ACP OBSERVATORY ON MIGRATION
OBSERVATOIRE ACP SUR LES MIGRATIONS
OBSERVATÓRIO ACP DAS MIGRAÇÕES

Remittances in the African, Caribbean and Pacific countries

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Background Note

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ACP Observatory on Migration

The ACP Observatory on Migration is an initiative of the Secretariat of the African, Caribbean and Pacific (ACP) Group of States, funded by the European Union, implemented by the International Organization for Migration (IOM) in a Consortium with 15 partners and with the financial support of Switzerland, IOM, the IOM Development Fund and UNFPA. Established in 2010, the ACP Observatory is an institution designed to produce data on South–South ACP migration for migrants, civil society and policymakers and enhance research capacities in ACP countries for the improvement of the situation of migrants and the strengthening of the migration–development nexus.

The Observatory was established to facilitate the creation of a network of research institutions and experts on migration research. Activities are starting in 12 pilot countries and will be progressively extended to other interested ACP countries. The 12 pilot countries are: 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 Observatory has launched research and capacity-building activities on South–South migration and development issues. Through these activities, the ACP Observatory aims to address many issues that are becoming increasingly important for the ACP Group as part of the migration–development nexus. Documents and other research outputs and capacity-building manuals can be accessed and downloaded free of charge through the Observatory's website (www.acpmigration-obs.org). Other upcoming publications and information on the Observatory's activities will be posted online.

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Remittances may be the most tangible part of the migration – development nexus. They however do not just concern financial transfers, but also social remittances - a range of contributions by migrants and diaspora members. This background note aims to shed light on the definition, challenges of remittance data collection, outline the key remittance trends in ACP countries, highlight important issues and provide recommendations for policymakers from ACP countries.

Remittances can be considered to be more than financial flows and can include other kinds of transfers by migrants as well

Definition of financial remittances:

1. **'Compensation of employees'**: income of migrant workers who live in the host country for less than a year, and the income of resident workers who are employed by embassies, international institutions and foreign companies;
2. *Changed in 2009 -* **'Personal transfers'**: all current transfers in cash or in kind made or received by migrants to or from individuals in the origin country.
3. **Complementary:**
   (1) 'Personal remittances',
   (2) 'Total remittances'
   (3) 'Total remittances & transfers to non-profit institutions serving households'.

(IMF, 2009a, b; WB, 2010)

1. Definition and Related Data Collection Challenges

Until recently, international financial remittances were defined as the **sum of workers' remittances, compensation of employees, and migrants' transfers** (IMF, 2009a, b; World Bank, 2010a). Based on recommendations by a Technical Working Group on improving remittance data led by the United Nations (UN), the World Bank and the International Monetary Fund (IMF) in 2006, migrants' transfers are not included in the definition anymore and workers' remittances were replaced by the concept of 'personal transfers'. Therefore, since 2009 the IMF considers remittances being composed of only two components in their Balance of Payments Statistics: **(1) 'compensation of employees'** and **(2) 'personal transfers'**.[1] It is important to highlight that the income of short-term migrants (living abroad for less than 12 months) are included in this definition, although it may never be transferred (at least not entirely) to the origin country.

1 In addition, three items are considered supplementary, but not mandatory for remittances statistics: **personal remittances** (the sum of personal transfers and net, or 'take home', compensation of nonresident workers)**, total remittances** (the sum of personal remittances and social benefits), and **total remittances and transfers to nonprofit institutions serving households** (NPISHs, also includes donations). They are cumulative measures of different items. To ensure consistency of time series, workers' remittances will be included in the statistics as a supplementary item (see IMF, 2009a, b; Reinke, 2007).

Formal Financial Remittance Flows

A **complete aggregation and comparison of data from a number of countries, such as the ACP States, is not possible**. It is important to state that despite the clear definition in the IMF (2009b) *Guide for Compilers and Users* of international remittances statistics, data entry on remittances varies from country to country. This can be due to the varying availability of data, different national contexts, use of citizenship instead of residency status and for simplification of data processing. Some states do not report data on remittance outflows or inflows to the IMF Balance of Payments Statistics, which is the main source for the internationally comparable dataset of the *Migration and Remittances Factbook* produced by the World Bank. Other challenges include the use of different methodologies, outdated information and the lack of inclusion of data on remittances from other operators besides banks, such as money transfer operators (MTOs, e.g. Western Union), post offices and mobile MTOs (Irving et al., 2010; World Bank, 2010a).

Even less is known about South-South remittances, which are likely to be smaller due to the lesser wage differentials among ACP and other developing countries. It is an area in need of further research, together with internal remittances that are also hardly looked at. Yet due to large internal movements in ACP countries, these may play an important but so far overlooked role in poverty reduction and income. More attention is needed to this phenomenon

Informal Remittance Flows

The data inconsistencies among countries described above only concern formal monetary transfers by migrants. However, it is believed that remittance flows could be up to 50 per cent higher if the money sent through unofficial channels would be accounted for in the official statistics. As a consequence of the large and mostly unknown informal transfers, some sub-Saharan African countries do not report official remittance transactions in their Balance of Payments. Reliable information on informal flows needs to be collected through representative surveys of receiving and sending households (World Bank, 2010a). In addition, commodity remittances in the form of consumer items are not part of the official statistics, yet play an important role for instance between Nigeria and neighbouring West African countries and should be investigated in remittance surveys.

Social Remittances

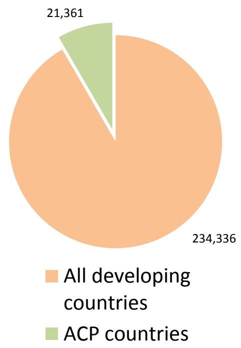
Social remittances are defined as the ideas, practices, identities and social capital that flow from receiving to sending communities (Levitt, 1998). Social remittances include innovative ideas, valuable transnational networks, knowledge, political values, policy reforms, and new technological skills.

2. Figures and Key Trends in ACP Countries

Remittance Inflows

- Considering that ACP countries make up more than half of the developing countries,[2] they only receive a relatively small amount of officially recorded remittances: about **9 per cent of remittances to developing countries** in 2010 (see graph 1 on the left). On a global scale, in 2010 ACP countries are believed to only having **received 6.7 per cent of all remittances worldwide** (World Bank, 2010b and own calculations based on World Bank data).
- The World Bank estimated that **in 2010, ACP countries received 21.4 billion Euros in remittances** (see Graph 1, World Bank, 2010b data with UN exchange rate of November 2010). However, 18 countries did not report any data, including countries who probably receive large remittance flows (the Central African Republic, the Democratic Republic of the Congo (DRC), Somalia and Zimbabwe; Mohapatra et al., 2010).[3] Therefore, every fifth ACP country is not covered in these figures. Together with the unknown extent of informal flows, remittances inflows in ACP countries are likely to be considerably higher.

Graph 1: Remittances inflows (million Euros), 2010 estimates



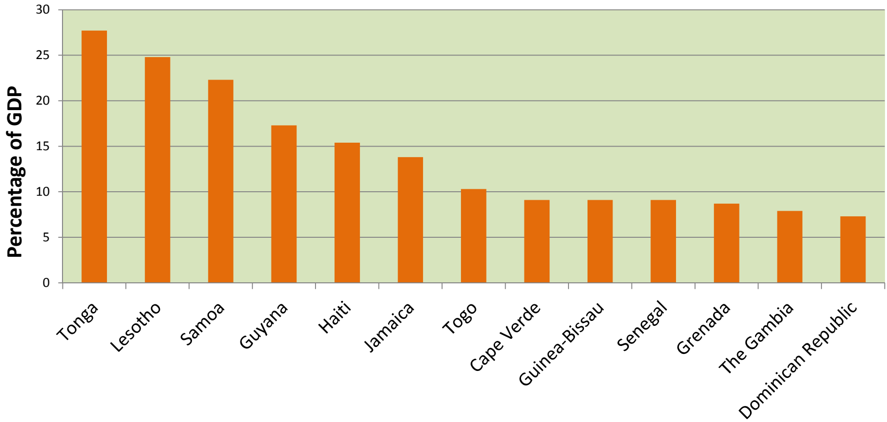
Source: World Bank, 2010 data (UN exchange rate 11/2010); no data available for 18 ACP countries.

2 According to the classification of developing countries by the World Bank (see http://go.worldbank.org/QGUCPJTOR0) and UNDP, meaning that developing countries are all those except for the ones with a very high Human Development Indicator (see http://www.acpmigration-obs.org/sites/default/files/South.pdf).

3 No data was available for inflows to Angola, the Bahamas, the Central African Republic, Chad, Cook Islands, the Democratic Republic of the Congo (DRC), Cuba, Equatorial Guinea, Eritrea, the Marshall Islands, the Federated States of Micronesia, Nauru, Niue, Palau, Somalia, Timor-Leste, Tuvalu and Zimbabwe.

- **Nigeria** is the only ACP country **among the top 10 remittance-receiving countries worldwide** and receives **a third of all remittances to ACP countries** (an estimated 7.2 billion Euros in 2010; World Bank, 2010b with UN exchange rate of November 2010).

Graph 2: Remittances-receiving ACP countries amongst the top 30 worldwide in percentage of GDP, 2009



Source: World Bank, 2010b.

4 out of the world's top 10 remittance receivers as share of GDP are ACP countries

- Remittances play a **very important role in relative terms** in many ACP countries. **Among the global top 10 remittance receiving countries as a percentage of GDP, four are ACP countries** (Tonga; Lesotho; Samoa and Guyana). Tonga and Lesotho are only superseded by Tajikistan and thus among the top 3 worldwide. Among the top 30 globally, 13 are ACP countries (see graph 2 above; World Bank, 2010b).

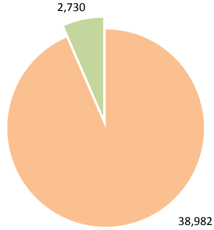
Remittance inflows were relatively resilient to the global economic & financial crises and thus became a more important source of external financing

- Due to **remittances being more stable and predictable than other financial flows**, their decline during the global financial crises of 2008-2009 was modest compared to a 40 per cent decline in Foreign Direct Investment (FDI), trust funds, private debt and portfolio equity flows to developing countries (Gallina, 2010; Mohapatra et al., 2010). From 2008 to 2009, remittances to ACP States decreased by 4.1 per cent, which is lower than the world average (-6.1%) or to developing countries overall (-5.5%). Remittances increased by 4 per cent between 2009 and 2010 and thus recovered from the impact of the global financial and economic crises (Own calculations based on World Bank 2010b data).

Remittance Outflows

- Despite often hardly receiving any attention, ACP countries are **also sending countries of remittances**. Of all officially recorded remittance outflows from developing countries, 7 per cent or 2.7 billion Euros are transferred from ACP countries (see graph 3).[4] Globally, they only represented 1.5 per cent of all estimated outflows (World Bank, 2010b and own calculations based on World Bank data).
- **Three out of the ten leading remittance sending countries** in terms of percentage of GDP are ACP countries (Guinea-Bissau, Guyana and Tonga). Among the leading 30 sending countries of remittances globally, 8 are from the ACP Group (see graph 4 below; World Bank, 2010b). However, often outflows are linked to economic sectors attracting FDI, with most profits not remaining in the countries.
- Since 2008, remittance outflows increased by 16 per cent, after having decreased by 16.8 per cent between 2007 and 2008 (Own calculations based on World Bank 2010b data). This may indicate that **remittance outflows from ACP countries were affected to a larger extent by the financial crises** than remittance inflows. Nonetheless, like remittance inflows, outflows have recovered to pre-crisis levels.

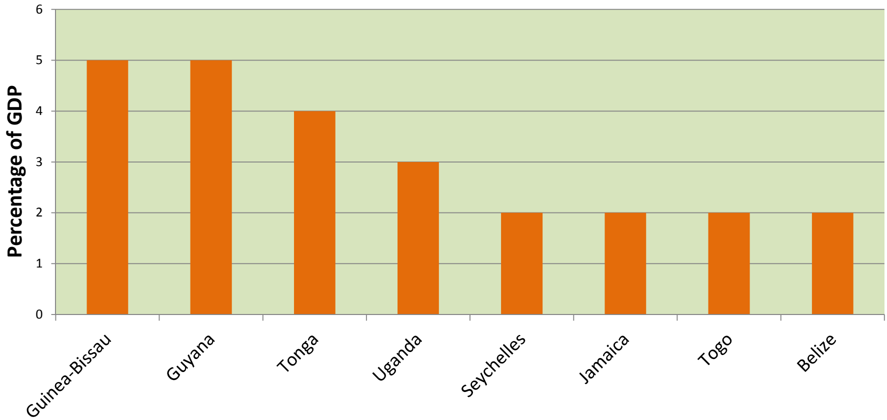
Graph 3: Remittances outflows (million Euros), 2009 estimates



Source: World Bank, 2010 data (exchange rate Dec. 2009); no data available for 34 ACP countries.

4 No data was reported from Barbados, Benin, Burkina Faso, the Central African Republic, Chad, the Cook Islands, Comoros, DRC , the Republic of the Congo, Cuba, Equatorial Guinea, Eritrea, Gabon, Ghana, Kiribati, Madagascar, Malawi, the Marshall Islands, Mauretania, the Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Senegal, Somalia, Sudan, Swaziland, Timor-Leste, Trinidad and Tobago, Tuvalu, Vanuatu and Zimbabwe.

Graph 4: Remittances-sending ACP countries amongst the top 30 worldwide in percentage of GDP, 2009



Source: World Bank, 2010b.

Remittance outflows contracted more during the crisis than inflows

- **Remittance outflows have increased almost ten-fold over the past decade** (own calculations based on World Bank 2010b data), which could be linked to better data collection, increasing numbers of immigrants in ACP States and/or outflows of profits from key industry sectors.

In 7 ACP countries, remittances outflows exceeded inflows in 2009

- In 2009, in the majority of ACP countries for which data is available, **inflows of remittances exceeded outflows** of remittances as a share of GDP. Notable exceptions are Botswana, the Seychelles, the Solomon Islands, South Africa, Suriname, Tanzania and Zambia, pointing to important numbers of immigrants or data inconsistencies.

West Africa

- The remittances received by the 16 countries of the West African region[5] account for 43.4 per cent of all funds received from ACP emigrants, thus **representing the largest share of remittances of all six ACP regions** (World Bank, 2011b data).

5 According to the classification of regions by the Secretariat of the ACP Group of States.

- Yet, the fraction of global remittance flows to the region remains small. Estimated remittance inflows of 9.3 billion Euros in 2010 only **represent a marginal share of 4 per cent of all flows to developing countries** (World Bank, 2010b).
- Absolute figures and relative importance of remittances vary greatly between countries in the region: Whereas only one ACP country ranges amongst the top 30 remittance-receiving countries worldwide in absolute terms (Nigeria), 5 West African countries are to be found amongst the top 30 remittance-receiving countries in relative terms as share of GDP (Togo; Cape Verde; Guinea-Bissau; Senegal and The Gambia; World Bank, 2010b).
- **Official development aid** (ODA) **still exceeds remittances in all countries** except in Cote d'Ivoire, Nigeria, Senegal and Togo (Gallina, 2010 based on UNDP, 2009).

Central Africa

- In the eight countries belonging to Central Africa, remittances do not exceed ODA and are **low compared to the other five ACP regions**. This is firstly due to a lack of data reported for half of the countries.[6] Out of the recorded remittances going to the remaining four countries (125.3 million Euros), Cameroun receives by far the biggest share (86%; World Bank, 2010b). Many transfers are believed to be sent to rural areas (IFAD, 2007).
- In contrast to emigrants from Western and Eastern Africa, in 2005 **emigrants from this region tended to predominantly move to other African countries** in which workers incomes are inferior to the emigrants income in OECD countries (Migration DRC, 2007). In addition, it is estimated that the large majority of intra-regional transfers passes through **informal channels** not appearing in the statistics, even more than in other regions (Gallina, 2010).

East Africa

- Remittance **inflows into the 14 Eastern African countries are small in absolute terms** when compared to other ACP regions (an estimated 4.7 million Euros in 2010). Sudan's high remittance inflows represent 48.9 per cent of the total (World Bank, 2010b).
- **Informal estimates are believed to be as high as 80 per cent of all flows to Uganda** (UN-OHRLLS and OSAA, 2006) and in a study on the Tanzania-Uganda

6 Central African Republic, Chad, DRC and Equatorial Guinea.

remittance corridor, 60 per cent of those surveyed indicated they prefer sending money through informal systems, such as bus drivers, money changers and sex workers crossing the border regularly (IOM, 2009b).

- **Inflows exceed outflows by large with the exception of Tanzania** where they are more than three times higher (10.8 million Euros in inflows vs. 36.2 million Euros in outflows for 2009, World Bank, 2010b data with UN exchange rate for 10/2009).
- **Internal remittance flows need to receive more attention.** In the case of Kenya, in 2009 more than half of all respondents of a survey by the Central Bank of Kenya and Financial Sector Deepening (FSD) Kenya (2009) claimed to have received internal transfers, compared to 16.5 per cent in 2006.

Southern Africa

- Transfers sent by emigrants to the ten countries in Southern Africa have a **modest weight in the countries GDP** with the notable exception of Lesotho (25% as a share of GDP; World Bank, 2010b). In absolute terms, South Africa is the leading recipient (and sending) country in the region (725.8 million Euros), followed by Lesotho with about half of the amount.
- Important **differences in sending patterns exist between men and women**, with women sending less, which is linked to lower wages and different employment status (or lack thereof; Dodson et al., 2008).
- **Remittances exceed ODA**, except in the case of Namibia (Gallina, 2010 based on UNDP, 2009 data).
- On the outflows side, in absolute terms, **the highest sums of remittances are sent from South Africa** (770 million Euros), exceeding inflows and highlighting its importance as an immigration country in the region (World Bank, 2010b). In spite of not hosting a large share of the region's immigrants, **Angola sends high sums of remittances abroad, even exceeding those of South Africa in relative terms as a share of GDP** (1% of Angola's GDP compared to 0.4% of South Africa's). This can be due to high profits from the mining industry, inaccurate statistics or underreporting.
- **Informal channels** are the preferred option in this region as well, being as high as almost 90 per cent in Lesotho (Crush et al., 2010) or estimated to be the almost exclusive way in studies of the South Africa – Zimbabwe corridor (Kerzner, 2009).

Caribbean

- As far as remittance inflows are concerned, the Caribbean received almost 5.6 billion Euros (World Bank, 2010b), or **more than a quarter of all ACP remittances** in 2010 despite only consisting of 16 countries. In Jamaica, many receive remittances not only from family members, but also significant amounts from friends (ippr and GDN, 2010).
- Five countries (Guyana, Haiti, Jamaica, Grenada and the Dominican Republic) **rank among the top 30 remittance-receiving countries worldwide** in relative terms (World Bank, 2010b).
- **Remittances inflows are much higher than ODA** with the exception of Suriname and St. Vincent and the Grenadines.
- Concerning remittances outflows, available data suggests that the amount is **more than ten times smaller than inflows**, with an estimation of almost 470 million for 2009. Nevertheless, three countries range amongst the top 30 remittance-sending countries in relative terms (Guyana, Jamaica and Belize; World Bank, 2010b).

The Pacific

- Available data for this region suggests the **important role of migration**. In Tonga, remittances take up a share of about 28 per cent of GDP, in Samoa about 22.3 per cent, placing these two countries amongst the top 10 remittance-receiving countries in relative terms (World Bank, 2010b; see graph 2 above).
- **In absolute terms, officially recorded remittance inflows to the region are marginal** (290 million Euros in 2010; World Bank, 2010b). 8 out of 15 countries did not report remittance inflows for 2010, of which most are very small countries that may not add too much to the overall figure.
- **A varied picture needs to be drawn when comparing remittances and ODA**: Whereas remittances exceeded ODA in Fiji, Samoa and Tonga per capita (USD) in 2007, ODA was higher in Papua New Guinea, Solomon Islands and Vanuatu (Gallina, 2010 based on UNDP, 2009 data).

3. The Impact of Remittances on Development and Poverty Reduction

Remittances can only complement development policies and ODA and FDI, but not replace them

Remittances are private capital or in-kind flows and no recipient household can be obliged to use its private monies for the development of the country. **They cannot replace policies promoting development**, providing employment opportunities and strengthening the local economy. They are **not a substitute for public flows** such as Official Development Assistance (ODA) targeted at the poorest parts of societies, debt relief or Foreign Direct Investment (FDI) in the private sector.

Remittances are not the solution to development

While remittances can reduce poverty, foster human development and increase income, **promoting emigration as the development strategy to increase remittances inflows cannot offer a sustainable solution** (Melde and Ionesco, 2010). All policies, programmes and research on remittances should take a human rights - centered approach to migration and remittances.

Prerequisite: minimum economic, political and legal framework conditions

The impact of remittances on human development greatly depend on an **enabling political, economic and legal environment** (Ratha and Mohapatra, 2007; de Haas, 2010). These economic and political conditions as well as the institutional capacities need more attention in most ACP countries.

Macroeconomic Effects of Remittances

- Key source of **foreign currencies**;
- In some cases, remittances can support an **upgrade of a country's creditworthiness for external borrowing** and this way facilitating access to global capital markets;
- Promotion of the **development of the financial sector** if the necessary conditions are in place, which can contribute to economic growth (Ghosh, 2006; Ratha and Mohapatra, 2007);

- **Exports may become less competitive** by making the currency more expensive or the exchange rate less favourable (OSCE, IOM and ILO, 2006; Ratha, Mohapatra and Silwal, 2010);
- Possible macroeconomic dependence on remittances and source of **inflation**.

Potential Microeconomic and Human Development Effects of Remittances

Percentage of poor people in Uganda decreased by 11 percentage points through remittances (Ratha and Mohapatra, 2007)

- **(Additional) source of income** such as for almost 40 per cent of respondents of a survey of households in Angola, with 16 per cent of households entirely depending on remittances as income (Alvarez Tinajero, 2010);
- **Poverty reduction** by improving the standard of living and family welfare (Bakewell, 2009; Ghosh, 2006; Luthria, 2009; UNCTAD, 2011), access to food, water, health care and education, in particular for children, and thus impacting on fundamental human rights. In this vein, girls can be empowered by being able to attend school in societies where their access to education is very limited (Docquier et al, 2008).
- **Potentially decreasing child labour** by offering income to use as financial resources for health care, education and for consumption (Yang, 2009);
- Can provide a source of **funding during shocks and after disasters, for unexpected expenditures**, such as health emergency care and funerals, **and for areas affected by climate change/environmental degradation** and can thus help to mitigate the impact as in Senegal (UNDP, 2009; UN_OHRLLS and OSAA, 2006);
- **Countercyclical, stable source of finance** during times of crises, such as 2008-2009 during the global financial and economic turmoil;
- **Generating economic activities** through (increased) demand for goods and services through more available income, enabling access to micro- and small credits for entrepreneurs (UN-OHRLLS and OSAA, 2006) and investments in houses and businesses (Ratha et al, 2011);

Diasporas tend to be less risk-averse than traditional investors in investing in the private sector

- Increased **dependence on remittances as sources of income**, as in 21 per cent of surveyed Kenyans in 2009, up from 14.3 per cent in 2006. For young people, these transfers have become the main income (60.1% in 2009, 54.6% in 2006; Central Bank of Kenya and FSD Kenya, 2009);
- **(Negative) social and economic effects** on children and family members due to often decreasing amounts sent over time and possible dependency on remittances. Furthermore, in Jamaica the absence of parents increased the school drop-out rate among children, whereas in other countries it increased the likelihood of school attendance (ippr and GDN, 2010);

Potentially negative effects on migrants themselves and their families should not be forgotten – importance of a human rights-centered approach

- **The social obligation to remit** may lead migrants to live in precarious conditions to save as much money as they can for their families and relatives. Migration may affect the realization of their human rights in a negative way. Under-employment in destination countries may also hamper the enjoyment of personal freedoms of migrants;
- **Remittances may increase or decrease inequality** between households receiving migrants and those that do not.

Overall it is important to state that the impact of remittances cannot be generalized and depends on the country context, migration patterns and individual situations. Migrants also contribute to the economies and societies in host countries.

Diaspora engagement by channeling remittances into community projects

Important initiatives concern diaspora engagement in promoting community development by pooling together remittances, such as 'hometown associations' (HTAs) of Haitian migrants in the United States of America or local infrastructure development in the Senegal River Valley in West Africa stretching across Guinea, Mali, Mauritania and Senegal (Bakewell, 2009; Ghosh, 2006). Other forms of diaspora contributions to their origin country and communities include the recognition of market and trade opportunities, including of 'nostalgia' goods; investment in capital markets

Diaspora contributions go beyond remittances and include the transfer of knowledge, skills, ideas and technology

(such as deposit accounts, securitization of remittance flows, transnational loans, diaspora bonds, diaspora mutual funds and microinsurance); diaspora tourism; donations; volunteering returns and advocacy roles, such as through voting from abroad (Newland, 2010). Social networks, supporting the traditional transnational networks of migrants, play an increasingly important role.

4. Recommendations and Good Practice Examples

4.1 Remittance Data Collection

- Despite the overwhelming attention granted to remittances, **data collection** still faces several shortcomings (IFAD, 2007). **Capacity building** of national statistical officers is needed and one of the activities currently being undertaken by the ACP Observatory on Migration. In addition, household surveys on remittances are planned in several pilot countries to learn more about informal flows and sending patterns and eventually lead to adapted policy development.

Need for improved data collection & coordination of ACP South-South remittance data; examples of Benin-led proposal for an International Migrant Remittances Observatory for LDCs and the Africa Institute for Remittances

- **Information is also needed on the potential effects of remittances on inequalities** and the impact of the global financial crises;
- Data collection on remittances needs to be **coordinated better** at national level (within the central bank and among different national entities) and with major ACP destination countries;

Technical tools, such as the T21 model, can produce different scenarios for different policy options (IOM, 2009a)

- **Remittance outflows** often seem to be forgotten in compiling statistics and analysing them. Nonetheless, in some ACP countries, like Tanzania, they are large in scope and should receive more attention in all ACP countries.

4.2 Facilitating the Transfer of Remittances

- **High transfer costs, in particular intra-regionally,** remain an obstacle for migrants to sending money through official channels (IFAD, 2010). On the World Bank website comparing the costs of transfers in USD (as of 10 March 2011), the three most expensive corridors concern Tanzania – Kenya, Tanzania – Rwanda and Tanzania – Uganda. These high intra-ACP costs can be linked to the requirement of MTOs to be linked to a commercial bank, the mandatory conversion of remittances into the national currency or legislation on exchange rates, granting banks control of the market, as for instance in South Africa. Innovative practices include impeding exclusivity contracts of MTOs to increase competitiveness in the formal sector, such as in Nigeria (2010; Kerzner, 2009; Irving et al., 2010);

Good practice: Transfer-costs-comparison websites, where fees are not provided by the institutions, but researchers/ consumers: http://remittanceprices.worldbank.org/ or www.sendmoneypacific.org

The special Savings Account for Emigrants offers higher interest rates to emigrants investing or buying in Cape Verde (IC, 2006)

The Universal Postal Union – IFAD project in West Africa created 355 new post offices in rural areas, thus increasing remittance inflows by 100%

Public-private partnerships can link remittances to housing loans, like the Banque Commerciale du Burkina (BCB Burkina Faso) and the Banque de l'Habitat du Mali (Alvarez, 2009)

- **Financial literacy and information** need to be strengthened to foster informed decisions and **access to financial tools** and banking services for the general population. Having a savings account in the origin country may increase remittances by 25 per cent. Mistrust in financial institutions is also cited as an obstacle, which needs to be addressed through policies and self-regulation. A good practice example is the financial literacy project implemented by IOM with the bank BANPRO in Nicaragua, where 4,000 people benefit from a personal financial educational session on the importance of remittances, budgeting, savings, credit and insurance;
- **Linking remittances to financial products**, for instance through cooperation between private actors and public authorities can help to create a more sustainable link to financial institutions. Options include savings accounts, pension funds and microfinance products, as recommended for Timor-Leste (Shuaib, 2008; Alvarez, 2009);
- **Regulating financial operators involved in remittance transfers**, including banks and new service providers such as mobile MTOs, should be strengthened with a view to decreasing the costs of sending money (Irving et al., 2010) and sharing information on transactions from and to ACP countries. Self-regulation, such as through an international remittances costumer charter, can help to promote transparent markets and

adequate consumer protection. The [Bank for International Settlements' and the World Bank's General Principles] (2007) provide a guiding framework;

- **Anti-money laundering and combating the financing of terrorism (AML-CFT) laws often hinder formal remittance flows** as they are not clear to remittance service providers and create confusion (Mohapatra et al, 2010). Information campaigns or abolishing provisions affecting remittances may be considered;

Self-regulation of the remittance service providers (RSPs) is easier than statutory regulation: Setting up a Steering Group with Government officials, RSPs and consumers (Fortescue, 2009)

- In case of a predominant migration corridor between two countries, **formalizing remittances** can be achieved by improving regulations between the two countries.

4.3 Gender

- Due to different sending patterns, use and needs, **access to financial services and financial tools tailored to the needs of women are needed**. Women tend to spend more on health and education, remit higher parts of their salary and more regularly.

4.4 Strengthening Innovative Financial Tools

- **Diaspora bonds** and other options for diaspora engagement should be strengthened (Newland, 2010; Mohapatra et al, 2010). Investments back home are of interest to diasporas as financial systems in origin countries are more stable and should thus be fostered, such as in the area of housing in Kenya (Melde and Ionesco, 2010; Orozco, 2011; Ratha et al, 2011);
- **Access to formal channels** can also be impeded through legislative barriers such as provisions requiring immigrants to provide documentation on their legal status in the host country (Kerzner, 2009). Innovative channels can be promoted to overcome this obstacle;

Home countries can offer investment information and create attractive portfolios like the Senegalese '*Caravane des PMEs'* (SME mobile unit; IOM, 2009a) **and the diaspora investment website of the Government of Cape Verde** http://ie.ic.cv/

Potential support of savings through mobile technology as mobile phones are more accessible than internet coverage in many ACP countries

- **Extend mobile technology from domestic to cross-border remittances**, such as the Tangaza Kenya set up by Kenyan diaspora members, which offers domestic and international mobile transfer services;
- Every fourth person in Kenya saves on their mobile phone through M-PESA operating domestically in Kenya (Central Bank of Kenya and FSD Kenya, 2009), which could provide a **great potential to increase savings for the 'unbanked'**;
- **Electronic transfers** like the ones supported through the pilot project of IOM and the Universal Postal Union in Tanzania and Uganda can be made possible through improved technology (Melde and Ionesco, 2010).

5. Further Reading

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