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Remittances: Their Development and Research



By Paul Asquith, AFFORD/CAS and Samantha Kennedy, AFFORD

OVERVIEW

Despite the global economic crisis, remittance flows have continued to grow. The year 2012 saw upwards of \$50 billion remitted through formal channels to Africa alone, whilst worldwide approximately 250 million migrants remitted over \$500 billion in this period, supporting nearly 1 billion people financially. While there remains a vigorous debate amongst researchers and practitioners as to the development impact of remittances, migrant communities continue to remit money to their families, often making considerable sacrifices to do so, and remittances represent a lifeline and safety net for many in the developing world. At the same time, remittances can drive inequality within countries. This policy brief assesses the key issues in relation to remittances and development, as well as the lack of research on the resulting impact that supports development and poverty reduction, and makes recommendations for future action by policy-makers, researchers, and development practitioners.

FORMS AND LEVELS OF REMITTANCES

While the term 'remittance' can also be applied to other forms of diaspora and migrant 'capital' – such as intellectual capital (skills and knowledge transfer), social capital (connections between countries of residence and origin through extended networks), and voluntarism – the focus of much literature has been on forms of diaspora financial capital. In the latter understanding, 'remittance' can be used to refer to various types of individual international financial transfers, and includes both inflows into and outflows from a particular country.

In 2012, according to the World Bank Report, out of \$514 billion in overall global remittances, \$401 billion went to developing countries (a new record), outstripping flows of Overseas Development Assistance (ODA). World Bank figures also show that remittances to different regions in Africa hover between 1 and 5 per cent of GDP, with West Africa receiving around 4 per cent of its GDP in remittances. Data on remittance flows remain under-collected, only about half of Sub-Saharan African countries regularly report annual remittance data. These do not include informal remittances (such as physical cash transfers by travellers or 'money in envelopes'), which are extremely hard to track and monitor. It is accepted that actual remittance flows are 50 to 80 per cent higher if those through informal channels are included. In the UK alone, remitting households send an average of £31 per week



Source: Global Remittances Working Group, World Bank

overseas, and remittances represent about 4 per cent of a remitting household's budget.

Although there has been criticism that remittances are largely being used for private consumption rather than for community development (see section below), from the perspective of many migrants and diaspora communities foreign remittances have a great advantage over foreign aid funding, as these funds go directly to the remittance targets (usually family members) or development projects. Among other reasons, it could be assumed that this is due to the fact that ODA and other types of foreign aid funds have been known to be misappropriated at both governmental and non-governmental levels.

REMITTANCES AND DEVELOPMENT

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Much research and other literature on diaspora and migrant financial capital have focused on remittances, and the levels of resource involved are impressive: in 2012 \$50 billion was formally remitted from the African diaspora worldwide to Africa alone. Despite this immense contribution, which acts as an ‘invisible safety net’ in many countries, the impact of remittances is an area that is frequently marginalised and contested in development discourse. For instance, remittances have been dismissed as being ‘unreliable, [and] cannot be formalised, directed towards specific objectives or made accountable’. Critics of remittances have further argued that the policy interest in promoting remittances and formalisation serves the interests of the global financial sector rather than the world's poor. At the same time, other researchers have looked towards remittances as a potential source of development funding.

Certainly, care should be taken that remittances are not seen as a panacea to the problems of development. While they contribute to economies in the developing world, they also can drive a country's economic inequalities, as many do not have access to diaspora capital. Remittances have also been criticised for being inadequately socialised and operating on an individual-to-individual or family-to-family basis. Furthermore, diaspora remittances have been said to fund civil wars and insurgencies in the developing world – one of the arguments used by Barclays for potentially withdrawing banking facilities for the money transfer sector. This latter example risks having an adverse impact, particularly on Somalia, which lacks a functioning central bank and therefore relies heavily on remittances and remittance infrastructure. It is perhaps for all of these reasons that there has been resistance from development practitioners and academics to consider remittances as a form of development assistance.

This brief argues that the positive impact of remittances has great potential to contribute to development and poverty reduction, and therefore encourages academic institutions to put resources into this area of work, and donors to spend more resources in areas that allow for more knowledge on the impact of remittances.

REMITTANCES AND DIASPORA CONTRIBUTIONS TO DEVELOPMENT

Private remittances by individuals constitute the most sizeable and tangible form of diaspora contribution to development and poverty reduction. Indeed, research conducted by AFFORD in 2003, describes the diaspora as an 'invisible welfare state for African societies [...] directly involved in building wells, schools, contributing financially, sharing knowledge and ideas, campaigning, lobbying and advocating for change back home in Africa.' While the above quote includes remittances that go beyond financial contribution, a more recent AFFORD research on young people from the African diaspora, found that the main causes young people remit for are (in order of ranking): education; basic needs (e.g. food, water and housing); youth and community development. Remittances also provide the hard currency needed for importing scarce commodities that are not available domestically and also additional savings for economic development.

Research by CASS Business School has shown that remittances operate in many ways like a form of philanthropy, and also that levels of charitable giving (above and beyond remittances) can be higher among communities that remit. Furthermore, diaspora remittances can be seen as a stabilising factor in terms of international aid resource flows: 'remittance inflows to developing countries are not countered by

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A Somali money changer. Source: New Statesman

outflows characteristic of typical ODA and FDI financing schemes [such as] interest, debt and dividend payments; retention and repatriation of funds to pay for donor country expatriates and professionals as well as product and service suppliers.'

Countries of origin are increasingly aware of the potential offered by other forms of diaspora financial capital, and have set in place a number of schemes to encourage diaspora investment. Some examples focus on labour and tax incentives for the diaspora, such as India's Non-Resident Indian (NRI) and Person of Indian Origin (PIO) schemes; others include the diaspora bond schemes

developed by governments in Ethiopia, Kenya, and Rwanda, or sovereign wealth funds such as Rwanda's 'Agaciro' fund, which aims to attract diaspora investment. Diaspora bonds are usually used as project financing tools for public sector, large-scale infrastructure development.

CONCLUSION AND RECOMMENDATIONS

Remittances are of increasing importance and scale to migrant communities and remittees in the developing world, and consequently to policy-makers. Given the growth in remittances in relation to aid flows, and despite the global economic crisis, this trend looks set to continue. Remittances are used for a range of types of personal consumption but also for development purposes, such as health, education, and housing. However, they also can

increase social inequality in some developing countries, and may be used to support conflicts. This has given rise to debates among researchers and practitioners as to their desirability and usefulness in a development context. At the same time, diaspora and migrant communities continue to remit increasing amounts, irrespective of these debates.

The challenge for development policy-makers, therefore, is how to maximise the opportunities and development impact of diaspora capital such as remittances, while mitigating their negative impacts. A number of schemes have been proposed to this end, including reducing transfer costs, tax relief on remittances, and allocation of a proportion of the money remitted to local development trusts or funds to support development activities. But such ideas, which would also enhance the impact of remittances by the diaspora, will need more research and consequently more resources, strategically directed.

This policy brief makes the following recommendations:

Academic Institutions:

- Should work in partnership with central and local government and provide guidance around assessing needs in the areas such as health, welfare, etc., taking into full account the financial responsibilities and obligations of remitters
- Larger scale studies are needed to contribute to the limited body of evidence, such as AFFORD and partners' research on the giving patterns of young diaspora Africans, especially on patterns and modalities of remitting in the UK and across transnational networks, the intended and actual use of remittances, and their impact at the household, community and regional level.

UK Government and grant-making organisations

- Should provide more support to research centres and academic institutions around topics which: include specific support for initiatives that celebrate and promote different traditions of giving in the UK within its giving policy; support educational and awareness-raising initiatives to promote a better understanding of cultures of giving within diaspora and migrant communities.
- DfID should consider developing a 'matched funding' scheme to encourage collective remitting.
- Grantmaking organisations should further develop donor services to meet the needs of those wishing to send direct financial support to specific communities.
- Diaspora organisations, financial institutions and MTOs (money transfer operators):
- Organisations representing migrants, minorities and remitters, as well as MTOs, should help promote the use of tax-effective ways of giving, particularly in relation to collective fundraising initiatives for remittances aimed at general community benefit.
- MTOs, banks and other financial intermediaries should develop corporate community investment policies to support migrant communities in the UK and the people they seek to help in countries of origin.

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NOTES

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Authors: Paul Asquith, AFFORD/CAS and Samantha Kennedy, AFFORD
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