limitations of the study
  - Lack of data and recent research
  - Review of the existing literature
  - Time constraints
# IMPACTS OF REMITTANCES

<table>
<thead>
<tr>
<th>Positive impacts</th>
<th>Negative impacts</th>
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<tbody>
<tr>
<td><strong>Micro level</strong> (individual/household level)</td>
<td><strong>Generate a demand for imported goods;</strong></td>
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<td>- Afford basic needs (food, healthcare, education, housing);</td>
<td><strong>Increase the local prices;</strong></td>
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<td>- Face risks (accidents, illness);</td>
<td><strong>Exacerbate inequalities between recipient and non-recipient households;</strong></td>
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<td>- Afford social/family events; gain prestige, power and resources (social or material advantages).</td>
<td><strong>Foster dependency links between senders and recipients;</strong></td>
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<td></td>
<td><strong>Put pressure on senders.</strong></td>
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<td><strong>Macro level</strong> (national)</td>
<td><strong>Currency appreciation, with negative consequences on exports;</strong></td>
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<td>- Increase national income if remittances are transferred through formal channels;</td>
<td><strong>Destabilisation of weak economies;</strong></td>
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<td>- Recipient countries gain creditworthiness;</td>
<td><strong>Rise in inflation;</strong></td>
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<td>- Boost local economies.</td>
<td><strong>Aggravate regional inequalities between receiving and non-receiving areas;</strong></td>
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<td><strong>Contribute to the privatisation of services that could/should be delivered through public means.</strong></td>
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# The Money Transfer Market

## Opportunities

<table>
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<tr>
<th>Formal channels</th>
<th>Challenges</th>
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<tr>
<td>(MTOs; banks, post offices, MFIs, NTT including mobile-banking)</td>
<td>- Lack of transparency and competition;</td>
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<td>- Additional fees charged by banks or MTOs;</td>
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<td>- Limited appropriate infrastructures;</td>
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<td>- Complex regulatory environment;</td>
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<td>→ Cost inefficiencies</td>
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<td>- Non-accessible to undocumented migrants.</td>
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<td>→ Increased uses of informal means</td>
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<td>→ Weaken remittances data collection</td>
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## Opportunities

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<th>Challenges</th>
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<td>(Hawala, couriers, travelling with money, friends, families)</td>
<td>- Exacerbate the lack of remittances data;</td>
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<td>- Weaken a country's creditworthiness and financial inclusion;</td>
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<td>- Possible means for criminal and terrorism activities, tax evasion, etc.</td>
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- Security and reliability;
- Larger geographical reach;
- Deepen the financial intermediation of a country.
MAIN ISSUES IN DEVELOPING COUNTRIES

- Transparency and Consumer protection
- Lack of appropriate local infrastructure and expertise
- Lack of competition and costs inefficiencies
- Complex regulatory environment of the money transfer market
  - Close down of small MTOs
  - More uses of informal means
- Lack of sound data collection on remittances
MEASURES LEVERAGING REMITTANCES FOR DEVELOPMENT

- Harmonisation of data collection, concepts and methods
- Improvement of south-south remittances corridors
- Practical manuals and handbooks
- Remittances price comparison websites
- Improvement of the remittance services market
- Remittances-linked products
- Leveraging remittances for climate financing
- Prospective research and policy development
  - Access of undocumented migrants to RSPs and financial services in destination countries
  - The money transfer regulations’ effects on the remittances market in crisis/conflict regions
PERSPECTIVES FOR THE POST-2015 FINANCING AGENDA

- Relationships between remittances, ODA and FDI
  - The 2nd largest source of external financial flows to developing countries
  - Resilience of remittances during the global crisis compared to the other flows

- Role of remittances in the post-2015 Financing Agenda
  - Possible innovative source of financing for development
    - But, remittances are private capitals of migrants
    - Priority: respect of migrants’ rights and needs
  - Remittances /= substitute for ODA, FDI
  - Key-role of national revenues and local government in origin countries

- Beyond remittances: the well-being of migrants
  - Avoid an instrumentalist approach of migrants and their resources
  - Enhance direct partnerships and cooperation with migrants
  - Promote constructive policies that benefit migrants themselves
RECOMMENDATIONS AND IDEAS

- **Address barriers resulting from money transfer regulations**
  - Harmonise the money transfer laws and adopt a nuanced approach in (post)-crisis contexts

- **Harmonise remittances data collection and definitions**
  - Coordinate implementation of processes at EU, Member States and international levels
  - Enhance transparency in the South-South corridors

- **Build on collaboration with migrants and diasporas**
  - Ensure a better understanding and integration of migrants in the host country
  - Address the obstacles impeding migrants’ commitments in the origin country

- **Achieve multi-dimensional synergies and policy coherence**
  - Set up a coordinating body in charge of the remittances agenda at the EU level
  - Encourage institutional cooperation between destination and origin countries
  - Promote comprehensive partnerships between different sectors

- **Design appropriate incentives and policies**
  - Increase transparency and competition → reduce transaction costs
  - Avoid taxation measures on remittances

- ** Adopt an integrated and inclusive financing approach**
  - Remittances ≠ official funds, international aid

- **Improve the national infrastructure settings in developing countries**
  - Improve physical infrastructures/institutions; and, strengthen the national expertise
  - Encourage collaboration between national and sub-national (local) levels
Thank you

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