

**STANDING COMMITTEE ON PROGRAMMES AND FINANCE**

**Nineteenth Session**

**REMITTANCES: SOCIOECONOMIC OPPORTUNITIES AND CHALLENGES**



## REMITTANCES: SOCIOECONOMIC OPPORTUNITIES AND CHALLENGES

### Introduction

1. This document has been prepared in response to the interest expressed by IOM Member States in the social and economic opportunities and challenges that remittances represent (see document IC/2016/1). It builds on a previous document, entitled Lowering the costs of migration – Remittance transfer and recruitment costs (S/15/4), which focused on why remittance transfer costs were high and IOM's role in reducing those costs.

2. Document S/15/4 looked at the social costs incurred by remittance senders, typically low-skilled migrant workers who incur substantial risks and/or make sacrifices in order to be able to migrate and send money back home. The document also analysed the reasons for high remittance costs and suggested actions to reduce those costs. As reducing remittance transfer costs became one of IOM's priorities, the Director General established the multidivisional internal Remittance Task Force, which meets regularly and examines the various measures that IOM can implement to lower transfer costs.

3. This document comprises a broader, more comprehensive analysis of remittances, their use in countries of origin and their contribution to development. It documents some of the wider socioeconomic challenges and opportunities that remittances represent, and analyses how IOM can most effectively maximize the development benefits of remittances and counteract some of the negative consequences. The IOM Position Paper on Remittances (July 2015) and the related IOM Guidance Note on Remittances (IN/234, which entered into force on 5 March 2016) provide specific instructions to IOM staff on the standards to be applied in remittance-related programming.

### Remittances and their impact on development

4. IOM's programmatic diversity and extensive field presence give it a unique and comprehensive perspective on the complex and multifaceted nature of migration, a phenomenon that cuts across a host of interrelated issues. Remittances are one of a wide array of migration-related parameters affecting development, and should be analysed on a case-by-case basis rather than taken as a key determinant of migration and development approaches.

5. In this context, remittances are understood to be multidirectional, voluntary and private international monetary transfers made by migrants, individually or collectively, to people with whom they maintain close links.<sup>1</sup> The principle that remittance senders and recipients are free to decide on the use of these private funds is also central to IOM's work. The financial earnings of migrants can be spent, invested or saved in both destination and origin countries. This document does not cover the opportunities and challenges linked to migrant and diaspora investment; rather it considers the promotion of financial literacy and services that promote financial inclusion, specifically for remittance senders and recipients.

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<sup>1</sup> This definition is taken from IOM's Position Paper and Guidance Note. In the IOM *Glossary on Migration* (2nd edition, International Migration Law Series No. 25, 2011), remittances are defined as "Monies earned or acquired by non-nationals that are transferred back to their country of origin". This definition is being revised to reflect the broader content of the concept.

6. When examining the effect of remittances on development, it is useful to differentiate between the impact of remittances at the individual or *micro* level (migrants and their families), at the community or *meso* level, and at the whole-of-economy/country or *macro* level. IOM can then design its activities at the appropriate level.

### ***Opportunities***

7. At the *macro* level, large inflows of remittances increase national income, can stabilize national balance-of-payments accounts, and augment the creditworthiness of recipient countries in international credit markets, where remittances are transferred through formal channels. At the *meso* level, local economies are boosted by remittances, which stimulate consumption and demand for local goods and services, thereby fostering job creation. Remittances can also potentially increase the amount of local capital available for reinvestment in businesses.

8. At the *micro* level, remittances allow recipient households to pay for basic needs, such as food, health care, education and housing. They enhance the ability to withstand risks such as unemployment, disability, accidents and illness, and resilience to external events such as climate change.<sup>2</sup> Remittances have an impact on the social standing and prestige of recipient families, whose improved access to material resources allows them to celebrate social/family events, strengthen social networks, and partly redress social disadvantages.

9. Families receiving remittances have increased household savings resulting from higher disposable income. Research has shown that, as the amount received increases, the number of families setting aside savings, opening bank accounts and participating in other financial activities also rises. Financial inclusion requires making financial systems more inclusive and responsive to the needs of remittance-receiving households, who need improved access to properly regulated, reliable and efficient financial services and products to ensure that they are equitably treated and can benefit from the most cost-efficient services.

10. IOM is active primarily at the micro and meso levels, working in partnership with civil society organizations, and even microfinance institutions, to provide financial training to remittance recipients, and often to entrepreneurs, as a way of assisting them to set up small-scale businesses. Some civil society and private sector players need to strengthen their own capacities, so that they can provide counselling and advice to their clients or beneficiary groups. IOM has a role to play in bringing together the various stakeholders and ensuring a coordinated approach, at the community level, through the use of tools such as the My JMDI Toolbox produced in 2016 by the Joint Migration and Development Initiative. It can also help ensure that government policies are coherent and support the development of financial instruments that are responsive to the needs of remittance receivers.

### ***Challenges***

11. Some of the possible negative impacts of large remittance flows on countries of origin at the macro level include currency appreciation, which affects exports, and aggravated regional inequalities between receiving and non-receiving areas. At the meso level, remittances can exacerbate social tension in communities as the gap between those receiving and not receiving remittances widens. Concentrated investment in real estate can inflate local prices for land,

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<sup>2</sup> This is not always the case, however. Research conducted in the immediate aftermath of the Nepal earthquake in 2014 did not prove a conclusive link between the ability of earthquake-hit households to withstand such shocks and remittance income.

property and construction materials. Remittances can also generate a demand for imported, rather than locally produced goods. At the micro level, remittances can foster dependency between recipients and senders, putting pressure on senders and worsening their living conditions in the sending countries. Similarly, the amounts that a sender can remit can be affected by currency devaluations and economic downturns in the sending country.

12. IOM offers financial literacy training for both senders and recipients. The training helps raise awareness of how families can use remittances for education, vocational training and small business investment, with the aim of reducing remittance dependency. Gender dynamics are an important consideration in the design of financial literacy courses. As remittance senders, women migrants remit higher proportions of their income more frequently. As remittance receivers, they allocate more resources to children.<sup>3</sup> The assumption that women are empowered to make financial decisions when their partners migrate is not always true; depending on the social dynamics in the country concerned, migrant husbands may appoint other relatives to control how remittances are spent. Financial literacy measures need to be cognizant of these factors.

13. One of the key challenges still to be resolved is the cost of remittance transfers, which remains stubbornly high in certain corridors. Sub-Saharan Africa, with an average cost of 9.5 per cent, is the highest-cost region.<sup>4</sup> This particular challenge was discussed in document S/15/4, which suggested that the reasons for the high costs were essentially threefold: (i) the international regulatory framework; (ii) the lack of competition between money transfer operators; and (iii) the lack of transparency about costs. The responses outlined in the document included developing the financial infrastructure for remitting money by engaging in multilateral partnerships to promote the use of mobile telephone banking services and post offices. The document also identified the need to provide information to remittance senders about actual transfer costs in the form of more accurate real-time data.

### ***Remittances within the wider development framework and the 2030 Agenda***

14. The 2030 Agenda for Sustainable Development sets a specific target (10.c) for Sustainable Development Goal 10: “By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent”. IOM has taken direct action to address this target, launching specific programmatic activities in high-cost migration corridors and developing better and more accurate data to measure transaction costs.

15. Target 10.c is part of a comprehensive set of goals that recognize the responsibility of governments to provide all sectors of the population with social protection, including public services such as education (Goal 4) and universal health care (Goal 3). Remittances will not necessarily result in development, if governments are not fully engaged in the provision of basic services and functional social security, health and education systems. They have the potential to contribute to the beneficiaries’ well-being when they are an additional, rather than sole or primary, source of income.

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<sup>3</sup> T. Tullao, M.A. Cortes and E. See, *The Economic Impacts of International Migration: A Case Study on the Philippines* (Center for Business and Economics Research and Development, De La Salle University, Manila, 2007).

<sup>4</sup> D. Ratha et al., *Migration and Remittances – Recent Developments and Outlook*, Migration and Development Brief 26 (World Bank, Washington, DC, April 2016). Available at: <http://pubdocs.worldbank.org/en/661301460400427908/MigrationandDevelopmentBrief26.pdf>.

### **Core considerations in IOM programming/partnerships**

16. IOM is attentive to the conditions under which remittances are earned, sent and used. When engaging in programming/partnerships, it bears in mind three core considerations with a view to maximizing the benefits of remittances for development:

- Promote the well-being of migrant workers, so as to ensure that remittances are earned through decent work conditions;
- Reduce remittance transaction costs;
- Improve access to financial services through financial inclusion.

These three considerations are clearly expressed in various programmatic areas, as described below.

#### ***Promoting the well-being of migrant workers***

17. Migrant well-being is acutely affected by the circumstances under which the migration takes place and the conditions of employment in the country of destination. The conditions under which remittances are earned are critical throughout the migration cycle, but especially at the recruitment stage and when the migrant worker is in employment. Implementation of, and adherence to, fair recruitment practices and decent work conditions, in accordance with international standards, are core elements in promoting ethical recruitment and thus minimizing abuse and exploitation. For the Nineteenth Session of the Standing Committee on Programmes and Finance, IOM has also prepared a document on promoting the ethical recruitment of migrant workers (document S/19/5) and how this helps increase the benefits of migration for development.

18. IOM provides migrants with tailored pre-departure orientation training, which can be an important vehicle for making migrant workers aware of concerns that may arise during the migration process, such as employment contracts, access to grievance mechanisms, and skills development. The training can also provide information on the destination country, including the most cost-effective remittance channels. Such training will often include components designed to enhance financial literacy (see below).

#### ***Reducing remittance costs***

19. IOM's role in reducing remittance transfer costs was examined in depth in document S/15/4, which presented examples of IOM pilot projects to that end. Moreover, the Director General established the Remittance Task Force in January 2014 primarily to examine and take forward initiatives promoting more cost-efficient money transfer mechanisms and more transparent, accurate remittance data, which can be used to identify the best-value money-transfer operators.

#### ***Improving access to financial services through financial inclusion***

20. Financial inclusion requires making financial systems more inclusive and responsive to the needs of different groups, in this case remittance senders and receiving households. The enhanced capacities of remittance-receiving households to save is not typically matched by financial products such as payment, savings, credit and insurance services, which are not usually available to people with low incomes.

21. Low-income families need better access to properly regulated, reliable and efficient financial services and products, in order to ensure that they are equitably treated and can benefit from the most cost-efficient services. Such services should be locally accessible and tailored to the needs of remittance recipients. Furthermore, the financial conditions attached to these products – including interest and commission rates, and interest payment dates – should be clear to the customers. These points are set out in detail in the *Handbook to Develop Projects on Remittances*<sup>5</sup> jointly developed by IOM and FIIAPP (International and Ibero-American Foundation for Administration and Public Policies).

22. The following are some examples of IOM activities in the area of financial inclusion:

- The project entitled Private Sector Participation in Labour Migration Management in Nepal is examining opportunities to invest remittances with various private sector stakeholders, backed by a financial literacy campaign that provides training primarily to rural remittance-receiving households;
- In partnership with FIIAPP, IOM is working in certain Latin American and Caribbean countries with recipient communities and diaspora organizations on investment and savings options;
- Thanks to support from the IOM Development Fund, the project entitled Improving Capacities to Leverage Remittances for Development in Ghana has examined the effect of remittances on investments, savings and socioeconomic development, and the availability of financial services for remittance receivers in Ghana;
- Through the ACP-EU Migration Action initiative, IOM is supporting the African Institute for Remittances in its remittance-related activities in the member countries of the African, Caribbean and Pacific Group of States. IOM and the Institute also share the common objective of promoting activities on the collection and dissemination of good practices on remittances.

23. Financial literacy can empower remittance senders and recipients by enhancing their knowledge and options. Activities conducted to that end should target remittance senders and recipients simultaneously, in countries of origin and destination. Financial decision-making can lie with senders or recipients, and, as mentioned earlier, gender dynamics should also be taken into account. The project entitled Strengthening Labour Migration Governance through Regional Cooperation in Colombo Process Countries is an example of financial literacy being incorporated into pre-departure training for migrant workers. The project developed a regional guide for pre-departure modules for South Asian labour-sending countries that includes a section on the management of earnings and remittances, designed to improve financial literacy. IOM is increasingly linking its pre-departure training with post-arrival orientation, which presents another timely opportunity for financial literacy training.

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<sup>5</sup> IOM/FIIAPP, *Handbook to Develop Projects on Remittances - Good practices to maximize the impact of remittances on development* (Belgium, 2014), p. 9.

24. In countries of origin and destination, IOM works with local civil society organizations and migrant support groups that engage in financial literacy training; it has developed some useful tools aimed at enhancing their capacities:

- The My JMDI Toolbox (see paragraph 10), designed to allow community stakeholders to ensure that local development needs are taken into account;
- The IOM publication *International Migration and Development Training Modules* (2013), which has a section dedicated to mobilizing the financial resources generated through migration;
- The *Handbook to Develop Projects on Remittances* (see paragraph 21).

### **Conclusions and next steps**

25. IOM considers it important to continue advocating the need for a broad understanding of remittances to be embedded in a wider development framework that promotes the well-being of individual migrants as remittance senders and their families as remittance receivers. Central to its position is the repeated assertion that remittances can contribute to development best where basic public services, such as education and health care, are not entirely dependent on remittances, and that remittances alone cannot redress structural inequalities.

26. The socioeconomic effects of remittances are mixed, with the consequences being both positive and negative at various levels. IOM measures are most effective at the local community (meso) and individual/family (micro) levels, where they help ensure that the developmental effects of remittances are maximized and the negative impact, such as remittance dependency, is reduced. They include financial inclusion programmes that aim to make financial products and systems more inclusive and responsive to the needs of migrants and families. Targeted services can enhance a recipient family's capacity to accumulate savings and invest. IOM has developed tools that document and promote good practices, thereby facilitating the establishment of properly regulated and appropriate services for remittance senders and receivers that can be incorporated into migration and development programmes. It has also developed resources such as financial literacy modules, which give remittance senders and recipients the knowledge they need to manage financial resources.

27. The three core considerations of IOM programming on remittances, namely promoting the well-being of migrant workers, reducing remittance costs, and improving access to financial services through financial inclusion, require IOM to engage in partnerships and dialogue. The various activities detailed in this paper have proved to be most effective when IOM has worked with agencies and entities with particular expertise (such as the Universal Postal Union), private sector organizations that collate money-transfer data, and civil society organizations that represent and provide services to migrants and their families.