REMITTANCES, DEVELOPMENT AND YOUTH *

Chapter 9

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Many of today's migrant youth regularly send remittances home to relatives and friends. Remittances generally represent a portion of migrants' private earnings or income sent to support family in origin communities. If the right public policies are implemented, remittances can play an important role in poverty-reduction and be used to build productive capacities for longer-term impacts. The central question is how to best harness remittances for inclusive, sustainable development and create opportunities for youth?

REMITTANCES FACTS

World Bank data indicate that global remittance flows reached US$501 billion in 2011 and are expected to increase to US$615 billion by 2014. Remittances to developing countries were US$372 billion in 2011, an increase of 12 per cent over 2010, and are expected to reach US$467 billion by 2014. China and India topped the list of largest remittance receiving countries, followed by Mexico and the Philippines.

Table 9.1. Remittances to Developing Countries, 2008-2014

	2008	2009	2010	2011e	2012f	2013f	2014f
All developing countries	**324**	**308**	**332**	**372**	**399**	**430**	**467**
East Asia and Pacific	85	86	95	107	115	125	135
Europe and Central Asia	45	36	37	41	45	49	55
Latin America and Caribbean	64	57	57	62	66	72	77
Middle-East and North Africa	36	34	40	42	45	47	50
South Asia	72	75	82	97	104	113	122
Sub-Saharan Africa	22	20	21	22	24	25	27
LDCs (UN-classification)	23	24	25	27	29	32	35
Low-income countries	22	22	25	28	30	34	37
Middle-income	302	286	308	344	369	397	429
High income	133	120	121	128	134	140	148
World	**457**	**429**	**453**	**501**	**533**	**571**	**615**
Growth rate (%)							
All developing countries	**16.5%**	**-4.8%**	**7.7%**	**12.1%**	**7.2%**	**7.8%**	**8.4%**
East Asia and Pacific	18.8%	1.7%	10.6%	12.6%	7.3%	8.0%	8.7%
Europe and Central Asia	17.2%	-19.6%	0.3%	12.6%	8.8%	10.1%	11.4%
Latin America and Caribbean	2.2%	-11.9%	0.9%	7.7%	7.6%	7.9%	8.2%
Middle-East and North Africa	12.0%	-6.7%	19.5%	5.7%	5.1%	5.3%	5.5%
South Asia	32.6%	4.8%	9.5%	18.2%	7.4%	7.9%	8.4%
Sub-Saharan Africa	15.7%	-7.3%	1.9%	8.5%	6.3%	6.8%	7.4%
LDCs (UN-classification)	32.4%	1.6%	4.4%	9.0%	8.5%	9.1%	9.6%
Low-income countries	32.6%	3.3%	9.6%	13.4%	9.4%	10.4%	11.4%
Middle-income	15.5%	-5.4%	7.6%	12.0%	7.1%	7.6%	8.2%
High income	15.1%	-9.7%	0.6%	6.2%	4.1%	4.9%	5.6%
World	**16.1%**	**-6.3%**	**5.7%**	**10.5%**	**6.4%**	**7.1%**	**7.7%**

e= estimate; f=forecast

*Prepared by Mina Mashayekhi and Sophia Twarog at the United Nations Conference on Trade and Development (UNCTAD); it summarizes submissions by UNCTAD on the basis of the publication Maximizing the development impact of remittances (UNCTAD/DITC/TNCD/2011/8)) and by P. Deshingkar, A. Castaldo and F. Jena, of the University of Sussex.

Remittances are a small part of migrants' incomes, and migrants continue to send remittances when hit by income shocks[1]. Survey data suggests that young migrants normally send back less money than older migrants, in part because of their limited incorporation into the labour market due to language barriers, lack of work permits and discrimination, and in part because they often obtain only precarious jobs with low pay. Migrant youth comprise a higher percentage of the undocumented, 'unbanked' and poor. In addition, a higher percentage of youth migrate for non-economic reasons, such as education, marriage, family reunification or refuge. Yet all studies confirm that young migrants do remit money and their remittances do make a difference to their source families in small but significant ways.

Female migrants are more likely to send a higher percentage of their earnings as remittances, with the aim of meeting basic family needs at home, such as food, health care and education for children and youth. Two studies in Thailand, for example, found that although both sons and daughters from poor villages migrated, daughters were more likely to remit wages.[2] Thus measures targeted to support young female migrants will generally have a greater poverty-reduction and higher multi-generational impact.

IMPACT OF REMITTANCES

The direct poverty-reduction impact of remittances is undisputed, however, remittances are not a panacea for countries' development problems. Sound public policies promoting private-public partnerships to maximize remittances' positive development and poverty-reduction impacts are a necessary condition. In many rural areas, remittances may be the sole source of income sustaining whole branches of a family tree. For the very poor, remittances are used first to meet basic needs such as food, shelter, health and, funds permitting, education. Remittances have a positive impact on Millennium Development Goals in these communities. A study of 77 developing countries estimated that a 10 per cent rise in remittances led to a 3.1 per cent reduction in the percentage of the population living on less than $1.25 a day.[3]

Data gathered by the World Bank's 'Africa Migration Surveys' confirm that young migrants are more likely to migrate internally than those over 25, and that while younger migrants remitted smaller amounts, these remittances play an important role in financing food in most African countries surveyed, and education in a few. Thus these remittances are likely to improve family members' long-term development prospects.

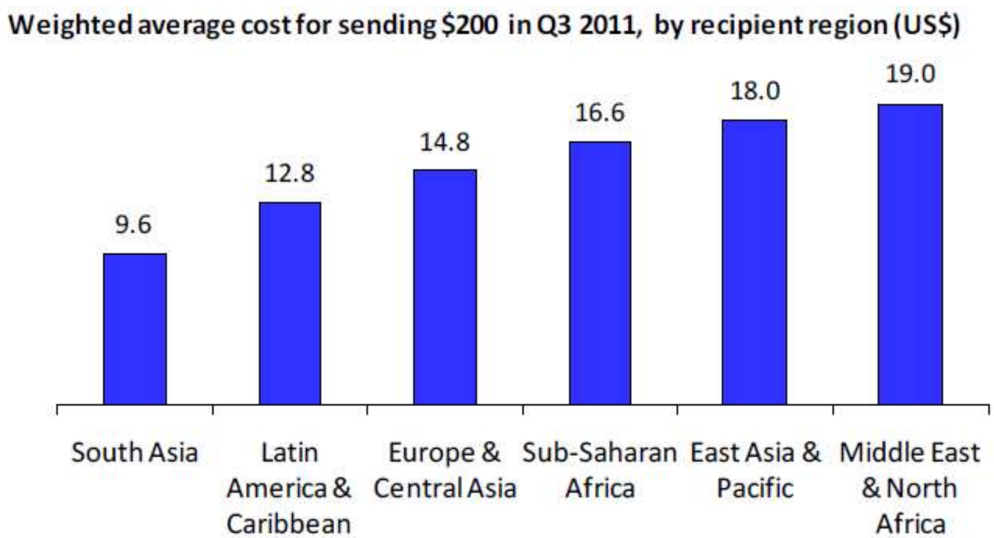
In rural areas remittances boost consumption by the poor, allowing them to purchase food, generally from local farmers, which in turn gives a boost to the local agriculture sector, enhancing employment and creating a virtuous circle. Remittances can boost local sustainable development, particularly when a portion is invested in building sustainable productive capacities based on the five types of capital: human, social, physical, financial and natural. Remittances should be integrated into overall development strategies, channelling funds into productive sectors with greatest economic, social and environmental pay off, including organic agriculture and renewable energy. Food, education and health – the main uses of youth remittances – build human capital.

While migration and remittances are not a substitute for domestic-driven development, if thoughtfully utilised they can play an important supportive role, particularly for impoverished families and communities.

Transaction Costs: A Major Obstacle

Transaction costs associated with sending remittances from one country to another are often high, and proportionately more costly for those sending less money, such as youth, women, undocumented migrants and nationals of less-developed countries (LDCs) with less-sophisticated financial sectors. Figure 1 provides an idea of comparative costs in different regions. UNCTAD has long pointed to high remittance costs as an unnecessary constraint to maximizing remittances' contribution to sustainable development. In some countries, particularly LDCs, very high transaction costs divert up to 20-to-30 per cent of the amount paid in by the sender *away from* direct poverty reduction and potential investment in social, human, natural, financial and infrastructural capital. These high costs significantly reduce the pay-out to recipient households and limit the amount left for investing in productive capacities and other activities to improve the quality of life.[4]

Figure 9.1: Average cost of sending remittances to developing regions 2011



Source: World Bank, 2011, p. 14.[5]

The figure reveals that the Middle East and North Africa region has the highest remittance costs (19%), with sub-Saharan Africa close behind at 16.6 per cent. Intra-African transfers are particularly expensive. Transferring $200 from South Africa to Zambia, Malawi and Botswana or from Tanzania to Rwanda are among the costliest (in percentage terms) in the world (over USD42 for $200, 21%) . However better conditions for sending remittances are emerging elsewhere, such as the Gulf countries, which have particularly large migrant populations; the emerging financial hub of Singapore; Australia and the Philippines. From Australia a remittance can be received in the Philippines within one hour for as little as 4 per cent. These countries have incentives for an orderly flow of workers; Singapore, for example, has an economic cooperation agreement with India that attracts many young Indian migrants.

Mobile Money

Young people tend to be at a disadvantage in relation to financial services and systems. Globally, about half of all adults (55 per cent of males; 46 per cent of females) have accounts at formal financial institutions. The percentage is sharply lower for youth aged 15-24: just 38 per cent. More than three-quarters of the world's poor are "unbanked," and again, young people are over-represented among those lacking financial services.[6]

However, youth hold the advantage when it comes to familiarity with new technology tools that, combined with recent information and communication technology (ICT) advancements, offer a new way to improve adolescents and migrant youth's access to financial services. Increasing use of mobile phones for financial services can reach never-before adequately served populations, particularly in rural areas.

Developing countries are more likely to have higher percentages of households with mobile phones than landlines. The decade 2000-2010 witnessed an explosion in mobile telephone signal coverage. In LDCs, coverage rose from less than 20 per cent to nearly 70 per cent of the population.[7] Youth are particularly keen on having mobile phones and Internet access, and more likely than their elders to be tech savvy. Thus facilitating mobile banking systems could be of particular benefit to young migrants.

Box 9.1. Mobile Money in East Africa

Mobile banking through mobile phones is opening affordable access to financial services to millions.1 East Africa leads the way with its M-PESA system, functioning through the mobile carrier Safaricom, which reaches 67 per cent of Kenyans, as well as 25 per cent of Ugandans and 20 per cent of Tanzanians – compared to a global rate of 3 per cent for similar services. M-PESA has a rapidly growing customer base transferring some 700 million USD per month, linked with 700 ATMs and 25 banks, and supported by over 37,000 agents.

Currently the most developed mobile payment1 system in the developing world, M-PESA (Swahili for money) allows users with a national ID card or passport canto deposit, withdraw and transfer money easily with a mobile device. The Central Bank of Kenya attributes a 50 per cent jump in remittances in 2011 to reduced costs for remittance payments via M-PESA. M-PESA is now connecting internationally and signed a partnership agreement with Western Union in October 2011 allowing international migrants to send money from Western Union offices worldwide to M-PESA users, in combination with a 2011 agreement with Western Union.

Kenya's good telecommunications infrastructure and higher-than-the-African-norm financial sector development have helped M-PESA to flourish.

Source: UNCTAD 2012

Financial Inclusion

Data on remittance channels used by different age groups in Africa reveal that, with the exception of Kenya, most young migrants send remittances through informal channels (couriers, personal delivery or friends or relatives). Informal channels can be more risky and expensive than formal channels but they may be the only option for young, poor and poorly educated migrants who cannot access formal banking systems (due to illiteracy, undocumented status, etc.). There is a need to create more youth-friendly remittance mechanisms.

Box 9.2. Ghana's Head Porters

A case in point is young female migrants in Accra and other large cities in Ghana who become kayayei, or head porters. Their daily earnings tend to be quite low (US$2 on a good day), but many are able to send small amounts home, for family use and to save for their wedding contribution. Many kayayei participate in collective, informal saving and credit schemes as their earnings are too meagre and erratic to deposit in a bank, and they lack the documents and connections required to access the formal banking system. However, the girls report frequent robberies, diminishing their ability to remit and save.

Clearly there is a need to provide safer saving facilities for these young girls and other youth unable to participate in formal financial systems. Young migrants and households receiving remittances need access to a full range of financial services—advice, remittance transfers, savings, credit and investment—before, during and after migration. They also need easy-to-access, reliable information about those services. Comparison-shopping should be facilitated, for example though websites with price comparisons for different destination countries and remittance sums. This is already being successfully done in some countries. Mexico's Consumer Protection Bureau (PROFECO) offers a detailed who-is-who analysis of 28 remittance companies analyzing prices and costs of sending money from nine cities in the United States to Mexico, helping consumers pick the cheapest and most convenient service.[8] The World Bank also maintains a Remittance Prices Worldwide database/website.[9]

It makes good business sense for financial intermediaries such as banks to offer loans on favourable terms to young migrants (perhaps upon verification of an employment offer) and to sign a contract stipulating that a certain percentage of the income will be used for monthly repayment installments into a bank account in the migrant's name.

One or more additional accounts for remittance recipients can be registered or set up at the bank at the same time. The migrant could thus send one large payment a month to his/her own savings account. From her/his account, funds can be transferred for loan repayment, assistance to relatives, local costs, investments in real estate or businesses and savings for the future

Promoting Regular Youth Migration

Sending and receiving countries can cooperate to facilitate orderly, regular youth migration, including temporary and circular migration, to help meet labour supply needs in receiving countries and build capacity in sending countries, especially among youth migrants.

UNCTAD research finds that *temporary and circular migration carries the greatest development benefits*. The young migrant goes for a specific period of time, with reasonable paperwork requirements. The returning migrant brings back new knowledge, skills, networks, purchases and savings. Post-migration support programmes in the home country help the returnee to make best use of these. Giving returnees priority consideration for future opportunities and for return to the country of temporary employment can increased their incentive to return home at the end of the agreed upon period of time. An effective, smoothly functioning formal circular migration channel yields long term sustainable development benefits for host and home countries and also discourages informal migration. The more accessible and functional the formal channel, the lower the incentive to use informal channels for both migration and remittances. Public policies must be in place to complement return migrant's potential investments upon their return. Access to credit markets, training and technology transfer applications are just some of the policies in which governments and the private sector can play a role in maximizing migrants' human and financial capital.[10]

Some achievements in this area have been reached through regional and bilateral accords. For example, there is free movement of natural persons among the five East African Community member states and among ASEAN countries. The United States offers H1B visas for temporary employment of skilled workers. Countries hosting foreign students could allow them to work for one year after they finish their studies, which would particularly benefit young migrants.

Benefits to youth migrants, sending countries and host countries could be enhanced by analysis and strategic planning. To maximize the contribution of youth migration and remittances, governments should give support to young migrants before, during and after migration. Pre-departure programmes could include information and services such as:

- Assistance with employment opportunities and contracts, visa and work permit issues, housing and transport information
- Loans attached to a savings account for the initial costs the migrant has to pay, moving costs and, often, high recruitment fees. (One study found that Bangladeshi workers in a Gulf country paid recruitment fees equal in value to some two years of their expected salaries).
- Regulating recruitment fees. (One study found that Bangladeshi workers in a Gulf country paid recruitment fees equal in value to some two years of their expected salaries).

Post-migration programmes might include information on employment options at home, assistance with preparing a resume or a business plan, development of placement programmes and a central employment website, entrepreneurship training, and making it simple to obtain a loan for resettlement or establishing a new business. The Philippines offers a reintegration programme, including entrepreneurship training and access to credit. SENAMI heads the Ecuadorian government's migration return programme; a migrant bank is also in the works.[11]

KEY MESSAGES

- Remittances are intrinsically linked with migration and are playing an ever-stronger role in the economies of many developing countries. Remittances, however, are not a panacea; they must be integrated into overall migration management policy and national development strategy; the particular strengths and obstacles related to youth and female migrants should be taken into consideration when managing migration and remittances.

- It has been estimated that a 5 per cent reduction in remittance costs could yield $16 billion in savings. Action is needed to foster appropriate and development-friendly dialogue, linkages and competition among financial, governmental, regulatory, microfinance, social entrepreneurs, businesses, banks, post offices, money transfer organizations and international agencies.

- Remittances by young and female migrants can have a significant impact on poverty reduction, in the short term, and economic development, in the long term. Thus measures to make remittance transactions more affordable and accessible to all – that is, steps to reduce transaction fees and increase financial inclusion – should focus especially on these populations. The promotion of ICTs to send and receive money, especially in LDCs, constitutes a first step towards increasing remittances' development impacts. There is also a need for wider recognition of qualifications-.to permit young migrants to obtain jobs and remuneration commensurate with their skills and education.

POLICY RECOMMENDATIONS

- Reduce remittance costs, for which the heaviest burden falls upon the poorest. Expand access to and ensure interoperability of remittance transfer services, and promote financial inclusiveness. Partnerships could involve financial, microfinance, and money transfer organizations like private remittance companies, the postal union and telecom operators. Policy-makers can discuss best regulatory practices, taking lessons from East Africa with support from UNCTAD and other international agencies. As each country has its own unique characteristics, policy and regulatory frameworks can be tailored for "best fit".

- Improve remittance flows by: (i) reducing transaction costs; (ii) ensuring safety and security; (iii) offering financial advice and products such as savings and credit to remittance senders and recipients; (iv)providing accessible and affordable transfer channels; (iv) eliminating transaction taxes; (vi) improving transparency, information and competition in the money transfer markets; and (viii) offering innovative products. The postal network could be an important modality in rural areas, especially where other financial services providers are absent.

- Enhance youth migrant remittance possibilities through better access to decent employment by (i) discouraging labour market discrimination, (ii) enforcing minimum labour standards and labour contracts, (iii) ensuring migrant workers are paid for work done, and (iv) recognizing acquired educational and skill qualifications.

- Facilitate the orderly flow of migrants with pre- and post-migration support programmes. Temporary movement and circular migration, which have particular developmental benefits for youth, could be liberalised at the international, regional, bilateral and unilateral levels. Young migrants can be motivated to return home by public policies complementing their investment potential upon their return, such as access to credit markets, training and skills development, and low-interest rate loans to help cover the costs of migration and resettlement. Liberalization and regulatory cooperation can take place at internationally, regionally, bilaterally or even unilaterally (e.g the Singapore economic cooperation agreement).
- Develop capacities in affordable and accessible supportive services—finance, telecom, energy, and ICT. This may involve careful opening of key service sectors with large development dividends. These include provision of finance, (remittance transfer, savings, investment and credit), telecommunications, mobile money, infrastructure, transportation and energy services. Competition policy across all sectors is important, as is allowing for links across sectors, as we see with M-PESA linking banking with mobile phones.

NOTES

[1] Migration and Development Brief No. 9, «Revised Outlook for Remittance Flows 2009-2011», by Dilip Ratha and Sanket Mohapatra. World Bank. March 23, 2009. p 4

[2] Curran, S. 1996. "Intra-household Exchange Relations: Explanations for Gender Differentials in Education and Migration Outcomes in Thailand." Center for Studies in Demography and Ecology, University of Washington; Osaki, K. 1999. "Economic Interactions of Migrants and Their Households of Origin: Are Women More Reliable Supporters?" Asian and Pacific Migration Journal 8:447 – 71.

[3] UNCTAD (2011a), "Report of the Expert Meeting on Maximizing the Development Impact of Remittances", Geneva 14-15 February 2011. (TD/B/C.I/EM.4/3).

[4] UNCTAD (2012a), *Maximizing the Development Impact of Remittances*, United Nations: New York and Geneva, (UNCTAD/DITC/TNCD/2011/6); UNCTAD, (2012c) "Least Developed Countries Report 2012".

[5] World Bank (2012), "Remittances Prices World Wide", No.4. Washington, DC, November 2012. http://remittanceprices.worldbank.org/~/media/FPDKM/Remittances/Documents/RemittancePriceWorldwide-Analysis-Nov2012.pdf

[6] World Bank (2011), "Outlook for Remittance Flows 2012-14," Migration and Development Brief 17, Dec. 1, 2011.

[7] UNCTAD (2012b), "Mobile Money for business development in the East African Community: a comparative study of existing platforms and regulations." United Nations, (UNCTAD/DTL/STICT/2012/2).

[8] See: http://www.profeco.gob.mx/envio/envio.asp

[9] See: http://www.remittanceprices.worldbank.org

[10] UNCTAD (2012a), *op. Cit.*

[11] Other initiatives are outlined in UNCTAD (2010) "Impact of Remittances on Poverty in Developing Countries" United Nations: New York & Geneva (UNCTAD/DITC/TNCD/2010/8) and UNCTAD (2012a) Op. Cit.