

## WORKSHOP 2: CO-DEVELOPMENT AND MIGRANTS' REMITTANCES

According to World Bank data, remittances from migrants to their home countries may amount to as much as US\$220 billion in 2006, more than double total ODA flows.<sup>1</sup> Unlike direct investment, remittances seem relatively insensitive to fluctuations in the economic environment. A substantial portion of remittances is sent through informal channels – mainly because of expensive transfer payment services and weak banking systems in some countries – which makes official estimates difficult<sup>2</sup>.

Remittances do not only flow from North to South. Slightly less than half of remittances are sent from OECD countries, one-third from the oil states of the Middle East, and the remainder (17%) from developing countries.

According to the IMF (2004 figures), Latin America and the Caribbean were the primary beneficiaries of migrant remittances (\$29.6 billion, or 32% of the total), followed by South Asia (\$18.2 billion, or 20%), East Asia and the Pacific (\$17.6 billion, 19%), the Middle East and North Africa (\$13 billion, or 14%), Europe and Central Asia (\$10.4 billion, or 11%), and sub-Saharan Africa (\$4.1 billion, or 4%). Remittances can account for a sizeable share of a country's resources. Expressed as a percentage of GDP, remittances total 24.2% of GDP in Haiti, 22.8% in Jordan, 16.2% in Nicaragua and 10.9% in Morocco. Recipient countries are middle-income countries rather than the least-developed countries.

Remittances are generally considered to have positive effects, in particular:

- At macro-economic level, remittances represent a significant source of foreign currency, increasing national income and funding imports required for growth.
- At grassroots level, remittances are a vital source of income for a share of the population and help fund their health and education spending. The stability of remittance flows enables them to play a role of precautionary savings or insurance against external shocks.
- Beyond these effects on consumption and savings, remittances also fund community facilities and service sectors used by migrants and their families, particularly telecommunications, tourism, transport and trade. The focus on poverty reduction in recent years prompted the World Bank and the UK's Department for International Development (DFID) to conduct empirical studies of remittances in 74 low- and middle-income countries. In general, the two organisations have found that a 10% increase in the share of remittances in a country's GDP leads to a 1.2% reduction in poverty.

### 1. Facilitating the use of remittances as an instrument for development: international instruments

In 2003 the World Bank and DFID set up an Inter-Agency Task Force on Remittances with the twofold aim of improving statistics and coordinating remittance programmes, and studying their impacts.

The issue of remittances was also raised at the G8 in Sea Island in 2004, giving rise to the Task Force on General Principles for International Remittance Systems, which involves the IMF, the World Bank, the OECD, the BIS and relevant agencies of the United Nations, with a view to improving statistical information. The group's recommendations will be submitted to the G8 in 2006, and then confirmed by the United Nations Statistics Division.

<sup>1</sup> ODA figures are net, whereas remittances are gross.

<sup>2</sup> According to various studies and surveys, informal channels account for 95% of remittances sent to Ghana, and more than 50% to Mali and Senegal (Blion and Verrières 1998, Tall 2001).

## **2. Facilitating the use of remittances as an instrument for development: national initiatives**

To limit the negative impact of transfer payments and maximise their impact on improving living standards in the migrants' home regions, various countries have implemented systems to support projects with migrant communities. Several examples can be cited.

### **Mexico:**

The *Tres Por Uno* ("Three for One") initiative, introduced in 2002, is managed by Mexico's Social Development Ministry (SEDESOL), in partnership with the network of Mexican migrants in the United States of America. Under the programme, every dollar sent home from the USA by a Mexican migrant is matched by both the Mexican federal and state governments. In 2004, that was reflected in \$70 million medium-sized investments in regional infrastructure (SEDESOL limits its contribution to \$25,000 per project). Working jointly with the World Bank, the programme organisers aim to finance transactions with a more direct link to the productive sector that can provide work locally and curb outward migration. The programme also funds study grants.

### **Spain:**

Within the framework of the Group of 6 (Algeria, Brazil, Chile, France, Germany and Spain) and the Initiative Against Hunger and Poverty, Spain's Ministry of Finance has identified a series of measures aimed at facilitating and reinforcing financial flows and increasing the impact of remittances on local development. These include: increasing competition in the market of transfer payment services to bring costs down; bringing remittances into the banking system; supporting savings and loans institutions that assist SMEs; negotiating trade agreements between financial institutions in sending and receiving countries. Local experiments in Ecuador, where the Multilateral Investment Fund is already active, are expected to start soon.

Spain's administration also intends to set up a network of advisors on investment and access to credit to help turn remittances into productive investment. The project implies coordination by the Spanish administration, migrant associations and Spanish development agencies in recipient countries. Lastly, public-private partnerships should enhance these measures by combining the efforts of migrants with assistance from financial institutions for projects of community benefit.

### **France**

In 2003 France introduced an active co-development policy. *This strategy sees migrants as actors of development in their home countries.* Support from the Ministry of Foreign Affairs, the Ministry for Employment, Social Cohesion and Housing, and the French Development Agency (Agence Française de Développement - AFD) for migrant initiatives takes the form of co-financing mechanisms and logistical or technical assistance. *Co-development thus makes a significant contribution to economic development in migrants' home countries:*

- By facilitating access to credit for migrants who want to make "long-distance investment", i.e. in income-generating activities for relatives or friends living in the home country. Co-development thus helps migrants to enable their home countries to benefit from their savings, by fostering productive investment.
- By helping migrants who want to return to their home countries through aid to set up a productive activities. This system emphasises support, which is crucial to the success of the migrant's venture.

The credibility of the mechanism of aid for reintegration and co-development lies in two factors:

- An important support mechanism;
- Aid is granted on a volunteer basis.

In addition, the AFD/Crédit Mutuel project starting up in Senegal and Mali should provide the micro-credit institutions associated with the programme with enough funds to grant bigger loans than now.

**Co-development projects are in progress in Mali, Senegal, Morocco and Comoros. These projects involve a variety of public and private partners, in France and abroad: government bodies, local authorities, businesses, associations and multilateral organisations, starting with the European Union.**